

Annual Report

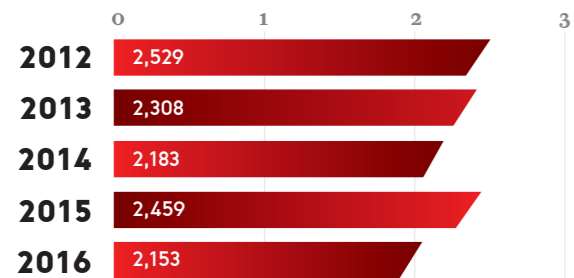
2016

ECONOMIC,
SOCIAL AND
ENVIRONMENTAL
PERFORMANCE

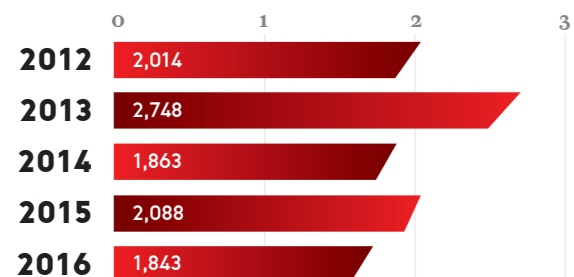


MOL GROUP AT A GLANCE

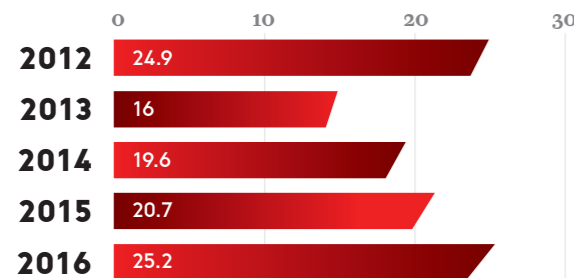
Clean CCS EBITDA (USD mn)



Operating Cash flow (USD mn)



Gearing (%)



Capitalisation USD bn*

7.2 \$

30 countries across three continents

dynamic international workforce

25,000 people

Production 2016

112 mboepd

2P Reserves*

459 MMboe

Refined Product and Petchem Sales

19 Mtpa

Upstream

Service stations*

1,967

Customers per day

1,000,000

Downstream



*as of 31 December 2016

MEMBERS OF MOL GROUP



KEY FINANCIAL AND OPERATING DATA

KEY FINANCIAL DATA - IFRS (HUF BN)*

	2015 RESTATED	2016	15/16 (%)	2016 (USD MN)**
Net revenue	4,091	3,553	(13)	12,624
EBITDA	643	623	(3)	2,217
Clean CCS EBITDA	687	605	(12)	2,153
EBITDA excluding special items	610	630	3	2,240
o/w Upstream	197	190	(3)	675
o/w Downstream	385	433	13	1,540
o/w Gas Midstream	60	54	(9)	194
Profit for the year attributable to equity holders of the parent	(261)	263	N.A.	941
Operating cash flow	587	519	(11)	1,843
Capital expenditures and investments	428	316	(26)	1,122
Return On Average Capital Employed (ROACE) %**	(12)	8	N.A.	8.1

* Detailed data analysis is in the Management Discussion and Analysis chapter.

** Based on operating profit after taxes.

*** Each month in 2016 is translated on its actual monthly average HUF/USD MNB rate

KEY OPERATING DATA

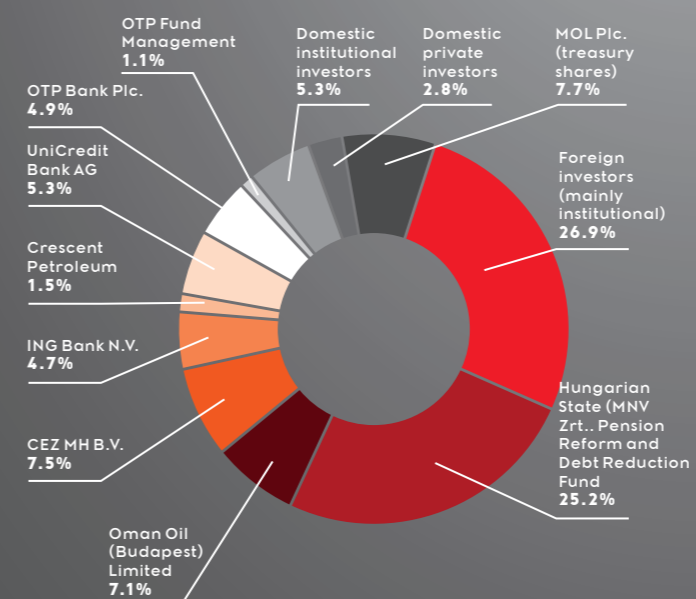
KEY UPSTREAM DATA*	2015	2016	15/16 (%)
Total gross hydrocarbon reserves, SPE 2P (Mmboe)	514	459	(11)
Total hydrocarbon production (mboepd)	104	112	8***
KEY DOWNSTREAM DATA*	2015	2016	15/16 (%)
Total crude oil product sales (kt)	18,532	19,056	3
Total retail fuel sales (m litre)	4,764	5,239	10
Polymer sales (kt)	1,101	1,017	(8)
KEY GAS MIDSTREAM DATA*	2015	2016	15/16 (%)
Hungarian natural gas transmission (m cm)	10,740	11,958	11
ENVIRONMENTAL AND SOCIAL PERFORMANCE DATA**	2015	2016	15/16 (%)
Carbon Dioxide (CO ₂) emissions (Mt)	6.1	6.0	(2)
Total Recordable Injury Rate (TRIR)	1.4	1.3	(7)
Total score in the Dow Jones Sustainability Index assessment	70	72	3

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

** Detailed data analysis are in the Supplementary and Sustainability Information chapter.

*** 6% on a like-for-like basis, i.e. excluding production from Pearl Petroleum. From 2016 the equity production from Pearl Petroleum is included for the first time in total hydrocarbon production of the Group.

Shareholders structure (%)



The Company's share capital amounts to HUF 102,428,682,578 represented by 102,428,103 pieces registered ordinary shares of the series "A" with a par value of HUF 1,000 and 578 pieces registered ordinary shares of the series "C" with a par value of HUF 1,001 and one piece registered voting preference share of the series "B" with a par value of HUF 1,000 that entitles the holder thereof to preferential rights as specified in the present Articles of Association. The "B" series share is owned by the Hungarian Government.

We have presented the ownership structure of MOL Plc., as at 31 December 2016.

Please note, that data above do not fully reflect the ownership structure in the Share Register. The registration is not mandatory.

The shareholder may exercise its rights towards the company, if the shareholder is registered in the Share Register.

According to the Articles of Association no shareholder or shareholder group may exercise more than 10% of the voting rights.

ABOUT MOL GROUP INTEGRATED REPORTING

MOL Group's 9th Integrated Annual Report summarizes the company's performance in 2016. In the integrated report we give an account of the group's economic, social and environmental value creation processes and results. We are committed to transparency, and this integrated overview is the most efficient method of communicating last year's performance, encompassing our financial year from 1 January to 31 December 2016, to our shareholders and other interested stakeholders.

We follow globally recognized frameworks to ensure that our report meets the highest standards. This includes:

- ▶ Complying with the International Financial Reporting Standards (IFRS) when reporting on financial results
- ▶ Complying with the Global Reporting Initiative (GRI) Standards framework when providing a comprehensive overview of our sustainability performance

- ▶ Using sectoral guidances from the GRI (Oil and Gas Sector Disclosures), and the IPIECA Voluntary Guidance on Sustainability Reporting
- ▶ Reporting progress against the 10 principles of the United Nations Global Compact (UNGC)

The present report is also our disclosure in compliance with the Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups, which was transposed into Hungarian law on 6th July 2016.

The report includes historical information where necessary to put our annual performance into context. The content of this integrated annual report is also available online at: www.molgroup.info/annualreport2016.

This integrated annual report has been prepared both in English and Hungarian. In the event of any discrepancies, the Hungarian version should take precedence. Further information and disclosures about MOL Group can be found at: www.molgroup.info

“MOL GROUP IS NOW ON A JOURNEY TO TRANSFORM THE BUSINESS. WE HAVE BIG AMBITIONS AND POTENTIAL FOR GROWTH, WHICH WE WILL ACHIEVE BY COMBINING SCALE, PROFESSIONALISM AND KNOW-HOW, WITH ENERGY, INNOVATION, AND A WILLINGNESS TO LOOK FOR DIFFERENT, BETTER WAYS OF WORKING.”



This is our Communication on Progress in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

COMMUNICATION ON PROGRESS

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LETTER FROM THE CHAIRMAN CEO AND GROUP CEO

INTRODUCTION

In last year's letter we noted that in volatile markets investors look for reliability. So it is with great pleasure that we are able to report that we have demonstrated these skills and delivered a strong set of results. Markets remained volatile during the year and although oil prices have bounced back considerably since hitting a low at the beginning of 2016, they remain at low levels compared to the last five years. As oil prices rose, refinery and petrochemical margins expectedly shrank, although remaining at supportive levels. In spite of all the volatility, our integrated business model supported by the high quality low-cost asset base remained highly cash generative, as a moderate fall in our EBITDA was offset by continued capital discipline. Furthermore, we simplified our ownership structure and once again returned more cash to our shareholders.

DOWNSTREAM

Following the record-setting 2015, Downstream again presented strong results, only slightly behind last year's, despite the expected normalisation in refinery and petrochemical margins. 2016 was also the second year of our Next Downstream Programme, which showed great progress making us confident that we will reach our 2017 targets. The retail business continues to show remarkable growth and together with petrochemicals contributed to more than half our Downstream EBITDA, proof of the success of our integrated value chain. As previous acquisitions contribute to the rise in both volumes and profitability, our well placed network of service stations is fully capturing the growth in fuel consumption in the region. We continued the roll-out of our successful non-fuel concept, Fresh Corner. Since its introduction we have managed to grow our non-fuel business considerably, to the point where non-fuel now contributes around one fourth to the total margin.

UPSTREAM

2016 was the year of rebalancing Upstream and we are very pleased to report that our New Upstream Programme delivered on every operational, financial and strategic commitment it set out to achieve. Although oil prices averaged 17% below the previous year, the combination of a strong asset base and an extremely capable workforce showed that

through laser focused execution it could excel in adverse market conditions, creating substantial value at the bottom of the cycle. We increased production for the second year running with a further rising contribution from our mature onshore CEE assets, a remarkable achievement. Simultaneously, we significantly reduced unit costs from an already competitive level, whilst cutting capex more than initially planned. This resulted in substantial cash generation, which bodes well for the future of the division.

MOL GROUP 2030 – ENTER TOMORROW

Over fifteen years ago we set ourselves the task of transforming MOL into a regional champion with the ability to grow and compete internationally whilst generating long-term sustainable value. Now, we may once again have reached a critical point. There appears to be a new and irreversible development. For the first time ever there is a real alternative to fossil fuel based transportation. The combination of fast-spreading technological developments, favourable policy making as a means to tackle climate change related risks and rapidly changing consumer habits will transform entire industries, not least our own, which will be at the very epicentre of these tectonic shifts.

Instead of viewing these changes as a threat, MOL Group sees these transformative changes as an opportunity. Through launching our 2030 strategy, MOL Group is ready to grab this opportunity, to be a first mover again and to extend its long history of success by once again transforming itself.

We will build on our existing strengths and the two cash engines which form the basis of our resilient integrated business model, being our low-cost highly efficient upstream production and our state-of-the-art refinery asset base. Given that fossil fuels will remain essential for the foreseeable future, we will continue to be a focused and efficient E&P operator with the right capabilities to operate assets in well-defined core geographies in a value accretive way. Our ambition is to sustain current production and to keep our competitive cost position as we target self-funding, sustainable and value generative operations even in a low oil price environment.

MOL Group will also continue to operate highly complex, efficient and profitable refineries belonging to the very top of Europe. Furthermore, with our mid-term view of motor fuel losing its dominance, we aim for a material diversifi-



Zsolt HERNÁDI
Chairman and Chief Executive Officer, MOL Group

József MOLNÁR
Group Chief Executive Officer, MOL Group

cation and increased flexibility in our refining operations by 2030. We will increase the share of non-motor fuel to 50% by 2030 through the expansion of the petrochemical and chemical value chains. We believe petrochemicals and chemicals offer attractive growth prospects given that they will be essential ingredients of modern life. The planned chemical investments will be built upon existing hydrocarbon molecules within our refineries, which will build on our successful strategy of deepening our downstream integration. In a logical extension of our recent butadiene and synthetic rubber investments, we will also be increasingly moving towards semi-commodity and specialty chemicals, which we expect to provide superior long-term returns. Over time the combination of fast-spreading technologies, electrification of transportation and changing consumer behaviour will inevitably challenge our traditional fuel retail business. As every change generates its share of opportunities, we will transform our fuel retail business into an industry leading consumer services organisation with the aim of expanding consumers' access to new non-fuel value-added services and products, from coffee to go, to alternative fuels and accommodating self-driving technologies. In this exciting journey, the single most important success factor will be to ensure that we anticipate the changing needs of consumers by displaying a consistent capacity to innovate by competitively offering the right services and products to people on the move. Setting up a new Consumer Services organisation and building our data analytics capabilities are the first steps to creating an agile and responsive organisation built to meet and drive future changes in consumer and mobility demand, in whatever shape or form they may come.

CULTURE

A culture of openness to change, excellence in execution, efficiency in operation, all historically strong at MOL Group, will become the fundamental drivers in the successful transformation of our firm. Collaboration, transparency, risk-taking, innovation, flexibility and a service-oriented approach will also be key to ensuring that we meet

the challenging objectives set out in our new long term strategy and that we deliver the growth, strong financial results and shareholder returns that shareholders rightfully expect from us.

SUSTAINABLE DEVELOPMENT

Social and investor expectations towards corporations are changing. Increasing investor interest in how non-financial matters may affect their investments has led us to increase our transparency and engagement efforts on ESG matters, with the positive outcome that we are now leading members of several sustainability indices. Notwithstanding this, we are making great efforts to improve our transparency. This report is following the latest reporting standards ahead of schedule (GRI Standards, EU Directive on Non-Financial Disclosure), and serves as our Communication on Progress towards the UN Global Compact. We are conscious that our activities affect people's lives, which is why over the years we have built strong multi-stakeholder partnerships. Our ability to serve broader social needs and share our long-term value creation with a broader set of stakeholders ultimately determines the conditions for our sustainable growth.

CONCLUSION

We may be at a turning point in the history of our firm and our industry. We must once again do what previous MOL generations did best, and transform ourselves in order to once again lead at a time of great social and technological change. For us to be successful in the future, we must remain essential to our clients and society through mutual trust and value creation, whilst running the business with the long-term interests of our shareholders at heart. We know that every MOL Group employee is proud of the role that the company plays in contributing to economic and social progress. We would like to extend our most sincere thanks to our staff, host communities, clients and suppliers whose daily contribution will help MOL Group to be among the very best 21st century companies in our region.

FUNDAMENTAL BUILDING BLOCKS IN MOL

RESILIENT INTEGRATED BUSINESS MODEL	FINANCIAL DISCIPLINE	SYSTEMATIC SAFETY & EFFICIENCY	HIGH-QUALITY LOW-COST ASSET BASE	MOL 2030: BUILD ON EXISTING STRENGTHS
	2016 TARGETS	2016 RESULTS		2017 TARGETS
GROUP CLEAN CCS EBITDA	Upgraded to ~USD 2.2 BN	USD 2.15 BN ✓		USD 2 BN+
GROUP CAPEX (ORGANIC)	Cut by USD 0.2BN to up to USD 1.1BN	USD 1.0 BN ✓		Up to USD 1.2 BN
FCF GENERATION*	POSITIVE	USD 937 MN ✓		POSITIVE
NxDSP	USD 150 MN	USD 130 MN ✗		USD 160 MN
OIL & GAS PRODUCTION	105-110 MBOEPD	112 MBOEPD*** ✓		~110 MBOEPD
NET DEBT/EBITDA	< 2x	0.97x ✓		< 2x
HSE – TRIR**	< 1.8	1.3 ✓		< 1.7

* Net Operating Cash Flow (before changes in net working capital) less organic capex
 ** Total Recordable Injury Rate
 *** Including JVs and associates (2016 production was 110 mboepd on a like-for-like basis)

FINANCIAL HIGHLIGHTS

- ▶ 2016 Clean CCS EBITDA amounted to USD 2.15bn (HUF 605bn), in line with the upgraded guidance
- ▶ MOL generated free-cash flow of nearly USD 1bn in 2016, as net operating cash flow before working capital changes reached USD 1.95bn (HUF 547bn) substantially above organic CAPEX of USD 1.01bn (HUF 285bn)
- ▶ Downstream remained the main cash engine of MOL Group with a clean CCS EBITDA delivery of USD 1.45bn (HUF 408bn)
- ▶ Upstream segment generated over USD 250mn (or ~USD 7/boe) free cash flow in 2016 at the bottom of the cycle
- ▶ Credit metrics improved as a result of strong cash generation; net debt/EBITDA fell to 0.97x at the end of 2016

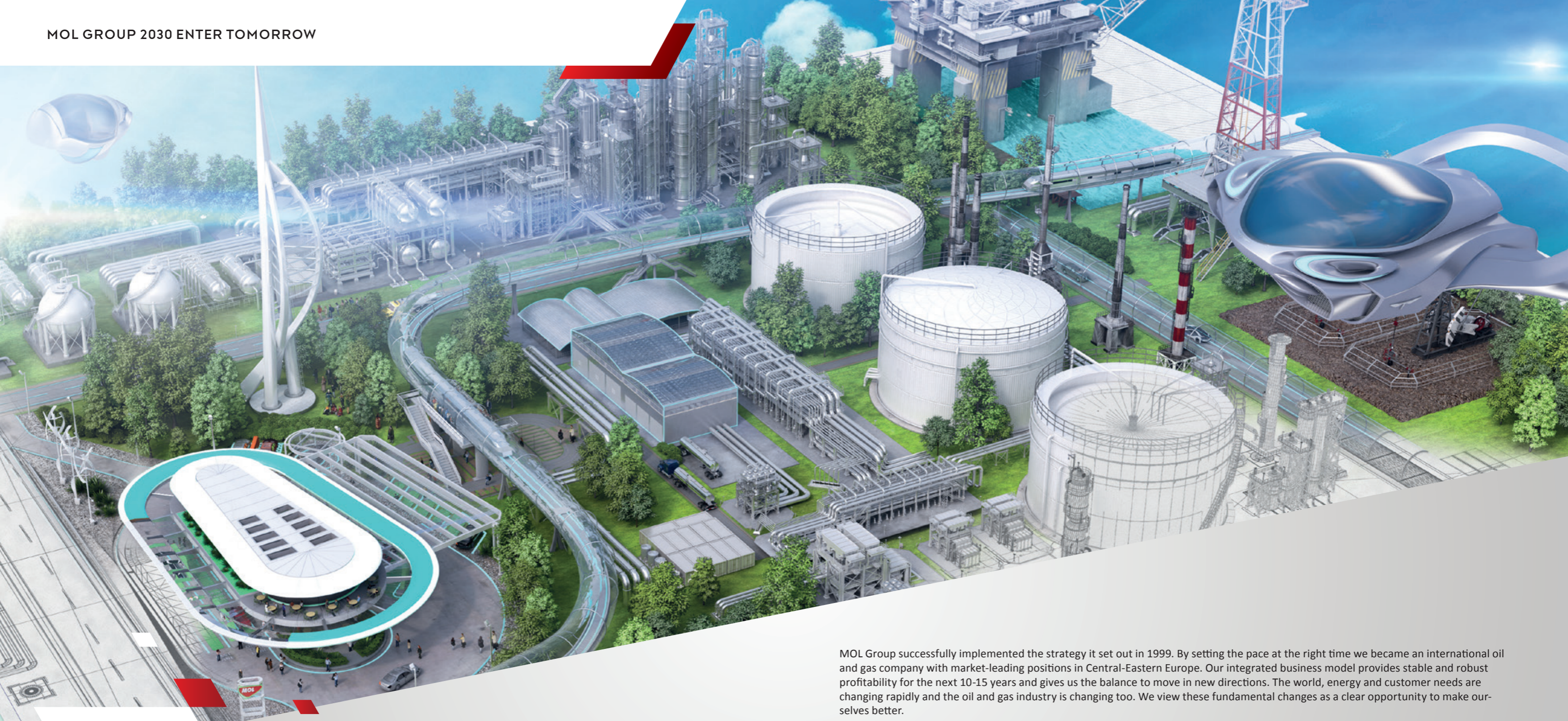
OPERATING HIGHLIGHTS

- ▶ Next Downstream Program (NxDSP) delivered USD ~340mn bottom-up EBITDA improvement in 2015 and 2016
- ▶ MOL Group continued the crude diversification of the landlocked refineries: close to 20% of Danube refinery's total intake was supplied by seaborne cargoes, first ever seaborne crude batch processed by the Bratislava refinery
- ▶ Oil and gas production was 112 mboepd (including JVs and associates) in 2016 up 6% year-on-year on a like-for-like* basis, boosted by higher CEE onshore (the highest since 2012) and UK production
- ▶ In addition to the Dow Jones Sustainability World Index inclusion, MOL Group has become a constituent of the FTSE4Good Emerging Index; MOL Group has also qualified for inclusion in the RobecoSAM Sustainability Yearbook for the second consecutive year

OUTLOOK

- ▶ Working assumptions are in line with the 2017-21 financial framework: oil price within the USD 40-60/bbl range and normalising Downstream macro environment
- ▶ At least USD 2bn clean CCS EBITDA target at the on the basis of the working assumptions
- ▶ Up to USD 1.2bn organic CAPEX in 2017 (including small spending related to the MOL 2030 growth projects)
- ▶ Sustained free cash flow generation; operating cash flows to cover organic CAPEX and dividends and create room for transformational projects
- ▶ Upstream: around 110 mboepd production to be sustained; continued value creation in exploration & production even at low oil prices
- ▶ Downstream: continued focus on efficiency (NxDSP); major milestones in the transformational projects (polyol: technology selection, licence negotiation; decision on the launch of one of the steam cracker revamps)
- ▶ Consumer Services: new, stand-alone business segment from 2017

* As of 2016, production from Pearl is also included in total group production, but it is excluded from the base (2015 total group production). Thus, when making year-on-year comparisons Pearl production is subtracted from 2016 total group production.



► MOLGROUP
2030

**ENTER
TOMORROW**

**OUR ASPIRATION IS TO MAKE MOL GROUP
THE BEST-IN-CLASS COMPANY IN CENTRAL-EASTERN EUROPE**

MOL Group successfully implemented the strategy it set out in 1999. By setting the pace at the right time we became an international oil and gas company with market-leading positions in Central-Eastern Europe. Our integrated business model provides stable and robust profitability for the next 10-15 years and gives us the balance to move in new directions. The world, energy and customer needs are changing rapidly and the oil and gas industry is changing too. We view these fundamental changes as a clear opportunity to make ourselves better.

We believe that this is the right time to set the pace again. We have the capability, the financial means, and the market position to leverage and build on previous successes to grab the opportunity of the changing world, and to finance growth and pay dividends in the long run. The Enter Tomorrow strategy is designed for that. The pillars are as follows:

**CASH
ENGINES**

CASH GENERATION
THROUGH OUR
INTEGRATED
BUSINESS MODEL

**THE RISE
OF CHEMICALS**

SET UP A NEW
BUSINESS LINE BY
DRIVING AN
INDUSTRIAL
TRANSFORMATION

**GROWTH
ENGINES**

30% OF EBITDA
CONTRIBUTION
FROM CONSUMER
SERVICES INCLUDING
RETAIL AND INDUS-
TRIAL SERVICES, AND
NEW DEMANDS AND
BUSINESS LINES

**THE BEST
CHOICE**

MOL GROUP WILL
BE THE CHOICE OF
EMPLOYEES,
CUSTOMERS AND
INVESTORS

CASH ENGINES

INTEGRATED BUSINESS MODEL OF UPSTREAM AND DOWNSTREAM

UPSTREAM: SUSTAIN OUR PORTFOLIO SO THAT IT CREATES VALUE EVEN IN A LOW OIL PRICE ENVIRONMENT



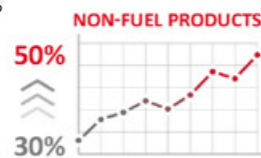
Upstream remains a core pillar of the integrated business model of MOL Group. Our ambition is to:

- ▶ maximize value from our existing asset base;
- ▶ keep production at least at today's level;
- ▶ keep unit cost competitively low (currently stands below 7USD per barrel);
- ▶ opportunistically investigate and pursue inorganic growth opportunities.

DOWNSTREAM: OPERATE TOP-QUALITY ASSETS, AND HAVE AN INCREASED SHARE OF NON-FUEL PRODUCTS

In order to keep the Danube and Bratislava refineries among the top five most profitable in Europe, we will focus on ensuring highly efficient and flexible assets by:

- ▶ investing in new technologies and upgrading current ones;
- ▶ widening our crude oil portfolio;
- ▶ transforming our production from fuel to more competitive goods by increasing the share of non-fuel products to 50% of overall production.



THE RISE OF CHEMICALS

A NEW BUSINESS LINE THROUGH INDUSTRIAL TRANSFORMATION

CHEMICALS: UP TO USD 4.5 BILLION INVESTMENT (IN 5-YEAR CYCLES) TO MAKE MOL GROUP A LEADING CHEMICALS COMPANY IN CEE



We will implement an offensive growth strategy by 2030, adding new products along the value chain and entering new market segments. We will drive industrial transformation in the region by:

- ▶ investing around USD 1.5 billion every 5 years until 2030 to upgrade existing assets and develop new business lines;
- ▶ producing more valuable petrochemical products used in the automotive industry, as well as for packaging, construction and electronics;
- ▶ seeking partnerships and organic growth opportunities to expand our value chain;
- ▶ creating hundreds of jobs and supporting regional industry.

GROWTH ENGINES

MORE THAN 30% EBITDA CONTRIBUTION FROM CONSUMER SERVICES

CONSUMER SERVICES: MOL GROUP WILL BE THE CUSTOMER'S FIRST CHOICE AND THE PRIMARY SOURCE OF FUTURE DEMAND SOLUTIONS

Our aspiration is to leverage our market expertise, size and knowledge of our 10 million customers, 1 million daily transactions and 10 purchases per second to build a new business line in order to provide the best and most desirable services to people on the move, to take part in the reinvention of transportation in CEE and to offer competitive industrial services. We will:

- ▶ strengthen our regional leadership position by increasing our market share from 20% to 25-30% in the CEE region;
- ▶ be regional leaders in offering alternative fuels;
- ▶ aim that customers will choose MOL Group for its high quality products, services and solutions (such as fuel and non-fuel products, online shopping, drive-through, pick-up points and automatic cashiers);
- ▶ transform our retail business into a service provider to offer the most desired services to people on the move (e.g. car-sharing, electric mobility and operation of vehicle fleets, solutions for public transportation in cities);
- ▶ aspire to increase our FMCG market share significantly, by getting closer to customers;
- ▶ play an important role offering a wide range of oil and gas industrial services to operate large assets competitively to industrial third parties.



Providing products and services to our daily
1,000,000
CUSTOMERS

FRESH
CORNER
ROLL-OUT

NEW BUSINESSES: SEEKING NEW BUSINESS OPPORTUNITIES



In our core businesses and region, sizeable growth opportunities are limited due to the mature status of the industry and our existing market positions in the region. As a consequence, for high future growth potential, MOL Group intends to open up new investment in CEE. We will:

- ▶ build on our size, knowledge and expertise to enter new businesses that are connected to MOL Group's current core businesses and/or have an overlapping customer base;
- ▶ generate at least 10% of Group EBITDA by 2030 through new businesses;
- ▶ support innovation by investing sizeable funds in idea generation.

THE BEST CHOICE

MOL GROUP WILL BE THE CHOICE OF EMPLOYEES, CUSTOMERS AND INVESTORS

FIRST CHOICE OF EMPLOYEES: TO ATTRACT THE BEST PEOPLE

With its 25% international staff, MOL Group is a real multinational company. We also care about the next generation, attracting hundreds of fresh graduates every year through our talent programs. MOL Group is among the most desirable companies in the region to work for. But for our new strategy to succeed, our aspiration is to develop and transform our corporate culture. To do that we will:

- ▶ have a competitive and motivating reward and recognition framework within MOL Group, creating a transparent and strong environment in which to engage and retain people;
- ▶ improve our organizational culture to provide a more open, cooperative, innovative, flexible and service-oriented environment;
- ▶ build stronger relationships with universities and academic institutions to support education and maintain a talent pool for the industry.

BEST-IN-CLASS INVESTMENT CASE

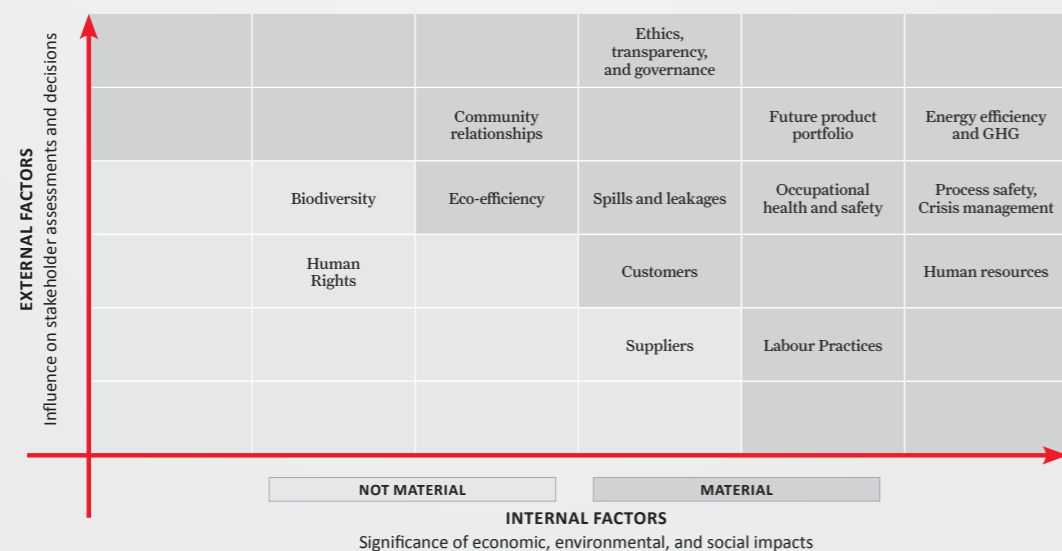
- ▶ We strive for providing a best-in-class equity story by offering a competitive return to our shareholders.
- ▶ We continue to aim at gradually rising our annual nominal dividends in a sustainable way.
- ▶ We support higher liquidity and free float of the shares in the medium-term.

MATERIALITY ASSESSMENT

Materiality assessment is an essential exercise and guiding concept for our sustainable development improvement activities and integrated annual reporting processes. It is also a key procedure that is required for compliance with the GRI sustainability reporting standards (GRI Standards), allowing us to produce a better focused report. We continuously consult internal and external stakeholders to understand which sustainability topics are relevant to the industry, and most importantly, which are important for promoting the successful and responsible operating of MOL Group. Internally, on a group level we involve and seek approval from the executive decision-makers from our Sustainable Development Working Group and the Sustainable Development Committee of the Board of Directors. We also work closely with trade unions to obtain feedback about the group materiality matrix. Locally, we work closely with our regional subsidiary companies to adapt to different operating environments and different stakeholders. In 2016, each regional company defined its own materiality matrix by analyzing and aggregating the materiality considerations for each business segment. SD-related audits also play a role in bringing to the surface emerging issues which might become material over time. External stakeholders are continuously engaged via different forums and through our dedicated feedback

channels (e.g. sd@mol.hu). We pay special attention to discussing potentially relevant topics with sustainability analysts from rating agencies (MSCI, FTSE4GOOD, RobecoSAM, CDP, oekom, etc.). In 2016 we were also approached by investors about sustainability-related issues, adding more clout to and providing invaluable direct feedback for both sustainable development and investor relations activities. We are continuously benchmarking our peers to gain a better understanding of what the material topics are for the oil and gas industry. However, we are aware that more effort is needed to identify external stakeholder signals in order to mitigate risk and identify opportunities in a fast changing world. Hence, our intention is to improve stakeholder management skills and dialogue in the coming years. The procedure we use for undertaking materiality assessments is not designed to exclude any of the relevant topics from our reporting. The assessment is drawn up with a view to ensuring that the most material topics are highlighted and described in more detail, thereby providing our readers with deeper insight into our sustainability performance. The four topics included in the light grey area of the following illustration are considered less significant compared to material topics, but are still followed, managed and measured closely. For more information about the topics and MOL Group's related performance, please check the Notes to Sustainability Performance section of this report.

MATERIALITY OF RELEVANT TOPICS



BEST *of the* YEAR

1.

The Best Downstream Company of the Year
(Given by Petroleum Economist)

▶ MOLGROUP

1.

Innovation in HR Technology
(Given by HRO Today)

▶ MOLGROUP

1.

IChemE Global Awards 2016
(Given by Institution of Chemical Engineers)

MOL

1.

Romanian CSR Awards

MOL

2.

Cannes Corporate Media and TV Awards
(Given by Filmservice International)

▶ MOLGROUP

2.

Cannes Corporate Media and TV Awards
(Given by Filmservice International)

MOL

2.

Business Awards for the Environment
(Given by Hungarian Business Leaders Forum)

MOL

2.

Capital Excellence in Business Awards
(Given by Capital business publication, Romania)

MOL

3.

3rd Best Internal Magazine in Europe
(Given by European Association for Internal Communication (FEIEA))

Sloznaft

3.

Leadership Excellence Award
(Given by HR.com)

▶ MOLGROUP

3.

CECGA Award
(Given by Central European Corporate Governance Association)

Sloznaft

3.

4th Best Employer
(Given by Profesia)

Sloznaft

4.

Employer Partner Certificate
(Given by HR Agency Selectio)

INA

4.

First Choice Employer
(Given by job search portal MojPosao.hr)

INA

4.

Special Award For Business Sector's Contribution To The Development Of Volunteering
(NGO Volunteering Centre Osijek)

INA

4.

Women in Adria recognition for future female leaders for 2016
(Women in Adria organization)

INA

Resilience

Self-funding and value generative
in a low oil price environment

Profitability

Another year of
outstanding earnings



Stability

A stable contributor
to MOL Group



The Choice of Employees

Enhancing Employee Experience via further building capability, increased organizational performance and strengthened corporate culture



Leading responsibly

MOL Group is in the top 10% of responsible Integrated Oil & Gas companies as a component of the Dow Jones Sustainability World Index

Reliable partner

We recognize, support and engage local communities

Management Discussion and Analysis



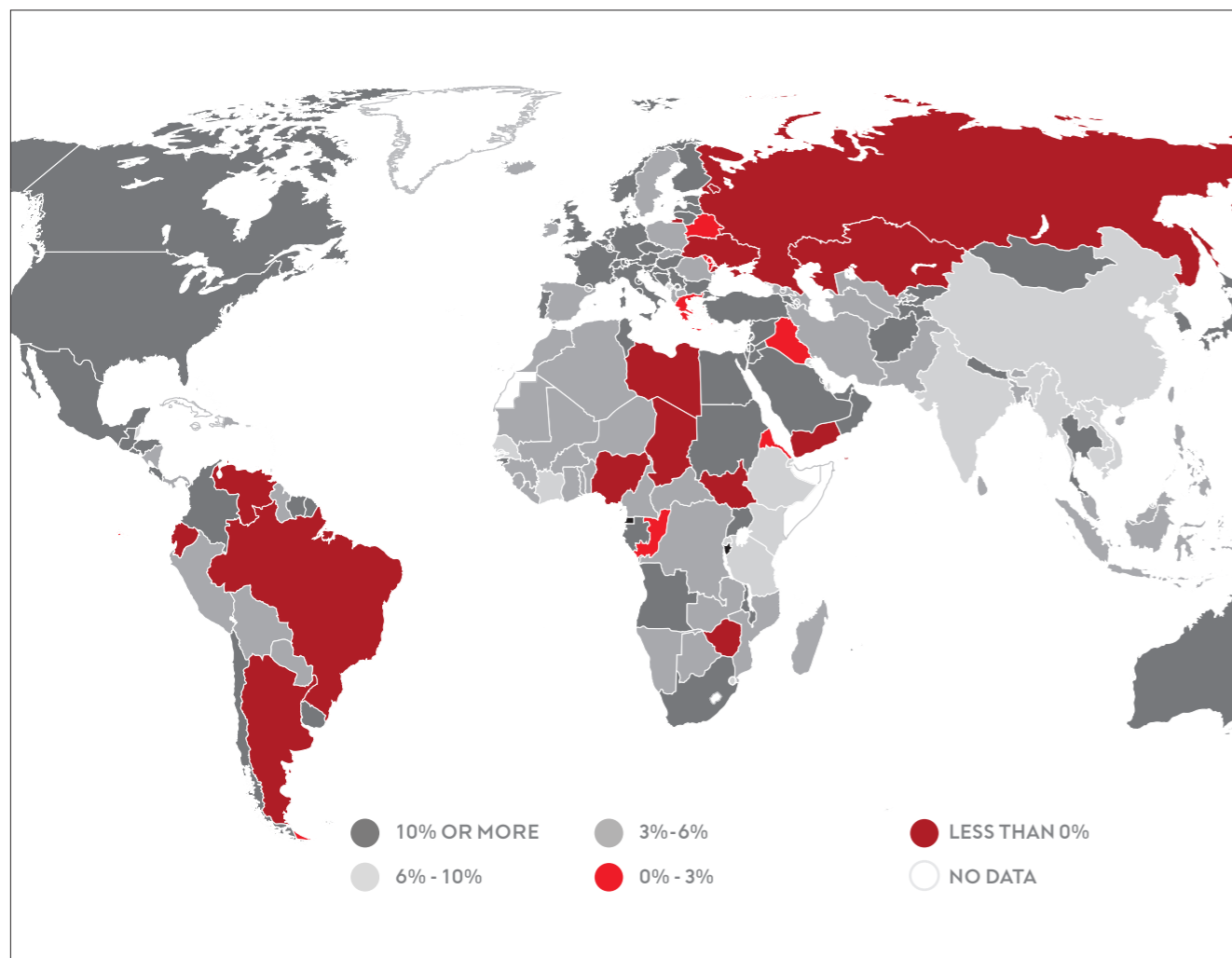
OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT

World Economy

Global output growth might have bottomed out in 2016, reaching a 3.1% rate, the weakest since the 2008-2009 crisis. Still, global growth remains uneven across countries. Global growth continues to be supported mainly by the emerging and developing countries, in particular China and India. Although emerging market growth rates in general were faster than those of developed countries, they remain below the average of the past decade. Argentina and in particular Brazil and Venezuela were struggling through recession in 2016. On the other

hand, Russia's recession has been shallower than expected even though the economy was still hit hard by low commodity prices and economic sanctions last year. In China, a soft-landing was engineered in 2016 despite elevated financial market tensions the year before. Pro-growth policy initiatives, in particular investment increasingly financed by public funds, helped to keep growth above 6% in 2016. However, growth is still on its projected trajectory of structural slowdown due to rising financial fragilities and slow progress in structural reforms. The prolonged slowdown in the world economy weighed on

REAL GDP GROWTH (ANNUAL PERCENT CHANGE, 2016)



Source: IMF

growth in the advanced economies as well. The US economy slowed down considerably (1.6% vs 2.6% in 2015) as the fall in oil prices led to a sharp decline in the energy sector, an appreciation of the dollar hurt exports and manufacturing investment, and inventories were drawn down. Household spending remained strong supported by employment and wage gains as well as an increase in purchasing power due to the fall in energy prices.

The Eurozone exhibited modest growth in 2016 (1.7% vs 2.0% in 2015), showing slow but steady recovery despite the increased uncertainties surrounding the implications of the Brexit vote and Italian banking sector fragilities. In particular, domestic demand has proved to be resilient supported by the accommodative monetary policy stance, continued improvement in the labour market and a broadly neutral fiscal policy stance. On the other hand, exports grew less than imports, mainly due to the marked slowdown in the US, negatively contributing to growth.

Global Energy markets & Upstream

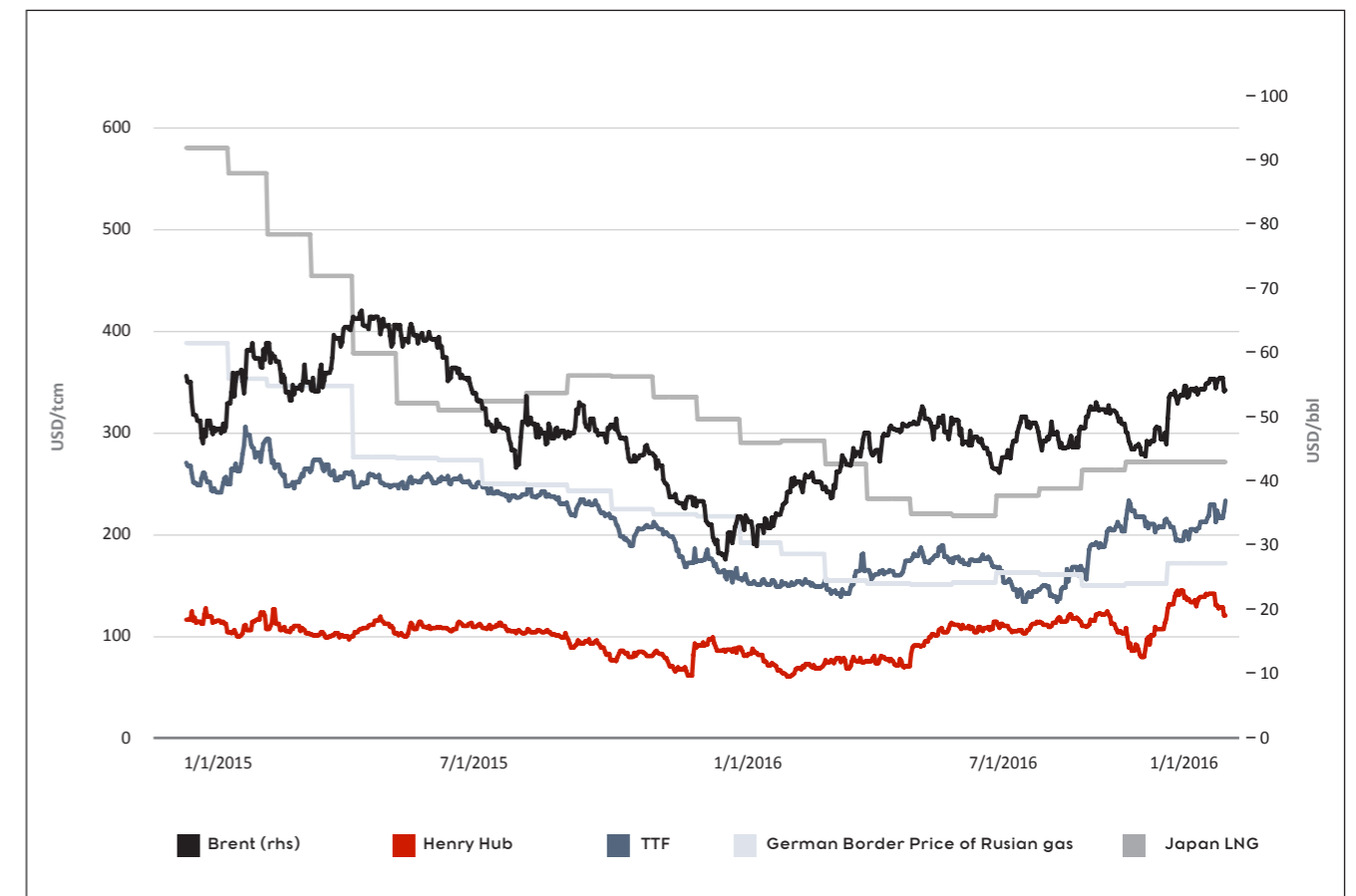
Crude oil prices remained subdued in 2016, with Brent dated averaging USD 43.7/bbl, down from an average of USD 52.3/bbl in 2015 (-17% yoy). This was largely driven by a near term inventory overhang (OECD commercial inventories increased to 65

days of OECD average consumption in 2016 from the 55 days average of the 2011-15 period), which was only partly offset by a slightly narrowing supply-demand imbalance (~0.8 MMBpd, -50% yoy). In late 2016, Brent price rose to ~USD 50-55/bbl, partly due to the agreement among OPEC and several major non-OPEC producers (including Russia), to cut crude oil production starting from January 2017.

Global oil supply was ~97.2 MMBpd, 0.4 MMBpd above the 2015 level. Non-OPEC production declined (-0.6 MMBpd yoy), primarily reflecting US tight oil response to low oil prices but was to more than offset by growth in OPEC output (+1 MMBpd yoy), mainly due to increased volumes in Iran, Iraq and Saudi Arabia. After peaking at a 5-year high in 2015, global oil demand growth slowed down to ~1.4 MMBpd, largely backed by narrowing consumption growth in the US, and reached 96.5 MMBpd. Still, demand exceeded supply growth, thus reducing the total imbalance.

Global gas prices have fallen and converged on all three main regional markets. The difference between the U.S. Henry Hub price (setting the floor for prices) and the Japanese LNG (providing a cap on prices) – the European TTF price moving in-between – has decreased considerably from an average 414 USD/tcm for the period 2011-2015 to 162 USD/tcm in 2016. European TTF gas price averaged 163 USD/tcm in 2016 (-30% yoy).

BRENT AND GAS PRICES



Source: Bloomberg

The price decrease can be attributed to (i) lower oil price which decreased oil-indexed contracted LNG prices in Asia, (ii) oversupply due to greater availability (coming from Australia and the US), and (iii) cooling demand from Asia Pacific. Still, a degree of segmentation between markets remains, because of the transportation costs and the effect of long-term contracts.

Downstream

Although 2016 margins were weaker than the record highs of 2015, 2016 was still a good year compared to the 5-year historical average. A high level of product stocks weighed on the market and increased product trade flows, particularly from China, undermining crack spreads. However, the reduction was limited by lower than expected refinery capacity additions and strong increases in oil products demand, supported by sustained economic growth and low outright prices. 2016 gasoline crack spreads exceeded the 5-year average, as they continued to benefit from demand growth, especially in the Atlantic Basin with the additional benefit to the US and European refiners of increased exports to South America. European diesel crack spreads, however, fell below the 5-year average, pressured by higher imports from the US and Middle East. In 2016 European petrochemical activities could not reach the extraordinary margins of 2015 either. Except for a short time period in May-June unplanned outages were below the previous year, assuring more stability in the intra-regional supply. Meanwhile the relative weakening of Chinese yuan versus the euro made Europe a more favourable export target of Middle Eastern and U.S. products. In parallel with the largely stagnating demand for commodity polyolefins (mainly polyethylene and polypropylene) tightness of European markets phased out. Even though naphtha, which is more directly connected to the low crude oil prices, remained less disadvantaged against light steam cracking feedstocks, limiting the external – cheap ethane based – pressure on the European petrochemical industry, especially on polyolefin markets. These factors led to stay integrated margins and profitability far above the 5-years average.

Central and Eastern Europe

Central and Eastern Europe (CEE) entered 2016 on a strong note, with economic activity gaining pace and financial markets resilient. Output expansion was mainly driven by the ongoing recovery in domestic demand. However, growth varied by pace and sustainability from country to country.

Hungary

Hungarian GDP growth declined in 2016 to 2%. The slowdown was due to a slower upturn in investment associated with the changeover to a new planning period for EU investment funding and moderate industrial production performance. Overall, domestic demand growth remained positive, as private consumption grew on the back of accelerating wage growth and growing employment. The unemployment rate dropped to a multi-year low and consumer confidence rose to an over ten-

year high in December 2016. The contribution of net exports to GDP moderated in line with the slow expansion of exports in the weak external environment and the pickup in imports for domestic demand purposes.

Gasoline demand increased by 3.7% yoy, supported by relatively low prices and rising real income. Diesel demand growth slowed to 2.9% (vs 8.8% in 2015) due to weaker demand from business customers.

Slovakia

In 2016, Slovakia's economy expanded further by 3.3%, driven mainly by strong net exports and accelerating household consumption, while falling investment detracted from growth. Although still relatively high, the unemployment rate declined to 9.7% and is set to fall further (to ~8% in 2018), reflecting the continued economic expansion. The general government deficit declined to 2.2% of GDP in 2016.

The country's passenger car fleet grew by 13% yoy supporting both gasoline - which increased by 3.7% - and diesel demand. The latter rose by 6% yoy gaining further support from larger diesel car penetration.

Croatia

Economic growth accelerated in 2016 with the economy growing at an estimated 2.9% after expanding by 1.6% in 2015. This was the fastest pace of expansion in the economy since the global financial crisis. 2016 saw employment rise, investment activity accelerate and real wages increase while at the same time private sector indebtedness fell. The domestic demand was the main driver of economic growth. Industrial production rose by 5% yoy, the fastest pace of expansion since 2002. While exports of goods and services continued to rise, the recovery of investment spending and household consumption resulted in an increase in imports. The contribution of net exports of goods and services to GDP in 2016 was an estimated -0.5%. Croatian gasoline demand declined by 1.6%, while diesel demand rose by 2.1% yoy. Penetration of diesel fueled cars into the passenger car sector continued to rise, eroding demand for gasoline.

Disclaimer:
- Crude oil figures are based on EIA.



INTEGRATED CORPORATE RISK MANAGEMENT

As operators in a high risk industry we stay committed to professionally manage and maintain our risks within acceptable limits as per best industry practice.

The aim of MOL Group Risk Management is to keep the uncertainties of the business environment within acceptable levels and support stable and sustainable operations and the future growth of the company. MOL Group has developed the risk management function as an integral part of its corporate governance structure.

Assessment and mitigation of the broadest variety of risks is arranged on group level into one comprehensive Enterprise Risk Management (ERM) system. ERM is a risk management framework covering group-level business units and functional units as well as flagship and operating companies, with specific attention to projects as well.

The risk management methodology applied by MOL is based on international standards and best practices. It considers the organisation's exposure to uncertainty in regards to value creation, meaning factors critical to the success and threats related to the achievement of objectives, also occurrence of incidents causing potential threat to people, assets, environment or reputation.

Risks are managed by risk owners, who are managers responsible for supervising the existing control framework and implementation of defined risk mitigation actions in responsible organisations. Monitoring and reporting of risks is performed by the Group Risk Management department to the Finance and Risk Management Committee of the Board of Directors.

Risks are collected and presented on risk maps at different levels, over the full lifetime of assets, coordinated by the group-level risk management team. Regular reporting to top management provides oversight on top risks and ensures that updated responses, controls and appropriate mitigation actions are set and followed by the Executive Board.

The main risk drivers of the Group

Risks are categorized to ensure effective risk reporting and consistent responses for similar or related risks.

- a) Market and financial risks include, but are not limited to:
- i. **Commodity price risk:** MOL Group is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks stem from the inte-

grated business model with downstream processing more crude and selling more than our equity crude oil production. In Upstream we are long on crude oil and in Downstream we have a long position on fuels and petrochemical margin. At group level our consolidated commodity risk stems from an overall long position in refinery and petrochemical margin predominantly (we sell fuels and petrochemical products to the market and we process crude oil sourced to a larger extent from the market and to a lower extent from equity production). Investors buying oil companies' shares are generally willing to take the risk of oil business so commodity price risk should not be fully eliminated from the cash flow. When necessary, commodity hedging is considered to eliminate risks other than 'business as usual' risks or general market price volatility.

- ii. **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 Group's current FX risk management policy the long FX exposures of the operating cash flow are decreased by the short financing cash flow exposures.
- iii. **Credit risk:** MOL Group provides products and services to a diversified customer portfolio - both from business segment and geographical point of view - with a large number of customers representing acceptable credit risk profile. Group level policies and procedures (e.g. assessment of customers, limit decision structure, mitigation techniques, security structures, monitoring and review) are in place to set the framework and principles on customer credit management and collection of receivables process to minimize credit risk deriving from delayed payment or non-payment of customers. MOL Group's risk management tracks these risks on a continuous basis and provides support to the sales processes in accordance with MOL Group's sales strategy and ability to bear risk.

- b) Operational risks include, but are not limited to:
- i. **Physical asset safety and equipment breakdown risk:** Due to the high asset concentration in Downstream, this is a significant risk driver. The potential negative effects are mitigated by comprehensive HSE activities and a group-wide insurance management program.

- ii. **Crude oil supply risk:** Crude supply disruption is a major operational driver for Downstream business to ensure continuous operations. In order to mitigate this risk, supplies of crude oil via pipeline are currently diversified with regular crude cargo deliveries from the Adriatic Sea.

- iii. **Cyber risk:** Cyber risk needs attention and effective management to ensure the company is able to monitor, detect and respond to cyber threats. Recently heightened cyber risk requires MOL Group to adapt and change the way it deals with cyber defence and cyber threats (people, process and technology): a clear vision and strategy has been set up to manage cyber incidents with end to end ownership and accountability.

c) Strategic risks include, but are not limited to:

- i. **Regulatory risk:** MOL Group has significant exposure to a wide range of laws, regulations, environmental and government policies that may change significantly over time. Due to the economic and also in some regions political crisis the risk of potential government actions increased as well as potential impact of such decisions.
- ii. **Country risk:** The international portfolio requires proper management of country risk exposures, therefore possible political violence, compliance with local regulations or sanctions are monitored to enhance the diversification effect in the investment portfolio.
- iii. **Reputation risk:** Reputation of energy industry players has been in the focus of media for the past years due to extreme negative events. MOL Group as a major market player in the region operates under special attention from a considerable number of stakeholders, and we are constantly seeking to meet our responsibilities towards them.

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 assessment activity supports stable and efficient operation by identifying key risks that threaten the 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, and is a result of detailed risk assessment processes. The risk maps integrate market and financial, operational and strategic risks, which are identified and reassessed regularly, providing 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. Sensitivity analysis and stress testing are performed regularly on market and financial 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 hedging measures.

Transferring of the financial consequences of our operational risks is done by insurance management. Purchase of insurances represents an important risk mitigation tool used to cover the most relevant exposures and liabilities arising out of our operations. 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 group to exploit considerable synergy effects.

Synergies

Valuable synergies can be extracted when risk is approached in a comprehensive way. The existence of an integrated risk management function enables MOL Group 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.

In 2016, following best industry practices and focusing on low probability high potential risks that could disrupt our operations, value chain and cash generation, we have implemented a business continuity program. We have identified processes, which are critical to our business and for each of these we have developed high-level recovery strategies. Moreover, we have identified the critical resources and dependencies and are currently developing action plans in order to reduce recovery times within tolerable limits.

The results of ERM on operational risks (including business continuity management) provides a better direction to management by highlighting areas where actions are necessary to ensure speedy recovery of operations in case of disruptions, and by identifying which areas of the business shall be covered by insurance.

Decision-making support of capital allocation

Besides providing information on the most imperative risks that MOL Group faces, risk management also supports the 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.

FINANCIAL AND OPERATIONAL OVERVIEW OF 2016

SUMMARY OF 2016 RESULTS

MOL delivered Clean CCS EBITDA of HUF 605bn in 2016 (USD 2.15bn), 12% lower than the all-time high 2015 level and met its upgraded target for the year. Downstream remained the earnings engine of the Group in 2016 and continued to contribute around two-third of the group EBITDA, despite some deterioration of the external environment. Other segments also saw some decline in their EBITDA contribution.

Net operating cash flow was also down modestly, by 11%, year-on-year (to USD 1.95bn), but organic CAPEX fell even more (from USD 1.26bn to USD 1bn), hence free cash flow generation even improved in 2016 year-on-year and reached nearly USD 1bn. While the balance sheet remained robust with a year-end Net debt/EBITDA of 0.97 and net gearing of 25%, credit metrics deteriorated somewhat vs the end of 2015 despite the strong cash generation due to the settlement of the Magnolia transaction.

- ▶ The Upstream segment's EBITDA, excluding special items reached HUF 190bn in 2016, only slightly lower than in 2015 despite a substantially weaker external environment with 17% lower Brent crude and 23% lower realized gas prices. Several positive developments boosted the segment's results: (1) production grew by 6% year-on-year on a like for like basis⁷, boosted by 7% higher CEE onshore production; (2) OPEX, including direct unit production cost (which average at USD 6.6/boe, down by USD 1.0/boe year-on-year) was reduced substantially, by nearly USD 90mn, as part of the New Upstream Program; (3) exploration expenses fell further.
- ▶ Downstream Clean CCS EBITDA fell 12% compared to 2015 and came in at HUF 408bn. Profitability was affected by (1) the lower complex refinery margins and the weaker integrated petrochemical margin, although both continued to stay above mid-cycle levels; (2) 8% lower production and 4% lower sales in petchem and deteriorating yields in refining, both due to the unplanned events during the year. These factors were mitigated by (1) the continued impressive growth in retail (+40% EBITDA) and (2) another USD

~130mn EBITDA uplift coming from the second year of the Next Downstream Program.

- ▶ Gas Midstream brought in full-year EBITDA of HUF 54.5bn in 2016, 9% lower year-on-year, primarily affected by lower capacity bookings in Q4 2016.
- ▶ Corporate and other segment delivered an EBITDA loss of HUF 39bn in 2016, widening slightly year-on-year, as the contribution of the oil services companies deteriorated further on the weaker oil prices.
- ▶ Net financial expenses declined significantly to HUF 50bn in 2016 compared to HUF 93bn in the previous year, primarily on much lower FX losses.
- ▶ CAPEX spending reached HUF 317bn (USD 1.12bn) in 2016, further down by 26% year-on-year on declining E&P spending. Out of this amount HUF 31bn (USD 111mn) was spent on inorganic investments, primarily on retail network expansion.
- ▶ Operating cash flow before working capital changes declined 11% year-on-year to HUF 547bn, in line with the fall in underlying EBITDA. Changes in net working capital were similar to last year's, thus net cash provided by operating activities also came in 11% lower year-on-year at HUF 519bn.
- ▶ Net debt increased to HUF 606bn in 2016 from HUF 474bn a year ago despite a substantial free cash flow generation during the year. The increase in debt was primarily the consequence of the Magnolia transaction, which added to debt. As a result, Net Debt/EBITDA also rose to 0.97 in 2016 and net gearing was up to 25% from 21%, yet the balance sheet remains safe and robust. In April 2016 MOL issued a EUR 750mn bond with 7 years maturity and the lowest coupon in MOL history, and in June concluded an EUR 615mn syndicated facility contributing to a financial headroom of EUR 3.8bn at year end.

MOL GROUP FINANCIAL RESULTS

KEY GROUP FINANCIALS	FY 2015 Restated (HUF mn)	FY 2016 (HUF mn)	FY 2015 Restated (USD mn)	FY 2016 (USD mn)
Net sales revenues	4,090,662	3,553,005	14,650	12,624
EBITDA	643,378	623,388	2,297	2,217
EBITDA excl. special items³	610,205	629,966	2,184	2,240
Clean CCS-based EBITDA ^{3,4}	687,014	605,422	2,459	2,153
Profit from operation	(217,231)	307,905	(738)	1,099
Profit from operation excl. special items³	263,584	330,873	928	1,179
Clean CCS-based operating profit^{3,4}	340,393	306,329	1,203	1,092
Net financial gain / (expenses)	(92,626)	(49,752)	(331)	(176)
Net profit attributable to equity holders of the parent	(260,999)	263,497	(903)	941
Operating cash flow before ch. in working capital	615,582	547,269	2,200	1,948
Operating cash flow	586,803	519,385	2,088	1,843
EARNINGS PER SHARE				
Basic EPS, HUF	(2,925.2)	2,872.1	(10.1)	10.3
INDEBTEDNESS				
Simplified Net debt/EBITDA	0.74	0.97		
Net gearing ⁶	20.7%	25.2%		

3, 4, 6 Notes and special items are listed in Appendix I and II.

⁷ Notes are listed in Appendix II

KEY FINANCIAL DATA BY BUSINESS SEGMENT

	FY 2015 restated HUF mn	FY 2016 HUF mn	FY 2015 restated USD mn ⁵	FY 2016 USD mn ⁵
NET SALES REVENUES				
Upstream	408,039	371,208	1,462	1,317
Downstream	3,749,637	3,301,100	13,425	11,732
Gas Midstream	103,642	89,410	371	317
Corporate and other	205,818	188,649	735	667
Total	4,467,136	3,950,367	15,993	14,033
Total External Net Sales Revenue¹	4,090,662	3,553,005	14,650	12,624

	FY 2015 restated HUF mn	FY 2016 HUF mn	FY 2015 restated USD mn ⁵	FY 2016 USD mn ⁵
EBITDA				
Upstream	240,956	183,676	855	652
Downstream	375,459	432,865	1,343	1,540
Gas Midstream	59,627	54,488	214	194
Corporate and other	(37,538)	(38,848)	(133)	(137)
Inter-segment transfers ²	4,874	(8,793)	18	(32)
Total	643,378	623,388	2,297	2,217

	FY 2015 restated HUF mn	FY 2016 HUF mn	FY 2015 restated USD mn ⁵	FY 2016 USD mn ⁵
EBITDA EXCL. SPECIAL ITEMS³				
Upstream	197,042	190,254	705	675
Downstream	384,662	432,865	1,375	1,540
Clean CCS-based DS EBITDA ^{3,4}	461,471	408,321	1,650	1,453
Gas Midstream	59,627	54,488	214	194
Corporate and other	(36,000)	(38,848)	(127)	(137)
Inter-segment transfers ²	4,874	(8,793)	17	(32)
Total	610,205	629,966	2,184	2,240
Clean CCS-based EBITDA^{3,4}	687,014	605,422	2,459	2,153

	FY 2015 restated HUF mn	FY 2016 HUF mn	FY 2015 restated USD mn ⁵	FY 2016 USD mn ⁵
OPERATING PROFITS¹				
Upstream	(469,615)	37,038	(1,643)	132
Downstream	264,214	299,016	944	1,067
Gas Midstream	45,612	41,439	164	147
Corporate and other	(67,450)	(62,529)	(239)	(221)
Inter-segment transfers ²	10,008	(7,059)	36	(26)
Total	(217,231)	307,905	(738)	1,099

	FY 2015 restated HUF mn	FY 2016 HUF mn	FY 2015 restated USD mn ⁵	FY 2016 USD mn ⁵
OPERATING PROFITS EXCL. SPECIAL ITEMS³				
Upstream	(9,173)	43,617	(49)	155
Downstream	273,417	309,469	976	1,102
Gas Midstream	45,612	41,439	164	147
Corporate and other	(56,280)	(56,592)	(200)	(200)
Inter-segment transfers ²	10,008	(7,060)	37	(25)
Total	263,584	330,873	928	1,179

1, 2, 3, 4, 5 Notes and special items are listed in Appendix I and II.

OUTLOOK ON THE STRATEGIC HORIZON

2016 was a year of great achievements and important milestones for MOL Group in an ever-challenging external environment. Oil price hit a bottom at below USD 30/bbl in Q1 2016 just to nearly double within the year, while refinery and petrochemicals margins, not entirely unexpectedly, declined from their 2015 peaks. MOL Group once again managed to comfortably beat its initial forecasts and posted USD 2.15bn Clean CCS EBITDA, which coupled with strict capital discipline resulted in even stronger free cash flow generation compared to 2015. The high-quality, low-cost asset base and the integrated business model once again proved to be resilient in this volatile macro environment.

2016 was a very important year for MOL Group, as the new long-term strategy “MOL Group 2030 – Enter Tomorrow” was approved and its implementation already began. This strategy seeks to provide relevant answers to the challenges of a fast-changing external world, where previous assumptions regarding fossil-fuels-based industries may not hold any longer. The strategy also put MOL onto an exciting transformational journey, including important growth prospects, with no smaller ambitions than to retain our regional leadership in all core businesses, to become the top chemicals company in CEE and to be the best choice of our employees, customers and investors. “MOL Group 2030” will also be the anchor to what we do in 2017, when we already expect to pass some important milestones, as well as in the next 15 years.

The primary financial target of the Group remains to generate enough operating cash flows to cover the internal investment needs – now also including the transformational projects –, financial costs, taxes and dividends to shareholders, while retaining a safe and strong balance sheet. Using the assumptions of our 2017-2021 financial framework, (oil price within the range of USD 40-60/bbl, normalizing downstream margins), MOL Group shall again be able to deliver at least USD 2bn EBITDA in 2017, while organic capex should not exceed USD 1.2bn. This implies sustained free cash flow generation this year too, allowing MOL to prepare for the funding of its transformational projects, but also to be able to continue to pay rising dividends to its shareholders.

In Downstream, MOL Group once again proved in 2016 that it has a high quality, integrated, highly cash generative platform, which was able to mostly offset the negative impact of a somewhat weaker external environment. The continued impres-

sive growth in Retail (Consumer Services) along with further substantial bottom-up efficiency improvement delivered by the Next Downstream Program were the highlights of the year. Unplanned events affecting availability and through that volumes, yields and captured margins, and some delays with our growth projects served as a reminder that we have more to do and more upside to grab in the coming years.

Our Downstream targets for 2017 are twofold. On the one hand, we will continue to do our best to mitigate the impact of a potential further margin normalization through internal efforts, as our Next Downstream Program enters into its final year. Running our two growth projects (butadiene, LDPE4) smoothly and improving availability will be instrumental in these efforts. On the other hand, we will already make significant progress in 2017 in our strategic transformational projects in petrochemicals. We will work on technology selection and licence negotiations in our planned polyol project, while we also expect to make a decision on the launch of the steam cracker revamp in Tiszaújváros.

In Upstream, MOL Group successfully implemented the New Upstream Program (NUP), which was launched in early 2016 and the primary target of which was to make MOL fit in a low oil price environment and to ensure that the existing portfolio is cash break-even in a low oil price environment. We are happy to report that the NUP achieved all its targets, and more. Production grew by a further 6% on a like-for-like basis, with CEE onshore being one of the driver. We slashed around USD 90mn from our OPEX, including a 14% cut in our direct production cost, which fell to a very competitive USD 6.6/boe in 2016. And we further scrutinised our capital programme and reduced organic capex by a further 36% YoY. This allowed us to keep EBITDA nearly flat in 2016 and to generate over USD 250mn (or around USD 7/boe) free cash flow despite a material decline in both oil and gas prices.

Our targets in Upstream are straightforward. We want to ensure that our Upstream segment is generating value even in a low oil price environment. This requires continued focus on efficiency and costs, and efforts to stabilise our production at the current level. In 2017 we do expect our group production to continue to be around 110 mboepd and this may be sustainable for another two years. At the same time, we will increasingly consider our options for organic and inorganic reserves replacement, as MOL Group's long-term strategy is built on the strength of our integrated business model.

UPSTREAM OVERVIEW



What have been the most important tasks for MOL Group Upstream recently?

“Oil and gas producers were put to a test as oil prices averaged slightly above 40 USD/bbl during the year, nevertheless we successfully implemented all major actions of our New Upstream Program. MOL E&P generated free cash-flows over USD 250mn or 7 USD/boe even at the bottom of the industry cycle. Moving forward our strong intention is to keep our business fit against a challenging macro backdrop while also making sure that we deliver on reserve replacement in order to maintain our long-term competitiveness.”

Dr. Berislav Gašo – Executive Vice President, Exploration and Production

KEY ACHIEVEMENTS IN 2016

- ▶ Over USD 250mn free cash flow delivered (7.0 USD/boe unit free cash flow) in a 44 USD/bbl Brent price environment and an average realized hydrocarbon price of 33 USD/bbl
- ▶ Production decline successfully reversed, annual average production of ~112 mboepd (104 mboepd excluding joint ventures and associated companies) achieved on portfolio level, up by 6% compared to last year on a like-for-like⁷ basis
- ▶ Highest onshore CEE production (71 mboepd) achieved since 2012
- ▶ Production Optimization Program (PO) continued in the CEE region, and achieved 7% onshore production increase (vs last year) driven by significant rise of oil (+14%) and onshore gas (+4%) production
- ▶ In 2016 ~90 mn USD OPEX saving was delivered in line with New Upstream Program aspirations, which resulted in 1.0 USD/boe reduction in direct unit production cost (-14%) compared to previous year. The total unit direct production cost was 6.6 USD/boe on portfolio level. Organic CAPEX came in 36% lower versus 2015
- ▶ Portfolio optimization continued with the divestment of Matyushinsky block in Russia and a farm-down in two licences in Romania. Our exploration portfolio was extended through successful licensing rounds in Hungary and in Norway
- ▶ MOL Norge's exploration concept attracted world-class partners like Aker BP, Statoil and Petoro

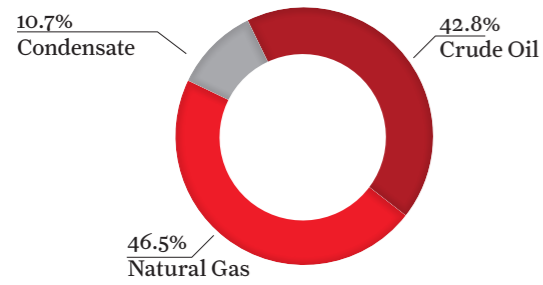
OUTLOOK FOR 2017-2019

- ▶ Upstream remains a key pillar of the integrated business model, and has to be self-funding even in low oil price environment
- ▶ Increase production up to ~115 mboepd level through PO and the implementation of international field development programs by 2018
- ▶ Continue to apply greater scrutiny in project approvals to ensure lower unit finding and development cost (~12-16 USD/boe)
- ▶ Exploration CAPEX to be spent in our core regions, mainly in CEE, Pakistan and Norway; development CAPEX spending will address undeveloped 2P reserves in CEE, and the international field development activity will focus on UK, Pakistan, Kazakhstan and on the Baitugan field in Russia
- ▶ Efficiency will remain in focus to deliver competitive unit direct production cost in line with strategic aspiration
- ▶ Investigate and pursue inorganic options in order to sustain at least current production in long-term

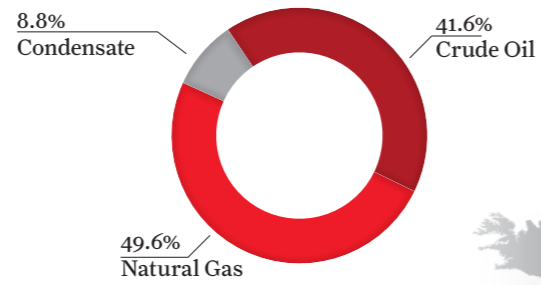
⁷ Notes are listed in Appendix II.

PORTFOLIO ELEMENTS*

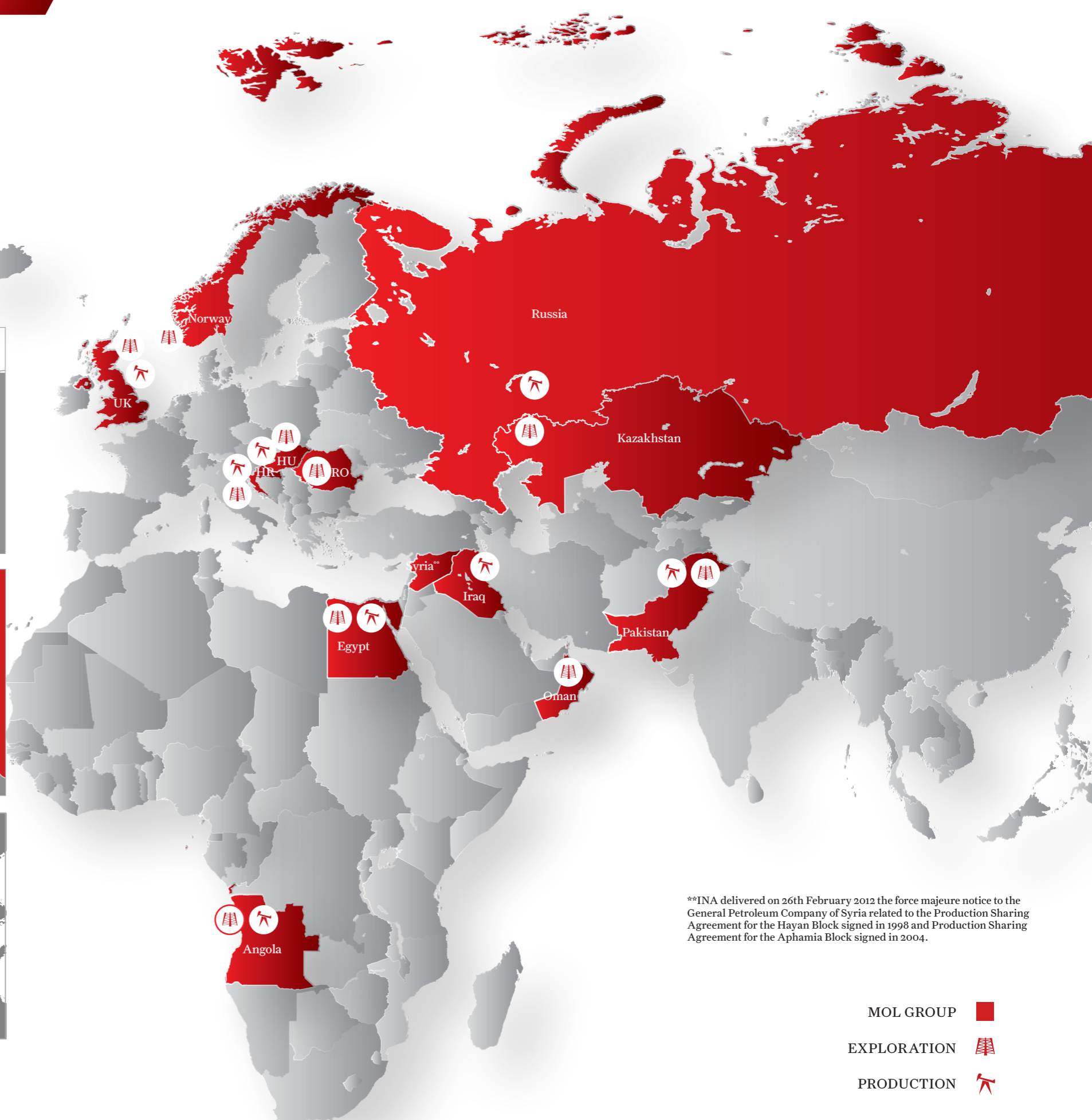
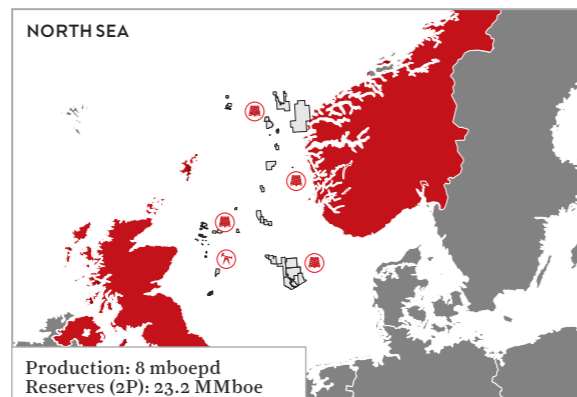
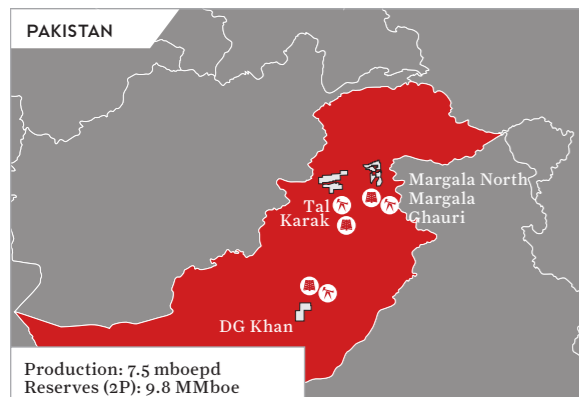
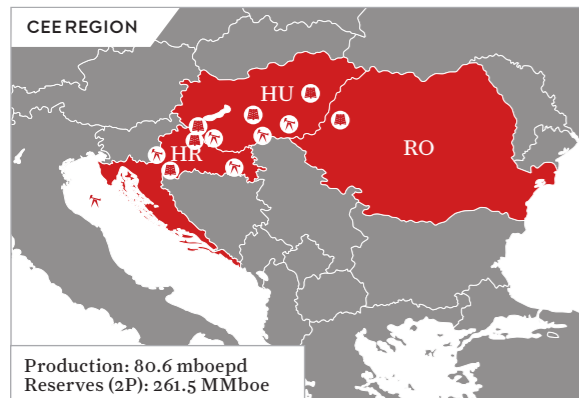
SPE 2P reserves (2016)
459.4 MMboe



Production (2016)
112.2 mboepd



*including JVs and Associates.



**INA delivered on 26th February 2012 the force majeure notice to the General Petroleum Company of Syria related to the Production Sharing Agreement for the Hayan Block signed in 1998 and Production Sharing Agreement for the Aphia Block signed in 2004.

- MOL GROUP ■
- EXPLORATION ⚙️
- PRODUCTION ⚙️

KEY ACHIEVEMENTS

MOL Group Upstream has 80 years of experience. MOL Group's portfolio consists of oil and gas exploration and production assets in 13 countries with production activity in 8 countries. MOL Group is committed to the key principles of sustainable operations, aiming at zero HSE incidents and accidents, protecting the environment by reducing the number of spills and decreasing greenhouse gas emissions by flaring and amongst other measures, by participating in the World Bank's Zero Flaring Initiative.

THE CENTRAL EASTERN EUROPEAN REGION

In 2016 MOL Group successfully continued its Production Optimization Program in its core CEE region, and as a result onshore production increased by 7% to 71 mboepd, driven by the significant rise of oil (+14%) and onshore gas (+4%) production.

Production Optimization (PO) project in **Hungary** was successfully carried on in 2016, contributing to 8% production increase (year-on-year). In the frame of the project, 29 workovers, 4 acid jobs, 7 frackings, 21 interventions on Artificial Lifting System, choke optimization on 26 wells were completed, and contributed to the Hungarian production increase of 3.5 mboepd on an annual basis.

MOL acquired 6 new licences on the 4th bid round in Hungary. As a result hydrocarbon exploration can be started in the area of Bázakerettye, Bucsa, Jászárokszállás, Mezőtúr, Okány-West and Zala-West. MOL Group's exploration acreage in Hungary has been doubled through the new licences.

In 2016 several exploration programs went on with positive results in Hungary. Dány Exploration Program continued with one drilling (testing is in progress with good indications); Komádi-West-4 and Üllés-East-1 drilling were successful with both wells tested and categorized as productive.

In **Croatia** several well workovers have been completed in 2016, contributing to the 6% increase of onshore production (year-on-year). In the frame of General Workover Project 35 wells were completed and within the Full Field Optimization concept 11 wells on Kloštar oil field and 16 wells on Jamarica and Lipovljani fields were finished, which contributed to the production increase of 1.6 mboepd on an annualized basis.

INA signed PSA of the new onshore exploration concession (Drava-02) in Croatia.

In Croatia first gas was achieved on two fields in the frame of the Medimurje project, adding 0.8 mboepd annualized incremental production in 2016. The EOR ((Enhanced Oil Recovery) project on Ivani and Žutica fields continued throughout 2016 and brought 0.3 mboepd incremental production on an annual basis.

In order to derisk its exploration efforts in **Romania**, MOL Group farmed down its interests in EX-1 and EX-5, retained 30% in EX-1 and 20% in EX-5.

In the field of Health, Safety and Environment (HSE), some promising strides have been made ensuring Upstream can

deliver environmental benefits. The INA EOR project delivered CO₂ emission reduction and freshwater saving at the same time, since the formation water produced by the project was reused for well interventions. Upstream Division started to assess Hungarian projects to certify them as Upstream Emissions Reduction, in compliance with the Fuel Quality Directive of the European Union.

THE NORTH SEA

Key achievement from field development perspective in the region was the delivery of earlier than planned first oil on Scolty and Crathes field, bringing additional 0.8 mboepd annualized average volume to the UK production for 2016. MOL Group extended its exploration footprint in the region via successful participation in the APA (Award in Pre-Defined areas) licensing round in Norway, adding four licences (as of which one extension) to the existing portfolio.

In the **UK** first oil was achieved on Scolty and Crathes on 21st November ahead of schedule and significantly below budget. The 2016 drilling program was successfully completed on Catcher with six additional wells drilled with good subsurface and operational results. The subsea works and FPSO construction continued and all major subsea equipment was installed. On Scott the infill drilling program was continued.

In 2016 MOL Group participated at the APA licensing round in **Norway** and was awarded with four licences (of which one extension) in the core areas of the company. MOL Group built partnership with the best in class North Sea explorers (Petoro, Statoil and Aker BP) and expanded its operated positions in the Mandal High Area. Rovarkula exploration well (PL626) was drilled dry, plugged and abandoned, within budget and with no HSE issues or harm to the environment.

THE MIDDLE EAST, ASIA AND AFRICA

In the MOL Group operated TAL Block in Pakistan production achieved 80 mboepd (gross) in the fourth quarter of 2016 as a result of recent tie-ins. With three further exploration successes in 2016 MOL Pakistan has achieved 13 discoveries in 3 different blocks since 1999.

In **Pakistan**, MOL Group has a proven track record with strong partners and over 15 years of operated and non-operated activities. MOL Group has interests in 5 blocks in Pakistan of which 2 are operated.

TAL yearly average production increased by 9% (to 78 mboepd) compared to last year, in Q4 2016 average production exceeded 80 mboepd (gross), as a result of successful tie-ins of new wells. The Mardankhel-1 well was successfully tied in to the production facilities in November 2016. Meanwhile the Makori East-5 development well tie-in has also been completed after the installation of permanent facilities in Q4 2016.

MOL Group continued its extensive exploration activity in the

country in 2016 with several positive results. Three further exploration successes were achieved last year; Makori Deep-1 and Tolanj West-1 discoveries were made in the TAL Block and Halini Deep-1 discovery was made in the Karak Block. Large-scale seismic acquisition works were carried on in the country, in the Karak Block, in the Margala Block and in the Ghauri Block. As part of exploration portfolio optimization Margala North was relinquished with effect from January 1, 2016, the regulatory approval is in progress.

Despite strong business results we are still facing HSE related challenges in Pakistan. In 2016 2 contractor fatalities and 20 third party fatalities happened, the majority due to product transportation. This reinforces our efforts to further strengthen our safety management.

In order to improve community relationship management, MOL Pakistan started the MOL Group Human Rights Roadmap implementation with the training of a local security personnel (including private and armed forces).

In the **Kurdistan Region of Iraq**, non-operated Shaikan Block is currently producing from 8 wells through two production facilities with a production capacity of 40 mboepd. Furthermore MOL Group holds a 10% stake in the Pearl Petroleum Company (Khormor and Chemchemical fields). The Khormor field has been producing from 6 wells.

In **Oman**, MOL completed its committed exploration program in Block 66, located in the mid-western part of the country, close to the Saudi border. After the execution of a large seismic campaign in 2014, drilling program was started in 2015. Two wells were completed in 2016, Maisoorah-1 was water bearing and Husna-1 was dry.

THE CIS REGION

MOL Group has presence in the region for more than ten years. Baitugan field contribution to the international portfolio's production is essential. As a result of accelerated drilling program on the field, Baitugan delivered a 20% (year-on-year) ramp up in production during 2016.

In the Fedorovsky block in Kazakhstan, field development program was started in partnership with KMG and FIOC.

In the operated Baitugan block in **Russia**, focus has been on increasing production via the High Density Drilling Campaign. In the frame of the program 65 wells were drilled in 2016 within the planned schedule and budget. A new subsurface approach was introduced, which yields higher flow rates per new wells. As a result, total production increased by 20% (year-on-year). Yerilkinsky exploration has been completed, Novo-Semenkinskaya-1 well was dry and abandoned.

In Baitugan, good progress has been made on certain HSE programs, such as spill prevention via pipeline integrity program and associated gas usage in power generation.

As part of the active portfolio management MOL's Matyushinsky block in Russia was divested. The sale did not have a significant effect on the annual production of MOL in Russia, as the production intensification program on Baitugan field successfully offset the production shortfall as a result of the divestment. MOL Group remains committed to maintaining and potentially expanding Upstream activities in the country. In the Fedorovsky block in **Kazakhstan**, drilling of U-25 well was completed. Tournasian layer was successfully tested for gas and condensate.



FINANCIAL OVERVIEW OF 2016

BRENT AND AVERAGE REALIZED HYDROCARBON PRICE	FY 2015 restated	FY 2016	Ch. %
Brent crude (USD/bbl)	52.5	43.7	(16.8)
Crude oil and condensate price (USD/bbl)	46.8	39.0	(16.7)
Average realized gas price (USD/boe)	35.9	27.7	(22.9)
Total hydrocarbon price (USD/boe)	40.9	33.2	(18.9)

Decreasing realized prices were driven by a further 9 USD/bbl drop to 44 USD/bbl in Brent prices. Additionally shrinking realized gas price was a result of eroding European spot market prices and a 20% reduction of the regulated gas price in Croatia as of April 2016.

EBITDA, excluding special items came in nearly flat and amounted to HUF 190bn in 2016, representing a slight decrease of HUF 7bn compared to the base period. Performance was affected by:

- (-) Average realized hydrocarbon prices fell by 8 USD/boe to 33 USD/boe driven by a 23% drop in realized gas prices and a 15% decrease in realized crude prices.
- (+) Total group production (incl. JVs and associates) increased further to 112 mboepd. Production grew by 6 mboepd or 6% year-on-year in 2016 on a like-for-like7 basis.
- (+) The successful implementation of the New Upstream Program contributed to a 1.0 USD/boe reduction of Group-level average direct production cost, excluding DD&A, which came in at 6.6 USD/boe. The New Upstream Program also focused on all controllable OPEX items on top of direct lifting costs, hence operating expenditures in Upstream, excluding DD&A, totalled HUF 207bn, representing a HUF 38bn decrease versus the previous year. Furthermore exploration expenses were lower by HUF 4bn, which was also driven by NUP initiatives.

Reported EBIT reached HUF 44bn in 2016, while EBIT excluding special items amounted to HUF 51bn. A total of HUF 7bn special items affected reported EBITDA and EBIT including the disposal of the Matyushinsky block in Russia and impairments on inventory related to the operations in the Akri-Bijeel block in the Kurdistan Region of Iraq.

HYDROCARBON PRODUCTION (mboepd)	FY 2015 restated	FY 2016	Ch. %
Crude oil production	35.2	40.9	16.2
Hungary	11.4	13.3	15.8
Croatia	10.7	11.9	11.8
Russia	1.9	1.3	(33.5)
Kurdistan Region of Iraq	3.6	3.6	0.0
United Kingdom	3.2	6.6	106.4
Other International	4.4	4.2	(4.5)
Natural gas production	56.9	55.6	(2.2)
Hungary	25.7	26.9	4.4
Croatia	25.0	22.4	(10.1)
o/w. Croatia offshore	12.2	9.3	(23.6)
United Kingdom	1.7	1.3	(20.7)
Other International	4.5	5.0	11.4
Condensate	7.1	7.5	6.5
Hungary	3.8	4.2	9.6
Croatia	1.9	1.9	(1.5)
Other International	1.3	1.5	9.1
Average hydrocarbon production of fully consolidated companies	99.1	104.1	5.0
Russia (Baitex)	4.8	5.8	20.8
Kurdistan Region of Iraq (Pearl Petroleum)*	N.A.	2.4	N.A.
Average hydrocarbon production of joint ventures and associated companies	4.8	8.1	67.9
Group level average hydrocarbon production	103.9	112.2	7.9

* Excluding gas, production figures included from 2016

Total average daily hydrocarbon production (including JVs and associates) reached a ~112 mboepd in 2016. From 2016, MOL Group consolidates Baitex with the equity method and the corresponding production (~6 mboepd) is included among JVs and associates. Furthermore, from 2016 the liquids production of Pearl Petroleum (~2 mboepd) is also included in Group production as part of JVs and associates. Total group production grew in 2016 by 6% year-on-year, or by 6 mboepd on a like-for-like7 basis. The achieved increase was fully driven by an uplift in oil and condensate volumes pushing the liquids to gas production ratio close to 50% on a portfolio level.

Changes in the Upstream regulatory environment

In **Hungary** the regulated gas price increased by 2.8 HUF/m³ in 2016 Q4.

In **Croatia** the regulated gas price was reduced from 1.59 HRK/m³ to 1.27 HRK/m³ with an effective date of 1st April, 2016.

In **Norway** corporate income tax rate was reduced to 24% (down by 1 percentage point) with a corresponding increase of

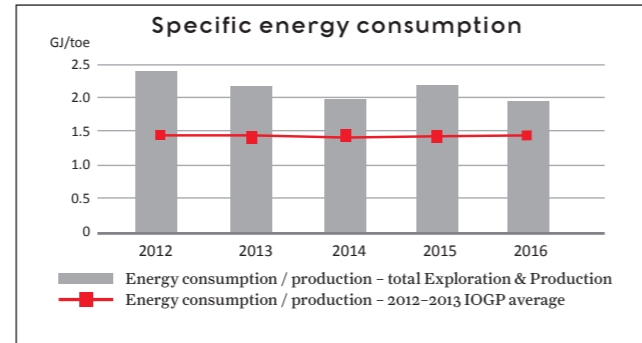
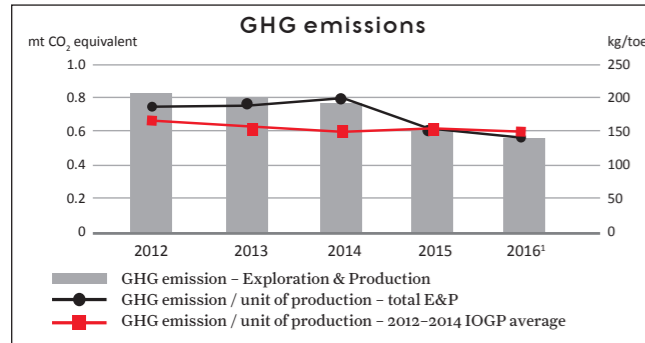
the special petroleum tax (ST) rate to 54%. Hence, the marginal tax rate will remain at 78%. The new regulation is effective from January, 2017.

In the **UK** the supplementary charge tax has been reduced from 20% to 10%. The rate at which petroleum revenue tax is levied has been reduced from 50% to 0%. These reductions took effect from 1st January, 2016. These reductions do not have an immediate impact on the activities of MOL Group in the UK due to the significant tax loss pool.



UPSTREAM SUSTAINABILITY HIGHLIGHTS 2016

CLIMATE CHANGE



¹No actual data available at the time of the publication of the report, latest IOGP actuals used as an estimation for indication

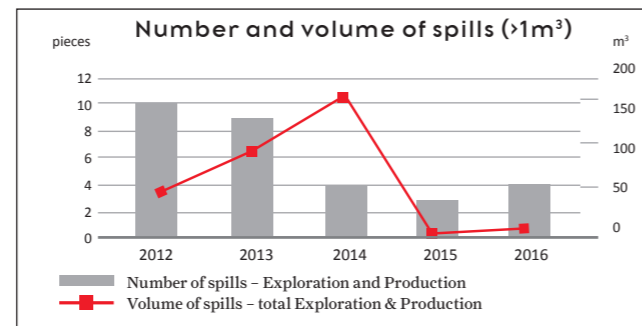
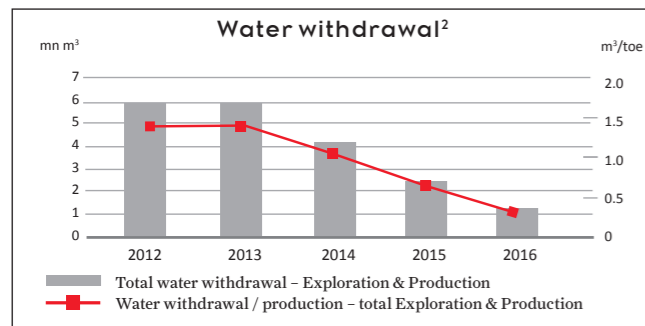
STRATEGIC GOAL:

Reduce CO₂ intensity of operations by 20% by the end of 2016 (in CO₂/tons of oil equivalent) compared to 2010 level

PERFORMANCE:

- ▶ In 2016 there was a slight increase in the GHG emissions of E&P (compared to last year), mainly due to the increased production in Russia and Pakistan
- ▶ Overall strategic goal on emission reduction was met, delivering 21% reduction in 2016 compared to 2010
- ▶ Our unit GHG emissions is slightly below IOGP average
- ▶ Baitex associated gas utilization (for energy production) improved and reached 95%

WATER AND SPILLS



²Excluding produced water

STRATEGIC GOAL:

Reduce total water withdrawals by 5% year-on-year; by 2020 reduce the number of spills by 30% compared to 2014 level

PERFORMANCE:

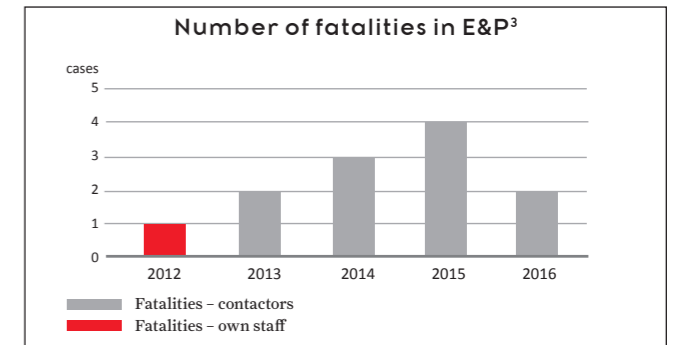
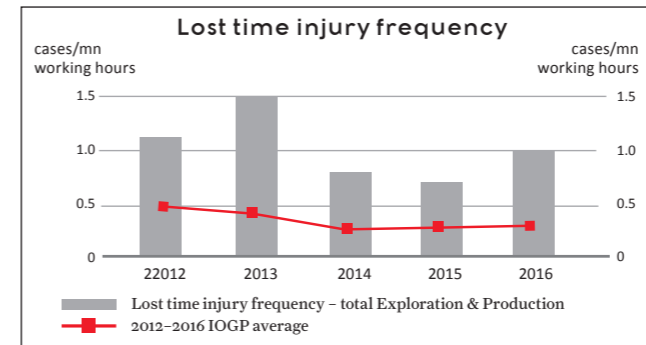
- ▶ Water withdrawal reduced significantly driven by the Hajdúszoboszló Cooling System Project completed in 2015
- ▶ In 2016 number and volume of spills slightly increased mainly due to pipeline corrosion
- ▶ In order to mitigate minor spills pipeline integrity project started in Baitex in 2016
- ▶ In the next years asset integrity, especially pipeline integrity will be in focus

RESERVES AND R&D

	2012	2013	2014	2015	2016
Reserve Life Index (years) (SPE 2P)	15	15	16	14	11
Research & Development expenditure (HUF mn)	730	486	286	1,164	1,627

Two major R&D projects were launched in 2015. Surfactant-polymer EOR Pilot Project started in 2015, and Micro-emulsion Project commenced in 2016.

SAFETY



³Excluding third party fatalities (20 in 2016)

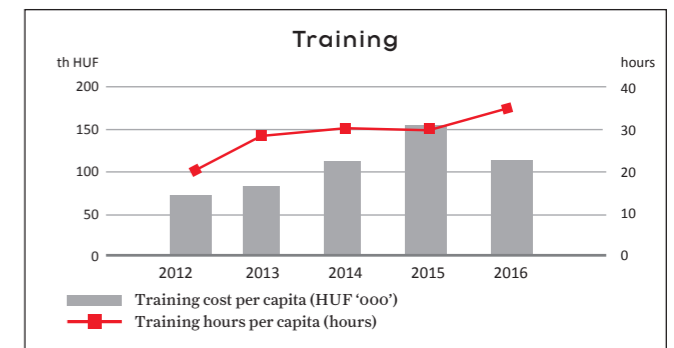
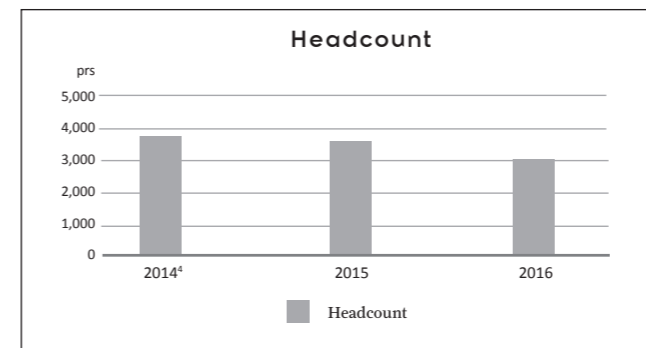
STRATEGIC GOAL:

Implement programs aiming for zero incidents

PERFORMANCE:

- ▶ In 2016 we had 2 contractor fatalities in our E&P operations. One incident is linked to HAZMAT transportation and one to pipeline maintenance
- ▶ Several awareness raising activities were launched in order to reduce the number of accidents and incidents. Life Saving Rules Program, Fall Protection Program, and the GPS/SOS Equipment Pilot Project started in 2016

HUMAN CAPITAL



⁴Crosco is excluded from 2014 onwards

STRATEGIC GOAL:

Increase employee engagement level & further develop and utilize the Technical Career Ladder program

PERFORMANCE:

- ▶ Headcount was decreased in line with portfolio optimization (Relinquishment of Akri-Bijeel and Matjushkinskaya Vertical divestment)
- ▶ In 2016, the Technical Career Ladder program was further extended to three new job families and mentoring also expanded

COMMUNITIES

	2011	2012	2013	2014	2015
Community investments in international E&P ⁵ (HUF mn) (Total MOL Group without INA Group)	191	354	205	601	279

⁵Covering social spending in 2016 in the following operations: Kurdistan, Baitex, Mathyushkinskaya Vertical, Pakistan

There was a significant decrease in 2016 compared to 2015 due to change in portfolio elements. (Mainly due to reduced activity in Kurdistan).

DOWNSTREAM OVERVIEW



“In 2016 we continued to improve Downstream efficiency and competitiveness which helped to achieve USD 1.45bn Clean CCS EBITDA despite a deteriorating macro environment. The strength of our integrated refining and petrochemicals asset base together with high market captivity is well reflected by the fact that Petchem and Retail contributed nearly 60% to these results in 2016. I am also very pleased to report that a very clear vision of MOL Group Downstream was defined in the MOL Group 2030 strategy, with an ambition to sustain our regional leadership in core businesses, become a leading chemical group and be the customer’s first choice. This also means that we shall continue to do what we are the best at - efficiently run our core assets, supply the market with high quality products while further extending our Petchem value chain and focusing on customer experience. We are also in the process of developing our corporate culture in order to prepare ourselves for the future and to be able to achieve what we set for ourselves in the MOL Group 2030 strategy. By improving our everyday work processes and cooperation, we will be more successful in increasing customer satisfaction while at the same time having more engaged employees.”

Ferenc Horváth – Executive Vice President, Downstream

2016 HIGHLIGHTS

- ▶ The new long-term strategy “MOL Group 2030 Enter Tomorrow” set clear strategic directions for Downstream to ensure the long-term competitiveness and growth of the segment
- ▶ In 2016 Downstream generated HUF 408 bn (USD 1.45bn) Clean CCS EBITDA, somewhat behind last year’s record financial performance despite a deteriorating macro environment
- ▶ Petrochemicals and Retail (Consumer Services) contributed nearly 60% to Downstream Clean CCS EBITDA, serving as a further testimony to the benefit of the integrated Downstream value chain
- ▶ The Next Downstream Program continued to support the overall Downstream performance
- ▶ The initiatives under this program contributed USD ~130mn to EBITDA primarily through internal efficiency improvement in 2016
- Internal efforts were, however, offset in 2016 by a some unplanned events in key production units and by delays in the operation of the new petrochemical plants (Butadiene and LDPE4)
- ▶ Refining saw another significant increase of seaborne crude intake, following the strategy to diversify crude basket and exploit crude differentials
- ▶ Danube refinery achieved the best Operational Availability in the last 6 years with 96.5%, rewarded by DS Production SVP Reliability Award for the best Production asset team

OUTLOOK

- ▶ Macro conditions may remain supportive, above mid-cycle levels, however, 2015 conditions are unlikely to be matched
- ▶ The key strategic directions for Downstream: to focus on efficiency and flexibility in Refining, and to pursue organic and inorganic growth in both Petrochemicals and Retail businesses
- ▶ The Next Downstream Program aims to further mitigate the volatility of external macro by adding a total of USD 500mn to Downstream EBITDA in 2014-17 (of which USD 160mn is to be delivered in 2017), including:
 - USD 350mn asset and market efficiency improvements
 - USD 150mn contribution from strategic growth projects
- ▶ Downstream shall generate USD 1.4-1.5bn Clean CCS EBITDA in 2017 based on the Group’s 2017-21 macro assumptions
- ▶ The Downstream business’ normalized CAPEX in 2017 should be around USD 400-500mn, which would allow for an excellent sustained free cash-flow generation
- ▶ The new MOL Group 2030 Enter Tomorrow strategy targets MOL becoming the customers’ first choice in refining, petrochemicals, mobility products and services in the wider CEE region
- ▶ Ongoing culture development program will be the basis for the success of MOL Group business strategy by 2030
- ▶ HSE remains a primary focus:
 - Following a successful roll-out in 2016, the HSE Leadership Engagement program will be continued and extended also to contractors
 - Process Safety measures’ implementation will continue concentrating on mechanical integrity to reduce spills to environment and fire cases
- As 2017 will be the “Year of Climate” in EU regulations, MOL Group is preparing for responding adequately

PORTFOLIO ELEMENTS

REFINING

CAPACITY IN MT/Y	NCI INDEX	
Danube Refinery	8.1	10.6
Bratislava Refinery	6.1	11.5
Rijeka Refinery	4.5	9.1
Sisak refinery	2.2	6.1

LOGISTICS

CRUDE PIPELINES	CAPACITY IN MT/Y
Friendship (Slovakian part, owned by Transpetrol)	22.0
Friendship I. (bidirectional - total 129 km)	6.0
Friendship II.	7.9
Adria (Hungarian part)	10.0
Algyő	2.0
Porto Marghera - Mantova	2.6
Adria - JANAF (12% owned by INA)	20.0
product Depot (pcs)	42
Product Pipeline system:	
MOL - 1,356 km	8.2
SN - 484 km	2.5

RETAIL

NUMBER OF SERVICE STATIONS	
Hungary	479
Croatia	430
Italy	83
Slovakia	252
Romania	206
Bosnia and Herzegovina	101
Serbia	53
Czech Republic	306
Slovenia	56
Montenegro	1
Total	1,967

PETROCHEMICALS

PRODUCTION	CAPACITY IN KT/Y
MPC - Ethylene	660
MPC - Polymer	765
MPC - Butadiene	130
SPC- Ethylene	220
SPC - Polymer	475
Pipelines	capacity in kt/y
Feedstock and product pipelines	2,700
Ethylene (Kazinbarcika)	160
Ethylene (Kalush)	100

OUR SERVICE STATIONS



Domestic and core markets

Refinery

Petrochemical Plant

Oil pipeline

Petchem pipelines

Ethylene pipeline

Product depot



COMPETITIVE ADVANTAGE

MOL Group Downstream operates 6 production units: 4 refineries and 2 petrochemical sites, with different business activities that are part of an integrated value chain. This value chain turns crude oil into a range of refined products, which are moved and marketed for household, industrial and transport use. The products include, among others, gasoline, diesel, heating oil, aviation fuel, lubricants, bitumen, sulphur and liquefied petroleum gas (LPG). In addition, MOL produces and sells petrochemicals worldwide and holds a leading position in the petrochemical sector in the Central Eastern Europe region.

MOL Group is operating complex, high quality assets with a total of 20.9 mtpa refining and 2.2 mtpa petrochemicals capacity. The high net cash margin-producing refineries in Hungary and Slovakia benefit from their geographical locations as well as their well-balanced product and customer portfolios. MOL Group Petrochemicals (MPC) bring distinct advantages to MOL

Group's refineries whilst delivering high quality products to our customers. MPC is already present in the butadiene market and forward integration into derivatives is in progress, in line with the new long term strategy, MOL Group is aiming to further expand in chemicals and petrochemicals to become a regional leader.

MOL Group retail network is composed of almost 2000 stations in 10 countries predominantly located in the supply radius of our refineries, which enables us to maximize synergies between refining & marketing and retail.

Feedstock optimisation ensures the selection of the most appropriate raw materials for all of our refineries from a wide slate of crude oil types. Crude and raw materials supplies and low-cost product distribution are achieved thanks our extensive pipeline system and increased storage depot coverage. In 2016, for the first time ever, Bratislava refinery processed seaborne crude received through the Friendship I pipeline.

KEY ACHIEVEMENTS

Second year of Next Downstream Program brings Downstream closer to achieving 2017 target

The Next Downstream Program is an essential part of MOL Group Downstream Strategy for 2015-2017, serving as a measurement tool for the implementation of strategic goals. It continues to focus on long-term sustainable improvement in order to exploit market opportunities and meet both external and internal challenges.

An ambitious USD 500mn EBITDA improvement target was set for the program by the end of 2017, and after a successful first year of the program, 2016 was set out to further improve

Downstream EBITDA based on the main pillars of the three-year program:

- ▶ Asset and Market Efficiency Improvements
- ▶ Strategic Growth Projects

During the second year, Next Downstream Program added USD ~130 mn internal benefit, reflecting substantial internal improvements in some of the key areas. In the frame of the program, and as part of the long term strategic directions, diversification of the crude oil basket continued in 2016 by

“We are committed to continuously develop safety culture and HSE leadership engagement and we have conducted 600+ HSE leadership trainings during 2016. We put significant efforts and support to decision making process on our strategic growth directions to go deeper to propylene value chain - namely polyols. For this purpose we have as well reshaped our organization and to further strengthen and develop technical capabilities in Downstream we have launched career ladder programs for both engineers and front line employees. We are proud on our Danube refinery reliability results, good availability of our polymer units which enabled us to capture favourable margins and first time ever seaborne crude processing at our Bratislava site.”

Miika Eerola – Group Downstream Production SVP



“From 1st January MOL Group Downstream established a new organisation called Group Supply, Trading & Optimization. As we were successful to increase the sales volume much more beyond our production capabilities, we realized that we need to concentrate more on trading and 3rd party purchase. Our aim is balancing our supply possibilities, the potential sales volume and our production capabilities that through the optimization the organisation can maximize our profitability. As a result of the new set up we became able to react faster what is essential in a constantly changing environment. As we are the closest to the market, ST&O has now a leading role in implementation of our strategy by utilizing our assets, continuously increasing the customer focus and relying on expertise of our colleagues.”

Zsolt Pethő – Group Supply, Trading & Optimization SVP

processing the first non-Russian crude cargo in Bratislava refinery. In the landlocked Danube refinery, seaborne crude sourcing reached 18% of total processed crude.

In spite of facing import pressure on domestic markets, Downstream actions helped to maintain competitiveness and achieved particular successes in logistics cost efficiency and supply development, while intensifying trading activities. Overall, asset and efficiency improvement actions yielded around USD 120 mn improvement in 2016, including USD 20 mn brought in by some 45 new initiatives to the program coming from all sites in production, supply, sales and logistics areas. The performance was partially offset by unplanned events in some of the refinery and petchem units during the year.

Retail has achieved volume growth above the regional market, while in the non-fuel segment the implementation of the “new store concept” at service stations led to a remarkable increase in Fresh-Corner product categories.

Additionally, growth projects contributed USD 10 mn to the program, primarily on the back of retail acquisitions. The new petrochemical units, LDPE 4 in Bratislava and Butadiene unit in Tiszaújváros, faced delays and are expected to enter smooth operation and deliver higher results in 2017.

The delivery of the Next Downstream Program and our general Downstream strategic goals rest on three pillars: our superior asset base, adopting to the needs of the market and the competencies of our employees.

Assets: Strong effort was made to support the development of superior assets

The effort to increase reliability of assets continued throughout the year 2016 and collected also success especially in MOL Refining where the best Operational Availability in the last 6 years with 96.5% was achieved in Danube refinery. In order to support good performance, the best Production teams have been awarded with DS Production SVP Reliability Award, as a recognition for putting efforts to achieve an increased availability of production units. Generally, availability was not on satisfactory level and substantial work on this area needs to continue. In Bratislava Refining and MOL Petrochemical Olefin plants reliability issues prevented us from capturing full market potential during 2016.

Major complex Turnarounds have been conducted successfully in Hungarian Refining and Petrochemicals. The successful completion of several complex major revamping projects is something worth to be proud of. Additionally, a new integrated execution model has been tested and proved well, and it will be the base for the future activities.

MOL Group achieved very good results in energy efficiency area by improving internal performance and utilizing favourable market conditions. Improvement of already implemented Energy Management System continued in accordance with the ISO 50001 standard in order to meet the requirements of the European Union's directive on Energy Efficiency.



“Our mission is to manage our people, assets and processes in order to achieve constant, efficient and safe operations and increase satisfaction of employees, customers and stakeholders.”

Howard Lamb – Group Logistics VP

MPC Butadiene unit is up and running, and in 2017 the butadiene value chain will be extended with synthetic rubber at our Hungarian Petrochemical site. Performance test runs are being finalized at LDPE4 plant in Bratislava and good availability of our polymer units enabled utilization of favourable margins. As part of the MOL 2030 strategic development projects, significant effort and support to decision making process was made on Refining and Petrochemical growth directions, propylene value chain – polyols. HSE culture has been continuously developing thanks to successful implementation of various HSE programs (BAB2, HSE day, HSE forums, HSE Leadership Engagement Program). In 2017 HSE Leadership Engagement program is going to continue, with the extension to contractors as well. Unconscious behaviour program pilot was launched with the aim of achieving improvement at slip/trip events and will also continue in 2017. Optimising logistics network has been successfully continued according to the MOL Group Strategy. In respect to rail and barge operations we achieved RTC (Rail Tank Car) fleet modernization in the frame of a group level tender, established technical standards for all fleet types and reduced the average age of the fleet to below 17. MOL Group also reached milestones in the implementation of GPS-based RTC tracking and tracing system and with elaborated standardized group concept, and the project will go live in 2017. Along with the positive result, all logistics operations were performed without fatalities and serious events in 2016. Looking ahead, logistics is planning to focus on rail and barge strategies and action plans in line with the MOL Group strategy, while continue the work on standardization of processes and assets.

Market: Competitiveness built on diversification from fuel production and sales

Markets move faster than ever, yet MOL Downstream constantly seeking for ways to adapt to the turbulent environment. A new operational model is now implemented: the supply, trading and optimization team has full mandate to manage the Downstream systems and ensure that MOL's speed to market beats competition. The key target was to create an operational model in which key business decisions are made quickly, the whole Downstream system can be steered to a new direction in 24 hours if the market requires so. During 2016 seaborne crude processing was successfully intro-

duced to the Bratislava refining site, and simultaneously alternative (seaborne) crude oil processing at Danube site also increased slightly, while INA refineries saw a 9% throughput growth (76% of non-REB crudes). Majority of the crude intake will remain Ural, however the number of tested crudes in the complex refineries is increasing. MOL Group's target by 2020 is to have the possibility of choosing among 50 different crudes to be processed in Group's refineries.

In order to support end-users, MOL Group continuously kept on improving its logistic network in 2016 by enanchasing access to the MED market (Koper, Slovenia), acquisition negotiations for own depots (Serbia), preparation works for terminal upgrade (Solin, Croatia) with the aim of reducing operational costs and complying with industry standards. Distribution Network Optimization studies, that resulted in the internal agreement about the greenfield own terminal in Romania and minor changes in the supply chain in Austria, were successfully completed. Group level storage capacity database has been created and Integrated Capacity Management has been launched, which allows MOL Group to optimize available space and use it efficiently.

A milestone in the efficiency project for inline blending has been reached and detailed design phase has been completed with the implementation expected in 2017. Implementation phase of the MILES (MOL Integrated Logistics Excellence System) project is planned for 2017, as well as the continuation of standardization and optimization of processes, technology and financial reporting. MOL Group Retail delivered remarkable growth in 2016 with Clean CCS EBITDA rising by 39% YoY, and also succeeded to implement more than 350 reconstruction projects. The first ever complex customer research and customer segmentation for MOL Group was conducted in 2016, as MOL aims for gaining wider knowledge and getting closer to our customers with personalized future offers. The research ended with excellent results, showing that MOL, Slovnaft and INA are the leading brands in their respective markets (based on MWB worldwide brand power methodology). MOL Group's new long-term strategy sees Retail (Consumer Services) aiming for becoming the customer's first choice in fuel and convenience retailing and being a power brand in our core markets.

MOL regional Retail market coverage and customer base has been substantially expanded in recent years by several acquisitions, including the ENI networks in the Czech Republic, Slovakia,

Romania, Hungary and Slovenia and the Lukoil retail network in the Czech Republic. In 2016, the integration of the acquired Hungarian and Slovenian networks was successfully completed and rebranding of the sites began, while the Czech and Slovakian sites were fully rebranded. As a result, MOL Group's leading position on the Hungarian and Slovakian market was further enhanced, MOL became the 2nd largest market player on the Romanian and Czech markets and 3rd market player on the Slovenian market.

People: continuously improving performance is key to a successful future

To strengthen and develop technical capabilities in Downstream, MOL Group has launched career ladder programs both for engineers and front-line employees. Improvement of operator competencies is key to reach our strategic objectives of safe operation, increased availability and efficiency of our assets. Additionally, NEXT Leadership Development Program for talents in DS Production has started. Training centre in Slovnaft has been established, to improve competence and safety culture of own and contractor staff. The plan for 2017 is to continue its implementation at other parts of MOL Group.

In line with MOL Group long term strategy to continuously improve performance, Operational excellence pilot at Slovnaft site was conducted during 2016. Full program rollout with extension to other sites is expected during 2017 in order to change our current practices and behaviours, while utilizing synergies with good Lean practices already introduced to MOL Group.

In 2016, 52 technical experts participated in Downstream Production Rotation program, which continued its 5th year on 6 refining and petchem sites in 3 countries. The goal of the temporary rotation is to share professional refining-related knowledge and expertise throughout the Group, as well as to strengthen network among Group Downstream Production sites, and it will continue also in 2017.

In line with MOL Group vision to become the leading brand in our core markets and with the aspiration outlined in the 2030 strategy “To be the customer's first choice”, MOL Group developed a complex customer service program aiming to build a sustainable competitive advantage around customer service level at the service stations. In 2016, MOL Group's unique HOST Program has been successfully initiated and piloted in Hungary and program roll-out will follow with the involvement of all retail relevant subsidiaries.



„I'm very proud of the Retail team for delivering strong financial results for the third consecutive year. In fuel, we have managed to gain market share and growing volume faster than the market, in non-fuel our FRESH CORNER concept helped us to step change in line with our strategic intent and we are on our way doubling the margin by 2017. We keep focus on creating a real host culture in order to serve our customers safely and with highest standards, while we are looking for new challenges, brought by our 2030 Enter Tomorrow strategy for Retail as well.”

Lars Höglund –
Group Retail SVP

OPERATING REVIEW OF 2016

External environment

	FY 2015	FY 2016	Ch. %
Total MOL Group refinery margin (USD/bbl)	6.1	5.7	(8)
Complex refinery margin (MOL+Slovnaft) (USD/bbl)	7.3	6.3	(13)
Brent dated (USD/bbl)	52.4	43.7	(17)
Ural Blend (USD/bbl)	51.9	42.5	(18)
Brent Ural spread (USD/bbl)	1.4	2.1	51
Crack spread – premium unleaded (USD/bbl)	15.9	12.4	(22)
Crack spread – gasoil 10ppm (USD/bbl)	14.7	9.5	(35)
Crack spread – naphtha (USD/bbl)	(3.8)	(2.5)	(34)
Crack spread – fuel oil 3.5 (USD/bbl)	(12.1)	(11.3)	(7)
Integrated petrochemicals margin (EUR/t)	680	613	(10)

Normalising downstream environment

The Downstream business continued to benefit from fairly supportive macro conditions throughout 2016. Refining and petrochemical margins averaged above mid-cycle levels, yet both retreated from the 2015 peaks.

MOL Group's refining arm was supported by widening Brent-Ural differentials reaching 2.1 USD/bbl, which is the highest average annual value since 2008. Furthermore bottoming oil prices lent support to the business through lower cost of own consumption and losses. At the same time motor fuel crack spreads deteriorated substantially. European refiners still face fierce competition generated by mainly by Middle-Eastern and US refiners, consequently gasoil cracks spreads fell by 5.2 USD/bbl to a seven-year low.

The integrated petrochemical margin decreased by 10% from the 2015 all-time highs. Nevertheless European producers remain supported by relatively low feedstock costs driven by oil prices, the continued strength of the USD versus the EUR and the sustained healthy demand from the automotive and the packaging industries throughout the year.

Regional demand

Demand evolution in the CEE countries was heavily influenced by the continued low end-user prices, reflecting the oil price change and strong underlying economic performance. Substantial increases in demand was recorded in both Slovakia and Hungary with growth rates reaching 5% and 3% respectively, while Croatian demand returned to growth following several years of decline. Motor gasoline consumption grew to a similar extent as diesel in the CEE.

CHANGE IN REGIONAL MOTOR FUEL DEMAND

FY 2016 vs. FY 2015 in %	Gasoline	Diesel	Motor fuels
Hungary	4	3	3
Slovakia	3	6	6
Croatia	(2)	2	1
Other	5	8	8
CEE 10 countries	5	7	7

Annual performance

MOL Group Downstream benefited from the continued macro tailwinds and delivered an outstanding clean CCS EBITDA of HUF 408bn in 2016. Petrochemicals and retail together contributed 56% to the total Clean CCS EBITDA.

CCS-BASED DS EBITDA ^{3,4} (BN HUF)	FY 2015 restated	FY 2016	Ch. %
MOL Group	461.5	408.3	(12)
o/w Petrochemicals	160.3	144.3	(10)
o/w Retail	61.8	86.3	40
MOL excl. INA	457.9	391.9	(14)
INA	3.5	16.4	369
CCS-BASED DS OPERATING PROFITS ^{3,4} (BN HUF)	FY 2015 restated	FY 2016	Ch. %
MOL Group	350.2	284.9	(19)
MOL excl. INA	367.1	290.7	(21)
INA	(16.9)	(5.8)	(66)

^{3,4}Notes and special items are listed in Appendix I and II.

In 2016 both Downstream Clean CCS EBITDA and Clean CCS operating profit decreased year-on-year, reaching HUF 408bn and HUF 285bn respectively. The results came on the back of:

(-) A favourable, yet fading external macro environment with a contracting complex refinery margin (from 7.3 USD/

bbl to 6.3 USD/bbl) mainly affected by collapsing middle distillate crack-spreads and a shrinking integrated petrochemical margin (from 680 EUR/t to 613 EUR/t);
(-) planned and unplanned outages impacting the complex Downstream assets, triggering 4% lower sales volumes in petrochemicals.

The above factors were partly off-set by:

(+) a 40% jump in retail CCS-based EBITDA contribution supported by the inorganic network expansion, substantial improvement in CEE motor fuel market and the implementation of the Fresh Corner non-fuel concept;
(+) progress made during the course of the implementation of the Next Downstream Program;

EXTERNAL REFINED AND PETROCHEMICALS PRODUCT SALES BY PRODUCT (KT)	FY 2015	FY 2016	Ch. %
Total refined products	17,234	17,811	3
o/w Motor gasoline	3,826	3,816	(0)
o/w Diesel	9,402	9,724	3
o/w Fuel oil	470	508	8
o/w Bitumen	553	541	(2)
o/w Retail segment sales*	3,856	4,246	10
o/w Motor gasoline	1,143	1,237	8
o/w Gas and heating oils	2,615	2,909	11
Total Petrochemicals product sales	1,298	1,245	(4)
o/w Olefin products	197	190	(4)
o/w Polymer products	1,089	1,001	(8)
o/w Butadiene products	12	54	350
Total refined and petrochemicals product sales	18,532	19,056	3

* FY 2015 excluding Austrian operation of 60 kt sales

MOL experienced increased competition in its core motor fuel markets amid supportive market conditions, however, our wholesale market share remained stable in Hungary, Slovakia and Croatia. On the other hand sales volumes increased driven by the motor fuel demand uplift in the region.

Significant improvement in retail performance

The Retail arm delivered a major increase as Clean CCS EBITDA improved by 40% and contributed HUF 86bn.

TOTAL RETAIL SALES (KT)	FY 2015	FY 2016	Ch. %
Hungary	934	1,059	13
Slovakia	534	617	16
Croatia	1,076	1,060	(1)
Romania	586	662	13
Czech Republic	358	468	31
Other	368	380	3
Total retail sales*	3,856	4,246	10

* FY 2015 excluding Austrian operation of 60 kt sales

- ▶ Strong volume increase was experienced in the Czech Republic market (31%), Slovakia (16%), Hungary (13%) and Romania (13%) mainly as the result of the inorganic network expansion of the past two years.
- ▶ In Croatia retail sales remained almost flat.

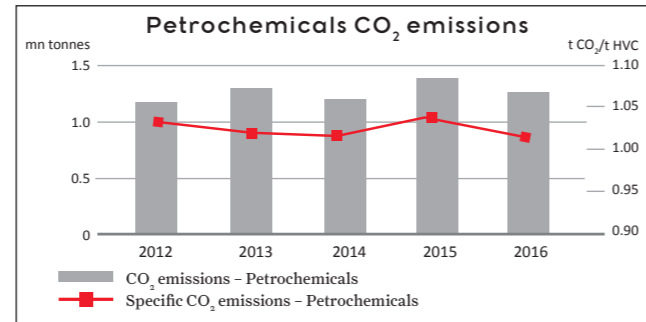
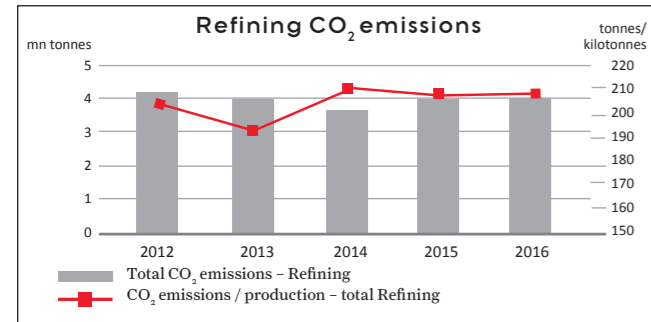
CAPEX

CAPEX BY TYPE (HUF BN)	FY 2015	FY 2016	Ch. %
Total	179.0	172.2	(4)
Strategic projects	86.8	41.2	(53)
Normalized CAPEX	92.2	131.0	42

Downstream spent nearly unchanged amount on investments in 2016 (HUF 172bn, only 4% lower year-on-year), yet with a much different breakdown. CAPEX on strategic projects around decreased by approximately 50% compared to 2015 as the butadiene plant was completed already in 2015, and the new LDPE4 plant also neared completion. On the other hand, normalised capex increased year-on-year, primarily due to higher investments in retail (needed for the integration of the recently acquired network and for the accelerated rollout of the Fresh Corner non-fuel concept) and also on much stronger maintenance activities both R&M and petchem in 2016.

DOWNSTREAM SUSTAINABILITY HIGHLIGHTS 2016

CLIMATE CHANGE



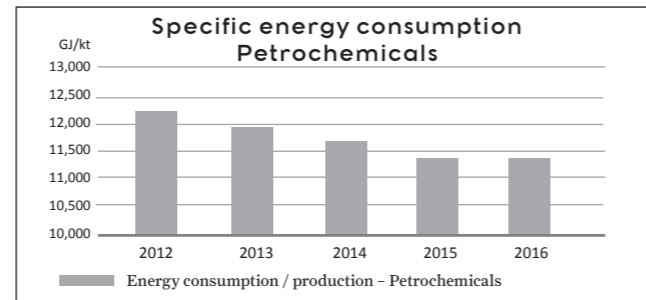
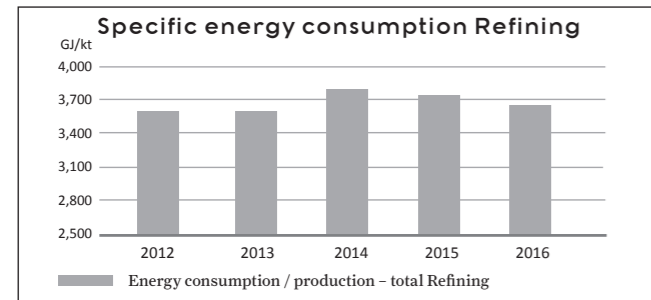
STRATEGIC GOAL:

By 2020 decrease direct and indirect GHG emissions by 200 thousand tons of CO₂ equivalent through energy efficiency initiatives

PERFORMANCE:

- ▶ Refining and petrochemical operations are the primary sources of MOL Group's GHG emissions
- ▶ CO₂ intensity decreased in petrochemicals together with energy intensity
- ▶ Next Downstream Program brought 91 thousand tons of energy and CO₂ emissions savings

ENERGY



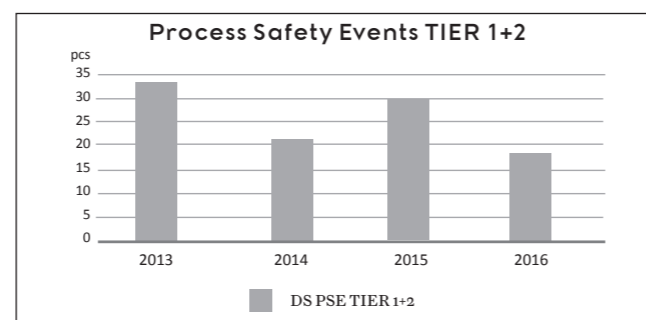
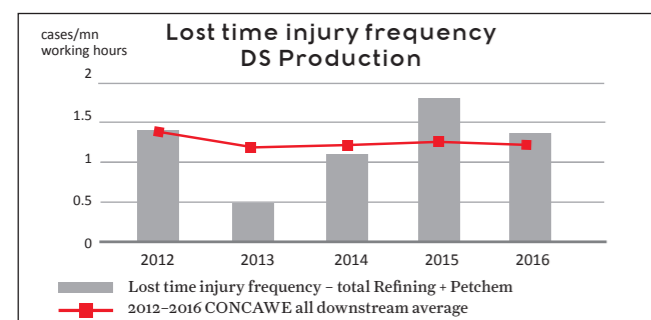
STRATEGIC GOAL:

Decrease downstream production energy consumption by min. 5%

PERFORMANCE:

- ▶ Specific energy consumption shows a decrease in refining despite the fact that power generation asset consolidation is in progress in Downstream
- ▶ No change in petrochemical specific energy consumption, processing and energy consumption dropped in MOL, but start-ups slightly increased energy consumption in Slovnaft

SAFETY



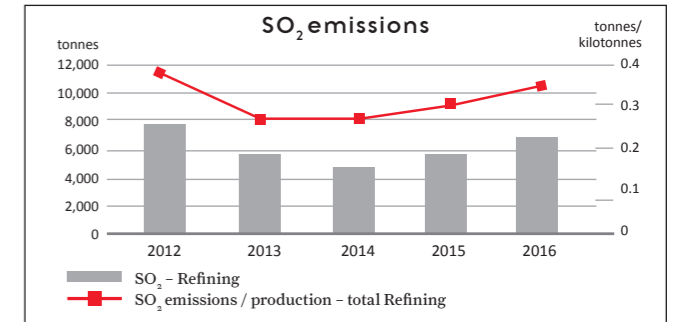
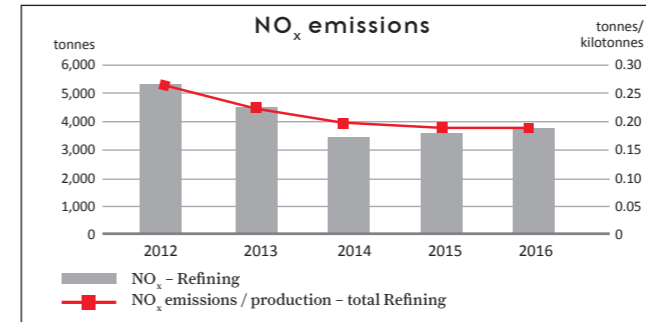
STRATEGIC GOAL:

Zero lost-time injury frequency (LTIF) for both MOL employees and contractors by 2020.

PERFORMANCE:

- ▶ Number of LTIs decreased compared to 2015 in a year when MOL Production relaunched its Safety Awareness Program and HSE Leadership Engagement Program drew more attention on safety as a key element of operations (SN, INA, Petchem reduced LTIs by 50%)
- ▶ Number of process safety events decreased again showed a decreasing trend, but indirect financial impact is still an issue in the case of unit shutdowns

AIR EMISSIONS



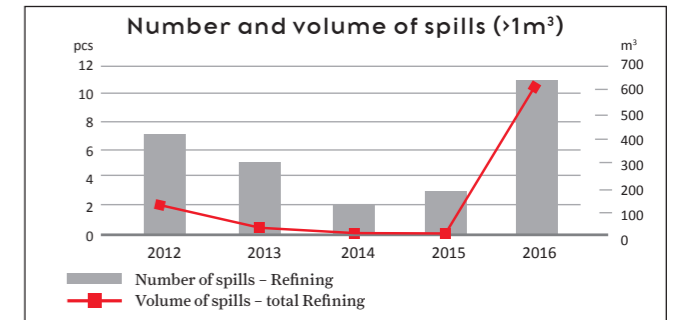
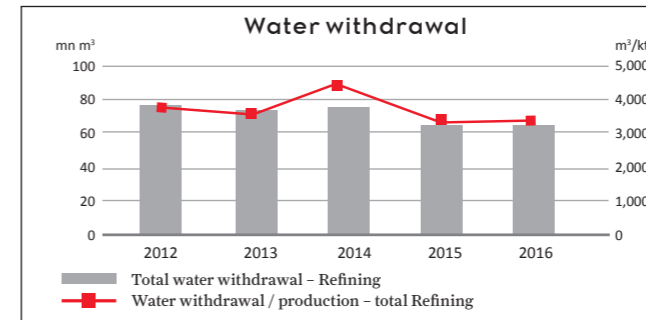
STRATEGIC GOAL:

By 2020 decrease NO_x & SO_x emissions by 15%.

PERFORMANCE:

- ▶ Increase in SO₂ emissions is attributable to increased production in Slovakian and Croatian refineries, as well as, to higher sulphur content of alternative crude used in refining
- ▶ Five-year air emission trends show significant improvements primarily as a result of legal compliance

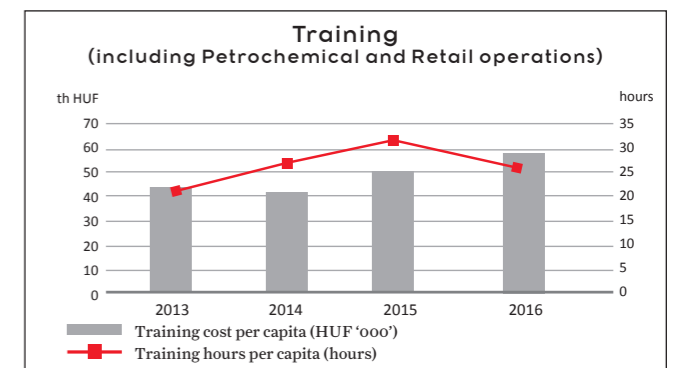
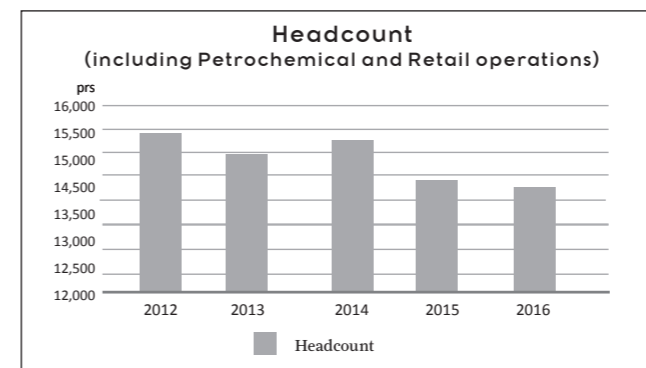
WATER AND SPILLS



PERFORMANCE:

- ▶ Stagnation in water withdrawal is the result of a number of water efficiency measures in Slovakia and Croatia
- ▶ The volume of hydrocarbon content of spills above 1 barrel increased significantly due to two major events in the refineries in Rijeka and Bratislava. Asset integrity projects are in the focus of Downstream business for the coming years

HUMAN CAPITAL



STRATEGIC GOAL:

Increase employee engagement level and develop Technical Career Ladder in Downstream.

PERFORMANCE:

- ▶ Total headcount of downstream includes petrochemical, logistics and retail businesses
- ▶ Retail business model change and continual rationalization in INA is behind the slight decrease in headcount registered in 2016
- ▶ On group level there is an increasing focus on delivery of relevant and valuable trainings, rather than increasing training hours



OUTLOOK

Diversification from the production and sales of fossil-based motor fuels: For our refining business, MOL Group needs to ensure high level of complexity and flexibility, a diversified product portfolio and an optimal product yield, which can adapt to the changing market and value chain needs. In response to our long-term vision of demand trends, MOL Group plans to increase the yield of high-value non-fuel refined products above 50% by 2030, while keeping the processed crude oil on the same level.

The demand outlook of chemical products is more encouraging, providing a good diversification opportunity away from the production and sales of fossil-based motor fuels. Therefore, an ambitious growth strategy will be implemented in the petrochemical segment by 2030 by expanding further along the value chain and also by entering new market segments. In addition to the growth strategy, MOL Group [Petro]chemical's long-term target is to move away from the commodity segment and to enter semi-commodity and specialty products, organically and inorganically, independently or with partners. Our goal is to turn to higher value added products within the segments we are already present by utilising the regional growth potential and our competitive advantage of being integrated both across the value chain and geographically.

MOL Group is aiming to become more competitive on the petrochemicals market by exploiting the potential of the new Slovnaft low density polyethylene plant (LDPE4) and also by propylene yield improvement projects as well as investments into attractive propylene derivatives.

The Next Downstream Program continues to target a total of USD 500mn EBITDA improvement in the 2015-17 period: With USD ~340 mn already delivered in 2015-16 and with continuously incoming new initiatives, the program is stepping into the final lap with confidence that the target set out in 2014 will be reached. Altogether more than 200 individual actions are included in the asset and market efficiency part of the program, tackling efficiency improvement in production and commercial areas and aiming for USD 350mn of total improvement by the end 2017.

By the end of 2017 the strategic growth projects will contribute with USD 150mn to the Next Downstream Program: Our priorities for 2017 are to ensure the smooth operation of the new petrochemical units, the 130,000 tons per annum capacity butadiene extraction unit at our MOL Petrochemicals site and the new low density polyethylene plant (LDPE4) in Bratislava, which replaces 3 out-of-date production units and is meant to increase the quality of the produced LPDE. From market perspective we are targeting to reach effective placement of products of the new units and at the same time to successfully finalise the integration of the newly acquired retail networks.

Further improving the reliability of our key assets and the yield of valuable products remain among top priorities: We will continue to increase gradually the crude intake from seaborne purchases in our Danube and Brati-

slava refineries. The number of tested crudes in the complex refineries will rise further and the decision on supply will be made based on economics of different available crude types. Higher fuel sales are planned for 2017 driven by the acquisitions and country concept actions targeting enhanced captive positions.

2017 is foreseen to be the "Year of Climate" in EU legislative agenda: In order to meet the Paris commitment the European decision makers are working on the post-2020 energy and climate regulatory framework. MOL Group is getting geared to comply with the upcoming challenges through the Next Downstream Program and other efficiency measures implemented in the next 5 years via our research and development program.

Downstream shall reverse its traditional way of thinking about the business, and its operation shall become more

customer-driven: The vision of Group Downstream by 2030 is to sustain its regional leadership in core businesses, become a leading chemical group and be the customer's first choice. The aim is to serve the diverse and changing demand with the right products and services, and to become the primary source for mobility solutions and innovations, while offering a growing return for our shareholders. This is a major change in the logic of how the company operates, and therefore the whole organisation needs to go through a cultural change at various levels. Develop a new corporate culture by 2030 is a basis for the success of the business strategy. In late 2016 Group Downstream launched a comprehensive long-term culture development program to evaluate the current characteristics of the corporate culture. Key improvement areas have been identified, and implementation of desired changes will start in 2017 in purpose to reach desired corporate behaviours in our everyday work life and shape people's mindset in order to achieve the 2030 strategic business targets.



GAS MIDSTREAM OVERVIEW

HIGHLIGHTS

- ▶ 5,782 km long pipeline system
- ▶ 24 entry points, nearly 400 gas exit points
- ▶ 6 regional centers, 6 compressor stations
- ▶ High technical class control center in Siófok

OVERVIEW OF 2016

FGSZ Földgázszállító Ltd. (hereinafter referred to as: FGSZ) is the largest transmission system operator in Hungary. It performs its activity under market conditions regulated by law. Beside the domestic natural gas transmission, FGSZ is also engaged in transit activities to Serbia, Bosnia-Herzegovina, as well as it conducts transmission activities towards Romania, Croatia, Ukraine and – through the network of MGT Zrt. – Slovakia. The security of supply of Hungary is inseparable from the energy security of the CEE region and whole Europe. Therefore, within the framework of European gas market cooperation based on mutual advantages, we aim to ensure the interoperability of the natural gas networks of the region on the part of Hungary; we also strive to increase the volume of transmission and transit through Hungary. The developments of the pipeline and trade infrastructure implemented by FGSZ in the recent years laid down the foundations for the company's future, the completion of the company's role in the regional gas distribution.

¹(Commission Regulation (EU) No 984/2013), (Commission Decision (EU) No 490/2012 on Congestion Management Procedures), Regulation (EU) No 1227/2011 (REMIT), Regulation (EU) No 703/2015 (interoperability), Directive 2000/31/EC (electronic commerce), Regulation (EU) No 910/2014 (eIDAS)

The Regional Booking Platform (RBP) of FGSZ is an IT application developed in accordance with the EU network code governing the capacity allocation mechanisms used in natural gas transmission networks and with other relevant EU and Hungarian legislation¹. The capacity allocation application enables the conduct of capacity allocation procedures not only at the cross-border and domestic pipeline nodes located on the network of FGSZ, but even at pipeline nodes independent

from the cooperating domestic natural gas transmission network. The customer base of RBP is expanding continuously as a result of the previous years' consistent work; today – beyond FGSZ – seven further transmission system operators use it throughout the EU: Eustream (Slovakia), Transgaz (Romania), Plinacro (Croatia), MGT (Hungary), Bulgartransgaz (Bulgaria), DESFA (Greece) and Gas Connect Austria (Austria). Moreover, further TSOs are expected to join in 2017.



PORTFOLIO ELEMENTS

TOTAL PERFORMANCE IN 2016	
(Volume data at 15°C)	(cubic meter)
Total quantity of natural gas measured at the entry and exit points:	21.1220 billion
Injection through cross-border pipelines:	10.5301 billion
Beregszász:	6.5647 billion
HAG:	3.9654 billion
Csanádpalota:	0 billion
System interconnector Vecsés 4 (MGT>FGSZ)	0.0158 billion
Delivery from storage at receipt points:	5.3199 billion
Injection:	2.4166 billion
Withdrawal:	2.9033 billion
At upstream pipeline connections:	2.2599 billion
Injection (domestic net production):	1.5642 billion
Injection circuit withdrawal:	0.6957 billion
Delivery through cross-border pipelines:	2.9963 billion
Transit and export:	2.9963 billion
System interconnector Vecsés 4 (FGSZ>MGT)	0 billion

UKRAINIAN/HUNGARIAN INTERCONNECTOR	
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	15.0 million
Exit point	
Annual interruptible capacity	6.1 billion
Daily interruptible peak capacity	16.8 million

AUSTRIAN/HUNGARIAN INTERCONNECTOR	
(from HAG pipeline direction)	(cubic meter)
Entry point	
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

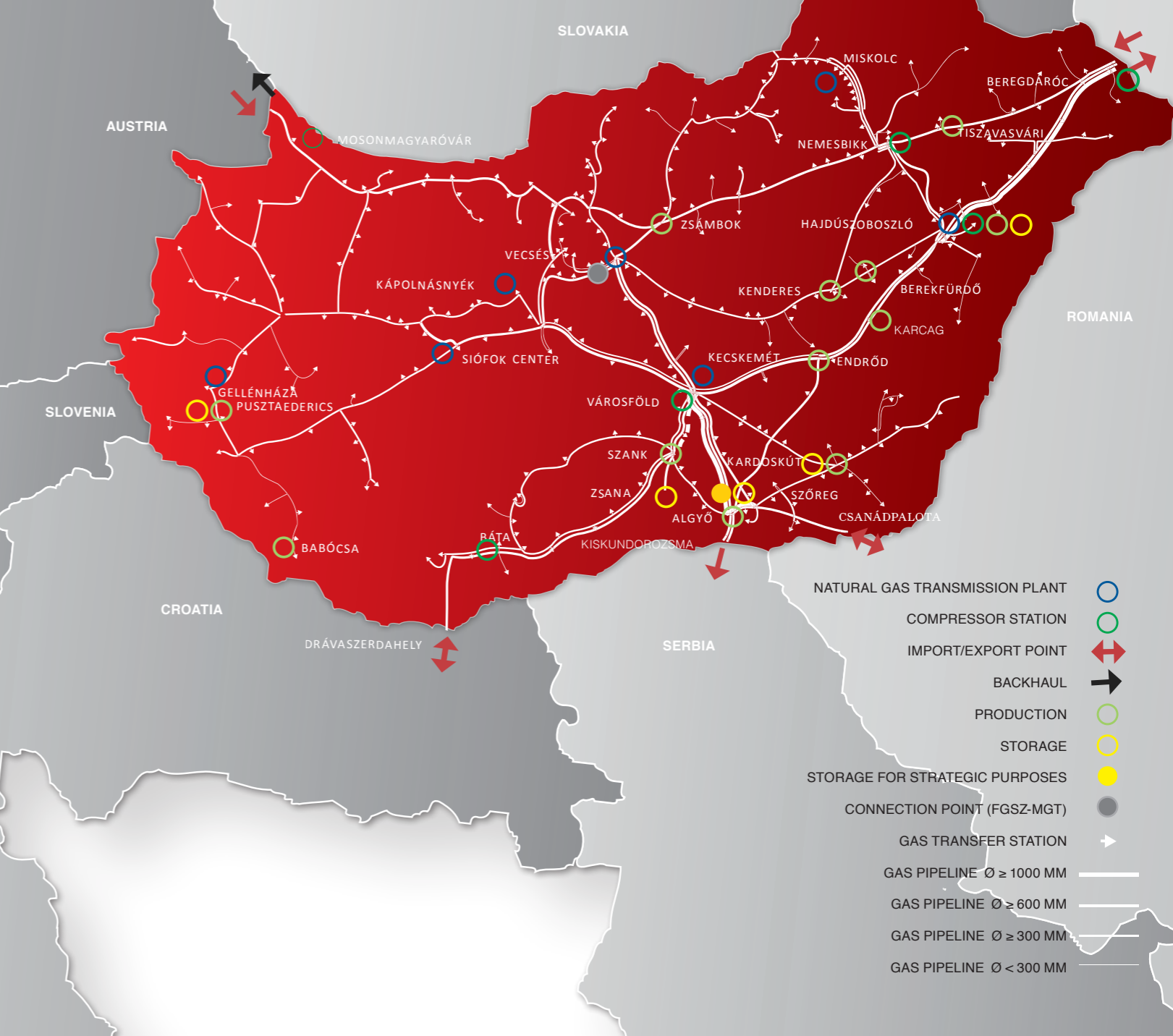
MAXIMUM AVAILABLE NET PRODUCTION	
14 Entry points	(cubic meter)
Annual firm capacity	1.6 billion
Daily firm peak capacity	7.1 million

HUNGARIAN/ROMANIAN INTERCONNECTOR	
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	4.6 million
Exit point	
Annual firm capacity	1.75 billion
Daily firm peak capacity	4.8 million

HUNGARIAN/CROATIAN INTERCONNECTOR	
Entry point	(cubic meter)
Annual firm capacity	0.0 billion
Daily firm peak capacity	0.0 million
Annual interruptible capacity	7 billion
Daily interruptible peak capacity	19.2 million
Exit point	
Annual firm capacity	2.6 billion
Daily firm peak capacity	7.2 million
Annual interruptible capacity	4.4 billion
Daily interruptible peak capacity	12 million

CONNECTION POINT (MGT→FGSZ)	
Entry point	(cubic meter)
Annual firm capacity	4.4 billion
Daily firm peak capacity	12 million
Exit point	
Annual firm capacity	1.75 billion
Daily firm peak capacity	4.8 million

DAILY ENTRY PEAK CAPACITY OF THE NATURAL GAS TRANSMISSION SYSTEM	
Total without strategic withdrawal	(cubic meter)
of which interruptible	188.4 million
Import	47.6 million
of which interruptible	98.4 million
Connection point (MGT>FGSZ)	41.1 million
Transit	12.0 million
Storage for commercial purpose	11.3 million
of which interruptible	59.6 million
Storage for strategic purpose	6.5 million
Domestic production	20.0 million
	7.1 million



CAPACITY OF UNDERGROUND STORAGE OF STRATEGIC PURPOSES	
Annual firm capacity	(cubic meter)
Daily firm peak capacity	1.2 billion
	20 million

CAPACITY OF UNDERGROUND STORAGE OF COMMERCIAL PURPOSES	
5 entry points	(cubic meter)
Annual firm capacity	5.1 billion
Daily peak capacity	59.6 million
of which interruptible	6.5 million



impact. Cost of maintenance activities and others were slightly lower than in the prior year due to strict cost control. Consequently the EBITDA of FGSZ in 2016 came in at HUF 55bn representing a HUF 5bn decrease compared to the base period.

OUTLOOK

New regulatory cycle effective as of 2017

In 2016 a new cost and asset review procedure was launched for determining the starting prices of the regulation cycle commencing on 1st January, 2017. The starting prices of the new price regulation cycle are significantly lower than those applied so far; the capacity fees decreased by 25% on average, whereas volume fees decreased by 69%.

European dimensions

FGSZ intends to create a more efficient gas market, which rests on several pillars. Therefore, in the 10-year period between 2016 and 2025 it wishes to participate in comprehensive infrastructure developments at both Hungarian and international level to promote the creation of a gas distribution hub and a liquid domestic gas market. The transformation of the gas market makes it possible for the domestic consumers to gain access to competing gas sources.

The transformation of the Transdanubian central odourisation facility was successfully implemented in 2016, facilitating the increase of the entry capacity in the Austria-Hungary direction. As a result of this development there is a great increase in the flexibility of the transmission system in Western-Hungary which also supports the establishment of the reverse flows from Hungary to Austria.

The planned 2019-2022 strategic investment phase focuses on the southeast-northwest transmission route, the implementation of the Romanian-Hungarian-Austrian transmission corridor and on establishing reverse flow directions of cross-border points.

For the purpose of security of supply, FGSZ aims to ensure the inward transmission possibility of natural gas from every possible direction. FGSZ also strives to become an integral part of the surrounding region by making the established cross-border interconnections reversible. In this regard, the establishment of the possibility for transmitting natural gas from and to Romania was an important step. The initial set-up increased entry capacities to a smaller extent only; however, FGSZ and its Romanian partner (Transgaz) work together to achieve a significant capacity expansion.

OPERATING REVIEW OF 2016

Adverse regulatory changes partly off-set by focus on cost

The transmission fees applicable to FGSZ basically remained unchanged regarding their content and amount in 2016. A further shift in the regulatory environment however resulted in a changed structure of domestic revenues, lower ratio of annual capacity bookings and higher ratio of short-term or seasonal capacity products from the 2015-2016 gas period. Revenues from domestic transmission services decreased by 8%, while transit transmission revenues dropped by 9%. Lower domestic revenues are mainly due to lower capacity fee revenues, as a result of decreased annual capacity demands and higher level of discounts paid to system users (based on volumes sold to protected customers). Slightly higher volumes, driven by increased domestic and export demand partly compensated the above mentioned negative factors. Operating costs were somewhat lower than in the base period. Gas consumption of the transmission system has increased but lower gas purchase prices helped us to partly compensate this



CAPITAL EXPENDITURE PROGRAM

CAPITAL EXPENDITURES (HUF BN)	FY 2015 Restated	FY 2016
Upstream	223.8	122.1
of which inorganic:	33.2	0.0
Downstream	179.0	172.2
of which inorganic:	50.9	30.7
Gas Midstream	5.7	7.5
Corporate & intersegment	19.5	14.7
Total	428.0	316.5
of which inorganic:	84.1	30.7

Total CAPEX fell further by 26% in 2016 compared to the previous year, as a result of strict capital discipline and a dramatic cut (-36%) in organic Upstream spending. Downstream absorbed 54% of the total CAPEX and was the largest spender among the segments, although its spending was also boosted by some M&A activity (retail), similarly to the previous year. Upstream was responsible for only 39% of the spending and there was no M&A included. The remaining 7% or HUF 22bn of capital expenditures targeted Gas Midstream and other corporate projects.

UPSTREAM CAPEX

FY 2016 (HUF bn)	Hungary	Croatia	Kurdistan Region of Iraq	Russia	Pakistan	UK	Norway	Other	Total
Exploration	6.7	0.3	0.0	0.0	4.0	0.2	5.1	6.4	22.7
Development	15.3	20.3	0.6	0.2	1.4	45.7	0.0	4.3	87.8
Acquisition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	5.5	4.8	0.7	0.0	0.0	0.5	0.1	0.0	11.6
Total	27.5	25.4	1.3	0.2	5.4	46.4	5.2	10.7	122.1

In 2016, Upstream CAPEX amounted to HUF 122bn, the biggest contributor of which was the CEE region with HUF 53bn, or nearly half of the total, followed closely by the UK (HUF 46bn). Other regions saw smaller investments in 2016, as the segment was rebalanced to ensure value accretive operations in a low oil price environment.

DOWNSTREAM CAPEX

CAPEX (bn HUF)	FY 2015 Restated	FY 2016	Ch. %	MAIN PROJECTS IN FY 2016
R&M CAPEX and investments excluding retail	62.0	77.7	25	<ul style="list-style-type: none"> ► MOL: Major contributors are DMHCK unit conversion and Turnaround in DR ► SN: Major contributors are turnaround and catalyst projects ► INA: Major contributors are mainly CMS and Catalyst projects, Port Bakar and RTC projects in Logistics; New DCU unit construction in Rijeka Refinery is in engineering phase, site preparation has already started
Retail CAPEX and investments	74.2	61.8	(17)	<ul style="list-style-type: none"> ► Roll out of non-fuel concept has continued in 7 countries. By year-end 405 reconstruction projects were completed out of them 248 had Fresh Corner brand ► Opening of new service stations (8 sites) in Romania, Serbia and Bosnia ► ENI Slovakia and ENI Hungary network acquisition (17+173 stations) ► Without acquisitions 2015 FY CAPEX is 23.3 bn HUF while 2016 FY CAPEX is 31.1 bn HUF (+32%)
Petrochemicals CAPEX	39.0	30.2	(23)	<ul style="list-style-type: none"> ► Final phases of LDPE4 unit in SN Petrochemicals is the major contributor to the CAPEX spending in 2016, along with minor CAPEX projects in MPC
Power and other	3.8	2.5	(34)	
Total	179.0	172.2	(4)	

Downstream CAPEX was marginally lower year-on-year, but its distribution among the sub-segments changed substantially versus 2015. As the strategic petrochemical projects (LDPE4 and Butadiene) came to completion, petchem capex fell by 23% year-on-year. In retail, organic spending accelerated due to the cost of integration of previously acquired networks and the roll-out of the non-fuel concept (Fresh Corner). At the same time, retail M&A spending was much lower year-on-year, also lowering the total retail capex (-17%). On the other hand, Refining & Marketing CAPEX increased by 25% year-on-year, due to major turnaround activities across the refining system in 2016 and some smaller growth projects.



OUTLOOK ON THE INNOVATIVE BUSINESSES AND SERVICES DIVISION

In our core businesses and region, sizeable growth opportunities are limited due to the mature status of the traditional oil and gas industry. In addition, trends show that new consumer habits and technological developments are transforming the characteristics of the business and consumer demand.

The electrification of drivetrains and alternative fuels, the digitalisation of our lives and of our vehicles, the advancement of the shared economy and autonomous driving technologies are changing the way we do business. At the same time, younger generations will soon enter adulthood, put less emphasis on ownership and seek access to flexible on-demand services in an ever-connected world. They are also more likely to be conscious of the environmental footprint of the mobility options they choose. These changes offer more opportunities to engage with customers and with industrial partners.

In order to face these challenges and to respond to the rapidly changing economic and industrial environment, MOL has formulated a long-term vision whereby it intends to be the first choice and the primary source of future demand solutions for customers and commercial business partners, to become a "Power Brand" in our core markets. To elaborate its long-term strategic targets, MOL expects to open up new investment in the CEE region connected to its existing integrated business model by leveraging upon its proven and efficient customer, people and asset portfolio.

To support the execution of the new strategy, a new business division named Innovative Businesses and Services was established on the 1st December 2016 to provide the proper organisational background for the elaboration and realisation of the related strategic goals. The new organisation is founded for those business activities and initiatives which are not directly connected to the traditional oil and gas industries, but serve individual consumers (B2C - Consumer Services) and industrial customers (B2B - Industrial Services) as well.

Shift from purely selling fuel to selling kilometres and customer experience

Following the fulfilment of MOL's targets related to the retail sector, MOL implemented its Retail Plus concept with the primary focus on owning a state-of-the-art retail network,

which successfully responds to obvious customer needs. On the basis of these experiments, the group intends to further increase and diversify its retail solutions to bring in new services within the framework. To facilitate these targets we established the Consumer Services organisation, which consists of Retail and Mobility units.

A new organisation, Mobility will be responsible for building up mobility services. Our aim is to become one of the primary sources of mobility solutions and innovations in the region, to shift from being a commodity seller towards being a service provider and to become a regional leader in alternative fuels. This organisation will be the think-tank of the company, responsible for finding innovative solutions for mobility related customer demands.

As part of the Consumer Services unit, the Retail business' main focus will be to turn our filling stations into point of sales and services, to strengthen our position in CEE and to shift from a product-driven to a customer-driven operation by building on our market expertise, size and knowledge of our 10 million customers, 1 million daily transactions and 10 purchases per second. Our primary target will be to differentiate our filling stations from our competitors by the quality of the services offered.

Activities and initiatives serving industrial customers

In connection with the Industrial Services, MOL will continuously cover oil field services, midstream operations and management, industrial maintenance, engineering and construction, and logistic sectors. Nevertheless, these services will be available for the internal clients of MOL Group in the future as well but the clear intention is to create value by providing these services to other third party companies too. Moreover MOL Group is committed to gradually extend its industrial services portfolio and enhance participation and partnerships within these sectors.

In order to strengthen our positions in Central-Eastern Europe and increase our fuel and non-fuel sales margin, we plan to introduce additional new services to reach our ambition that Consumer Services including Retail, the Industrial Services and the new business lines will generate 30% of our future EBITDA.



"With the formulation of the new Innovative Businesses and Services organisation our objective is to enhance the quality level of our internal and external services in order to provide a wider range of best-in-class services both to our internal and external customers. At the same time we would like to open up towards starting and acquiring new businesses that are not directly connected to our core activities by building on our achieved experiences in the CEE region. Our ultimate aim is to become the first choice of customers not only in our core but also in our new businesses."

Dr. Oszkár Villági - Executive Vice President, Innovative Businesses and Services

APPENDICES

APPENDIX I

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

MOL GROUP	FY 2015 restated	FY 2016
OPERATING PROFIT EXCLUDING SPECIAL ITEMS	263,584	330,873
UPSTREAM	(460,442)	(6,578)
Matjushkinskaya Vertical divestment		(3,234)
Kalegran inventory impairment		(3,344)
Impairment in INA Group	(109,470)	
Impairment in UK	(218,168)	
Other impairment	(20,122)	
Akri-Bijeel block exit	(130,603)	
Cameroon exit	(17,306)	
MOL Plc. mining royalty penalty claw-back	35,227	
DOWNSTREAM	(9,203)	(10,453)
IES impairment (Asset Held for Sale IFRS5)		(5,982)
HCK (HydroCracker) impairment		(4,471)
Provision for redundancy at INA	(9,203)	
CORPORATE AND OTHER	(11,170)	(5,937)
Impairment in INA Group	(9,632)	(5,937)
Akri-Bijeel block exit	(1,538)	
TOTAL IMPACT OF SPECIAL ITEMS ON OPERATING PROFIT	(480,815)	(22,968)
OPERATING PROFIT	(217,231)	307,905

MOL GROUP	FY 2015 restated	FY 2016
EBITDA EXCLUDING SPECIAL ITEMS	610,205	629,966
UPSTREAM	43,914	(6,578)
Matjushkinskaya Vertical divestment		(3,234)
Kalegran inventory impairment		(3,344)
Akri-Bijeel block exit	360	
Cameroon exit	8,327	
MOL Plc. mining royalty penalty claw-back	35,227	
DOWNSTREAM	(9,203)	0
Provision for redundancy at INA	(9,203)	
CORPORATE AND OTHER	(1,538)	0
Akri-Bijeel block exit	(1,538)	
TOTAL IMPACT OF SPECIAL ITEMS ON EBITDA	33,173	(6,578)
EBITDA	643,378	623,388

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.

³ Special items affecting operating profits and EBITDA are 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 Figures have been calculated by converting the results of each month in the period on its actual monthly average HUF/USD MNB rate.

⁶ Net gearing: net debt divided by net debt plus shareholders' equity including non-controlling interests.

⁷ As of 2016, production from Pearl is also included in total group production, but it is excluded from the base (2015 total group production). Thus, when making year-on-year comparisons Pearl production is subtracted from 2016 total group production.

A background image showing a close-up of two business professionals in a meeting. One person is holding a pen over a document, while another is holding a whiteboard marker. The scene is dimly lit, focusing on the hands and the documents.

Corporate Governance

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CORPORATE GOVERNANCE

1. INTRODUCTION

MOL Hungarian Oil and Gas Public Limited Company (hereinafter: "MOL" or "Company") 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 and the relevant capital market regulations. MOL also subjects its policies to regular review to ensure that they take account of the 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 2015. This Code summarises its approach to shareholders' rights, main governing bodies, furthermore remuneration and ethical issues. The Corporate Governance Code has been published on the website of the Company.

2. SHAREHOLDERS (GENERAL MEETING)

The general meeting is the supreme body of the Company consisting of the totality of shareholders. The general meeting, as the main decision-making body, enables shareholders to make decisions on issues that are of a material nature concerning the operations of the Company, to approve actual corporate governance actions and to exercise effective governance and control rights.

2.1. 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.

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 the Articles of Association: „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 the provisions of Articles 10.1.1 and 10.1.2.

Furthermore, the shareholder shall, on 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 the said requirements.

According to Article 10.1.1 of the Articles of Association: „No shareholder or shareholder group (as defined in Article 10.1.2 of Articles of Association) may exercise more than 10% of the voting rights with the exception of the organization(s) acting at the Company's request as depositary or custodian for the Company's shares or securities representing the Company's shares (the latter shall be exempted only insofar as the ultimate person or persons exercising the shareholder's rights represented by the shares and securities deposited with them do not fall within the limitations specified here below).”

In accordance with Act V of 2013 on the Civil Code (hereinafter: "Civil Code") 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. Where a group of shareholders together controlling at least one per cent of the votes in the Company propose certain additions to the agenda in accordance with the provisions on setting the items of the agenda, or table draft resolutions for items included or to be included on the agenda, the matter proposed shall be construed to have been placed on the agenda if such proposal is delivered to the Board of Directors within eight days following the time of publication of notice for the convocation of the general meeting, and the Board of Directors publishes a notice on the amended agenda, and on the draft resolutions tabled by shareholders upon receipt of the proposal. 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 the company website according to the Articles of Association. The ordinary general meeting is usually held in 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 defined by the Board of Directors and published 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.

2.2. Relationship with the shareholders

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 regular announcements, the annual report, the

half-year report and quarterly earnings reports, furthermore extraordinary announcements. Regular and extraordinary announcements are published on MOL's website, on the Budapest Stock Exchange (primary exchange), on the Warsaw Stock Exchange and on the Capital Market Information Disclosure System operated by the National Bank of Hungary (Magyar Nemzeti Bank). Moreover we send e-mail announcements to those who subscribed to the distribution list of e-mail announcements of Investor Relations and to the international and domestic media. 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's shareholders and holders of MOL's Depository Receipts (DR). 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 the annual report). Extensive information is also made available on MOL's website (www.molgroup.info/en/), which has a dedicated section for shareholders and the financial community. MOL has always paid special attention to provide a considerably wide range of information to the capital markets, in line with international best practice. Therefore Investor Relations Department of MOL is continuously renewing its website (direct link at: www.molgroup.info/en/investor-relations). The aim of the development is to make the website even more user-friendly, in line with the intention to continuously improve our services. These enable us to meet the expectations of our shareholders, analysts and other capital market participants more effectively.

In 2016 MOL participated in 9 investor roadshows (1 US and 8 European) and 13 conferences (2 US and 11 European) having around 300 meetings with potential and existing shareholders and bondholders. Moreover, in November MOL Investor Relations organized a Capital Markets Day with the participation of the Company's top management, investors and analysts, where details of the MOL's new long term strategy (MOL Group 2030) were disclosed and discussed.

3. MANAGEMENT AND OPERATION

3.1. 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 also considering 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 economic 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 (seven of ten members) made up of non-executive directors. At present, 6 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 the directors.

The members of the Board of Directors and their independence status in 2016 (professional CVs of the members are available on the Company's website):

NAME	STATUS	MANDATE
Zsolt Hernádi, Chairman-CEO	non-independent	Elected by the Annual General Meeting to be member of the Board of Directors from 24 February, 1999
Dr. Sándor Csányi, Deputy Chairman	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 20 October, 2000
József Molnár	non-independent	Elected by the Annual General Meeting to be member of the Board of Directors from 12 October, 2007
Zsigmond Járαι	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 29 April, 2010
Dr. László Parragh	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 29 April, 2010
Dr. Martin Roman	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 29 April, 2010
Dr. Oszkár Világi	non-independent	Elected by the Annual General Meeting to be member of the Board of Directors from 1 May, 2011
Dr. Anthony Radev	non-independent	Elected by the Annual General Meeting to be member of the Board of Directors from 30 April, 2014
Dr. Anwar al-Kharusi	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 30 April, 2014
Dr. Martonyi János	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 1 July, 2014

3.1.1. Operation of the Board of Directors

The Board adopted a set of rules (Charter) to govern its own activities in 1991, when the Company was founded; these rules were updated in March, 2015 to ensure continued adherence to best practice standards.

The 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 Deputy Chairman,
- ▶ order and preparation of Board meetings and the permanent items of the agenda, and
- ▶ decision-making mechanism and the manner in which the implementation of resolutions is monitored,
- ▶ rules on conflict of interest.

Members of the Board of Directors shall sign an annual declaration on conflict of interest in accordance with the form approved by the Board of Directors, simultaneously to accepting their membership, and in every calendar year 30 days prior to the date of the annual general meeting which is to be submitted to the Corporate Governance and Remuneration Committee. If any conflict of interest specified in the Charter of the Board of Directors occurs with in case of a member of the Board of Directors, it shall be reported by the member in an ad hoc Declaration on conflict of interest to the Corporate Governance and Remuneration Committee.

The Board of Directors prepares a formal evaluation of its own and its committees' performance on a yearly basis and it continuously reviews its own activity.

3.1.2. Report of the Board of Directors on its 2016 activities

In 2016, the Board of Directors held 7 meetings with an average attendance rate of 93%. Attendance to the Board of Directors meetings during 2016 is set out in the table below:

	NUMBER OF MEETINGS	ATTENDANCE RATIO
TOTAL	7	93%
Zsolt HERNÁDI	7	100%
Dr. Sándor CSÁNYI	6	85%
József MOLNÁR	7	100%
Zsigmond JÁRAI	7	100%
Dr. László PARRAGH	7	100%
Dr. Martin ROMAN	6	85%
Dr. Oszkár VILÁGI	7	100%
Dr. Anthony RADEV	7	100%
Dr. Anwar AL-KHARUSI	6	85%
Dr. János MARTONYI	6	85%

Alongside regular agenda items, such as reports by the committees' chairmen on the activities pursued since the last Board meeting, the Board of Directors received updates on key strategic issues as well as an overview of capital market developments and individually evaluated the performance of each of the company's business units.

The Board of Directors respectively paid attention to the follow-up of the industry macro trends, the treatment of the challenges driven by the external environment, the financial, operational and efficiency improvement challenges regarding INA and the strategy update process.

3.1.3. 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 preparatory, advisory, opinion-forming and proposal-preparing bodies of the Board of Directors and have prior opinion-forming rights, as set out by MOL Group's List of Decision-making Authorities, in certain questions belonging to the competency of the Board of Directors and in those which are delegated to the competency of respective executive members of the Board of Directors, as the executive management of the Company.

The responsibilities and the rules of procedure 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 chairmen of the committees are elected by the Board of Directors. The majority of committee members is non-executive and independent.

The Board allocates responsibilities to the various committees as follows:

a. Corporate Governance and Remuneration Committee:

Members and dates of appointment to the committee (professional CVs of members are available on the Company's website):

- ▶ Dr. Sándor Csányi - chairman, 17 November, 2000
- ▶ Zsolt Hernádi, 8 September, 2000
- ▶ Dr. Martin Roman, 4 June, 2010
- ▶ Dr. Anthony Radev, 30 May, 2014
- ▶ Dr. János Martonyi, 1 July, 2014

The Chairman of the Board of Directors is a permanent member of the Corporate Governance and Remuneration Committee.

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 implementation of best practices.

Report of the Corporate Governance and Remuneration Committee on its 2016 activities

In 2016 the Corporate Governance and Remuneration Committee held 4 meetings with a 95% average attendance rate. Attendance to the committee meetings during 2016 is set out in the table below:

	NUMBER OF MEETINGS	ATTENDANCE RATIO
TOTAL	4	95%
Dr. Sándor CSÁNYI	4	100%
Zsolt HERNÁDI	4	100%
Dr. Martin ROMAN	3	75%
Dr. Anthony RADEV	4	100%
Dr. János MARTONYI	4	100%

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.

b. Finance and Risk Management Committee:

Members and dates of appointment to the committee (professional CVs of members are available on the Company's website):

- ▶ Zsigmond Járai - Chairman, 4 June, 2010
- ▶ Dr. László Parragh, 20 February, 2014
- ▶ Dr. Anthony Radev, 30 May, 2014
- ▶ Dr. Anwar al-Kharusi, 30 May, 2014

The Chairman of the Board of Directors is a permanent invitee to the meetings of the Finance and Risk Management Committee.

The Chairman of the Supervisory Board and the Chairman of the Audit Committee are permanent invitees to the meetings of the Finance and Risk Management Committee.

Responsibilities:

- ▶ Review of financial and related reports,
- ▶ monitoring the efficiency of the internal audit system,
- ▶ review of the scope and results of the planning and audit,
- ▶ monitoring of the risk management system,
- ▶ monitoring the liquidity position of the Company, the financial and operational risks and the management thereof, review of the operation of Enterprise Risk Management (ERM) system,
- ▶ ensuring the independence and objectivity of the external auditor.

Report of the Finance and Risk Management Committee on its 2016 activities

In 2016, the Finance and Risk Management Committee held 5 meetings with a 80% average attendance rate. Attendance to the Committee meetings during 2016 is set out in the table below:

	NUMBER OF MEETINGS	ATTENDANCE RATIO
TOTAL	5	80%
Zsigmond JÁRAI	5	100%
Dr. László PARRAGH	4	80%
Dr. Anthony RADEV	3	60%
Dr. Anwar AL-KHARUSI	4	80%

In addition to the regular items on the agenda, including the audit of all public financial reports, providing assistance to the auditor's work and the regular monitoring of the internal audit, the committee reviewed the major risk factors of the Company, considering the changed international financial situation and the status reports on risk management actions attached to these factors.

c. Sustainable Development Committee:

Members and dates of appointment (professional backgrounds of members are available on Company website):

- ▶ Dr. László Parragh - Chairman, 30 May, 2014
- ▶ József Molnár, 5 September, 2013 (interim Chairman between 20 February and 30 May, 2014)
- ▶ Dr. Anwar al-Kharusi, 30 May, 2014
- ▶ Dr. János Martonyi, 1 July, 2014
- ▶ Dr. Oszkár Világi, 30 May, 2014*

* Dr. Oszkár Világi was member of the Sustainable Development Committee until 30 April, 2016

The Chairman of the Board of Directors is a permanent invitee to the meetings of the Sustainable Development Committee. The Chairman and the Deputy Chairman of the Supervisory Board are permanent invitees to the meetings of the Sustainable Development Committee.

Responsibilities:

- ▶ To review, evaluate and comment for the Board of Directors on all proposals related to sustainable development (SD),
- ▶ to monitor the development and implementation of all SD related policies (e.g. HSE, Code of Ethics, etc.) and discuss ethical issues,
- ▶ to supervise the progress on the strategic focus areas of SD in MOL Group,
- ▶ to request and discuss reports from business divisions and subsidiaries about their SD performance,
- ▶ to review sustainability related data and information of external reports.

Report of the Sustainable Development Committee on its 2016 activities

In 2016, the Sustainable Development Committee held 4 meetings with a 79% attendance rate. Attendance to the committee meetings during 2016 is set out in the table below:

	NUMBER OF MEETINGS	ATTENDANCE RATIO
TOTAL	4	79%
József MOLNÁR	3	75%
Dr. László PARRAGH	4	100%
Dr. Oszkár VILÁGI	0	0%
Dr. Anwar AL-KHARUSI	4	100%
Dr. János MARTONYI	3	75%

* Dr. Oszkár Világi was member of the Sustainable Development Committee until 30 April, 2016

The Committee evaluated the accomplishment of the actions taken in 2016 with focus on the ones included in MOL Group's Sustainability Plan for 2016-2020. The Committee formed opinion on the annual Sustainable Development Report and on thematic reports submitted by selected business units. External evaluations made about MOL Group's sustainability performance were also reviewed with highlighted attention on the company's inclusion in the Dow Jones Sustainability Index.

3.2. Executive Board

3.2.1. Relationship with the Board and MOL Group organisations

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 ("EB"), 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 the efficient development and operation of MOL Group's processes.

Control and management of MOL Group will be implemented through business and functional organisations. The 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 work organization and at the same time to examine and oversee the matters submitted to the full Board. The EB renders preliminary opinions on certain proposals submitted to the Board and is also responsible for the oversight of the execution of the Board's resolutions.

On EB meetings each member has an obligation to express their opinion, on the basis of which the 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.

3.2.2. The EB members in 2016

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, Group Downstream
József Simola	Group Chief Financial Officer (GCFO)
Dr. Oszkár Világi	Executive Vice President, Innovative Businesses and Services; C-CEO, Slovnaft a.s.
Dr. Berislav Gašo*	Executive Vice President, Group Exploration and Production

*from 1 December 2016

In 2016, the Executive Board held 21 meetings and discussed 13 issues on a meeting on average.

4. CONTROL

4.1. 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 the Civil Code, 1/3 of the members shall be representatives of the employees, accordingly three members of the MOL Supervisory Board are employee representatives while the other six external persons is appointed by the shareholders.

The members of the Supervisory Board and their independence status:

György Mosonyi, Chairman	non-independent
Dr. Attila Chikán, Deputy Chairman	independent
John I. Charody	independent
Slavomír Hatina	independent
Attila Juhász	non-independent (employee representative)
Dr.sc. Žarko Primorac*	independent
Andrea Hegedűs	non-independent (employee representative)
Dr. Sándor Puskás	non-independent (employee representative)
Dr. Norbert Szivek	independent
Ivan Mikloš**	independent

* Dr.sc. Žarko Primorac resigned from his position as member of the Supervisory Board as of 30 April, 2016
** Ivan Mikloš was elected by the general meeting as member of the Supervisory Board from 1 May, 2016

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 the Company's operations and the reports of Internal Audit and Corporate Security, furthermore it is informed on other relevant topics. In addition, the Supervisory Board reviews the proposals for the Annual General Meeting. The Supervisory Board reviews its annual activity during the year.

In 2016 the Supervisory Board held 5 meetings with a 91% average attendance rate.

4.2. 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 assistance to the Supervisory Board in supervising the financial report regime, in selecting an auditor and in working with the auditor;
- ▶ carrying out 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 their appointment (professional CVs of members are available on the Company's website):

- ▶ Dr. Attila Chikán - chairman, 27 April, 2006
- ▶ John I. Charody, 27 April, 2006
- ▶ Dr.sc. Žarko Primorac (as alternate member) – acting from 29 April, 2015 till 13 April, 2016*
- ▶ Dr. Norbert Szivek, 14 April, 2016**
- ▶ Ivan Mikloš (as alternate member), 1 May, 2016***

* As the mandate of István Töröcskei expired on 28 April, 2015, Dr.sc. Žarko Primorac, as alternate Audit Committee member, was invited to the Audit Committee until the AGM elects a new permanent Audit Committee member. He resigned from his position as member of the Supervisory Board as of 30 April 2016.

** Dr. Norbert Szivek was elected by AGM as member of the Audit Committee from 14 April 2016

*** Ivan Mikloš was elected by the general meeting as an alternate member of the Audit Committee from 1 May 2016

Report of the Audit Committee on its 2016 activities

In 2016, the Audit Committee held 5 meetings with an 87% average attendance rate. In addition to the regular items on the agenda, including the audit of all public financial reports, providing assistance to 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 situation and the status reports on risk management actions attached to these factors. The Audit Committee continuously monitored the Company's financial position. The Audit Committee reviewed the materials of the Annual General Meeting (i.e. financial reports, statements of the auditor). The Audit Committee participated in the procedure of selecting an auditor and made a recommendation to the Supervisory Board regarding the appointment of the auditor.

4.3. External auditors

MOL Group was audited by Ernst & Young ("EY") in both 2016 and 2015, excluding FGSZ Zrt. (audited by Pricewaterhouse Coopers) and some other non-significant subsidiaries. Within the framework of the audit contract, EY performs an audit of consolidated and statutory financial statements, and interim financial statements of MOL Plc. 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. EY also provided other services to MOL Group. Summary of the fees paid to them in 2015 and 2016 are as follows:

FEES PAID TO THE AUDITORS (HUF MN):	2015	2016
Audit fee for MOL (including audit fees for interim balance sheets)	151	147
Audit fee for subsidiaries	577	557
Other audit related services	18	48
Other non-audit services	48	53
Tax advisory services	432	409
Total	1 226	1 214

The decrease of the audit fee for subsidiaries is due to the cease of some international Upstream operations. Other audit-related services includes primarily the assurance services relating to the Sustainable Development Report in both years. In both years tax advisory services include mainly personal income tax related services and also minor corporate income tax and VAT-related services which will completely cease in 2017 due to EU audit reform regulation.

The Board of Directors confirms that non-audit services provided by EY complied with auditor independence rules and policies applicable in 2015 and 2016.

4.4. Internal control

4.4.1. Compliance and Ethics

MOL Group is committed to pursue ethical and fair conduct in all activities. In order to achieve the above aim MOL Group started its Compliance Program and established compliance organization responsible for its execution, furthermore, in order to enforce the Code of Ethics and Business Conduct, allocated the task of supporting the operation of the Ethics Council in its competence.

Group Compliance and Ethics' activities include operation of the whistleblowing system ('SpeakUp!'), conducting internal inspections, preparation of risk analysis and training of employees. Whilst taking the specific nature of business into consideration, Group Compliance and Ethics reviews internal processes and risk factors and makes recommendations in order to ensure compliance, furthermore provides assistance for their execution.

Group Compliance and Ethics carries out its task in accordance with the laws of each country, taking EU and international expectations as minimum standards. The organization's competence covers the whole MOL Group through local compliance officers and local ethics officers.

Group Compliance and Ethics annually reports to the Supervisory Board and the Board of Directors on its activities.

4.4.2. Internal Audit

Internal Audit provides an independent and objective evaluation of financial, operational and control activities executed within the whole MOL Group and report on the adequacy of internal controls, the level of compliance with internal and external regulations directly to the Finance and Risk Management Committee, Audit Committee and Supervisory Board following the Executive Board's acknowledgement of the audit reports.

There are no restrictions placed upon the focus and scope of internal audit's work, the scope of the Internal Audit function within MOL Group covers all operations including any activities and subsidiaries controlled by MOL Group. The Head of Group Internal Audit is responsible for determining the scope of internal audit reports.

The main focus of Internal Audit is to review operational and functional activities executed within the whole MOL Group, and to identify, understand, test and evaluate associated controls to ensure that identified risks are mitigated in the most favourable cost-benefit ratio from a business perspective.

Internal Audit applies standard risk assessment principles when evaluating the residual and inherent risks of control weaknesses. The applied MOL Group internal audit risk assessment principles are approved by the Finance and Risk Management Committee.

Internal Audit operates under an audit plan approved by the Supervisory Board and agreed with the Audit Committee at the end of the year for the next one. If there is a request to modify the approved annual audit plan during the year, the C-CEO has the authority to approve any mid-year modifications to the annual audit plan.

To provide the independence of the Internal Audit function the Head of Group Internal Audit is accountable to the Finance and Risk Management Committee, Audit Committee and Supervisory Board and has direct access to their chairmen (for daily operational matters the Head of Group Internal Audit reports directly to the C-CEO of MOL Group). The Supervisory Board shall form opinion on the appointment and recall of the Head of Group Internal Audit.

MOL Group Internal Audit department shall be organized and operated according to the professional auditing and internal audit ethical standards of the Institute of Internal Auditors (IIA), the authoritative body for internationally recognized internal audit standards.

5. ANNUAL REMUNERATION FOR MOL GROUP MANAGEMENT

5.1. Board of Directors

Annual fixed remuneration of 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 Annual General Meeting:

- Members of the Board of Directors 25,000 EUR/year
- Chairmen of the Committees 31,250 EUR/year

Members of the Board of 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 a year) when they travel to Hungary.

Incentive based on share allowance

From January 1, 2012 the incentive based on share allowance serves as long-term incentive for the members of the Board of Directors.

The aim of the new share based incentive is to ensure the interest in long-term stock price growth and to maintain motivation related to the dividend payment ensuring which a 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 as from January 1, 2015:

- in case of the members of the Board of Directors: 150 pieces of "A" series of MOL ordinary shares per month
- in case of the chairman of the Board of Directors: additional 50 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 (50 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, which means that the Company ensures to pay the taxes, contri-

butions 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 this, there is a further cash allowance part of the incentive system, the rate of which 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

The members of the Board of Directors are entitled to further non-financial benefits, including life and accident (82,000 HUF/person/year) and travel (14,000 HUF/person/year) insurance.

Besides, as a non-financial benefit an annual health screening (84,000 HUF/person/year) and an additional healthcare package (350,000 HUF/person/year) is available for the members of the Board of Directors.

5.2. Executive Board and management

The aim of MOL's remuneration system is to provide incentives for the top management to carry out the company's strategy and reward them for the achievement of strategic goals through a combination of short-term and long-term incentives. The Corporate Governance and Remuneration Committee recognizes that remuneration plays an important role in supporting the achievement of goals. Through the design of its incentive schemes, MOL aims to ensure that executive remuneration is aligned with and supports the company's strategic objectives within a framework that closely aligns the interests of MOL executives to those of our shareholders.

The Executive Board (EB)'s remuneration mix consists of three key pillars:

- ▶ Annual Base Salary (BS): fixed annual amount paid to the individuals
- ▶ Short Term Incentive (STI): annual bonus, based on individual and company performance
- ▶ Long Term Incentive (LTI): promotes performance driven culture and enhances the focus on the top management team to be aligned with the interests of shareholders

The remuneration mix of the EB on 31st December 2016:

	ANNUAL BASE SAL- ARY	TARGET SHORT TERM INCENTIVE	TARGET LONG TERM INCENTIVE
Chairman- CEO	26%	26%	48%
Group CEO	28%	28%	44%
Other EB members	32%	26%	42%

The incentive system for the top management included the following elements in 2016:

1. Short Term Incentive system

The basis of the short term incentive is a target of 85%-100% of the annual base salary. The amount thereof is defined in line with the performance of the given manager.

Based on MOL Group's decision making authorities the C-CEO and G-CEO annual performance is evaluated by the Corporate Governance and Remuneration Committee with final approval of the Board of Directors.

Performance Measures for the STI

The aim of MOL Group STI scheme is to motivate the participants to achieve operative, business and individual performance targets which can be reached within a year, and support MOL Group's long term strategy.

In 2016, the Executive Board's STI framework was designed to include key focus areas in a mix of financial and non-financial KPIs in order to achieve the targets of the Group.

Financial KPIs:

In 2016, the key focus of the Executive Board was to deliver the EBITDA and CAPEX targets. These targets are represented in the C-CEO and G-CEO annual performance targets:

BUSINESS LINE	KPI
C-CEO and Group CEO	Clean CCS EBITDA CAPEX utilisation

Furthermore, Executive Board members with divisional responsibilities are assessed on a number of operative and financial measures reflecting annual priorities and the strategic direction of each business division within the framework of the Group's long term strategy.

BUSINESS LINE	KPI
Group Downstream	Clean CCS EBITDA
	CAPEX utilisation
	NxDSP EBITDA Impact
Group Exploration & Production	2P Reserves
	Clean CCS EBITDA
	CAPEX utilisation
	Production Unit Cost
	Production Volume

Non-financial KPIs:

Executive Board members are also accountable for non-financial targets alongside financial ones. Safety is a number one Group priority, which is why the Corporate Governance and Remuneration Committee consistently defines divisional SD&HSE-related performance indicator.

In 2016, MOL Group used the completion level of the SD&HSE action plan as an indicator, as this better reflects the commitment of the Group for conducting safe, sustainable and compliant operations at all times.

Challenging targets were set within the divisional action plans, in order to continue the improving trend of last years in the Group.

STI Outcome

The choice of the aforementioned performance measure reflects a desire from the Corporate Governance and Remuneration Committee to assess the participants based on a broad range of corporate and divisional measures that mirrors the corporate strategy and its related KPIs.

The outcome of the STI is not driven by a purely formulaic approach, as no specific weight has been assigned to each performance measure in order not to create an overemphasis on one at the expense of others. Corporate Governance and Remuneration Committee rigorously assesses performance at the end of the period and judges whether the results against the performance measures are a reflection of the underlying performance of MOL Group.

2. Long Term Incentive system

The purpose of the long-term incentive systems is to drive and reward the delivery of sustainable value creation and to provide full alignment between MOL Group executive team and MOL shareholders.

The Long Term Incentive system at MOL Group consists of two elements: a Stock Option Plan and a Performance Share Plan. The main characteristics of the two incentive schemes are as follows:

a) Stock Option Plan

The Stock Option Plan is an option to hypothetically sell MOL shares granted on a past strike price at a spot price and so realizing a profit with the difference between the two prices. The incentive scheme has the following characteristics:

- ▶ It covers a 5-year period starting annually, with the period being split into a 1-year granting period, a 1-year vesting period (when it is not yet possible to exercise Stock Options) and a 3-year exercising period. The Stock Option lapses if not exercised by December 31st of the last year.
- ▶ The strike price for Stock Options is defined before the granting period begins. The strike price is the average MOL share price in HUF on the Budapest Stock Exchange weighted with turnover. Reference period is the last quarter of the year which precedes the granting period.
- ▶ The exercise price is the average price of MOL shares in HUF on the Budapest Stock Exchange on the day of exercising. The trading day is freely selected by the eligible manager albeit limited by applicable insider trading prohibitions.
- ▶ While the Stock Option entitlement is defined based on the position grade, the actual Stock Option unit number is granted each year to the eligible managers based on their individual short-term performance evaluation during the granting period.
- ▶ The individual performance evaluation is linked to the STI framework, as the individual short-term bonus payout percentage (between 0% and 150%) acts as a multiplier of the grants defined by job categories.

Eligibility of stock option units is determined by the individual bonus payout percentage of the granting period:

INDIVIDUAL BONUS PAYOUT %		% OF STOCK OPTIONS
0%	→	x0%
Between 1% and 149%	→	Based on individual bonus payout percentage
150%	→	x150%

Dividend equivalent

Managers who are entitled to the long-term incentive scheme are also eligible for an annual one-time payout, in case the Annual General Meeting decides that dividend payment shall be paid for the given year. The amount thereof is equal to the result of the dividend paid for one share multiplied with the number of Stock Options awarded to the given the manager.

The purpose is to balance the incentive with share price movements after dividend payments of the Company.

The following chart provides an overview about granted options for EB members:

STOCK OPTION PLAN	ENTITLE- MENT (PIECES)	STRIKE PRICE	EXERCISE PERIOD
2012	61 500	56,22 EUR	1 Jan 2014-31 Dec 2016
2013	88 800	17 977 HUF	1 Jan 2015-31 Dec 2017
2014	88 300	14 589 HUF	1 Jan 2016-31 Dec 2018
2015	73 300	11 777 HUF	1 Jan 2017-31 Dec 2019

b) Performance Share Plan

The Performance Share Plan (PSP) is a 3-year cash based programme, using a comparative share price methodology with the following characteristics:

- ▶ The programme starts each year on a rolling scheme with a 3-year vesting period. Payments are due after the 3rd year.
- ▶ The target is the development of MOL's share price compared to relevant and acknowledged CEE regional and industry specific indexes: the CETOP Index and the Dow Jones Emerging Market Titans Oil & Gas 30 Index.
- ▶ MOL's share price performance is compared to the two abovementioned benchmark indices. 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. Comparisons are made on a USD basis. There are defined payout ratios which are based on the measured difference in MOL's share price performance compared to the two indices, noticed in each year. Final payout ratio will be determined by the average of the three noticed payout ratios over the vesting period.
- ▶ The expected payout amount of the PSP is additionally linked to individual short-term performance, as the potential payout is based on three years' individual factors in the annual performance evaluation for each participant. This ensures that constant individual over-performance on a long-term basis is rewarded and the consequences of long term underperformance are managed.
- ▶ Therefore, the final payout amount is determined by the PSP payout ratio multiplied by the combination of individual payout multipliers of the 3-year vesting period.

Following chart provides an overview about PSP results for the 3-year programs completed after Long Term Incentive system revision in 2013:

PSP Plan	Payout Ratio
2013-2015	98.28%
2014-2016	180.99%

Choice of Performance Measures for the LTI

The choice of LTI awards being linked to the share price and dividend distribution reflects the Board's strategic priority on restoring value creation. Through its long term incentives schemes, MOL prioritizes to provide its shareholders with a return on their investment through both the appreciation of the share price as well as through the payment of dividends.

The choice of CETOP and Dow Jones Emerging Market Titans Oil & Gas 30 Index reflects the fact that MOL competes for investor flows on a regional basis (Central and Eastern Europe) as well as with the global emerging market Oil & Gas sector. By applying these two indices, MOL's incentive system provides competitive remuneration to executives and future investors on regional and global oil and gas markets taken in broader meaning as well.

Changes in LTI in 2016

Long Term Incentive system has been revised in 2016, in order to further strengthen the connection to MOL shares in line with the interest of MOL shareholders.

Starting from 2017, target amounts and actual payout for both pillars of LTI system will be based on actual MOL shares, providing opportunity and motivation for management to benefit from increase of share price. Furthermore, target amounts have been adjusted based on external market benchmarks.

In case of Hungary, revised LTI system will be operated via a MOL-independent entity, under the amended legislation of the Employee Share Ownership Program (Munkavállalói Rész tulajdonosi Program, „MRP”).

Other Fringe Benefits

MOL Group is offering standard benefits in-line with market practice for EB members. These include:

- Dedicated status car for both business and private purposes;
- life and accident insurance;
- travel insurance;
- liability insurance;
- annual health screening and special healthcare services.

5.3. Supervisory Board

Remuneration of the members of the Supervisory Board

Members of the Supervisory Board receive EUR gross 4,000/month, while the Chairman receives EUR gross 6,000/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 fifteen (15) times per annum. The Chairman of the Audit Committee is entitled to receive gross EUR 1,500 for participation in each Board Committee meeting, up to fifteen (15) times per annum.

Besides the monthly remuneration both the Chairman of the Supervisory Board and the members 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 & accident (82 000 HUF/person/year), travel (14 000 HUF/person/year) insurance. Besides, as a non-financial benefit an annual health screening (84 000 HUF/person/year) and an additional health-care package (350 000 HUF/person/year) is available for the members of the Supervisory Board.

6. INTEGRATED CORPORATE RISK MANAGEMENT FUNCTION

As operators in a high risk industry we stay committed to professionally manage and maintain our risks within acceptable limits as per best industry practice.

The aim of MOL Group Risk Management is to keep the uncertainties of the business environment within acceptable levels and support stable and sustainable operations and the future growth of the company. MOL Group has developed the risk management function as an integral part of its corporate governance structure.

Assessment and mitigation of the broadest variety of risks is arranged on group level into one comprehensive Enterprise Risk Management (ERM) system. ERM is a risk management framework covering group-level business units and functional units as well as flagship and operating companies, with specific attention to projects as well.

The risk management methodology applied by MOL is based on international standards and best practices. It considers the organisation's exposure to uncertainty in regards to value creation, meaning factors critical to the success and threats related to the achievement of objectives, also occurrence of incidents causing potential threat to people, assets, environment or reputation.

Risks are managed by risk owners, who are managers responsible for supervising the existing control framework and implementation of defined risk mitigation actions in responsible organisations. Monitoring and reporting of risks is performed by the Group Risk Management department to the Finance and Risk Management Committee of the Board of Directors. Risks are collected and presented on risk maps at different levels, over the full lifetime of assets, coordinated by the group-level risk management team. Regular reporting to top management provides oversight on top risks and ensures that updated responses, controls, and appropriate mitigation actions are set and followed by the Executive Board.

The main risk drivers of the Group

Risks are categorized to ensure effective risk reporting and consistent responses for similar or related risks.

- a) Market and financial risks include, but are not limited to:
- i. **Commodity price risk:** MOL Group is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks stem from the integrated business model with downstream processing more crude and selling more than our equity crude oil production. In Upstream we are long on crude oil and in Downstream we have a long position on fuels and petrochemical margin. At group level our consolidated commodity risk stems from an overall long position in refinery and petrochemical margin predominantly (we sell fuels and petrochemical products to the market and we process crude oil sourced to a larger extent from the market and to a lower extent from equity production). Investors buying oil companies' shares are generally willing to take the risk of oil business so commodity price risk should not be fully eliminated from the cash flow. When necessary, commodity hedging is considered to eliminate risks other than 'business as usual' risks or general market price volatility.
 - ii. **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 Group's current FX risk management policy the long FX exposures of the operating cash flow are decreased by the short financing cash flow exposures.
 - iii. **Credit risk:** MOL Group provides products and services to a diversified customer portfolio - both from business segment and geographical point of view - with a large number of customers representing acceptable credit risk profile. Group level policies and procedures (e.g. assessment of customers, limit decision structure, mitigation techniques, security structures, monitoring and review) are in place to set the framework and principles on customer credit management and collection of receivables process to minimize credit risk deriving from delayed payment or non-payment of customers. MOL Group's risk management tracks these risks on a continuous basis and provides support to the sales processes in accordance with MOL Group's sales strategy and ability to bear risk.
- b) Operational risks include, but are not limited to:
- i. **Physical asset safety and equipment breakdown risk:** Due to the high asset concentration in Downstream, this is a significant risk driver. The potential negative effects are mitigated by comprehensive HSE

activities and a group-wide insurance management program.

- ii. **Crude oil supply risk:** Crude supply disruption is a major operational driver for Downstream business to ensure continuous operations. In order to mitigate this risk, supplies of crude oil via pipeline are currently diversified with regular crude cargo deliveries from the Adriatic Sea.
 - iii. **Cyber risk:** Cyber risk needs attention and effective management to ensure the company is able to monitor, detect and respond to cyber threats. Recently heightened cyber risk requires MOL to adapt and change the way it deals with cyber defence and cyber threats (people, process and technology): a clear vision and strategy has been set up to manage cyber incidents with end to end ownership and accountability.
- c) Strategic risks include, but are not limited to:
- i. **Regulatory risk:** MOL Group has significant exposure to a wide range of laws, regulations, environmental and government policies that may change significantly over time. Due to the economic and also in some regions political crisis the risk of potential government actions increased as well as potential impact of such decisions.
 - ii. **Country risk:** The international portfolio requires proper management of country risk exposures, therefore possible political violence, compliance with local regulations or sanctions are monitored to enhance the diversification effect in the investment portfolio.
 - iii. **Reputation risk:** Reputation of energy industry players has been in the focus of media for the past years due to extreme negative events. MOL Group as a major market player in the region operates under special attention from a considerable number of stakeholders, and we are constantly seeking to meet our responsibilities towards them.

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 assessment activity supports stable and efficient operation by identifying key risks that threaten the 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, and is a result of detailed risk assessment processes. The risk maps integrate market and financial, operational and strategic risks, which are identified and reassessed regularly, providing 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. Sensitivity analysis and stress testing are performed regularly on market and financial 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 hedging measures.

Transferring of the financial consequences of our operational risks is done by insurance management. Purchase of insurances represents an important risk mitigation tool used to cover the most relevant exposures and liabilities arising out of our operations. 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 group to exploit considerable synergy effects.

Synergies

Valuable synergies can be extracted 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.

In 2016, following best industry practice and focusing on low probability high potential risks that could disrupt our operations, value chain and cash generation, we have implemented a business continuity program. We have identified processes, which are critical to our business and for each of these we have developed high-level recovery strategies. Moreover, we have identified the critical resources and dependencies and are currently developing action plans in order to reduce recovery times within tolerable limits.

The results of ERM on operational risks (including business continuity management) provides a better direction to management by highlighting areas where actions are necessary to ensure speedy recovery of operations in case of disruptions, and by identifying which areas of the business shall be covered by insurance.

Decision-making support of capital allocation

Besides providing information on the most imperative risks that MOL Group faces, risk management also supports the 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.

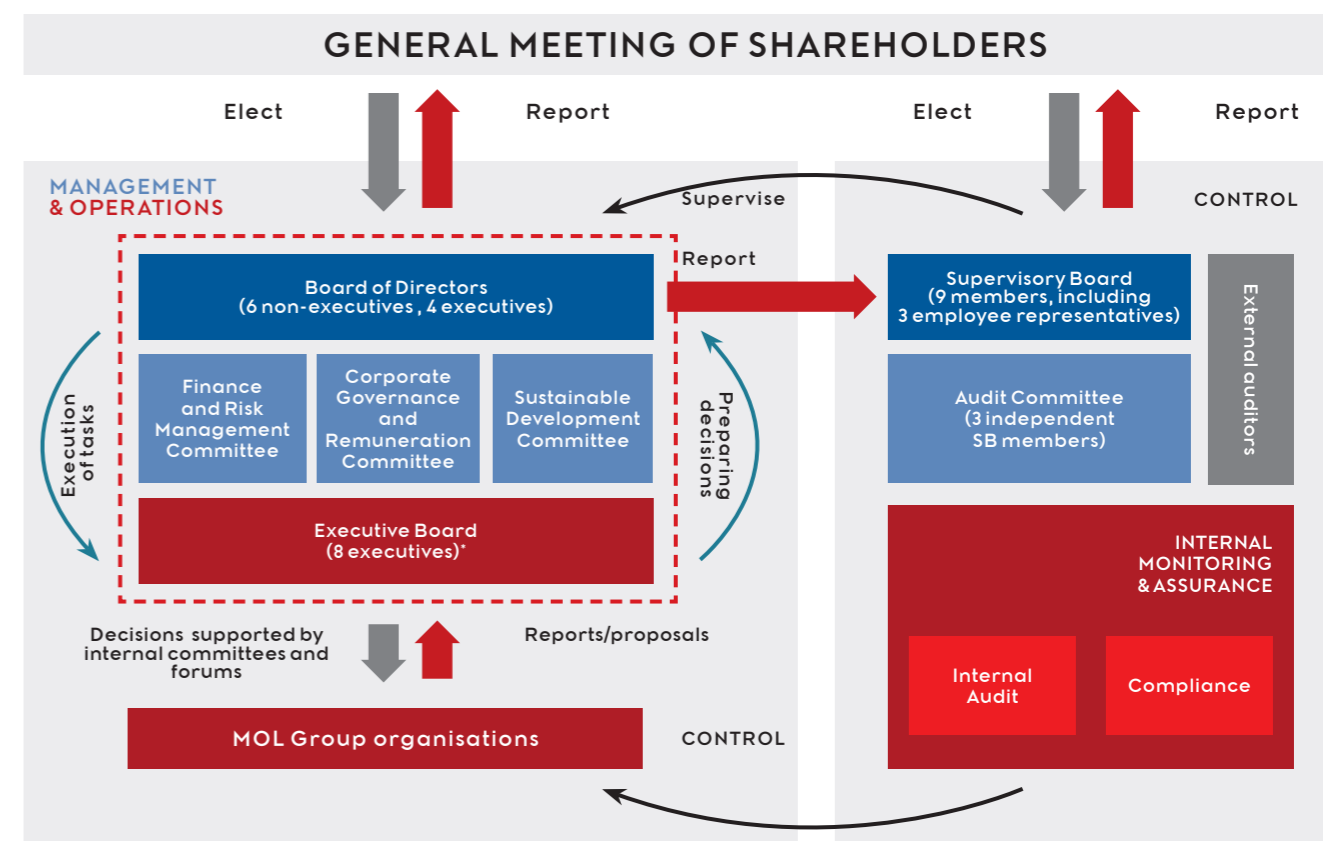
7. PROHIBITION OF INSIDER TRADING

MOL Group is committed to the fair trade of securities admitted to public trading.

MOL Group employees are expected:

- ▶ not to acquire or dispose of MOL or other company's shares or other financial instruments for their own account or for the account of a third party, directly or indirectly, do not withdraw or modify orders related to the above financial instruments, do not give order or instruction for this, do not induce another person to do so and do not suggest or accept decisions connected to the above financial instruments, if they are in possession of insider information,
- ▶ not to disclose insider information to persons not belonging to MOL Group except they are empowered in writing to do so,
- ▶ to be careful when disclosing insider information even within the employees of MOL Group, to hand over information only in the possession of a permission and to the extent necessary to carry out work,
- ▶ to protect insider information from accidental disclosures to the public.

MOL GROUP GOVERNANCE FRAMEWORK



**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 posts 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 is 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. In 2010 he has been honoured with the Hungarian Medal Cross Award. Since March, 2016 he has become honorary citizen of Százhalombatta.

**Dr. Sándor Csányi****MOL Group positions:**

- ▶ Member of the Board of Directors since 20 October 2000, and Vice Chairman since 2001
- ▶ Chairman of the Corporate Governance and Remuneration Committee

Specialising in finance at university, where he also took a doctorate, he later became 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 15 April 2016, 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 a 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. Since March 2015, he is a member of UEFA's Executive Committee. Since January 2017, he is a member of FIFA's Finance Committee.

**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. Oszkár Világi****MOL Group positions:**

- ▶ Member of the Board of Director since 1 May 2011
- ▶ Chairman of the Board of Directors and CEO of SLOVNAFT
- ▶ Member of the Supervisory Board of INA d.d. since May 2011
- ▶ Member of the Sustainable Development Committee since 30 May 2014
- ▶ EVP of MOL Group Innovative Businesses and Services since 1 December 2016

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 a member of the Czechoslovak Parliament in Prague. In 1994, he was one of the founders of the Central European Foundation, of which he is the member of the Board of Directors by now. From 1996, he participated in the governing bodies of several Slovak companies. He has been the legal advisor for several foreign investors in big restructuring projects of Slovak industry (U.S. Steel, Orange Slovensko, a.s., 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. He is the President of the Slovak-Hungarian Chamber of Business and Industry founded in 2012 and also a member of the Slovak Chamber of Business and Industry. He became a member of the Board of Trustees at the Selye János University Komarno in November 2010 and from 2015 he is a member of the Board of Trustees at the Comenius University in Bratislava. Moreover since December 2016 is a President of the Executive Board of Alumni Club at the Faculty of Law at Comenius University Bratislava.



Mr. Zsigmond Járαι

MOL Group positions:

- ▶ Member of the Board of Directors from 29 April, 2010
- ▶ Chairman of the Finance and Risk Management Committee

Mr. Járαι has been working as a financial expert for many years. He has held various managerial positions in a Commercial Banks both in Hungary and abroad. He was serving as Chairman of Budapest Stock Exchange from 1996 to 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 2010. He was the Chairman of the Supervisory Board of the National Bank of Hungary between 2010 and 2014.



Dr. László Parragh

MOL Group positions:

- ▶ Member of the Board of Directors from 29 April, 2010
- ▶ Chairman of the Sustainable Development Committee
- ▶ Member of the Finance and Risk Management Committee since 20 February 2014

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 2009-2014, he has been Chairman of KAVOSZ Venture Development Plc. since 2009. Between 2003 and 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 and 2010 he was a member of the Board of Directors at MEHIB Ltd., at EXIM Bank Plc. and at GYSEV Plc. Between 2010 to 2011 he was a member of the Board of Directors of MALÉV. Since 2003 he has been Chairman of the Supervisory Board of KA-VOSZ Financial Services Trading Close Co. Since 2014 he has been member of the Supervisory Board of MEHIB Ltd. and the EXIM Bank Plc. He has also been member of the State Reform Committee since 2014 and He was in 2015-2016 the Chairman of the Supervisory Board of MKB. 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 and Member of the World Chambers Federation General Council.



Dr. Martin Roman

MOL Group positions:

- ▶ Member of the Corporate Governance and Remuneration Committee
- ▶ Member of the Board of Directors from 29 April, 2010

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 EZ. From mid-September 2011 until October 2013, Mr. Roman was Chairman of the Supervisory Board of EZ. Besides his board membership of MOL, he served as a member of the Supervisory Board of the Prague Stock Exchange between 2005 and 2015, 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. From 2010 until May 2014, he was 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. He is a Czech citizen.



Dr. Anthony Radev

MOL Group positions:

- ▶ Member of the Board of Directors since 30 April 2014
- ▶ Member of the Finance and Risk Management Committee since 30 May 2014
- ▶ Member of the Corporate Governance and Remuneration Committee since 30 May 2014

Dr. Anthony Radev was a Director of McKinsey & Company for over 22 years. Joining the Firm in 1991 in Germany, he was one of the founding partners of the Eastern European branch in 1993. He personally opened up the McKinsey offices in Budapest (1995), Zagreb (2003), Sofia (2005) and Bucharest (2008). He also led the Eastern European offices of McKinsey Financial Institutions Practice. With McKinsey, Anthony has completed a vast number of engagements in almost all sectors of the economy and the public sector – from financial institutions through service – to manufacturing industries. He is member of the Board of Hungarian Football Federation. He is a citizen of Hungary, Germany and Bulgaria.


Dr. Anwar Al-Kharusi
MOL Group positions:

- ▶ Member of the Board of Directors since 30 April 2014
- ▶ Member of the Finance and Risk Management Committee since 30 May 2014
- ▶ Member of the Sustainable Development Committee since 30 May 2014

Dr. Anwar al-Kharusi is a citizen of the Sultanate of Oman, and holds a Ph.D. in Petroleum Engineering from the University of London, UK (Imperial College) and a BS in Physics from the University of Bristol (UK). He has over 20 years of oil and gas industry experience ranging from petroleum engineering field management, and oil and gas investments. He has been working at Petroleum Development Oman (1993–2000), Shell International Exploration and Production in the Netherlands (Team Leader, 2000–2005) Knowledge Reservoir UK Limited (Regional Manager for Middle East, 2007–2009) and Oman Oil Company (Head International Mergers & Acquisitions – Upstream, 2009 – onwards). Dr. Anwar al-Kharusi is presently advising in the Ministry of Oil and Gas in Oman.


Prof. János Martonyi
MOL Group positions:

- ▶ Member of the Board of Directors since 1 July 2014
- ▶ Member of the Corporate Governance and Remuneration Committee and the Sustainable Development Committee

Prof János Martonyi was Professor and Head of the Institute for Private International Law and International Trade Law at the University of Szeged from 1999 to 2009. He was teaching at the College of Europe in Brugge and Natolin as well as at the Central European University (Budapest) between 1994 and 1998. He was managing partner at the law firm Martonyi & Kajtár Baker & McKenzie, Budapest from 1994 to 1998 and from 2002 to 2009. From 1989 to 1990 he was government commissioner in charge of privatization; he served as State Secretary in the Ministry of International Economic Relations between 1990 and 1991; as State Secretary at the Ministry of Foreign Affairs from 1991 to 1994. He was Minister for Foreign Affairs of Hungary between 1998–2002 and 2010–2014. He is a politician, attorney, international arbitrator, member of the Panel of Arbitrators of ICSID (International Centre for Settlement of Investment Disputes), author of numerous studies, articles and essays in the field of international trade law, competition policy and law, European integration and law, cooperation in Central-Europe, global regulations and international relations.

**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 posts 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 is 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. In 2010 he has been honoured with the Hungarian Medal Cross Award. Since March, 2016 he has become honorary citizen of Százhalombatta.

**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. Oszkár Világi****MOL Group positions:**

- ▶ Member of the Board of Director since 1 May 2011
- ▶ Chairman of the Board of Directors and CEO of SLOVNAFT
- ▶ Member of the Supervisory Board of INA d.d. since May 2011
- ▶ Member of the Sustainable Development Committee since 30 May 2014
- ▶ EVP of MOL Group Innovative Businesses and Services since 1 December 2016

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 a member of the Czechoslovak Parliament in Prague. In 1994, he was one of the founders of the Central European Foundation, of which he is the member of the Board of Directors by now. From 1996, he participated in the governing bodies of several Slovak companies. He has been the legal advisor for several foreign investors in big restructuring projects of Slovak industry (U.S. Steel, Orange Slovensko, a.s., 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. He is the President of the Slovak-Hungarian Chamber of Business and Industry founded in 2012 and also a member of the Slovak Chamber of Business and Industry. He became a member of the Board of Trustees at the Selye János University Komarno in November 2010 and from 2015 he is a member of the Board of Trustees at the Comenius University in Bratislava. Moreover since December 2016 is a President of the Executive Board of Alumni Club at the Faculty of Law at Comenius University Bratislava.

**Mr. József Simola****MOL Group positions:**

- ▶ Group Chief Financial Officer since 1 May 2011
- ▶ Member of the Supervisory Board and Audit Committee of INA d.d.

From 1991 to 1992 he was employed as an SAP expert at General Electric – Tungstam. He subsequently joined Arthur Andersen as an auditor and consultant. In 1996, he continued his career 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 also appointed as Corporate Centre Executive Vice President of MOL Plc. between 2006 and 2011.

**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
- ▶ 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. He was member of the Board of Directors of TVK Plc. between 1 May, 2011 and 15 April, 2015.

**Dr. Berislav Gašo****MOL Group positions:**

- ▶ Upstream Executive Vice President

Dr. Gašo joined MOL Group in January 2010 when he became Executive Director for Corporate Services at INA. From September 2012 he served as Senior Vice President of Controlling, Accounting and Tax at MOL Group Finance. In April 2015, Dr. Gašo has been promoted to the role of E&P Chief Operating Officer of MOL Group Upstream. Since December 2016 he is the Executive Vice President of E&P and a member of MOL Group's Executive Board. Before joining MOL Group he spend five years in the Petroleum Practice of McKinsey&Company where he left as a Junior Partner. Dr. Gašo holds degrees in mechanical engineering and business administration.

**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 Privatisation 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. Since 2001 he has been a member of the MOL EB. 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 Supervisory Board of FGSZ Zrt. since 1 January, 2017

From 1991 Mr. Fasimon held various management positions at the 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. 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. Since June 2011 he has been a member of the Executive Board. He is Member of the Board of Directors of the Hungarian Hydrocarbon Stockpiling Association since 1 June, 2011 and President of the Hungarian Petroleum Association since 9 December, 2014.

Mr. György Mosonyi

MOL Group positions:

- ▶ Member of MOL Supervisory Board since 1 May, 2011 and Chairman since 8 June, 2011
- ▶ Permanent invitee of the Sustainable Development Committee
- ▶ Chairman of the Supervisory Board of MOL Petrochemicals Co. Ltd since 1 September, 2015.
- ▶ Chairman of the Supervisory Board of SLOVNAFT a. s.

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 Vice President in charge of International Affairs of the Hungarian Chamber of Commerce and Industry until 2016 October and member of the Joint Venture Association's Presidium until 2016 February. He was President of the World Petroleum Council Hungarian National Committee till 2015 January. 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 and 2011 he was Chairman of the Sustainable Development Committee he was Chairman of the Board of Directors of TVK until 15 April, 2015 and Vice President of the Supervisory Board of INA d.d. until 19 December 2016.

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 Professor Chikán has worked for Corvinus University of Budapest and its legal predecessors. 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 2002 he was Chairman of the Council of Economic Advisors of the Prime Minister. Between 2000 and 2003, he was Rector of Budapest University of Economic Sciences. Since then, Dr. Chikán has been a Director of the Competitiveness Research Centre of the University. He is a full Member of the Hungarian Academy of Sciences and Foreign Member of the Royal Swedish Academy of Engineering. He is Honorary Doctor of Lappeenranta University of Technology (Finland) and Babes-Bolyai University (Romania) and member of the Board of Trustees of Central European University. He holds several positions in Hungarian and international professional organizations and membership in Editorial Boards of 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. He has been Chief Advisor to the Chairman at OTP Bank Plc since 2001. Currently he is a Board Member of Pick Zrt. and Csányi Foundation.

Mr. Slavomír Hatina

MOL Group positions:

- ▶ 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. From 1995 to December 2014, he was Chairman of the Board of Slovintegra a.s. He is the Chairman of the Board of Directors of BIATEC GROUP, a.s. Mr. Hatina is a citizen of Slovakia.

Ms. Andrea Hegedűs

MOL Group positions:

- ▶ 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.

Mr. Attila Juhász

MOL Group positions:

- ▶ 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 Area coordinator 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.

Dr. Sándor Puskás

MOL Group positions:

- ▶ 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 Engineer position at the E&P Research and Development MOL in Algyő, Hungary. He has 31 years of experience as a field production engineer, field production head, research and development engineer, and as an R&D project manager in crude oil production. Dr. Puskás holds a Dipl. Eng. degree in

petroleum engineering from Moscow State Gubkin Oil and Gas University and a Dr. Univ. degree in colloid chemistry from the 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. Between 2005 and 2011, Dr. Puskás was a member and the chairman of the Audit Committee of Tempo Health Fund. He is the author and co-author of several domestic and international 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. He is a member of the Assembly of Delegates of TEMPO Health Fund.

Mr. Ivan Mikloš

MOL Group positions:

- ▶ Member of the Supervisory Board since 1 May, 2016
- ▶ Alternate member of the Audit Committee

Ivan Mikloš is former Deputy Prime Minister and Minister of Finance of the Slovak Republic (2002-2006, 2010-2012), Deputy Prime Minister for Economy (1998-2002), and Minister of Privatization (1991-1992). He co-founded and led an economic think-tank MESA10 (1992-1998). During 2006-2010 and 2012-2016 he was a Member of Parliament. In 2014 he was appointed again as President of MESA10 and became a member of the International Advisory Board of National Reform Council of Ukraine and platform VoxUkraine. Until April 2016 he served as a Chief Advisor to the Minister of Finance of Ukraine and as an Advisor to the Minister of Economic Development and Trade of Ukraine. Since April 2016 he serves as a Chief Economic Advisor to the Prime Minister of Ukraine and Co-chairman of the Strategic Advisory Group for Support of Ukrainian Reforms. He is also a Co-founder of Ukrainian economic think-tank Centre for Economic Strategy. Ivan Mikloš was one of the leading figures of economic

transformation in Slovakia. Ivan Mikloš significantly contributed to the entry of the Slovak Republic into the OECD and started an extensive and effective tax reform. He led the government agenda on economic restructuring and fiscal consolidation. The second Dzurinda's government (2002-2006) gained a very reformist reputation thanks to severe austerity measures and a comprehensive program of structural reforms (tax, social sector, pension, healthcare, public finance, labour market) backed by Ivan Mikloš. Thanks to these reforms Slovakia was able to join Eurozone in 2009. In 2004 he was awarded by Euromoney the best Minister of Finance of the Year and the top business reformer by the World Bank's Doing Business report. Ivan Mikloš is the author of the Book of reforms (2005), Rewriting the Rule (2001) and also of dozens of studies and articles in the expert and popular press.

Dr. Norbert Szivek

MOL Group positions:

- ▶ Member of the Supervisory Board since 29 April, 2015

Dr. Norbert Szivek is a law school graduate who pursued his studies in Germany and then graduated in Hungary. After working in the Hungarian public sector for a while, he continued his career at a company which is well-known for its real estate investments, where he was in charge of the newly established energy division. The next step in his career was the foundation of his own asset management company. Appointed by the Minister of National Development, Dr. Szivek is the general manager and member of the Board of the Hungarian National Asset Management Inc. from 16 February, 2015. He is Member of the Board of Panrusgáz Gas Trading Plc. of the MVM Hungarian Electricity Ltd. of Raba Automotive Holding Plc, of the Hungarian Hydrocarbon Stockpiling Association of the Magyar Posta Zrt and also of the Gedeon Richter Plc.

REPORT OF THE SUPERVISORY BOARD ON THE 2016 FINANCIAL STATEMENTS AND ON THE PROPOSAL FOR THE DISTRIBUTION OF PROFIT AFTER TAXATION, AND ITS OPINION ON THE BOARD OF DIRECTORS' PROPOSALS TO BE SUBMITTED TO THE GENERAL MEETING

The Supervisory Board and the Audit Committee performed their duties in full accordance with their statutory obligations. The Supervisory Board and the Audit Committee held 5 meetings in 2016, the common agenda items were discussed on the joint meetings of the Supervisory Board and the Audit Committee. The Board of Directors regularly reported to the Supervisory Board on the management, the financial situation and the business policy of the Company. Regular agenda items of the Supervisory Board meetings included reports of Group Internal Audit and the Audit Committee itself, and reports on the activities of Group Compliance & Ethics and Group Security. Additionally, the Supervisory Board dedicated a considerable amount of time to discuss and analyze the process leading to the creation of the new long term strategy. The Supervisory Board was involved in the preparation and the review of different proposals and in the approval of the new strategic priorities of the Group and its divisions. Finally, macroeconomic and industrial developments were monitored as well. The Supervisory Board reviewed proposals for the Annual General Meeting. The report of the Supervisory Board was prepared pursuant to the reports of the Board of Directors and the management, the opinions of the auditors, scheduled regular interim reviews and the work of the Audit Committee. The Supervisory Board continuously received information on the decisions of the Board of Directors and issues concerning the Company.

MOL, with a market capitalization of USD 7.2 billion at end of 2016, is one of the leading companies in the CEE region.

The Company's 2016 financial statements – prepared in compliance with International Financial Reporting Standards as adopted by the European Union (“IFRS”) – provide a true and fair view of its economic operations 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 the IFRS rules and are consistent with the accounting policies of the Company. All figures in the balance sheet are supported by analytical book-keeping. Assessment and payment of tax obligations were executed as prescribed by law.

A total of 127 companies were fully, and a further 14 companies partially, consolidated in MOL Group, using the equity method. Last year, there were some changes in the ownership structure: at the end of 2016, compared to the end of the prior year, the shareholding of foreign institutional investors increased significantly, whereas the ownership of both domestic institutional and domestic private investors decreased during the year. Crescent Petroleum continued to reduce its stake during the year. In 2016 MOL exercised its option rights arising out of different share option agreements, translating into a net increase of treasury shares in the amount of 8.5 million shares. Additionally, shareholders approved a 2% treasury share cancellation at the 2016 annual shareholder's meeting. According to requests for the registration of shares received and published shareholder notifications, the Company had 5 shareholders that held more than 5% of the voting rights on 31 December 2016. MOL's largest shareholder is the Hungarian State which holds 25.2% of MOL shares. The Company held 7.7% treasury shares at the end of December 2016.

Despite a continued volatile external environment, MOL Group delivered a strong performance in 2016 and reported a HUF 605 billion EBITDA, a modestly lower figure (down 12%) compared to 2015, mainly as a result of a margin normalization in Downstream. However, MOL generated operating cash flows greatly in excess of its capital expenditures as a consequence of strong capital discipline. These results are the reflection of the strength and resilience of MOL high quality, low-cost integrated business model, having managed to strike the right balance between Upstream and Downstream.

The Upstream division financial results decreased only slightly compared to 2015 despite a further material drop in Brent crude prices, which hit a bottom at the beginning of 2016, and a decrease in our realized gas prices happened as well. EBITDA amounted to HUF 675 billion in 2016. The negative impact of lower oil and gas prices was nearly fully offset by the successful implementation of the New Upstream Program: rising hydrocarbon production, including the highest CEE onshore production since 2012, lower operating cost (unit opex declining by a further 13%) and very strict capital discipline.



György Mosonyi
Chairman of the Supervisory Board

As for Downstream, full year EBITDA declined compared to 2015 to reach HUF 408 billion, with Petrochemicals and Retail contributing with over half of the total. The overall result was affected by the expected normalization of refinery and petrochemical margins, although the fall was partially offset by a growing retail and the continued contribution of internal efficiency measures. The Next Downstream Program, which started in 2015, successfully closed the second of its three year program with a positive contribution.

Overall in 2016 MOL managed to maintain its strong financial position due to its resilient integrated business model, supported by a high quality, low-cost asset base. Looking forward, as a response to the challenges of the fast changing external environment that will inevitably impact the company, MOL set the course for a new long-term vision, launching a number of transformational projects, seeking to lead the changes in the region once again. MOL is confident that through the launch of its new long-term strategy (MOL Group 2030 – Enter Tomorrow), the company will successfully navigate through the macro challenges whilst also capturing exciting growth opportunities.

The Supervisory Board proposes that the General Meeting approves the audited financial statements of MOL Plc. for 2016 with total assets of HUF 2,981,608 million and net profit of HUF

György Mosonyi
Chairman of the Supervisory Board



Dr. Attila Chikán
Chairman of the Audit Committee

254,396 million and the audited consolidated financial statements of MOL Group for 2016 with total assets of HUF 4,103,786 million and net profit of HUF 251,655 million.

The Supervisory Board endorses the recommendation of the Board of Directors to pay out HUF 58,006,955,625 as dividend in 2017 based on the year ended 31 December 2016. The proposed amount represents the continuation of the last years' gradually increasing payout trend of the regular dividend payment.

The Supervisory Board has reviewed and supports all proposals and materials of the Board of Directors to be submitted to the General Meeting and recommends to the General Meeting to approve the proposals.

The Audit Committee provided assistance to the Supervisory Board in supervising the financial report regime and the 2016 financial statements and supported the report of the Supervisory Board. The Audit Committee participated in the procedure of selecting the auditor and made a recommendation to the Supervisory Board regarding the appointment of the auditor.

Budapest, 22 March 2017

On behalf of the Supervisory Board and the Audit Committee of MOL Plc.:

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 14 April 2016. 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 2016: 102,428,103 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:

	31.12.2016		31.12.2015	
	PAR VALUE OF SHARES (HUF TH)	%	PAR VALUE OF SHARES (HUF TH)	%
Foreign investors	27,562,313	26.9	23,395,798	22.4
Hungarian State	25,857,957	25.2	25,857,957	24.7
CEZ MH B.V.	7,677,285	7.5	7,677,285	7.3
OmanOil (Budapest) Limited	7,316,294	7.1	7,316,294	7.0
OTP Bank Plc.	5,011,887	4.9	5,010,826	4.8
OTP Fund Management	1,103,963	1.1	1,100,984	1.1
Magnolia Finance Limited	0	0.0	6,007,479	5.7
ING Bank N.V.	4,863,101	4.7	5,220,000	5.0
Crescent Petroleum	1,500,000	1.5	3,000,000	2.9
UniCredit Bank AG	5,380,496	5.3	5,380,496	5.1
Credit Agricole	0	0.0	2,129,666	2.0
Domestic institutional investors	5,422,629	5.3	5,892,303	5.6
Domestic private investors	2,818,599	2.8	4,999,317	4.8
MOL Plc & MOL Inv. Kft. (treasury shares)	7,914,159	7.7	1,530,659	1.5
Total	102,428,683	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 MOLLI 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 2016.

PERIOD	BSE VOLUME (NO. OF SHARES)	BSE CLOSING PRICE (HUF/SHARE)
1 st quarter	7,805,787	16,590
2 nd quarter	6,677,198	16,445
3 rd quarter	5,150,675	16,970
4 th quarter	6,476,682	20,635

TREASURY SHARES

During 2016 the following treasury shares transactions happened:

REASONS FOR CHANGE	NUMBER OF "A" SERIES SHARES	NUMBER OF "C" SHARES
Number of Treasury shares on 31 December 2015	1,530,080	578
Termination of the Swap Agreement with Magnolia Ltd	6,006,495	
Share distribution for the members of the Board of Directors	(18,600)	
The Court of Registration registered the 2% capital decrease of MOL	(2,090,381)	
MOL exercised its option rights and purchased treasury shares from Credit Agricole	2,129,666	
Settlement of the current option agreement and entering into a new transaction with ING Bank	356,899	
Number of Treasury shares on 31 December 2016	7,914,159	578

INFORMATION ON THE SERIES "B" SHARE

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.

THE APPOINTMENT AND REMOVAL OF SENIOR OFFICERS; AMENDMENT OF THE ARTICLES OF ASSOCIATION

The general meeting years shall elect members of the Board of Directors for a pre-defined term, the maximum of which is five (5) years. The General Meeting shall decide on Board Members by simple majority vote, but it shall decide the dismissal of any member of the Board of Directors by three-quarter majority of votes. The "yes" vote of the holder of "B" series of share is required for the election and dismissal of any member of the Board of Directors at the general meeting if not supported by the Board of Directors.

The appointment of a member of the Board of Directors, as provided for by the Articles of Association, can be terminated at any time or may be renewed after the expiry of the five-year term. In the event any shareholder initiates the termination of appointment of one or more members of the Board of Directors, the general meeting may only decide on dismissal of maximum one member of the Board of Directors validly, with the restrictions that during the three months period following the decision on dismissal of the one member of the Board of Directors, no further dismissal of a member of the Board of Directors may take place.

The General Meeting shall decide on the modification of Articles of Association by two-third majority of votes. The "yes" vote of the holder of "B" series of share is required for the amendment of certain provisions of the articles of association.

RIGHTS OF SENIOR OFFICERS RELATED TO SHARE ISSUANCE AND BUYBACK

Based on the authorization granted in the Articles of Association, the Board of Directors is entitled to increase the share capital until 23 April 2019 in one or more instalments, by not more than HUF 30,000,000,000 (i.e. Thirty billion forints), in any form and method provided by the Civil Code and resolve the amendment of the Articles of Association in connection thereof. Annual General Meeting held on 14th April 2016 granted authorization valid for 18 months to the Board of Directors of the Company to acquire treasury shares.

CHANGES IN ORGANISATION AND SENIOR MANAGEMENT

The Annual General Meeting on 14 April 2016 made the following resolutions:

- re-elected Dr. Oszkár Világi to be a member of the Board of Directors from 1 May 2016 to 30 April 2021.
- re-elected Mr. György Mosonyi as member of the Supervisory Board from 1 May 2016 to 30 April 2021.
- elected Dr. Norbert Szivek as independent member of the Supervisory Board to be member of the Audit Committee from 14 April 2016 to 28 April 2020.
- elected Mr. Ivan Mikloš as member of the Supervisory Board from 1 May 2016 to 30 April 2021.
- elected Mr. Ivan Mikloš as alternate member of the Audit Committee from 1 May 2016 to 30 April 2021.

DR.SC. Žarko Primorac resigned from the Supervisory Board with an effective date of 30th April 2016.

Organizational and personnel changes approved by the Board of Directors

In October 2016 the Board of Directors appointed Dr. Berislav Gaso as MOL Group Upstream Executive Vice President. With this appointment, Dr. Gaso also became a member of the MOL Group Executive Board. Dr. Gaso joined MOL Group in January 2010 as an Executive Director for Corporate Services and a member of the Executive Board of INA. In September 2012 he was appointed to be Senior Vice President of Controlling, Accounting and Tax at MOL Group. Since September 2015 Dr. Gaso has been managing the E&P segment in his capacity as the COO of MOL Group Upstream. Under his leadership the operating model has been transformed in MOL Group Upstream to ensure value creation in the segment even in a low oil price environment.

According to the Act CXX of 2001 on Capital Markets Dr. Berislav Gaso is considered as an executive employee of MOL Plc. Currently he does not own any securities issued by MOL.

A new business division named Innovative Businesses and Services has been established on the 1st of December 2016 to cover those business activities and initiatives which will not be directly connected to the oil and gas industries. The new unit is responsible for turning MOL Group into the Customers' first choice and the primary source of future demand solutions. As part of the organizational changes, the Retail business, which is currently part of the Downstream segment, will also be absorbed by the newly established business unit.

The Board of Directors appointed Dr. Oszkár Világi as Executive Vice President of Innovative Businesses and Services. Dr. Világi had held several senior positions in financial and commercial areas before he became the CEO of Slovnaft a.s. in 2006 and from April 2009 he also acts as the Chairman of Slovnaft. Since 2010 Dr. Világi has been a member of the Executive Board of MOL Group and one year later he was appointed to be the member of the Board of Directors of MOL Group.

MOL SECURITIES HELD BY DIRECTORS AND OFFICERS OF THE COMPANY AS OF 31 DECEMBER 2016

NAME	CURRENT POSITION	NUMBER OF MOLSHARES
Zsolt Hernádi	Chairman of the Board of Directors, Chairman-CEO (C-CEO)	194,691
Dr. Sándor Csányi*	member of the Board of Directors, Vice-Chairman	226,900
József Molnár	member of the Board of Directors, Group Chief Executive Officer (GCEO)	15,400
Zsigmond Járai	member of the Board of Directors	3,240
Dr. Anwar al-Kharusi	member of the Board of Directors	2,609
Dr. János Martonyi	member of the Board of Directors	2,405
Dr. László Parragh	member of the Board of Directors	5,470
Dr. Anthony Radev	member of the Board of Directors	2,609
Dr. Martin Roman	member of the Board of Directors	5,400
Dr. Oszkár Világi	member of the Board of Directors, Executive Vice President of MOL Group Innovative Businesses and Services, Chairman of the Board of Directors and CEO of Slovnaft a.s.	16,610
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
Ivan Mikloš	member of the Supervisory Board	0
Dr. Sándor Puskás	member of the Supervisory Board, representative of the employees	0
Dr. Norbert Szivek	member of the Supervisory Board	0
Zoltán Áldott	Executive Vice President, President of the Management Board, INA d.d.	60,000
Sándor Fasimon	Executive Vice President, MOL Hungary	10,000
Dr. Berislav Gašo	Executive Vice President, Upstream	0
Ferenc Horváth	Executive Vice President, Downstream	29,198
József Simola**	Group Chief Financial Officer (GCFO)	16,310

* Dr. Sándor Csányi owns 11,900 share directly, 215,000 shares indirectly via Sertorius Global Opportunities Fund Pte. Ltd

** Mr József Simola owns 2 pieces of MOL GROUP FINANCE USD bond expiring on 26 September 2019 with nominal value USD 200,000

FURTHER INFORMATION ON CORPORATE GOVERNANCE

MOL Group publishes on its website each year the MOL Plc. Corporate Governance Report in accordance with Budapest Stock Exchange Corporate Governance Recommendations, which also discloses any potential divergence from these recommendations with the necessary reasoning.

A group of business professionals in light blue shirts are gathered around a white table, reviewing financial documents. The documents feature various charts, including bar graphs and pie charts. One person in the center is pointing at a bar chart with a black pen. The scene is brightly lit, suggesting a professional office environment. A white banner with a red diagonal stripe is overlaid on the right side of the image, containing the title text.

Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

Introduction

General information

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 polymers, olefins and polyolefins. 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.

Authorization and Statement of Compliance

These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 13 March 2017.

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 IFRS Interpretations Committee.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MOL Hungarian Oil and Gas Plc

Opinion

We have audited the accompanying 2016 consolidated financial statements of MOL Hungarian Oil and Gas Plc and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016 - showing an asset total of HUF 4,103,786 million and a net profit for the period of HUF 251,655 million, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Hungary, and we have fulfilled our ethical responsibilities in accordance with these requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consoli-

dated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements section" of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Oil and natural gas reserve estimation process

The estimation of oil and natural gas reserves is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the Group's share of reportable volumes. We considered the oil and natural gas reserve estimation process to be a key audit matter as oil and natural gas reserves are also a fundamental indicator of the future potential of the Group's performance and these estimates affect significant income statement and balance sheet amounts.

Audit procedures included understanding of the process for determination of the oil and natural gas reserves and testing of the design of internal controls implemented in the process. We assessed the competence and objectivity of technical experts of the Group, to evaluate whether they are appropriately qualified to carry out the oil and natural gas reserve volumes estimation. We performed an inquiry of the management of the Group and our procedures were planned and executed to assess that the applied methodology for oil and natural gas reserves estimate is consistent with previous year.

We have performed the test of detail and we have selected the items with significant movements compared to the prior year. For these we tested if the changes were made in the appropriate

period, and in compliance with the Group's internal policies and we validated these volumes against underlying information such as technical evaluations and Reserve and Resources Committee decision papers. We also performed analytical procedures on movements in oil and natural gas reserves during the year and reviewed whether all significant changes were approved by the "Reserves and Resources Committee". We assessed the adequacy of the Group's disclosures in respect of oil and natural gas reserves.

The Group's disclosures about oil and natural gas reserves estimation policies are included in Note 9.g) Depreciation, depletion and amortization to the consolidated financial statements.

Revenue recognition

Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer.

Revenue is measured taking into account discounts, incentives and rebates earned by customers on the Group's sales. Due to the multitude and variety of contractual terms across the Group's markets, we consider the estimation of discounts, incentives and rebates recognised based on sales made during the year to be a complex area and therefore we consider revenue recognition as a key audit matter.

Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies including those relating to discounts, incentives and rebates. We assessed compliance with the policies in terms of applicable accounting standards. We tested the design and operational effectiveness of the Group's controls over calculation of discounts, incentives and rebates and correct timing of revenue recognition. We tested sales transactions close to the balance sheet date as well as credit notes issued after the balance sheet date to assess whether that revenue was recognised in the correct period. We also performed analytical reviews over revenue accounts and we assessed the adequacy of the Group's disclosures in respect of revenue.

The Group's disclosures about revenue and revenue recognition policies are included in Note 3 to the consolidated financial statements.

Asset impairments

Movements in oil and gas prices can have a significant effect on the carrying value of the Group's assets including upstream offshore and onshore, refining, retail and service related long lived assets as well as goodwill. A significant and rapid drop in prices will also quickly impact the Group's operations and cash flows. We assessed the principal risk arising in relation to the consolidated financial statements to be associated with the carrying value of the above listed assets, many of which are supported by an assessment of future cash flows. As asset impairments are complex and judgmental area with

significant potential impact on the valuation of assets, we consider asset impairments a key audit matter.

We examined the methodology used by management to assess the carrying value of respective assets, to determine its compliance with accounting standards and consistency of application. We performed understanding of the process and tested the design of the internal controls operated by the Group relating to the assessment of the carrying value of respective assets. For the assets where impairment indicators were not identified by the Group we have assessed the assumptions used by the Group in its determination of whether impairment indicators exist. The assessment took into consideration current industry and Group expectations for the key inputs to impairment models.

In respect of performed impairment tests, we used external data in assessing and corroborating the assumptions used in impairment testing, the most significant being future market oil prices, reserves and resources volumes and discount rates. We involved our experts in the evaluation of discount rates. We also performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and procedures to assess the completeness of the impairment charges.

We assessed the adequacy of the Group's disclosures in respect of valuation of intangible assets and tangible fixed assets.

The disclosures about intangible assets and tangible fixed assets are included in Note 9 to the consolidated financial statements.

Trading operations

Unauthorized trading activity (which covers physical and paper trading of products and product related derivatives) gives rise to an inherent risk of fraud in revenue or profit recognition as there is an incentive to mismarking of the Group's trading positions to minimize trading losses or maximize trading profits or understate profits or move profits to subsequent periods when bonus ceilings have already been reached, to maximize individual bonuses across financial years. This risk together with the potential significant effect on the revenue or profit of the Group led us to identify the risk of unauthorized trading operation as a key audit matter.

Our audit procedures included testing of the design of internal controls implemented in the process and testing of the design and operating effectiveness of the controls implemented by the Group to avoid unauthorized trading activity. We selected the sample of third parties to whom we have sent the confirmation letters to confirm the year-end balances of open transactions.

We tested fair value of a sample of derivatives using contract and external market prices with the involvement of our valuation experts. We performed test of the completeness of the trading transactions and amounts recorded in the consolidated financial statements through performing procedures to detect unrecorded liabilities as well as procedures related to the recognition of sales, purchases, trade receivables and trade payables.

We assessed the appropriateness of disclosures made in relation of the result and details of trading transactions as detailed in Note 20 and Note 21 to the consolidated financial statements.

Other information

Other information consists of the 2016 consolidated business report of MOL Hungarian Oil and Gas Plc and the Overview Chapter, the Management & Discussion & Analysis Chapter, the Corporate Governance Chapter ("Statement on corporate governance"), the Supplementary and Sustainability Chapter and the Report on Payments to Governments of the Annual Report of MOL Hungarian Oil and Gas Plc. Management is responsible for the preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With regard to the other information other than the consolidated business report, if, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Concerning the consolidated business report it is our responsibility also, in accordance with the Hungarian Accounting Law, to consider whether the consolidated business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

Concerning the Statement on corporate governance it is our responsibility also, in accordance with the Hungarian Accounting Law, to consider whether it properly describes the main features of the Group's internal control and risk management systems in relation to the consolidated financial reporting process and the information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law and also to confirm whether the Group has made available the information required according to Subsection (2) a)-d) and g) of Section 95/B of the Hungarian Accounting Law.

In our opinion, the consolidated business report of MOL Hungarian Oil and Gas Plc for 2016 corresponds to the disclosures in the 2016 consolidated financial statements of MOL Hungarian Oil and Gas Plc and has been prepared in accordance with the Hungarian Accounting Law. The Statement on corporate governance properly describes the main features of the Group's internal control and risk management systems in relation to the consolidated financial reporting process and the

information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Group further requirements with regard to its consolidated business report, our opinion on the consolidated business report do not include opinion in this regard as required by Subsection (5) h) of Section 156 of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Group and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the consolidated business report, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

We also confirm with regard to the Statement on corporate governance, that the Group have made available the information required according to Subsection (2) a)-d) and g) of Section 95/B of the Hungarian Accounting Law.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the EU IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

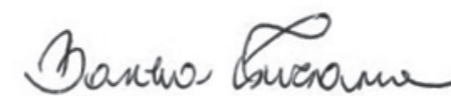
Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and Hungarian National Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

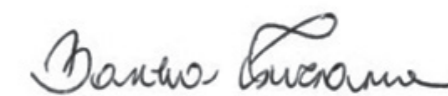
As part of an audit in accordance with International Standards on Auditing and Hungarian National Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Budapest, 13 March 2017



Bartha Zsuzsanna
engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No.: 001165



Bartha Zsuzsanna
Registered auditor
Chamber membership No.: 005268

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	2016 HUF million	2015 restated HUF million
Net sales	3	3,553,005	4,090,662
Other operating income	3	25,316	86,988
Total operating income	3	3,578,321	4,177,650
Raw material and consumables used		2,571,717	3,035,165
Personnel expenses		240,260	266,814
Depreciation, depletion, amortisation and impairment		315,483	860,609
Other operating expenses		221,382	248,794
Change in inventory of finished goods & work in progress		(33,771)	40,365
Work performed by the enterprise and capitalised		(44,655)	(56,866)
Total operating expenses	4	3,270,416	4,394,881
Profit/(loss) from operation		307,905	(217,231)
Finance income		49,502	89,811
Finance expense		99,254	182,437
Total finance (expense) / gain, net	5	(49,752)	(92,626)
Income from associates	6	14,390	1,962
Profit/(loss) before tax		272,543	(307,895)
Income tax expense	7	20,888	21,507
Profit/(loss) for the period		251,655	(329,402)
Attributable to:			
Equity holders of the parent		263,497	(260,999)
Non-controlling interest		(11,842)	(68,403)
Basic earnings per share attributable to ordinary equity holders of the parent	28	2,872	(2,925)
Diluted earnings per share attributable to ordinary equity holders of the parent	28	2,872	(2,925)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Profit/(loss) for the year		251,655	(329,402)
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translating foreign operations, net of tax	8	(13,970)	19,194
Net investment hedge, net of tax	8	(5,161)	(13,113)
Available-for-sale financial assets, net of tax	8	3,690	3,881
Cash flow hedges, net of deferred tax	8	789	(3,136)
Share of other comprehensive income of associates	8	7,849	5,667
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(6,803)	12,493
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Equity recorded for actuarial gain/loss on provision for retirement benefit obligation	8	839	1,248
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		839	1,248
Other comprehensive income for the year, net of tax		(5,964)	13,741
Total comprehensive income for the year		245,691	(315,661)
Attributable to:			
Equity holders of the parent		250,466	(258,942)
Non-controlling interest		(4,775)	(56,719)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million	01 Jan 2015 restated HUF million
NON-CURRENT ASSETS				
Property, plant and equipment	9	2,193,419	2,204,371	2,491,858
Intangible assets	9	183,561	209,372	344,883
Investments in associated companies and joint ventures	6	257,090	230,188	209,156
Other non-current financial assets	21	63,652	55,560	79,542
Deferred tax asset	7	125,055	113,467	74,999
Other non-current assets	13	44,403	45,268	42,049
Total non-current assets		2,867,180	2,858,226	3,242,487
CURRENT ASSETS				
Inventories	14	385,142	339,905	364,348
Trade and other receivables	23	476,531	410,967	498,886
Securities	21	53,910	63,147	222,467
Other current financial assets	21	26,829	27,959	22,960
Income tax receivable	7	7,945	6,051	15,937
Cash and cash equivalents	24	216,928	131,838	203,052
Other current assets	15	66,239	76,790	71,885
Assets classified as held for sale	19	3,082	-	-
Total current assets		1,236,606	1,056,657	1,399,535
Total assets		4,103,786	3,914,883	4,642,022
EQUITY				
Share capital	25	79,260	79,241	79,229
Reserves		1,149,315	1,633,977	1,670,516
Profit/(loss) for the year attr. to equity holders of the parent		263,497	(260,999)	-
Equity attributable to equity holders of the parent		1,492,072	1,452,219	1,749,745
Non-controlling interest		309,554	364,349	445,993
Total equity		1,801,626	1,816,568	2,195,738
NON-CURRENT LIABILITIES				
Long-term debt	21	436,922	461,681	455,038
Other non-current financial liabilities	21	6,160	6,069	5,364
Provisions - long-term	16	405,175	414,671	391,749
Deferred tax liabilities	7	47,766	64,419	46,971
Other non-current liabilities	17	22,658	24,564	23,274
Total non-current liabilities		918,681	971,404	922,396
CURRENT LIABILITIES				
Short-term debt	21	440,372	206,814	509,158
Trade and other payables	21	493,389	432,680	524,810
Other current financial liabilities	21	202,056	195,485	197,325
Provisions - short-term	16	32,423	52,261	44,694
Income tax payable		2,615	15,258	5,542
Other current liabilities	18	212,624	224,413	242,359
Total current liabilities		1,383,479	1,126,911	1,523,888
Total liabilities		2,302,160	2,098,315	2,446,284
Total equity and liabilities		4,103,786	3,914,883	4,642,022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HUF million	Share premium HUF million	Fair valuation reserve HUF million	Translation reserve HUF million	Retained earnings HUF million	Total reserves HUF million	Profit/ (Loss) for the year attr. to equity holders of the parent HUF million	Equity attr. to equity holders of the parent HUF million	Non-controlling interests HUF million	Total equity HUF million
Opening balance 1 Jan 2015	79,229	(325,669)	2,832	242,004	1,751,349	1,670,516	-	1,749,745	445,993	2,195,738
Changes in accounting policy	-	549,535	-	-	(549,535)	-	-	-	-	-
1 Jan 2015 restated balance	79,229	223,866	2,832	242,004	1,201,814	1,670,516	-	1,749,745	445,993	2,195,738
Profit/ (loss) for the year	-	-	-	-	-	-	(260,999)	(260,999)	(68,403)	(329,402)
Other comprehensive income for the year	-	-	(1,586)	1,470	2,173	2,057	-	2,057	11,684	13,741
Total comprehensive income for the year	-	-	(1,586)	1,470	2,173	2,057	(260,999)	(258,942)	(56,719)	(315,661)
Dividends	-	-	-	-	(40,903)	(40,903)	-	(40,903)	-	(40,903)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(16,613)	(16,613)
Equity recorded for share-based payments	12	-	-	-	148	148	-	160	-	160
Transactions with non-controlling interests	-	-	-	-	2,159	2,159	-	2,159	(8,312)	(6,153)
Reclassification	-	-	-	2,298	(2,298)	-	-	-	-	-
Closing balance 31 Dec 2015 restated	79,241	223,866	1,246	245,772	1,163,093	1,633,977	(260,999)	1,452,219	364,349	1,816,568
Profit/ (loss) for the year	-	-	-	-	-	-	263,497	263,497	(11,842)	251,655
Other comprehensive income for the year	-	-	2,761	(17,488)	1,696	(13,031)	-	(13,031)	7,067	(5,964)
Total comprehensive income for the year	-	-	2,761	(17,488)	1,696	(13,031)	263,497	250,466	(4,775)	245,691
Transfer to reserves of retained profit for the previous year	-	-	-	-	(260,999)	(260,999)	260,999	-	-	-
Dividends	-	-	-	-	(47,782)	(47,782)	-	(47,782)	-	(47,782)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(2,533)	(2,533)
Equity recorded for share-based payments	19	-	-	-	314	314	-	333	-	333
Cancellation of treasury shares	-	(4,477)	-	-	4,477	-	-	-	-	-
Acquisition / divestment of subsidiaries	-	-	-	-	-	-	-	-	(4,834)	(4,834)
Acquisition of non-controlling interests	-	-	-	-	(163,164)	(163,164)	-	(163,164)	(42,653)	(205,817)
Closing balance 31 Dec 2016	79,260	219,389	4,007	228,284	697,635	1,149,315	263,497	1,492,072	309,554	1,801,626

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016 HUF million	2015 restated HUF million
Profit before tax		272,543	(307,895)
<i>Adjustments to reconcile profit before tax to net cash provided by operating activities</i>			
Depreciation, depletion, amortisation and allowances/impairments	4	315,483	860,609
Increase / (decrease) in provisions	16	(27,272)	5,251
Net (gain) / loss on asset disposal and divestments		659	(2,684)
Net interest expense / (income)	5	40,790	42,000
Other finance expense / (income)	5	8,963	50,626
Share of net profit of associates and joint venture	6	(14,390)	(1,962)
Other non-cash item		13,908	(5,982)
Income taxes paid	7	(63,415)	(24,381)
Operating cash flow before changes in working capital		547,269	615,582
<i>Total change in working capital o/w:</i>			
(Increase) / decrease in inventories	14	(41,706)	4,980
(Increase) / decrease in trade and other receivables	23	(47,040)	82,737
Increase / (decrease) in trade and other payables		78,389	(72,481)
(Increase)/decrease in other assets and liabilities	15, 18	(17,527)	(44,015)
Net cash provided by / (used in) operating activities		519,385	586,803
Capital expenditures	2	(289,438)	(370,002)
Proceeds from disposal of fixed assets		4,623	3,462
Acquisition of businesses (net of cash)	10	(29,935)	(59,247)
Proceeds from disposal of businesses (net of cash)	11	(3,562)	(551)
Increase / decrease in other financial assets		(423)	195,344
Interest received and other financial income	5	3,962	9,098
Dividends received	5	7,805	8,643
Net cash (used in) / provided by investing activities		(306,968)	(213,253)
Issuance of long-term notes		233,348	-
Repayment of long-term notes		-	(234,908)
Proceeds from loans and borrowings received		1,056,074	1,816,777
Repayments of loans and borrowings		(1,088,709)	(1,930,939)
Interest paid and other financial costs	5	(61,255)	(30,557)
Dividends paid to shareholders	25	(47,802)	(42,166)
Dividends paid to non-controlling interest		(2,550)	(16,613)
Transactions with non-controlling interest		(214,987)	(6,282)
Net cash (used in) / provided by financing activities		(125,881)	(444,688)
Currency translation differences relating to cash and cash equivalents		(1,446)	(76)
Increase/(decrease) in cash and cash equivalents		85,090	(71,214)
Cash and cash equivalents at the beginning of the period		131,838	203,052
Cash and cash equivalents at the end of the period		216,928	131,838

NOTES TO THE FINANCIAL STATEMENTS - ACCOUNTING INFORMATION, POLICIES AND SIGNIFICANT ESTIMATES

This section describes the basis of preparation of the consolidated financial statements and the Group's applicable accounting policies. Accounting policies, critical accounting estimates and judgements that are specific to a given area are set out in detail in the relevant notes. This section also provides a brief summary of new accounting standards, amendments and interpretations that has already been adopted in the current financial year or will be adopted as those will be in force in the forthcoming years.

1. Accounting information, policies and significant estimates

a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by IFRS Interpretations Committee and effective on 31 December 2016.

The consolidated financial statements are prepared on a going concern basis under the historical cost convention. 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.

b) Principles of consolidation

The consolidated financial statements as of and for the twelve-month period ended 31 December 2016 comprise the accounts of the MOL Plc. and the subsidiaries that it controls together with the Group's attributable share of the results of associates and joint ventures. MOL Plc. and its subsidiaries are collectively referred to as the 'Group'.

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.

Where the Group has a long-term equity interest in an undertaking and over which it has the power to exercise significant influence, the Group applies the equity method for consolidation.

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.

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.

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.

c) Mandatory accounting policy change

Following standards being applicable from 2016 or later has been applied by MOL Group already in 2016 with no significant effect on the financial statements of the Group:

- IAS 1 - Presentation of Financial Statements - Amendment resulting from the disclosure initiative

d) Issued but not yet effective International Financial Reporting Standards

See the issued but not yet effective International Financial Reporting Standards in the Appendix I.

e) Summary of significant accounting policies

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).

Financial statement data is presented in millions of HUF, rounded to the nearest million HUF.

Foreign Currency Transactions

Foreign currency transaction are recorded initially at the rate of exchange at the date of the transaction. Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognised or in previous financial statements are reported in profit or loss in the period. Monetary items, goodwill and fair value adjustments arising on the acquisition of a foreign operation denominated in foreign currencies are retranslated at exchange rate ruling at the balance sheet date.

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 statement of financial position and at the weighted average exchange rates for the year with respect to the statement of profit or loss. All resulting translation differences are included in the translation reserve in other comprehensive income. Gains and losses accumulated in the translation reserve are recycled to the statement of profit or loss when the foreign operation is sold except for exchange differences that have previously been attributed to non-controlling interests.

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. 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 statement of profit or loss.

f) Significant accounting estimates and judgements

Critical judgements in applying the accounting policies

In the process of applying the accounting policies, management has made certain judgements 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.

Sources of estimate uncertainty

The preparation of consolidated 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.

RESULTS FOR THE YEAR

This section explains the results and performance of the Group for the financial years ended 31 December 2016 and 31 December 2015. Disclosures are following the structure of statement of profit or loss and provide information on segmental data, total operating income, total operating expense, finance result, income from associates and joint ventures. For taxation, share-based payments, joint ventures and associates, statement of financial position disclosures are also provided in this section.

2. Segmental information

Accounting policies

From business perspective 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.

2016	Upstream HUF million	Downstream HUF million	Gas Midstream HUF million	Corporate and other HUF million	Intersegment transfers HUF million	Total HUF million
Net Revenue						
Sales to external customers	156,904	3,294,782	83,424	17,895	-	3,553,005
Inter-segment sales	214,304	6,318	5,986	170,754	(397,362)	-
Total revenue	371,208	3,301,100	89,410	188,649	(397,362)	3,553,005
Results						
Profit from operations	37,038	299,016	41,439	(62,529)	(7,059)	307,905
Total financial expense, net	-	-	-	-	-	(49,752)
Income from associates	-	-	-	14,390	-	14,390
Profit before tax	-	-	-	-	-	272,543
Income tax expense	-	-	-	-	-	20,888
Profit for the year	-	-	-	-	-	251,655

2015 restated	Upstream HUF million	Downstream HUF million	Gas Midstream HUF million	Corporate and other HUF million	Intersegment transfers HUF million	Total HUF million
Net Revenue						
Sales to external customers	206,713	3,738,399	100,572	44,978	-	4,090,662
Inter-segment sales	201,326	11,237	3,070	160,841	(376,474)	-
Total revenue	408,039	3,749,637	103,642	205,818	(376,474)	4,090,662
Results						
Profit from operations	(469,615)	264,214	45,612	(67,450)	10,008	(217,231)
Total financial expense, net	-	-	-	-	-	(92,626)
Income from associates	-	-	-	1,962	-	1,962
Profit before tax	-	-	-	-	-	(307,895)
Income tax expense	-	-	-	-	-	21,507
Profit for the year	-	-	-	-	-	(329,402)

2016	Upstream HUF million	Downstream HUF million	Gas Midstream HUF million	Corporate and other HUF million	Intersegment transfers HUF million	Total HUF million
Other segment information						
Capital expenditure:	113,247	151,252	7,696	18,676	-	290,871
Property, plant and equipment	96,122	147,221	5,752	11,684	-	260,779
Intangible assets	17,125	4,031	1,944	6,992	-	30,092
Depreciation, depletion, amortisation and impairment	146,637	133,849	13,049	23,681	(1,733)	315,483
From this: impairment losses recognized in statement of profit or loss	14,815	14,462	84	6,062	(249)	35,174
From this: reversal of impairment recognized in statement of profit or loss	833	462	-	176	-	1,471

2015 restated	Upstream HUF million	Downstream HUF million	Gas Midstream HUF million	Corporate and other HUF million	Intersegment transfers HUF million	Total HUF million
Other segment information						
Capital expenditure:	191,910	129,643	5,718	24,763	-	352,034
Property, plant and equipment	105,883	125,437	4,882	20,186	-	256,388
Intangible assets	86,027	4,206	836	4,577	-	95,646
Depreciation, depletion, amortisation and impairment	710,571	111,245	14,015	29,912	(5,134)	860,609
From this: impairment losses recognized in statement of profit or loss	510,770	3,320	140	10,052	(3,802)	520,480
From this: reversal of impairment recognized in statement of profit or loss	1,427	3,145	-	75	-	4,647

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 and other 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.

The differences between the capital expenditures presented above and the additions in the intangible and tangible movement tables are due to the additions of emission rights, capitalization of field abandonment provisions, and assets received free of charge.

a) Assets by geographic areas

	Intangible assets (Note 9) HUF million	Property, plant and equipment (Note 9) HUF million	Investment in associated companies and joint ventures (Note 6) HUF million
2016			
Hungary	78,589	761,431	16,993
Croatia	48,215	660,466	-
Slovakia	6,316	461,874	2,412
Rest of EU	20,754	200,795	40,049
Rest of Europe	11,921	38,933	22,310
Rest of the World	17,766	69,920	175,326
Total	183,561	2,193,419	257,090

	Intangible assets (Note 9) HUF million	Property, plant and equipment (Note 9) HUF million	Investment in associated companies and joint ventures (Note 6) HUF million
2015 restated			
Hungary	61,008	728,075	16,221
Croatia	79,462	669,753	-
Slovakia	8,059	477,071	1,481
Rest of EU	25,138	186,523	23,132
Rest of Europe	13,928	35,787	19,954
Rest of the World	21,777	107,162	169,400
Total	209,372	2,204,371	230,188

3. Total operating income

Accounting policies

Net sales

Revenue is recognised 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. Having assessed the probability of receiving economic benefits from sales activities in Group's operations in Kurdistan the management decided to recognise revenue on a cash basis on sales in Kurdistan Region of Iraq.

Sales taxes

Revenues, expenses and assets are recognised net of the amount of sales tax (e.g. excise duty), except:

- ▶ when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority (e.g. if the entity is not subject of sales tax), 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 statement of financial position.

Other operating income

Other operating income is recognized on the same accounting policy basis as the net sales.

a) Sales by product lines

	2016 HUF million	2015 restated HUF million
Sales of crude oil and oil products	2,435,736	2,819,023
Sales of petrochemicals	578,109	665,280
Sales of natural gas and gas products	225,811	281,781
Sales of services	157,703	188,254
Sales of other products	155,646	136,324
Total	3,553,005	4,090,662

b) Sales by geographical area

	2016 HUF million	2015 restated HUF million
Hungary	960,933	1,104,296
Croatia	404,814	470,374
Slovakia	343,990	372,707
Czech Republic	320,540	346,500
Italy	281,488	393,908
Romania	226,355	219,137
Austria	213,124	277,980
Poland	130,735	148,168
Serbia	115,849	133,985
Germany	96,442	133,043
Switzerland	82,856	69,328
Bosnia-Herzegovina	82,808	104,128
Slovenia	74,508	77,568
United Kingdom	49,222	56,674
Rest of Central-Eastern Europe	21,212	23,535
Rest of Europe	84,845	68,792
Rest of the World	63,284	90,539
Total	3,553,005	4,090,662

The Group has no single major customer the revenue from which would exceed 10% of the total net sales revenues in 2016 (neither in 2015).

c) Other operating income

	2016 HUF million	2015 restated HUF million
Penalties, late payment interest, compensation received	7,282	3,702
Gain on sales of intangibles, property, plant and equipment	3,387	2,150
Allowances and subsidies received	868	1,544
Reimbursed mining royalty	-	35,227
Release of translation reserves (field abandonment)	-	27,794
Gain of non-hedge commodity price transactions	-	2,072
Other	13,779	14,499
Total	25,316	86,988

HUF 35,227 million reimbursed mining royalty relates to the amount reimbursed by Hungarian Government following the annulment of resolution of European Commission. This mining tax had been paid by MOL in 2010. European Commission appealed against the annulment made by General Court of the European Court of Justice but after the final court decision, in 2015 the amount was recorded as other income.

In 2015 some upstream licenses has been terminated, the corresponding accumulated translation reserve of HUF 27,794 million has been released at disposal of the operation.

4. Total operating expenses**Accounting policies****Total operating expense**

If specific standards do not regulate, operating expenses are recognized at point in time or through the period basis. When a given transaction is under the scope of specific IFRS transaction is accounted for in line with those regulations.

	2016 HUF million	2015 restated HUF million
Raw material and consumables used	2,571,717	3,035,165
Crude oil purchased	1,251,839	1,491,544
Value of material-type services used	200,539	208,420
Cost of goods purchased for resale	556,175	653,631
Purchased bio diesel component	68,391	64,154
Non-hydrocarbon based material	233,048	296,230
Utility expenses	72,747	99,672
Value of inter-mediated services	19,329	28,371
Other raw materials	169,649	193,143
Personnel expenses	240,260	266,814
Wages and salaries	176,171	182,012
Social security	41,526	45,353
Other personnel expenses	22,563	39,449
Depreciation, depletion, amortisation and impairment	315,483	860,609
Other operating expenses	221,382	248,794
Mining royalties	42,893	53,920
Contribution in strategic inventory storage	21,716	21,971
Taxes and contributions	20,505	17,482
Rental cost	29,023	32,269
Other	107,245	123,152
Change in inventory of finished goods & work in progress	(33,771)	40,365
Work performed by the enterprise and capitalised	(44,655)	(56,866)
Total operating expenses	3,270,416	4,394,881

Personnel expenses

Decrease in personnel expenses is the result of efficiency improvement programs and renewed collective agreements. Other personnel expenses contains fringe benefits, reimbursement of expenses and severance payments.

Share-based payments

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 is measured at their fair value at grant date. The fair value is determined by applying generally accepted option pricing models (usually binomial model). In valuing equity-settled transactions, only market conditions are taken into consideration (which linked to the share price of the parent company).

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 recognised 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.

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 re-measured at each balance sheet date up to and including the settlement date to fair value with changes therein recognized in the statement of profit or loss.

	2016 HUF million	2015 restated HUF million
Expense / (reversal of expense) arising from cash-settled share-based payment transactions	4,096	1,010
Expense arising from equity-settled share-based payment transactions	460	188
Total expense / (reversal of expense) arising from share-based payment transactions	4,556	1,198

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

1. 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 31 December of the redeeming period.
2. The grants are defined centrally in line with MOL job category.
3. 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 managerial remuneration package, 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.

	2016		2015	
	Number of shares in conversion option units number of share	Weighted average exercise price HUF/share	Number of shares in conversion option units number of share	Weighted average exercise price HUF/share
Outstanding at the beginning of the year	566,184	15,374	479,458	18,373
Granted during the year	162,848	13,141	213,973	12,209
Forfeited during the year	(55,345)	14,232	(15,520)	18,543
Exercised during the year	(198,214)	16,359	-	-
Expired during the year	(3,248)	17,486	(111,727)	22,839
Outstanding at the end of the year	472,225	14,280	566,184	15,374
Exercisable at the end of the year	201,683	16,594	259,574	17,808

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 2016 expenses amount to HUF 2,509 million (2015: HUF 780 million). Liabilities in respect of share-based payment plans amount to HUF 2,992 million as at 31 December 2016 (31 December 2015: HUF 885 million), recorded in Other non-current liabilities and Other current liabilities.

Fair value as of the statement of financial position date has been calculated using the binomial option pricing model.

	2016	2015
Weighted average exercise price (HUF / share)	14,280	15,374
Share price as of 31 December (HUF / share)	20,635	14,255
Expected volatility based on historical data	22.76%	24.91%
Expected dividend yield	3.03%	4.03%
Estimated maturity (years)	2.60	2.58
Risk free interest rate	0.86%	1.78%

Performance Share Plan for management

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.

Expenses arising from the Performance Share Plan program amount to HUF 1,587 million in 2016 (2015: HUF 230 million). Liabilities in respect of the Performance Share Plan program amount to HUF 1,808 million as at 31 December 2016 (31 December 2015: HUF 1,194 million) recorded in Other non-current liabilities and Other current liabilities.

Share Incentive scheme for the members of the Board of Directors

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 is the first trading day of the year. In 2016 with respect of the share scheme program, HUF 460 million (2015: HUF 188 million) is recorded as an expense, parallel with the corresponding increase in the equity.

	2016	2015 restated
Number of shares vested	18,600	18,600
Share price at the date of grant (HUF / share)	14,049	11,313

5. Finance result

Voluntary change in accounting policies

In 2016, Group examined its transactions causing foreign exchange differences and as a result of this assessments the foreign exchange gains and losses are aggregated separately on a monthly basis for transactions similar in nature. Furthermore, foreign exchange gains or losses of each transaction groups are aggregated and presented in the statement of profit or loss within finance income and expenses. Prior period data has been restated accordingly. Amount of HUF 70,090 million has been reclassified.

	2016 HUF million	2015 restated HUF million
Finance result		
Interest income	3,440	7,750
Dividend income	6,095	5,155
Foreign exchange gains	38,997	70,148
Other finance income	970	6,758
Total finance income	49,502	89,811
Interest expense	35,530	39,580
Unwinding of discount on provisions	8,699	10,170
Foreign exchange losses	39,369	114,031
Other finance expense	15,656	18,656
Total finance expense	99,254	182,437
Net finance expense	49,752	92,626

6. Joint ventures and associates

Accounting policies

Statement of financial position

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture.

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 can be 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. Joint ventures are joint arrangements in which the parties that share control have rights to the net assets of the arrangement. The Group's investments in its associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment in the associate is carried at cost plus post acquisition changes in the Group's share of net assets. Goodwill relating to an undertaking is included in the carrying amount of the investment and is not amortised.

Investments in associates and joint ventures are assessed to determine whether there is any objective evidence of impairment. If there is evidence of impairment 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.

Statement of profit or loss

The statement of profit or loss reflects the share of the results of operations of the associate and joint ventures. Profits and losses resulting from transactions between the Group and the equity accounted undertakings are eliminated to the extent of the interest in the undertaking.

Voluntary change in accounting policies

The Group has decided to adopt the policy of recognising impairment losses on associates and joint ventures for the period as a reduction on Income from Associates/Income from Joint Ventures line in the Statement of profit or loss. The Group believes that accounting for impairment losses on associates and joint ventures forms part of equity method accounting and as such more effectively demonstrates the Group's share of actual result of investments in Associates and Joint Ventures. There is no impact of the change on prior periods.

Mandatory change in accounting policies

Following standards being applicable from 2016 or later has been applied by MOL Group already in 2016 with no significant effect on the financial statements of the Group:

- IFRS 11 - Joint Arrangements - Amendment regarding the accounting for acquisitions of an interest in a joint operation

Company name	Country	Range of activity	Ownership	Contribution to net income		Net book value of investments	
			2016	2016 HUF million	2015 restated HUF million	2016 HUF million	2015 restated HUF million
Investment in joint ventures							
BaiTex Llc / MK Oil and Gas B.V.	Russia / Netherlands	Exploration and production activity / Exploration investment management	51%	1,727	2,975	30,565	23,132
JSR MOL Synthetic Rubber Zrt.	Hungary	Production of synthetic rubber	49%	(358)	(213)	12,735	13,183
CM European Power International B.V.	Netherlands	Power plant investment management	50%	9,484	55	9,484	
Rossi Biofuel Zrt.	Hungary	Biofuel component production	25%	863	611	2,691	2,875
Dunai Vízmű Zrt.	Hungary	Water production, supply	33%	-	-	1,400	-
Investment in associated companies							
Pearl Petroleum Ltd.	Kurdistan region / Iraq	Exploration of gas	10%	-	2,951	156,064	152,313
MET Holding AG. (MET)	Switzerland	Natural gas trading	40%	2,489	1,969	22,310	19,954
Ural Group Limited (Expl)	Kazakhstan	Exploration and production activity	28%	(190)	(6,785)	19,262	17,087
Meroco a.s.	Slovakia	Production of bio-diesel component (FAME)	25%	316	244	1,074	762
Messer Slovnaft s.r.o	Slovakia	Production of technical gases	49%	59	53	720	719
DAC ARENA a.s.	Slovakia	Facility management	23%	-	-	618	-
Other associated companies				-	102	167	163
Total				14,390	1,962	257,090	230,188

Given the current economic situation impacting the Group's associate in the Kurdistan Region of Iraq a provision has been made in 2016 against the Group's share of profit.

In 2016 MOL Group has revised the consolidation method of MK Oil and Gas B.V. and Ural Group Ltd. and changed to equity method based on the interpretation of facts and circumstances. As a result of restatement of MK Oil and Gas B.V. and Ural Group Ltd, HUF 40,219 million has been reclassified to Investments in associated companies and joint ventures and HUF 3,810 million loss has been reclassified to Income from associates and joint ventures. Total net assets of the Group remained unchanged with regards to this restatement.

MK Oil and Gas B.V.

Through a 100% owned holding company (MH Oil and Gas B.V.), MOL Group has 51% ownership in MK Oil and Gas B.V. being the sole owner of Baitex LLC, where the activities are carried out through a concession agreement on Baitugan and Yerilkinsky blocks. As a result of revision of fact and circumstances of shareholding and corporate governing structure a joint control exists over MK Oil and Gas B.V. as the relevant activities of the company require unanimous consent of the parties sharing the control of the operation giving the parties right to the net assets of the arrangement.

JSR MOL Synthetic Rubber Zrt.

Leodium Investment Kft., a 100% subsidiary of MOL Plc. owns 49% shares of JSR MOL Synthetic Rubber Zrt. The company is governed and treated as a joint venture and is consolidated using the equity method accordingly.

CM European Power International B.V.

CM European Power International B.V. is governed and treated as a joint venture and is consolidated using the equity method accordingly. Net result has increased due to result on one-off transaction of disposal of investment in CM European Power Slovakia s.r.o.

	BaiTex Llc / MK Oil and Gas B.V.		JSR MOL Synthetic Rubber Zrt.	
	2016 HUF million	2015 restated HUF million	2016 HUF million	2015 HUF million
The joint venture's statement of financial position:				
Non-current assets	54,151	37,200	38,431	8,696
Current assets	3,398	835	31,892	19,458
Non-current liabilities	5,873	3,749	34,212	-
Current liabilities	7,777	4,076	10,121	1,250
Net assets	43,899	30,210	25,990	26,904
Proportion of the Group's ownership at year end	51%	51%	49%	49%
Group's share of assets	22,389	15,407	12,735	13,183
Fair value adjustment	8,176	7,440	-	-
Borrowing cost capitalization	-	285	-	-
Carrying amount of the investment	30,565	23,132	12,735	13,183
The joint venture's statement of profit or loss:				
Net revenue	39,145	32,524	-	4
(Loss) / Profit from operations	8,655	8,690	(663)	(432)
Net income attributable to equity holders	7,253	7,586	(731)	(433)
Group's share of reported profit for the year	3,699	3,869	(358)	(213)
Fair value adjustment P&L impact	(874)	(765)	-	-
Borrowing cost capitalization P&L impact	(328)	36	-	-
Inventory consolidation P&L impact	(807)	108	-	-
Interest difference	37	(273)	-	-
Group's share of consolidated profit for the year	1,727	2,975	(358)	(213)

In case of BaiTex Llc. / MK Oil and Gas B.V. there are no material items to be separately disclosed.

In case of JSR MOL Synthetic Rubber Zrt. current assets contains mainly cash and cash equivalents while non-current liabilities represents long-term loan.

Pearl Petroleum Company Limited

MOL Group owns 10% stake in Pearl Petroleum Company Limited (Pearl) which holds all of the companies' legal rights in Khor Mor and Chemchemical gas-condensate fields in the Kurdistan Region of Iraq. Since the agreement between the shareholders grants MOL Group a significant influence on Pearl's operations, the company is treated as an associated company and is consolidated using the equity method accordingly.

MET Holding AG. (MET)

MOL Group has 40% ownership through Ticinum Kft. (a 100% subsidiary of MOL Plc.) in MET Group. The company is accounted for as an associated company and is consolidated using the equity method accordingly.

MET Group's current set of commodities include natural gas, power, oil and oil products, with commercial activity focused on sales, wholesale, trading and capacity trading.

In 2016 dividend received on Group's 40% interest held in MET is HUF 622 million (2015: HUF 2,961 million).

Ural Group Limited

MOL Group has 27.5% of shareholding interest in Ural Group Ltd through MOL (FED) Kazakhstan B.V, a holding company. Ural Group Limited is 100% owner of Ural Oil and Gas LLP having license of exploring Fedorovsky block in Kazakhstan. As a result of revision of fact and circumstances of the current shareholding and governing structure of Ural Group Limited, MOL Group has significant influence over the relevant activities of Ural Group Limited therefore the investment is classified as an associate.

	Pearl Petroleum		MET Holding AG.		Ural Group Limited (Exp)	
	2016 HUF million	2015 HUF million	2016 HUF million	2015 HUF million	2016 HUF million	2015 restated HUF million
The associate's statement of financial position:						
Non-current assets	193,167	196,722	11,006	11,759	74,725	67,749
Current assets	688,727	608,385	217,326	232,478	1,864	4,320
Non-current liabilities	310	65,498	3,081	5,407	1,428	913
Current liabilities	40,391	25,286	169,476	186,595	5,116	9,022
Net assets	841,193	714,323	55,775	52,235	70,045	62,134
Proportion of the Group's ownership at year end	10%	10%	40%	40%	28%	28%
Group's share of assets	84,119	71,433	22,310	19,954	19,262	17,087
Fair value adjustment	82,873	80,880	-	-	-	-
Impairment	(10,928)	-	-	-	-	-
Carrying amount of the investment	156,064	152,313	22,310	19,954	19,262	17,087
The associate's statement of profit or loss:						
Net revenue	62,749	99,782	1,481,481	986,503	-	-
(Loss) / Profit from operations	66,036	(52,394)	16,626	8,411	(653)	(19,764)
Net income attributable to equity holders	109,282	29,505	6,223	4,922	(690)	(20,909)
Group's share of reported profit for the year	10,928	2,951	2,489	1,969	(190)	(5,750)
Fair value adjustment P&L impact	-	-	-	-	-	(1,035)
Impairment	(10,928)	-	-	-	-	-
Group's share of consolidated profit for the year	0	2,951	2,489	1,969	(190)	(6,785)

7. Taxation

Accounting policies

Income tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is recognised in other comprehensive income or directly in equity. The current income tax is based on taxable profit for the year. Taxable profit differs from accounting profit because of temporary differences between accounting and tax treatments and due to items that are never taxable or deductible or are taxable or deductible in other years. Full provision for deferred tax is made for the temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their value for tax purposes using the balance sheet liability method. Deferred tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year and are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets are recognised where it is more likely than not that the assets will be realised in the future. At each balance sheet date, the Company re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where the group is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance.

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.

Critical accounting estimates and judgements

The recognition of tax benefits and assessment of provisions against tax benefits requires management judgement.

The evaluation of deferred tax assets recoverability requires judgements to be made regarding the likely timing and the availability of future taxable income.

a) Analysis of taxation charge for the year

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2016 and 2015 include the following components:

	2016 HUF million	2015 restated HUF million
Current corporate income tax and industry income taxes	(34,931)	(19,731)
Local trade tax and innovation fee	(13,651)	(14,568)
Deferred taxes	27,694	12,442
Change in deferred taxes due to restatement of financial statements	-	350
Total income tax (expense) / benefit	(20,888)	(21,507)

b) Current income taxes

The Group's current income taxes are determined on the basis of taxable statutory profit of the individual companies of the Group. Industry income taxes include tax on energy supply activities in Hungary with an effective tax rate of 21% on taxable statutory profit of MOL Plc.

Local trade tax represents an income based tax for Hungarian entities, payable to local municipalities. Tax base is calculated by deducting material costs, cost of goods sold and remediated services from sales revenue. Tax rates vary between 1-2% dependent on the regulation of local governments where the entities carry on business activities.

Tax rates applicable for oil and gas companies in Norway consist of corporate income tax of 25% (2015: 27%) and resource rent tax of 53% (2015: 51%) both payable on net operating profits derived from extractive activities. Upstream companies in Norway are refunded for the tax loss of exploration activities incurred for the year.

Change in tax rates

The following changes in corporate income tax rates effective from 1 January 2017 are taken into account in deferred tax calculation:

- change in Hungary to 9% (2016: 10% below HUF 500 million tax base and 19% above)
- change in Slovakia to 21% (2016: 22%)
- change in Croatia to 18% (2016: 20%)

Enacted and substantively enacted changes in tax rates are considered when calculating deferred tax assets and liabilities.

c) Deferred tax assets and liabilities

The deferred tax balances as of 31 December 2016 and 2015 in the consolidated statement of financial position consist of the following items by categories:

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Provisions	110,759	112,025
Statutory tax losses carried forward	52,414	86,272
Deferred tax impact on IFRS transition	40,516	-
Property, plant and equipment and intangible assets	(77,349)	(122,241)
Elimination of intragroup transactions	(72,590)	(53,607)
Other temporary differences ⁽¹⁾	23,540	26,599
Net deferred tax asset	77,289	49,048
Total deferred tax assets	125,055	113,467
Total deferred tax liabilities	(47,766)	(64,419)
Net deferred tax asset	77,289	49,048

(1) Deferred tax on other temporary differences includes items such as receivables write-off, inventory valuation differences, valuation of financial instruments and foreign exchange differences.

As of 31 December 2016 deferred tax assets of HUF 125,055 million includes deferred tax impact of tax losses carried forward of HUF 20,330 million and HUF 24,236 million at MOL Plc. and INA Group, respectively. Further amount of HUF 16,889 million relates to timing differences of provisions net of intragroup transactions at MOL Plc. Based on business plan prepared, management considers to be probable that there will be sufficient future taxable profits to realise the recognized deferred tax assets prior to

the expiration of any tax losses under the applicable tax law. As of 31 December 2016 deferred tax liabilities of HUF 47,766 million consists of temporary differences on intangible and tangible assets at FGSZ Zrt (HUF 16,338 million), MOL Petrochemicals (HUF 4,311 million) and Slovnaft a.s. (HUF 33,928 million). In case of Slovnaft a.s. deferred tax assets and liabilities are offset, decreasing the deferred tax liability by HUF 20,276 million arising mainly from differences in provisions and tax losses from prior periods. Analysis of movements during the year in the net deferred tax asset:

	2016 HUF million	2015 restated HUF million
Net deferred tax asset as at 1 January	49,048	28,028
Recognized in statement of profit or loss	27,694	12,792
Recognized directly in equity (as other comprehensive income)	437	491
Acquisition of business	(293)	10,886
Sale of business	(102)	-
Exchange difference	505	(3,149)
Net deferred tax asset as at 31 December	77,289	49,048

The amount recognised in statement of profit or loss as an income is mainly driven by changes related to MOL Plc. (HUF 25,784 million deferred tax income due to differences mainly on provisions and tax losses carried forward).

d) Reconciliation of taxation rate

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

	2016 HUF million	2015 restated HUF million
Profit / (loss) before tax per consolidated statement of profit or loss	272,543	(307,895)
Less: share of profit of joint ventures and associates	(14,390)	(1,962)
Income / (loss) before taxation and share of profit of joint ventures and associates	258,153	(309,857)
Tax (expense) / income at the applicable tax rate (2016: 10%, 19%; 2015: 10%, 19%)	(49,049)	30,986
Deferred tax impact of IFRS transition	61,471	-
Effect of change in tax rates on deferred taxes	18,048	-
Non-taxable income	6,095	463
Tax allowance available	6,026	2,775
Permanent differences (tax value - IFRS value)	(23,943)	47,629
Losses not recognized as deferred tax asset	(21,043)	(124,225)
Other tax expenses (local trade tax, industry tax)	(9,125)	(11,689)
Differences in tax rates at subsidiaries	(9,160)	32,241
Recognition of prior year tax losses carried forward	142	313
Effect of tax audits	(350)	-
Total income tax expense for the year	(20,888)	(21,507)
Effective tax rate	8%	N.A.

The table above provides a reconciliation of the Hungarian corporate tax charge to the actual consolidated tax charge. As the group operating in multiple countries, the actual tax rates applicable to profits in those countries are different from the Hungarian tax rate. The impact is shown in the table above as differences in tax rates.

e) Income tax recognized in other comprehensive income

The amount of income tax relating to each component of other comprehensive income

	2016 HUF million	2015 restated HUF million
Net gain on hedge of a net investment and foreign exchange differences of loans given	891	1,694
Revaluations of available-for-sale financial assets	(491)	(970)
Revaluations of financial instruments treated as cash flow hedges	(8)	143
Equity recorded for actuarial gain/(loss) on provision for retirement benefit obligation	45	(376)
Total income tax recognized in other comprehensive income	437	491

f) Unrecognised deferred tax assets

No deferred tax assets have been recognized in respect of the following tax losses and temporary differences in the Group due to uncertainty of realisation:

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Tax losses - indefinite expiry	186,110	199,944
Tax losses - expiry within 5 years	9,823	35,347
Tax losses - expiry after 5 years	209,828	138,274
Other temporary differences	27,836	45,656
Total	433,597	419,221

8. Components of other comprehensive income

	2016 HUF million	2015 restated HUF million
Exchange differences on translating foreign operations, net of tax		
Gains / (losses) arising during the year	(25,580)	46,988
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	11,610	(27,794)
Income tax effect	-	-
	(13,970)	19,194
Net investment hedge, net of tax		
Gains / (losses) arising during the year	(6,052)	(14,807)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	891	1,694
	(5,161)	(13,113)
Available-for-sale financial assets		
Gains / (losses) arising during the year	4,181	4,851
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	(491)	(970)
	3,690	3,881

	2016 HUF million	2015 restated HUF million
Cash flow hedges		
Gains / (losses) arising during the year	(325)	(6,693)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	(9,221)	(21,046)
Reclassification adjustments to initial cost of hedged inventories	10,343	24,460
Income tax effect	(8)	143
	789	(3,136)
Equity recorded for actuarial gain/loss on provision for retirement benefit obligation		
Gains / (losses) arising during the year	794	1,624
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	45	(376)
	839	1,248
Share of other comprehensive income for associates		
Gains / (losses) arising during the year	7,849	5,667
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	-	-
	7,849	5,667

NON-FINANCIAL ASSETS AND LIABILITIES

This section describes those non-financial assets that are used and liabilities incurred to generate the Group's performance. This section also provides detailed disclosures on the significant exploration and evaluation related matters as well as the Group's recent acquisitions and disposals.

9. Property, plants and equipment and intangible assets

a) Property, plants and equipment

Accounting policies

Property, plant and equipment are stated at cost (or the carrying value of the assets determined as of 1 October 1991) less accumulated depreciation, depletion and accumulated impairment loss.

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 field abandonment and site restoration costs are capitalized upon initial recognition or, if decision on field abandonment is made subsequently, at the time of the decision. Expenditures incurred after the property, plant and equipment have been put into operation are charged to statement of profit or loss in the period in which the costs are incurred, except for periodic maintenance costs which are capitalized as a separate component of the related assets.

Construction in progress represents plant and properties under construction and is stated at cost without being depreciated.

	Land and buildings HUF million	Machinery and equipment HUF million	Other machinery and equipment HUF million	Construction in progress HUF million	Total HUF million
At 1 Jan 2015 restated					
Gross book value	2,860,640	2,149,005	173,488	467,208	5,650,341
Accumulated depreciation and impairment	(1,481,444)	(1,526,354)	(139,444)	(11,241)	(3,158,483)
Net book value	1,379,196	622,651	34,044	455,967	2,491,858
Year ended 31 December 2015					
Additions and capitalizations	144,683	222,728	11,765	(111,164)	268,012
Acquisition of subsidiaries	27,410	5,337	575	90	33,412
Depreciation for the year	(163,405)	(159,393)	(9,221)		(332,019)
Impairment	(102,652)	(169,010)	(517)	(83,007)	(355,186)
Reversal of impairment	3,348	1,107	178	14	4,647
Disposals	(1,358)	(630)	(103)	(44)	(2,135)
Disposal of subsidiaries		(3)	(54)	(10)	(67)
Exchange adjustment	7,747	23,720	163	936	32,566
Transfers and other movements	5,631	23,612	(471)	34,511	63,283
Closing net book value	1,300,600	570,119	36,359	297,293	2,204,371
At 31 Dec 2015 restated					
Gross book value	3,079,941	2,324,814	169,969	382,334	5,957,058
Accumulated depreciation and impairment	(1,779,341)	(1,754,695)	(133,610)	(85,041)	(3,752,687)
Net book value	1,300,600	570,119	36,359	297,293	2,204,371

	Land and buildings HUF million	Machinery and equipment HUF million	Other machinery and equipment HUF million	Construction in progress HUF million	Total HUF million
Year ended 31 Dec 2016					
Additions and capitalizations	122,742	173,707	10,669	(45,225)	261,893
Acquisition of subsidiaries	21,968	619	490	203	23,280
Depreciation for the year	(151,762)	(107,826)	(10,119)	-	(269,707)
Impairment	(5,253)	(8,900)	(188)	(6,021)	(20,362)
Reversal of impairment	966	323	32	3	1,324
Disposals	(2,368)	(1,614)	(554)	(1,033)	(5,569)
Disposal of subsidiaries	(2,219)	(9,068)	(23)	(1,899)	(13,209)
Exchange adjustment	(2,366)	(3,471)	509	(7,115)	(12,443)
Transfers and other movements	25,358	164	(160)	(1,521)	23,841
Closing net book value	1,307,666	614,053	37,015	234,685	2,193,419
At 31 Dec 2016					
Gross book value	3,226,680	2,350,377	174,155	314,202	6,065,414
Accumulated depreciation and impairment	(1,919,014)	(1,736,324)	(137,140)	(79,517)	(3,871,995)
Net book value	1,307,666	614,053	37,015	234,685	2,193,419

Comparative period has been restated as the method of depreciation has been changed with regards to assets in Kurdistan Region of Iraq. As a result, the value of property, plant and equipment has been decreased by HUF 4,428 million.

Asset acquisitions in 2016

The Group has not performed any significant asset acquisitions in 2016.

Asset acquisitions in 2015

North Sea asset acquisition from Ithaca Petroleum Limited

The Group extended its portfolio in Norway by acquiring of Ithaca Petroleum Norge from Ithaca Petroleum Limited in 2015.

It consists of additional off-shore assets in 14 licenses. The deal was treated as asset acquisition and an addition of HUF 14,390 million was recognised as Property, plant and equipment and Intangibles.

Leased assets

Accounting policies

If fulfilment of an 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 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. Initial direct costs incurred are added to or deducted from the fair value. Lease payments are apportioned between the finance charges and reduction of the lease liability. Finance charges are charged directly against finance expense.

Operating lease payments are recognized as an expense in the statement of profit or loss on a straight-line basis over the lease term.

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

	31 Dec 2016 HUF million	31 Dec 2015 HUF million
Gross book value	7,174	7,334
Accumulated depreciation	(3,965)	(3,612)
Net book value	3,209	3,722

Borrowing costs

Accounting policies

Borrowing costs (including interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings) directly attributable to the acquisition, construction or production of qualified assets are capitalized until these assets are substantially ready for their intended use or sale. All other costs of borrowing are expensed in the period in which they are incurred.

Property, plant and equipment include borrowing costs incurred in connection with the construction of qualifying assets. Additions to the gross book value of property, plant and equipment include borrowing costs of HUF 818 million in 2016 (2015 restated: HUF 3,037 million). In 2016 the applicable capitalisation rate (including the impact of foreign exchange differences) has been 1.9% (2015 restated: 2.5%).

Government grants

Accounting policies

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. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset.

In 2016 property, plant and equipment includes assets with a value of HUF 11,182 million (2015: HUF 12,477 million) financed from government grants. The total amount reflects mainly the assets of FGSZ Zrt. 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. financed by the grant received from Slovakian government in order to serve State Authorities in case of state emergencies.

	2016 HUF million	2015 restated HUF million
At 1 January	12,477	11,957
Government grants received	173	1,617
Release of deferred grants	(1,440)	(1,074)
Foreign exchange differences	(28)	(23)
At 31 December (see Note 17 and 18)	11,182	12,477

b) Intangible assets

Accounting policies

An intangible asset is recognised initially at cost. For intangible assets acquired in a business combination, the cost is the fair value at the acquisition date.

Following initial recognition, intangible assets, other than goodwill are stated at the amount initially recognized, less accumulated amortization and accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized.

Development costs are capitalized if the recognition criteria according to IAS 38 are fulfilled. Costs in development stage can be not 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.

Emission rights

Free granted quotas are not recorded in the financial statements, while purchased quotas are initially recognised as intangible assets at cost at the emitting segments subsequently remeasured to fair value through profit or loss.

	Rights HUF million	Software HUF million	Exploration and evaluation assets HUF million	Goodwill HUF million	Total HUF million
At 1 Jan 2015 restated					
Gross book value	152,997	47,321	280,307	91,226	571,851
Accumulated amortization and impairment	(91,724)	(36,743)	(45,663)	(52,838)	(226,968)
Net book value	61,273	10,578	234,644	38,388	344,883
Year ended 31 Dec 2015 restated					
Additions	6,312	4,342	86,007	-	96,661
Acquisition of subsidiary	391	176	-	-	567
Amortization for the year	(9,437)	(2,655)	(665)	-	(12,757)
Write-offs	(14,402)	(7)	(149,622)	(1,263)	(165,294)
Disposals	(677)	-	-	-	(677)
Revaluation of emission quotas	2,307	-	-	-	2,307
Exchange adjustment	494	(23)	4,791	(38)	5,224
Transfers and other movements	3,907	(1,666)	(63,783)	-	(61,542)
Closing net book value	50,168	10,745	111,372	37,087	209,372
At 31 Dec 2015 restated					
Gross book value	147,600	48,592	188,762	89,146	474,100
Accumulated amortization and impairment	(97,432)	(37,847)	(77,390)	(52,059)	(264,728)
Net book value	50,168	10,745	111,372	37,087	209,372
Year ended 31 Dec 2016					
Additions	15,531	5,811	16,838	-	38,180
Acquisition of subsidiary	2,432	70	(4)	4,282	6,780
Amortization for the year	(8,055)	(2,946)	(1,072)	-	(12,073)
Write-offs	(3,743)	(31)	(11,038)	-	(14,812)
Reversal of impairment	-	-	147	-	147
Disposals	(8,164)	(7)	-	-	(8,171)
Revaluation of emission quotas	(1,763)	-	-	-	(1,763)
Disposal of subsidiaries	(179)	-	(2,580)	-	(2,759)
Exchange adjustment	(1,240)	47	1,435	(77)	165
Transfers and other movements	2,161	(1,309)	(32,357)	-	(31,505)
Closing net book value	47,148	12,380	82,741	41,292	183,561
At 31 Dec 2016					
Gross book value	151,222	54,770	179,477	92,713	478,182
Accumulated amortization and impairment	(104,074)	(42,390)	(96,736)	(51,421)	(294,621)
Net book value	47,148	12,380	82,741	41,292	183,561

Comparative period has been restated as the method of amortisation has been changed with regards to assets in Kurdistan Region of Iraq. As a result, the value of intangible assets has been reduced by HUF 121 million.

Goodwill

Accounting policies

Goodwill acquired in a business combination is initially measured at difference between the consideration transferred and the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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 has been allocated as follows:

	31 Dec 2016 HUF million	31 Dec 2015 HUF million
Downstream	39,265	35,068
Croatian retail network	15,302	15,247
Austrian wholesale and logistic	7,915	7,969
Czech retail network	6,789	6,830
Romanian retail network	4,500	4,545
Hungarian and Slovenian retail network	4,282	-
MOL Petrochemicals	477	477
Corporate	2,027	2,019
Croatian oil field services	2,027	2,019
Total goodwill	41,292	37,087

Oil and natural gas exploration and development expenditures

Accounting policies

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

License and property acquisition costs

Costs of exploration and property rights 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 recognition of proved reserves ('proved reserves' or 'commercial reserves') and internal approval for development, the relevant expenditure is transferred to property, plant and equipment.

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.

Critical accounting estimates and judgements

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

Management uses judgement when capitalized exploration and evaluation assets are reviewed to determine capability and continuing intent of further development.

Exploration and evaluation assets

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.

Within exploration and evaluation assets, exploration expense incurred in 2016 is HUF 4,202 million (2015 restated: HUF 7,130 million), 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 statement of profit or loss as incurred.

Other research and development costs are less significant compared to exploration expenses. These research and development cost is HUF 1,132 million in 2016 (2015 restated: HUF 1,744 million).

Write-offs of dry holes

Dry-holes	2016 HUF million	2015 restated HUF million
Oman	5,149	3,050
Hungary	4,310	7,498
Norway	1,311	2,248
UK	162	-
Croatia	106	4,213
Kurdistan Region of Iraq	-	102,794
Cameroon	-	15,204
Pakistan	-	8,325
Kazakhstan	-	5,836
Other	-	454
Total	11,038	149,622

c) Depreciation, depletion and amortization

Accounting policies

Depreciation of assets begin when the relevant asset is available for use. Depreciation of each component of an intangible asset and property, plant and equipment is computed on a straight-line basis over their respective useful lives. Usual periods of useful lives for different types of property, plant and equipment are as follows:

- ▶ Software: 3 – 5 years
- ▶ Buildings: 10 – 50 years
- ▶ Refineries and chemicals manufacturing plants:
4 – 12 years
- ▶ Gas and oil storage and transmission equipment:
7 – 50 years
- ▶ Petrol service stations: 5 – 30 years
- ▶ Telecommunication and automatisisation 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 prospectively. 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 lives of 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 useful life and depreciation methods are reviewed at least annually.

Critical accounting estimates and judgements

The determination of the Group's estimated oil and natural gas reserves requires significant judgements and estimates to be applied and these are yearly reviewed and updated. Numerous factors have impact on determination of the Group's estimates of its oil and natural gas reserves (eg. geological and engineering data, reservoir performance, acquisition and divestment activity, drilling of new wells, and commodity prices). MOL Group bases its proved and developed reserves estimates on the requirement of reasonable certainty with rigorous technical and commercial assessments based on conventional industry practice and regulatory requirements. Oil and natural gas reserve data are used to calculate depreciation, depletion and amortization charges for the Group's oil and gas properties. The impact of changes in these estimations is handled prospectively by amortizing the remaining carrying value of the asset over the expected future production. Oil and natural gas reserves also have a direct impact on the value in use calculations applied for determination of the recoverability of assets.

Mandatory accounting policy change

Following standards being applicable from 2016 or later has been applied by MOL Group already in 2016 on the financial statements of the Group:

- IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets - Clarification of acceptable methods of depreciation and amortization (revenue based methods are prohibited)

d) Impairment of assets

Accounting policies

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 statement of profit or loss 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. Intangible assets with indefinite useful life are not depreciated, instead impairment test is performed at each financial year-end.

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.

Critical accounting estimates and judgements

Impairment of non-current assets, including goodwill

The impairment calculation requires an estimate of the recoverable amount of the cash generating units. Value in use is usually determined on the basis of discounted estimated future net cash flows. In determination of cash flows the most significant variables 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.

Impairments

In 2016, the following significant impairment losses and impairment reversals has arisen:

Impairment test of Upstream assets

The impairment tests performed by MOL Group were performed using the following assumptions:

- ▶ Recoverable amount is calculated with the assumption of using the assets in long-term in the future.
- ▶ Discount rates: the value in use calculations take into account the time value of money, the risks specific to the asset and the rate of return that would be expected by market for an investment with similar risk, cash flow and timing profile. It is estimated from current market transactions for similar assets or from the 'weighted average cost of capital' (WACC) of a listed entity that has a single asset or portfolio of assets that are similar in terms of service potential and risks to the asset under review.
- ▶ Official 2016-21 Exploration and Production segment Business Plan pre-tax WACC premise were applied (8%) plus Country Risk Premium of the related country. Based on the above, the WACC rates used for the impairment tests in 2016 were in the range from 8.5% to 17.9%.
- ▶ Oil and gas price assumptions used in the value in use models: approximately 60 USD / barrel for the years between 2017 and 2019 and increasing price curve from 2020 (to 81 USD/bbl. for 2030).

Impairments and write-offs (without dry-holes) - 2016*	Upstream HUF million	Downstream HUF million	Corporate and other HUF million	Midstream HUF million	Total HUF million
Croatia	1,461	537	5,749	84	7,831
Hungary	1,183	5,440	-	-	6,623
Italy	-	5,982	-	-	5,982
Slovakia	-	1,028	-	-	1,028
Slovenia	-	888	-	-	888
Romania	329	-	-	-	329
UK	239	-	-	-	239
Other	316	587	313	-	1,216
Total	3,528	14,462	6,062	84	24,136

*Containing the intersegment

Impairments and write-offs (without dry-holes) – 2015 restated*	Upstream HUF million	Downstream HUF million	Corporate and other HUF million	Midstream HUF million	Total HUF million
UK	217,719	-	-	-	217,719
Croatia	68,936	1,941	9,941	-	80,818
Kurdistan Region of Iraq	28,296	-	-	-	28,296
Syria	18,610	-	-	-	18,610
Cameroon	10,429	-	-	-	10,429
Russia	7,730	-	-	-	7,730
Hungary	3,977	674	33	140	4,824
Kazakhstan	1,413	-	-	-	1,413
Romania	-	285	-	-	285
Other	236	420	78	-	734
Total	357,346	3,320	10,052	140	370,858

*Containing the intersegment

In 2016 and 2015 impairment was accounted in Upstream segment mainly for production fields, damages and for assets under construction.

In 2016 and 2015 impairment was accounted in Downstream segment mainly for assets to be sold (see Note 19 for further information), for assets under construction, for damaged assets, for filling stations and for written-off assets.

In 2016 and 2015 Zagreb 1 platform drove the impairment needs (see the Note 19 for further information).

Impairment of goodwill

Accounting policies

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 (or 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.

The Group determines the necessity of impairment of goodwill based on the recoverable amount of cash-generating units to which the goodwill is allocated.

The recoverable amounts of the CGUs are determined by net present value calculations of estimated future cash flows of the cash-generating units. The key assumptions for the calculation of net present values are the nominal cash flows, the growth rates during the period and the discount rates. Management considers that such pre-tax rates shall be used for discounting purposes which reflect the most to the current market circumstances, the time value of money and the risks specific to the CGUs.

Downstream

Pre-tax weighted average cost of capital (WACC) rates applied to discount the forecast cash flows reflecting risks specific to the Downstream segment and specific to the certain countries vary between 7.7% and 11.7% in current year.

The growth rates are based on industry growth forecasts. The Group prepares cash flow forecasts derived from the most recent financial budgets of Retail segment approved by management for financial year 2018-2020 and extrapolates cash flows for the following years based on an estimated growth rates varying between 1 and 3.5%.

Corporate and other

In case of Croatian oil field services related goodwill impairment test the Upstream segment assumptions were applied.

As a result of impairment tests performed at the end of 2016 no impairment is recognised on goodwill and management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the CGUs subject to goodwill impairment test to materially exceed their recoverable amount.

10. Business combinations, transactions with non-controlling interests

Accounting policies

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. For each business combination the Group decides whether 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 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.

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.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

a) Acquisition of ENI Slovenia d.o.o. and ENI Hungaria Zrt.

MOL Group successfully completed the acquisition of ENI business in Slovenia on 30 June 2016. As a result of the acquisition MOL Group's retail network has grown by 17 service stations and the transaction is expected to strengthen the Company's position among the top three retail network operators in Slovenia. MOL Group established its retail presence in Ljubljana, the deal complements MOL Group's current local network of 40 stations.

As at 1 August 2016 MOL Plc. became the sole shareholder of ENI Hungaria Zrt., a company managing 173 service stations in Hungary (including dealer owned sites) as well as wholesale activities in the country. As a result of the acquisition MOL's retail network grows to over 500 service stations in Hungary. This step will strengthen MOL Group's market position through increase of market share and expected synergies and the intention of becoming a regional leader in selling fuel and non-fuel goods in Central Eastern Europe. Regarding the acquired filling stations the initial accounting of the business combinations is provisional as at 31 December 2016, as the valuation has not been finalised.

	Carrying amount HUF million	Provisional fair value adjustment HUF million	Provisional fair value on acquisition HUF million
Non-current assets	23,418	2,321	25,739
Intangible assets	303	293	596
Property, plant and equipment	22,885	1,772	24,657
Investment	192	-	192
Deferred tax asset	38	256	294
Current assets	11,026	(231)	10,795
Inventories	2,696	-	2,696
Trade and other receivables	3,981	(231)	3,750
Other current assets	515	-	515
Cash and cash equivalents	3,834	-	3,834
Non-current liabilities	(277)	(963)	(1,240)
Provisions	(277)	(752)	(1,029)
Deferred tax liability	-	(211)	(211)
Current liabilities	(7,928)	-	(7,928)
Trade payables	(5,192)	-	(5,192)
Taxes and contributions	(1,677)	-	(1,677)
Other current liabilities	(1,059)	-	(1,059)
Net assets	26,239	1,127	27,366

	Carrying amount HUF million	Provisional fair value adjustment HUF million	Provisional fair value on acquisition HUF million
Goodwill on acquisition			
Fair value of consideration transferred (FX at transaction date)			31,595
Less: fair value of identifiable net assets acquired			(27,366)
Provisional goodwill			4,229
Net cash outflow on acquisition of subsidiaries			
Consideration paid in cash (FX at payment date)			31,057
Less: cash and cash equivalent balances acquired			(3,834)
Net cash outflow			27,223

The net revenue and the profit for the period of the acquired entities since the acquisition date included in the consolidated statement of comprehensive income for the reporting period are the following:

Acquired subsidiary	Net revenue HUF million	Profit / (loss) for the period HUF million
ENI Slovenia doo and ENI Hungaria Zrt.	29,759	(1,464)

Acquisition related costs were immaterial.

b) Change in ownership of subsidiaries – without change of control

MOL Group has increased its interest in CM European Power Slovakia s.r.o. (CMEPS) by acquiring the remaining 50% interest from ČEZ. By this transaction Slovnaft a.s. has become 100% owner of CMEPS on 30 November 2016.

Change in ownership of subsidiaries - without change of control	HUF million
Cash consideration paid to non-controlling shareholders	(25,414)
Carrying value of related non-controlling interest	12,682
Difference recognised in retained earnings	(12,732)

11. Disposals

On 28 October 2016 the MOL Group sold its interest held in Matjushkinskaya Vertical LLC. After receiving the approval of Russian Federal Anti-Monopoly Services, the transaction was completed in November 2016.

On 27 January 2016 the MOL Group sold its interest of 49% held in Greengas S.r.l., former member of IES Group.

	Matjushkinskaya Vertical LLC HUF million	Greengas S.r.l. HUF million
Non-current assets	19,002	177
Current assets	288	7,360
Total assets	19,290	7,537
Non-current liabilities	(3,007)	-
Current liabilities	(786)	(2,086)
Total liabilities	(3,793)	(2,086)
Non-controlling interest	-	2,780
Net assets sold	15,497	2,671
Cash consideration received	443	1,684
Recycling of cumulative foreign exchange loss	(11,820)	(348)
Net gain / (loss) on disposal	(3,234)	(639)

Analysis of cash inflow on sales

Cash consideration received	443	1,684
Net cash disposed of during the sale	(8)	(5,697)
Net cash inflow	435	(4,013)

Results of disposals are included in Other operating expenses in the year.

12. Material non-controlling interest

INA-Industrija nafte d.d.

MOL Group has 49% shareholding interest in INA-Industrija nafte d.d. (hereinafter INA d.d.), however based on the conditions of the shareholders' agreement MOL Group has been provided control over INA d.d. resulting in full consolidation method with 51% non-controlling interest.

Proportion of equity interest held by non-controlling interests:

Name	Proportion of non-controlling interest	
	31 Dec 2016	31 Dec 2015
INA-Industrija nafte d.d.	51%	51%
	2016 HUF million	2015 HUF million
Accumulated balances of material non-controlling interest	302,951	317,205
Loss allocated to material non-controlling interest	(11,653)	(57,926)

The summarised financial information of INA d.d. is provided below. This information is based on amounts before intercompany eliminations.

	2016 HUF million	2015 HUF million
Summarised statement of profit or loss		
Total operating income	651,794	780,249
Total operating expenses	(664,611)	(934,922)
Financial expense, net	(6,687)	(17,171)
Loss before income tax	(19,504)	(171,844)
Income tax (expense) / income	(7,453)	33,619
Loss for the year	(26,957)	(138,225)
Total comprehensive income	(22,886)	(113,763)
Attributable to non-controlling interests	(11,653)	(57,926)
Dividends paid to non-controlling interests	-	(3,147)

	2016 HUF million	2015 HUF million
Summarised statement of financial position		
Current assets	187,498	173,484
Non-current assets	869,404	920,541
Total assets	1,056,902	1,094,025
Current liabilities	(248,526)	(243,479)
Non-current liabilities	(213,398)	(227,573)
Total liabilities	(461,924)	(471,052)
Total equity	594,978	622,973
Attributable to equity holders of parent	292,027	305,768
Attributable to non-controlling interest	302,951	317,205

	2016 HUF million	2015 HUF million
Summarised cash flow information		
Net cash provided by operating activities	95,437	81,735
Net cash used in investing activities	(66,663)	(61,364)
Net cash used in financing activities	(23,809)	(26,571)
Increase / (decrease) in cash and cash equivalents	4,965	(6,200)

Magnolia Finance Ltd.

MOL Group redeemed the securities issued by Magnolia Ltd. on 21 March 2016. As a result of the transaction MOL Group acquired its non-controlling interest in Magnolia. The difference between the redemption payment and the book value of minority interest has been recorded in equity as an adjustment to the recorded value of treasury shares.

Name	Proportion of non-controlling interest	
	31 Dec 2016	31 Dec 2015
Magnolia Finance Limited	0%	100%
	2016 HUF million	2015 HUF million
Opening value of equity attributable to non-controlling interests	31,757	42,249
Coupon and dividend payments	(1,896)	(10,492)
Acquisition of non-controlling interests	(29,861)	-
Closing value of equity attributable to non-controlling interests	-	31,757

13. Other non-current assets

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Obligatory level of inventory required by state legislations	38,467	37,645
Advance payments for assets under construction	2,879	2,154
Prepaid mining royalty	1,502	2,248
Prepaid fees of long-term rental	640	599
Advance payments for intangible assets	912	1,910
Advances given for purchase of business combinations	-	556
Other	3	156
Total	44,403	45,268

Comparative period has been restated due to reclassification of obligatory stock reported by IES SpA, to other non-current assets in the amount of HUF 9,113 million.

14. Inventories**Accounting policies**

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. Inventory with nil net realisable value is fully written off.

	31 Dec 2016		31 Dec 2015 restated	
	At cost HUF million	Lower of cost or net realisable value HUF million	At cost HUF million	Lower of cost or net realisable value HUF million
Work in progress and finished goods	220 298	212 685	190 289	179 453
Other raw materials	75 219	53 781	76 434	55 398
Purchased crude oil	93 469	86 426	69 941	63 095
Other goods for resale	33 737	32 250	43 956	41 959
Purchased natural gas	-	-	-	-
Total	422 723	385 142	380 620	339 905

Impairment of HUF 6,027 million has been recorded in 2016 (2015: HUF 14,830 million), mainly on raw materials and goods for resale. In 2016 impairment was accounted for pipeline inventory in Kurdistan Region of Iraq (HUF 3,344 million).

Comparative period has been restated due to reclassification of obligatory stock reported by IES SpA, to other non-current assets in the amount of HUF 9,113 million.

15. Other current assets

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Prepaid and recoverable taxes and duties (excluding income taxes)	40,103	52,573
Advances paid	12,332	13,784
Prepaid expenses	7,554	7,171
Other ⁽¹⁾	6,250	3,262
Total	66,239	76,790

(1) Other non-detailed item consists of revenue accruals.

16. Provisions**Accounting policies**

Provision is made for the best estimate of the expenditure required to settle the present obligation (legal or constructive) as a result of past event where it is considered to be probable that a liability exists and a reliable estimate can be made of the outcome. Long-term obligation is discounted to the present value. 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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is possible that a settlement may be reached or it is not possible to make a reliable estimate of financial impact, appropriate disclosure is made but no provision created.

Provision for Redundancy

The employees of the Group are eligible, immediately upon termination, for redundancy payment pursuant to the terms of Collective Agreement between the Group and its employees. The amount of such a liability is recorded as a provision in the consolidated statement of financial position when the workforce reduction program is defined, adopted, announced or has started to be implemented.

Provision for Environmental Expenditures

Environmental expenditures that relate to current or future economic benefits are expensed or capitalized as appropriate. Liabilities for environmental costs are recognized when environmental assessments or clean-ups are probable and the amount recognized is the best estimate of the expenditure required. In case of long-term liability, the present value of the estimated future expenditure is recognised.

Provision for Field abandonment

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. At the time the obligation arises, it is provided for in full by recognizing the present value of future field abandonment and restoration expenses as a liability. An equivalent amount is capitalized as part of the carrying amount of long-lived assets. 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 (on a straight-line basis in Downstream, and using the unit-of production method in Upstream). 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 cost of providing benefits under the Group's defined benefit 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. Net interest expense is calculated on the basis of the net defined benefit obligation and disclosed as part of the financial result. Differences between the return on plan assets and interest income on plan assets included in the net interest expense is recognized in other comprehensive income.

Emission rights

The Group recognizes provision for the estimated CO₂ emissions costs when actual emission exceeds the emission rights granted and still held. When actual emission exceeds the amount of emission rights granted, provision is recognised for the exceeding emission rights based on the purchase price of allowance concluded in forward contracts or market quotations at the reporting date.

Voluntary change in accounting policies

The Group has decided on changing the allocation of free granted emission rights within segments. With this amendment free granted quotas are only recorded in Upstream and Downstream segments. Reclassification does not affect the result on group and company level, it is only relevant in segmental data where the comparative period has been reclassified in the amount of HUF 1,354 million.

Critical accounting estimates and judgements

A judgement is necessary in assessing the likelihood that a claim will succeed, or liability will arise, and to quantify the possible range of any settlement. Due to the inherent uncertainty on this evaluation process, actual losses may be different from the liability originally estimated.

Scope, quantification and timing of environmental and field abandonment provision

The Group holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. Management uses its previous experience and its own interpretation of the respective legislation to determine environmental and field abandonment provisions.

Actuarial estimates applied for calculation of retirement benefit obligations

The cost of defined benefit plans is determined using actuarial valuations, which 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.

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. Other provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgement to existing facts and circumstances, which can be subject to change. Since the cash outflows can take place many years in the future, the carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

	Environ- mental HUF million	Redun- dancy HUF million	Long-term employee benefits HUF million	Field abandon- ment HUF million	Legal claims HUF million	Other HUF million	Total HUF million
Balance as of 01 Jan 2015 Restated	77,005	14,172	23,184	263,821	24,610	33,651	436,443
Acquisition / (sale) of subsidiaries	(35)	(54)	(72)	-	122	943	904
Additions and revision of previous estimates	4,440	10,315	1,520	6,004	2,927	17,141	42,347
Unwinding of the discount	2,018	-	676	7,487	30	-	10,211
Currency differences	(234)	(155)	134	3,028	(34)	2,428	5,167
Provision used during the year	(4,503)	(8,215)	(3,776)	(2,926)	(2,461)	(6,259)	(28,140)
Balance as of 31 Dec 2015 Restated	78,691	16,063	21,666	277,414	25,194	47,904	466,932
Acquisition / (sale) of subsidiaries	46	-	9	(3,007)	-	222	(2,730)
Additions and revision of previous estimates	2,251	1,550	397	4,902	2,518	(650)	10,968
Unwinding of the discount	1,771	-	444	6,484	-	-	8,699
Currency differences	666	29	2	(11,157)	(95)	586	(9,969)
Provision used during the year	(4,432)	(14,704)	(2,571)	(165)	(2,120)	(12,310)	(36,302)
Balance as of 31 Dec 2016	78,993	2,938	19,947	274,471	25,497	35,752	437,598
Current portion 31 Dec 2015	6,164	9,980	2,506	633	14,695	18,283	52,261
Non-current portion 31 Dec 2015	72,527	6,083	19,160	276,781	10,499	29,621	414,671
Current portion 31 Dec 2016	4,888	1,135	2,720	398	17,233	6,049	32,423
Non-current portion 31 Dec 2016	74,105	1,803	17,227	274,073	8,264	29,703	405,175

Environmental Provision

As of 31 December 2016 provision of HUF 78,993 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 expert team. 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 2016 also includes a contin-

gent liability of HUF 23,676 million recognized upon acquiring INA Group, representing its present environmental obligations and a further HUF 15,712 million environmental contingent liability regarding the acquisition of IES (see Note 26).

Provision for Redundancy

As part of continuing efficiency improvement projects, 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 recognised 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 out of which HUF 579 million remained as of 31 December 2016. In 2015, a provision of HUF 9,804 million was made for redundancy program at INA out of which HUF 793 million still remained as of 31 December 2016. The closing balance of provision for redundancy is HUF 2,938 million as of 31 December 2016 (31 December 2015: HUF 16,063 million)

Provision for Field abandonment

As of 31 December 2016 provision of HUF 274,471 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 6% of these costs are expected to be incurred between 2017 and 2021 and the remaining 94% between 2022 and 2068. 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 judgement 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 2016 the Group has recognised a provision of HUF 19,947 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 MOL Petrochemicals Zrt. and Slovnaft, a.s. provide a maximum of 2 and 7 months of final salary respectively, depending on the length of service period. In addition to the above mentioned benefits, in Hungary the retiring employees are entitled to the absence fee for their notice period – which lasts for 1-3 months depending on the length of the past service – which is determined by the Hungarian Labour Code. 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 which 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.

	2016 HUF million	2015 HUF million
Present value of total long-term employee benefit obligation at the beginning of the year	21,666	23,184
Acquisitions / (disposals)	9	(72)
Past service cost	496	(666)
Current service cost	1,910	3,800
Interest costs	444	676
Provision used during the year	(2,571)	(3,776)
Net actuarial (gain)/loss	(2,009)	(1,614)
from which:		
Retirement benefit (See Note 8)	(794)	(1,624)
Jubilee benefit	(1,215)	10
Exchange adjustment	2	134
Present value of total long-term employee benefit obligation at year end	19,947	21,666

The following table summarises the components of net benefit expense recognized in the statement of profit or loss as personnel expenses regarding provision for long-term employee retirement benefits:

	2016 HUF million	2015 HUF million
Current service cost	1,910	3,800
Net actuarial (gain)/loss	(1,215)	10
Past service cost	496	(666)
Balance as at year end	1,191	3,144

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

	2016	2015
Discount rate in %	1.7 - 3.0	2.0 - 3.7
Average wage increase in %	0.0 - 2.0	0.0 - 2.0
Mortality index (male)	0.05 - 3.57	0.05 - 3.57
Mortality index (female)	0.02 - 1.53	0.02 - 1.53

Actuarial (gains) and losses comprises of the following items:

	Retirement benefits		Jubilee benefits	
	2016 HUF million	2015 HUF million	2016 HUF million	2015 HUF million
Actuarial (gains) / losses arising from changes in demographic assumptions	(867)	(849)	(605)	(520)
Actuarial (gains) / losses arising from changes in financial assumptions	786	86	(345)	(60)
Actuarial (gains) / losses arising from experience adjustments	(713)	(861)	(265)	590
Total actuarial (gains) / losses	(794)	(1,624)	(1,215)	10

Legal and Other Provisions

Legal and other provisions include provision for emission quotas, legal claims and for other future payment obligations.

As of 31 December 2016 provision of HUF 25,497 million (31 December 2015: HUF 25,194 million) has been made for estimated total future losses from litigations.

As of 31 December 2016 the Group has recognized a provision of HUF 4,329 million for the shortage of emission quotas (31 December 2015: 7,001 million). In 2016, MOL Group has been granted 4,293,688 (2015: 4,427,304) emission quotas by the Hungarian, Croatian and Slovakian authorities. The total emissions during 2016 amounted to equivalent of 6,374,298 tons of emission quotas (2015: 6,380,111 tons).

17. Other non-current liabilities

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Government grants received (see Note 9)	10,553	11,808
Deferred compensation for property, plant and equipment	4,319	4,902
Received and deferred other subsidies	3,301	3,642
Liabilities to government for sold apartments	1,592	1,832
Deferred income for apartments sold	1,292	1,321
Other	1,601	1,059
Total	22,658	24,564

18. Other current liabilities

Trade payables are non-interest bearing and are normally settled on 30-day terms.

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Taxes, contributions payable (excluding corporate tax)	141,919	150,180
Amounts due to employees	35,723	33,003
Custom fees payable	9,867	10,463
Advances from customers	7,607	8,897
Other accrued incomes	4,806	4,985
Fee payable for strategic inventory storage	3,794	4,243
Fair value of firm commitments as hedged item under commodity price transactions	3,299	9,991
Strategic capacity booking fee	1,466	-
Government subsidies received and accrued (see Note 9)	629	669
Other	3,514	1,982
Total	212,624	224,413

Taxes, contributions payable mainly include mining royalty, contributions to social security, value added tax and excise tax.

19. Assets and liabilities held for sale

Accounting policies

Non-current assets and disposal groups are classified as held for sale if their carrying amounts are to be realized by sale rather than through continued use. This is the case when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale, and actions required to complete the plan of sale should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Immediately before the initial classification of the asset as held for sale, impairment test shall be carried out. Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets are no longer depreciated or amortised once classified as held for sale.

In 2016 divestiture process for Zagreb 1 platform in Croatia has started resulting in classification as held for sale in the value of HUF 282 million. Immediately prior to classifying the platform as held for sale, impairment test was performed, which triggered impairment of HUF 5,937 million. These assets classified as held for sale are reported in the Corporate and other segment.

In 2016 the group decided to commit itself to sale of retail network assets of IES S.p.A. and actively seek market for the related assets therefore classified the assets as held for sale at fair value less cost to sell at HUF 2,800 million after recording impairment of HUF 5,982 million. These assets classified as held for sale are reported in the Downstream segment. Management expects that both sales transactions will be closed within the following twelve months.

	31 Dec 2016 HUF million	31 Dec 2015 HUF million
Assets and liabilities held for sale		
Assets		
Property, plant and equipment	3,082	-
Assets classified as held for sale	3,082	-
Liabilities		
Liabilities related to assets classified as held for sale	-	-

There were no assets or liabilities classified as held for sale as at 31 December 2015.

FINANCIAL INSTRUMENTS, CAPITAL AND FINANCIAL RISK MANAGEMENT

This section explains policies and procedures applied to manage the Group's capital structure and the financial risks the group is exposed to. This section also describes the financial instruments applied to fulfill these procedures. Hedge accounting related policies and financial instruments disclosures are also provided in this section.

Accounting policies

Initial recognition

Financial instruments are recognized initially at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss).

Subsequent measurement

Subsequent measurement depends on the classification of the given financial instrument. The Group's financial assets are classified at the time of initial recognition depending on their nature and purpose.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading (including derivatives, other than those designated as effective hedging instrument) and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognized in the statement of profit or loss.

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.

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.

Fair value measurement

Fair value of instruments 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.

Derecognition of Financial Instruments

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.

Hedging

For the purpose of hedge accounting, hedges are classified as either:

- ▶ fair value hedges or
- ▶ cash flow hedges or
- ▶ hedges of a net investment in a foreign operation.

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 together with 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 effective (80-125%) 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 statement of profit or loss.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, while the derivative is re-measured at fair value and gains and losses from both are taken to the statement of profit or loss. For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss 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 statement of profit or loss.

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 hedges 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 statement of profit or loss. 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 statement of profit or loss.

Amounts taken to other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects the statement of profit or loss. 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 statement of profit or loss. 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 statement of profit or loss.

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 statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized as other comprehensive income is transferred to the statement of profit or loss.

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

Amount of 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 effective interest rate at the date of impairment.

The amount of the loss is recognized in the statement of profit or loss.

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 statement of profit or loss, 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 statement of profit or loss, is transferred from other comprehensive income to the statement of profit or loss. 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 statement of profit or loss; 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 statement of profit or loss.

Critical accounting estimates and judgements

For determination of fair value, management applies estimates 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 volatility of MOL share prices and dividend yield.

Management judgements are required in assessing the recoverability of loans and receivables and determining whether a provision against those is required. Factors considered include the credit rating of the counterparty, the amount and timing of anticipated future payments and any possible actions that can be taken to mitigate the risk of non-payment.

20. Financial risk management policies

As financial risk management is a centralized function in MOL Group, it is possible to integrate and measure all financial 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 (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 2016 the Net Debt / EBITDA is at 0.97 level (2015: 0.74) while the Net Gearing is 25.2% (2015: 20.7%).

The 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 CO₂ quota position and to manage the procurement of electricity. In order to control market and credit risks, risk limits (VaR limits, counterparty limits, total commitment limit) are applied and monitored on a daily basis.

a) 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 foreign exchange rates, the other refined and petrochemical products are also significant.

Commodity price risk

MOL Group as an integrated oil and gas company is exposed to commodity price risk on demand and supply side as well. The main commodity risks stem from our integrated business model with downstream processing more crude than our equity crude oil production. In Upstream we are long on crude oil and in Downstream we have a long position on fuels and petrochemical margin. 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. When necessary, commodity hedging is considered to eliminate risks other than 'business as usual' risks or general market price volatility.

In 2016 MOL Group concluded short and mid-term commodity swap and option 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 to gain from the favorable forward curve structure. They are also related to crude oil procurement and other trading possibilities.

Foreign currency 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

When the Group is in low gearing status, it 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 also uses foreign exchange derivatives to hedge the foreign exchange exposures.

The Group decided to hedge the exposure to variability in cash flows that is attributable to the foreign exchange risk associated with one of the issued debt (Eurobond 2), and also hedge the foreign exchange risk arising on the USD denominated net investments in foreign operations, with EUR/USD foreign exchange forwards.

Certain facilities of the Group's long-term debt 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.

The Group designated forward contracts (notional of USD 357 million) as well to hedge the foreign exchange risk arising on the USD denominated net investments in foreign operations.

In March 2016 the perpetual convertible Magnolia (€610mn) was terminated. MOL Group issued a new EUR 750m 7y bond which further increased the EUR denominated portion of debt portfolio up to 71%. Considering the increasing gap between the cost of EUR and USD financing and the refinancing risk that MOL runs increase of USD portion is not intended.

The Group has two long-term international gas transit agreements (expiring in 2017 and 2023) 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, 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. INA d.d. has certain long-term contract on gas and crude- oil storage and transport which contain embedded derivatives. These derivatives has been separated from the underlying contracts and designated as fair value hedge to the underlying gas and crude oil contracts.

Interest rate risk

As an energy company, MOL has limited interest rate exposure. The ratio of fix/floating interest debt is monitored by Group Risk Management and regularly reported to the Board of Directors.

The Group use interest rate swaps to manage the relative level of its exposure to cash flow interest rate risk associated with floating interest-bearing borrowings.

Credit risk

The Group provides products and services to a diversified customer portfolio - both from business segment and geographical point of view – with a large number of customers representing acceptable credit risk profile.

Group level policies and procedures are in place to set the framework and principles on customer credit management and collection of receivables process in MOL Group companies to minimize credit risk deriving from delayed payment or non-payment of customers, to track these risks on a continuous basis and to provide financial support to sales process in accordance with MOL Group's sales strategy and ability to bear risk.

Creditworthiness of customers with deferred payment term is thoroughly assessed and regularly reviewed and appropriate credit risk mitigation tools are applied. Credit insurance, bank guarantee, letter of credit, cash deposit and lien are the most preferred types of security to cover clean customer credit risk as according to the Group policy customer credit limits should be covered by payment securities where applicable.

Individual customer credit limits are calculated taking into account the securities provided by the customer and based on external and/or internal assessment of customers. Information on existing and potential customers is gathered from well-known and reliable Credit Agencies. Internal assessment shall be done on the basis of information (demographics, external information, financials) obtained. Customer credit limits are reviewed at least once a year.

Sophisticated software solutions (SAP, CRM and Endur) support the customer credit management procedures, including e.g. online monitoring of credit exposures, breach and expiry of credit limits, overdue receivables, expiry of guarantees. When such credit situations occur, shipments shall be blocked. Decisions on the unblocking of the shipments shall be made by authorized persons on both Financial and Business side. The level of the decisions is also 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 existing bank facilities ensure both sufficient level of liquidity and financial flexibility for the Group.

	2016 HUF million
The amount of undrawn major committed credit facilities	
Long-term loan facilities available (general corporate purpose)	911,616
Short-term facilities available	109,146
Total loan facilities available	1,020,762

Maturity profile of financial liabilities based on contractual undiscounted payments 2016	Due within 1 month HUF million	Due between 1 and 12 months HUF million	Due between 1 and 5 years HUF million	Due after 5 years HUF million	Total HUF million
Borrowings	92,409	382,751	250,536	248,065	973,761
Transferred "A" shares with put&call options	70,652	91,089	-	-	161,741
Trade and other payables	342,968	157,705	255	9	500,937
Other financial liabilities	1,700	3,409	8,095	1,294	14,498
Non-derivative financial instruments	507,729	634,954	258,886	249,368	1,650,937
Total exposure under financial guarantees	60	-	-	-	60
Derivatives	19,405	16,366	329	3,048	39,148

Maturity profile of financial liabilities based on contractual undiscounted payments 2015 restated	Due within 1 month HUF million	Due between 1 and 12 months HUF million	Due between 1 and 5 years HUF million	Due after 5 years HUF million	Total HUF million
Borrowings	123,945	93,946	492,026	11,730	721,647
Transferred "A" shares with put&call options	-	166,351	-	-	166,351
Trade and other payables	334,161	164,957	2,672	9	501,799
Other financial liabilities	1,318	2,410	5,195	-	8,923
Non-derivative financial instruments	459,424	427,664	499,893	11,739	1,398,720
Total exposure under financial guarantees	91	-	-	-	91
Derivatives	885	14,564	14,773	-	30,222

b) Sensitivity analysis

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 Clean CCS-based* (Current Cost of Supply) profit / (loss) from operation	2016 HUF billion	2015 restated HUF billion
Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin)		
Upstream	+39.8 / -39.3	+31.2 / -30.4
Downstream	-20.7 / +20.7	-26.0 / +26.0
Gas Midstream	+0.9 / -0.9	+1.2 / -1.2
Exchange rates (change by +/- 15 HUF/USD; with fixed crack spreads)		
Upstream	+1.9 / -1.9	+2.5 / -2.5
Downstream	+12.5 / -12.5	+17.8 / -17.8
Gas Midstream	+1.3 / -1.3	+1.5 / -1.5
Exchange rates (change by +/- 15 HUF/EUR; with fixed crack spreads / petrochemical margin)		
Upstream	+1.6 / -1.6	+1.0 / -1.0
Downstream	+23.6 / -23.6	+26.2 / -26.2
Refinery margin (change by +/- 1 USD/bbl)		
Downstream	+32.9 / -32.9	+31.7 / -31.7
Integrated petrochemical margin (change by +/- 100 EUR/t)		
Downstream	+30.4 / -30.4	+31.3 / -31.3

*Clean CCS-based profit / (loss) from operation (EBIT) and its calculation methodology is not regulated by IFRS. Please see the reconciliation of reported profit / (loss) from operation (EBIT) and Clean CCS profit / (loss) from operation (Clean CCS EBIT) with the relevant definitions in the Appendix III.

21. Reconciliation of financial instruments

2016 Carrying amount of financial instruments	Fair value through profit or loss FVTPL HUF million	Derivatives used for hedging hedge acc. HUF million	Loans and receivables and liabilities at amort cost amortised cost HUF million	Available-for-sale FVTOCI HUF million	Total carrying amount HUF million
Financial assets					
Equity instruments	-	-	-	31,857	31,857
Other non-current financial assets					
Loans given	-	-	5,312	-	5,312
Deposit	-	-	304	-	304
Other	-	-	26,177	2	26,179
Total non-current financial assets	-	-	31,793	31,859	63,652
Trade and other receivables	-	-	476,531	-	476,531
Cash and cash equivalents	-	-	216,928	-	216,928
Debt securities	1,543	-	-	52,367	53,910
Other current financial assets					
Commodity derivatives	9,762	3,481	-	-	13,243
Loans given	-	-	2,146	-	2,146
Deposit	-	-	6,871	-	6,871
Foreign exchange derivatives	8	-	-	-	8
Other derivatives	1	-	-	-	1
Other	-	-	4,560	-	4,560
Total current financial assets	11,314	3,481	707,036	52,367	774,198
Total financial assets	11,314	3,481	738,829	84,226	837,850
Financial liabilities					
Borrowings (Long-term debt)	-	-	436,922	-	436,922
Other non-current financial liabilities					
Foreign exchange derivatives	-	3,048	-	-	3,048
Other	-	-	3,112	-	3,112
Total non-current financial liabilities	-	3,048	440,034	N/A.	443,082
Trade and other payables	-	-	493,389	-	493,389
Borrowings (short-term debt)	-	-	440,372	-	440,372
Other current financial liabilities					
Transferred "A" shares with put&call options	-	-	160,907	-	160,907
Commodity derivatives	13,927	5,867	-	-	19,794
Foreign exchange derivatives	524	11,068	-	-	11,592
Other derivatives	4,714	-	-	-	4,714
Other	-	-	5,049	-	5,049
Total current financial liabilities	19,165	16,935	1,099,717	N/A.	1,135,817
Total financial liabilities	19,165	19,983	1,539,751	N/A.	1,578,899

* FVTPL: Fair value through profit or loss; hedge acc: under hedge accounting; FVTOCI: Fair value through other comprehensive income

2015		Fair value through profit or loss FVTPL HUF million	Derivatives used for hedging hedge acc. HUF million	Loans and receivables and liabilities at amortised cost HUF million	Available-for-sale FVTOCI HUF million	Total carrying amount HUF million
Carrying amount of financial instruments						
Financial assets						
	Equity instruments	-	-	-	28,103	28,103
Other non-current financial assets	Loans given	-	-	11,540	-	11,540
	Other	-	-	15,917	-	15,917
Total non-current financial assets						
		-	-	27,457	28,103	55,560
	Trade and other receivables	-	-	410,967	-	410,967
	Cash and cash equivalents	-	-	131,838	-	131,838
	Debt securities	62,205	-	-	942	63,147
	Commodity derivatives	14,367	10,800	-	-	25,167
	Loans given	-	-	1,336	-	1,336
Other current financial assets	Foreign exchange derivatives	334	-	-	-	334
	Other derivatives	92	-	-	-	92
	Other	-	-	1,030	-	1,030
Total current financial assets						
		76,998	10,800	545,171	942	633,911
Total financial assets						
		76,998	10,800	572,628	29,045	689,471
Financial liabilities						
	Borrowings (Long-term debt)	-	-	461,681	-	461,681
Other non-current financial liabilities	Foreign exchange derivatives	7	3,212	-	-	3,219
	Other	-	-	2,850	-	2,850
Total non-current financial liabilities						
		7	3,212	464,531	N/A.	467,750
	Trade and other payables	-	-	432,680	-	432,680
	Borrowings (short-term debt)	-	-	206,814	-	206,814
	Transferred "A" shares with put&call options	-	-	164,526	-	164,526
Other current financial liabilities	Commodity derivatives	11,186	4,052	-	-	15,238
	Foreign exchange derivatives	-	6,736	-	-	6,736
	Other derivatives	5,029	-	-	-	5,029
	Other	-	-	3,956	-	3,956
Total current financial liabilities						
		16,215	10,788	807,976	N/A.	834,979
Total financial liabilities						
		16,222	14,000	1,272,507	N/A.	1,302,729

* FVTPL: Fair value through profit or loss; hedge acc: under hedge accounting; FVTOCI: Fair value through other comprehensive income

The Group does not have held-to-maturity financial instruments and does not have any instrument that the Group designated upon initial recognition as at fair value through profit or loss in order to reduce a measurement or recognition inconsistency.

The fair values of financial instruments measured at amortised cost approximate their carrying amounts except for the issued bonds. The fair value of the issued bonds is HUF 651,676 million, while their carrying amount is HUF 626,648 million as of 2016 year-end (fair value was HUF 413,147 million, carrying amount was HUF 388,644 million as of 2015 year-end).

Impairment only accounted for on trade receivables, remaining financial instruments includes immaterial credit risk.

The carrying amount of hedging instruments designated in hedge accounting programs are the followings.

Carrying amounts of hedging instrument		2016 HUF million	2015 HUF million	
	Assets	Commodity derivatives	3,299	9,991
Fair value hedge	Liabilities	Foreign exchange derivatives	3	13
		Commodity derivatives	5,743	2,636
Cash flow hedge	Assets	Commodity derivatives	182	809
	Liabilities	Foreign exchange derivatives	3,048	3,212
		Commodity derivatives	124	1,416
Net investment hedge	Liabilities	Borrowings	518,400	299,403
		Foreign exchange derivatives*	11,065	6,723

*EUR/USD foreign exchange derivatives are also designated in cash flow hedge of one of the issued debt. Please see further details in Note 20 a).

22. Fair value hierarchy

Fair value hierarchy	2016			2015		
	Level 1 Unadjusted quoted prices in active markets HUF million	Level 2 Valuation techniques based on observable market input HUF million	Total fair value HUF million	Level 1 Unadjusted quoted prices in active markets HUF million	Level 2 Valuation techniques based on observable market input HUF million	Total fair value HUF million
Financial assets						
Equity instruments	25,909	5,948	31,857	21,835	6,268	28,103
Debt securities	53,910	2	53,912	-	63,147	63,147
Commodity derivatives	-	13,243	13,243	-	25,167	25,167
Foreign exchange derivatives	-	8	8	-	334	334
Other derivatives	-	1	1	-	92	92
Total financial assets	79,819	19,202	99,021	21,835	95,008	116,843
Financial liabilities						
Commodity derivatives	-	19,794	19,794	-	15,238	15,238
Foreign exchange derivatives	-	14,640	14,640	-	9,955	9,955
Other derivatives	-	4,714	4,714	-	5,029	5,029
Total financial liabilities	-	39,148	39,148	-	30,222	30,222

This table contains only the financial instruments measured at fair value. Investment in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are held at cost and therefore not included in the fair value hierarchy table.

In 2016 (neither in 2015) the Group does not have any instruments with fair value categorized as Level 3 (valuation techniques based on unobservable market input).

23. Trade and other receivables

Accounting policies

Trade and other receivables are amounts due from customers for goods sold and services performed in the normal course of business, as well as other receivables such as margining receivables. Trade and other receivables are initially recognised at fair value less transaction costs and subsequently measured at amortised cost less any provision for doubtful debts. 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 receivables 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. In other cases, they are presented as non-current assets.

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Trade receivables	417,133	378,749
Other receivables	59,398	32,218
Total	476,531	410,967

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Trade receivables	464,139	424,367
Allowance for doubtful receivables	(47,006)	(45,618)
Total	417,133	378,749

	2016 HUF million	2015 restated HUF million
Movements in the allowance for doubtful receivables		
At 1 January	45,618	38,667
Additions	11,453	13,696
Reversal	(9,999)	(8,077)
Amounts written off	(433)	791
Foreign exchange differences	367	541
At 31 December	47,006	45,618

	31 Dec 2016		31 Dec 2015 restated	
	Gross book value HUF million	Net book value HUF million	Gross book value HUF million	Net book value HUF million
Ageing analysis of trade receivables				
Not past due	380,729	380,280	333,393	333,215
Past due	83,410	36,853	90,974	45,534
Within 90 days	24,366	23,609	26,993	23,920
91 - 180 days	4,328	1,779	5,451	2,418
Over 180 days	54,716	11,465	58,530	19,196
Total	464,139	417,133	424,367	378,749

24. Cash and cash equivalents

Accounting policies

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 and that are subject to an insignificant risk of change in value.

Voluntary change in accounting policies

The Group has decided to add clarification to the term “insignificant risk of change in value” not being limited to three-month period. It has no impact on prior period balance.

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Short-term bank deposits	111,505	57,240
Demand deposit	98,190	69,175
Cash on hand	7,233	5,423
Total	216,928	131,838

25. 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 are also used for such purposes.

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

a) Borrowings

Accounting policies

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.

	2016 HUF million	2015 restated HUF million
Short-term debt		
Eurobond 2 5.875% €750 million due 2017	242,660	9,601
Eurobond 3 2.625% €750 million due 2023	4,362	-
USD bond 6.250% \$500 million due 2019	2,425	2,364
Bank loans	181,172	189,180
Financial lease liabilities	619	460
Other	9,134	5,209
Total short-term debt	440,372	206,814
Long-term debt		
Eurobond 2 5.875% €750 million due 2017	-	234,110
Eurobond 3 2.625% €750 million due 2023	230,632	-
USD bond 6.250% \$500 million due 2019	146,569	142,569
Bank loans	57,676	70,682
Financial lease liabilities	1,970	2,645
Other	75	11,675
Total long-term debt	436,922	461,681
Gross debt (long-term and short-term)	877,294	668,495
Cash and cash equivalents	216,928	131,838
Current debt securities	53,910	63,147
Net Debt	606,456	473,510
Total equity	1,801,626	1,816,568
Capital and net debt	2,408,082	2,290,078
Gearing ratio (%)	25.2%	20.7%
EBITDA	623,388	643,378
Net Debt/EBITDA	0.97	0.74

The analysis of the gross debt of the Group by currencies is the following.

	2016 HUF million	2015 restated HUF million
Gross debt by currency		
EUR	623,187	392,521
USD	231,973	253,462
HUF	16,229	16,567
HRK	5,905	5,884
Other	-	61
Gross debt	877,294	668,495

The following issued bonds were outstanding as of the current year-end.

	Amount Issued		Coupon	Type	Cpn Freq	Issue date	Maturity	Issuer
	Ccy	(orig ccy, millions)						
Eurobond 2	EUR	750	5.875	FIXED	ANNUAL	20.04.2010	20.04.2017	MOL Plc.
Eurobond 3	EUR	750	2.625	FIXED	ANNUAL	28.04.2016	28.04.2023	MOL Plc.
USD bond	USD	500	6.25	FIXED	SEMI ANNUAL	26.09.2012	26.09.2019	MOL Group Finance SA

The reconciliation between the total of future minimum finance lease payments and their present value is the following:

	31 Dec 2016		31 Dec 2015 restated	
	Minimum lease payments HUF million	Lease liability HUF million	Minimum lease payments HUF million	Lease liability HUF million
Finance leases				
Due within one year	723	625	728	588
Due later than one year but not later than five years	990	646	1,476	1,044
Due later than five years	1,629	1,318	1,880	1,473
Total	3,342	2,589	4,084	3,105
Future finance charges	(753)	N/A	(979)	N/A
Lease liability	2,589	2,589	3,105	3,105

b) Equity

Accounting policies

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 such monetary items 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.

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 retained earnings.

Voluntary change in accounting policies

The Group has re-assessed its accounting policy for treasury share transactions in order to consistently distinguish share premium and retained earnings impact of treasury share transactions. Repurchase and resale of treasury transactions affect retained earnings instead of having impact on share premium. Amount of HUF 549,535 million has been reclassified from share premium to retained earnings.

Share capital

There was change in the number of issued shares due to capital reduction in 2016. As of 31 December 2016, the issued share capital was HUF 102,428 million, consisting of 102,428,103 series "A", one series "B" and 578 series "C" shares. Outstanding share capital as of 31 December 2016 and 2015 is HUF 79,260 million and HUF 79,241 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 Article 17.D of the Articles of Association the Board of Directors is entitled to increase the share capital until 23 April 2019 in one or more instalments by not more than HUF 30 billion in any form and method provided by the Civil Code.

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

	Number of shares issued	Number of treasury shares	Shares under repurchase obligation	Number of shares outstanding	Authorised number of shares
Series "A" and "B" shares					
01 Jan 2015	104,518,485	(2,842,147)	(22,448,142)	79,228,196	134,519,063
Share distribution for the members of the Board of Directors	-	12,067	-	12,067	-
New share purchase agreement with Unicredit Bank A.G.	-	1,300,000	(1,300,000)	-	-
31 Dec 2015	104,518,485	(1,530,080)	(23,748,142)	79,240,263	134,519,063
Share repurchase transaction with Magnolia Finance Limited	-	(6,006,495)	6,007,479	984	-
Share distribution for the members of the Board of Directors	-	18,600	-	18,600	-
Cancellation of Treasury share	(2,090,381)	2,090,381	-	-	(2,090,381)
Settlement of share option agreement with CA CIB	-	(2,129,666)	2,129,666	-	-
Settlement of share option agreement with ING Bank N.V.	-	(356,899)	356,899	-	-
31 Dec 2016	102,428,104	(7,914,159)	(15,254,098)	79,259,847	132,428,682

* There have been 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.

MOL Plc. sold 6,007,479 pieces of series "A" ordinary shares to Magnolia Finance Limited ('Magnolia'), incorporated in Jersey in 2006. Magnolia issued EUR 610 million of perpetual exchangeable capital securities, exchangeable for Series "A" Ordinary Shares of MOL between 2011 and 2016. Concurrently with the sale of ordinary shares, MOL Plc. entered into a swap agreement with Magnolia that gave MOL Plc. a call option for all or some of the shares. The call option was exercised under the swap agreement between MOL Plc. and Magnolia which was announced on 4th February 2016 and was physically settled regarding 6,006,495 pieces of MOL series "A" ordinary shares on the 21st of March 2016. The purchase price was EUR 45,9905 per one share. Simultaneously Magnolia redeemed the perpetual exchangeable capital securities. Although MOL Plc. did not have any direct or indirect equity interest in or control rights over Magnolia, Magnolia was consolidated for IFRS purposes in line with the requirements of IFRS 10 – Consolidated Financial Statements.

Dividend

The shareholders at the Annual General Meeting in April 2016 approved to pay HUF 55,000 million dividend in respect of 2015, which equals to HUF 567 dividend per share. The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Plc. is HUF 1,170,422 million as of 31 December 2016 (31 December 2015: HUF 1,256,239 million).

Treasury share put and call option transactions

MOL Plc. has some option agreements concluded with financial institutions in respect of 10,243,597 pieces of series "A" shares as of 31 December 2016. Under the agreements MOL Plc. holds American call options and the financial institutions hold European put options in respect of the shares. The expiry of both the put and call options are identical and are one year from the date of the agreement.

Counterparty	Underlying pieces of MOL ordinary shares	Strike price per share	Expiry
ING Bank N.V.	4,863,101	EUR 60.22309	24-Nov-2017
UniCredit Bank AG	5,380,496	EUR 42.2198	10-Jan-2017

The options arising out of the share option agreement concluded between MOL Plc. and UniCredit Bank AG on 19 January 2016, regarding 5,380,496 MOL Series "A" Ordinary shares, are physically settled in respect of 1,721,416 options and cash settled in respect of 3,659,080 options on 12 January 2017. Simultaneously MOL Plc. and UniCredit Bank AG concluded a new share option agreements regarding 3,659,080 MOL Series "A" Ordinary shares. The maturity date of the options is 14 November 2017, such maturity being subject to yearly extensions, up to a maximum of two extensions of one year each. The transaction qualifies as 2017 transaction and does not affect the 2016 figures.

Share swap agreement with OTP

After the lending of 5,010,501 pieces of MOL Plc. shares to OTP Bank Plc. ('OTP') has been terminated on 16 April 2009, MOL Plc. ('MOL') and OTP entered into a share-exchange and a share swap agreement. Under the agreements, initially MOL transferred 5,010,501 "A" series MOL ordinary shares to OTP in return for 24,000,000 pieces OTP ordinary shares. The agreement contains settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. 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.

OTHER FINANCIAL INFORMATION

This section includes additional financial information that are either required by the relevant accounting standards or management considers these to be material information for shareholders.

26. Commitments and contingent liabilities

Accounting policies

Contingent liabilities are not recognised 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 recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

a) Guarantees

The total value of guarantees undertaken to parties outside the Group is HUF 103 million and it was HUF 91 million on 31 December 2015.

b) Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2016 is HUF 83,368 million from which HUF 49,142 million relates to associated company and HUF 19,280 million related to Hungarian operation. Other significant amounts relate to the construction of the new petrochemical plants in Slovakia and Hungary (HUF 11,475 million and HUF 2,417 million, respectively).

c) Operating leases

	31 Dec 2016 HUF million	31 Dec 2015 HUF million
Operating lease commitments		
Due within one year	6,384	5,605
Due later than one year but not later than five years	84,079	84,211
Due later than five years	752	2,964
Total	91,215	92,780

Out of the outstanding operating lease liabilities as of 31 December 2016 HUF 72,248 million is mainly related to lease of Floating Production and Offloading vessel that will be used at North Sea. Remaining part relates to operation in Slovakia (HUF 11,270 million), Croatia (HUF 3,793 million) Hungary (HUF 2,340 million).

d) Authority procedures, litigation

General

None of the litigations described below 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 37,693 million for which HUF 25,497 million provision has been made.

CREDITOR procedures (MOL Plc.)

CREDITOR GAMA s.r.o. has submitted a compensation claim against MOL Plc. 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. The claim was dismissed by the court on first instance. The claimant has filed an appeal.

CREDITOR BETA s.r.o. 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 finančný 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 procedure continues with the question of amount, while MOL has filed an appeal against the interim decision on the legal basis with the appellate court.

Paraffin cartel infringement (MOL Plc.)

The European Commission started an investigation in April 2005 based upon the alleged cartel activity of paraffin producers and traders in Europe. The decision adopted stated that the companies harmonized their commercial activities on the European 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. Several former paraffin customers claimed their private damages before an English (2010) and a Dutch (2012) court. The cartelists have decided to make a settlement offer. In 2013 MOL procured payment of the settlement sum. The English procedure is closed. The Dutch procedure is still on-going.

ICSID arbitration (MOL Plc. vs. Croatia)

The MOL's request for arbitration was filed with the International Centre for Settlement of Investment Disputes („ICSID”) on 26 November 2013 against the Government of the Republic of Croatia (the “GoC”) mainly due to the huge losses INA-INDUSTRIJA NAFTE, d.d. (“INA”) has suffered in the gas business as a consequence of the breach of the agreements of 2009 by the GoC.

UNCITRAL arbitration (Croatia vs. MOL Plc.)

On 17 January 2014, the Government of Croatia (the “GoC”) commenced this arbitration by alleging that the MOL had bribed Croatia's former Prime Minister Mr. Ivo Sanader to gain management control over INA through amending the Shareholders Agreement and signing other agreements relating to INA's operations. The GoC requests that the Tribunal issue a binding declaration nullifying the First Amendment to the Shareholders Agreement and the Gas Master Agreement and order that MOL pays damages caused by its conduct. MOL filed its Response in which it denied all claims put forward by the GoC and requested that the Tribunal dismiss all Claimant's claims.

On 27 December 2016 MOL informed the capital markets of the UNCITRAL arbitration award received on 24 December 2016 in the case launched by the Republic of Croatia against MOL in January 2014.

The Tribunal decided that: "In this Arbitration between the Claimant, the Republic of Croatia, and the Respondent, MOL Hungarian Oil and Gas Plc., for the reasons appearing above and rejecting all submissions and contentions to the contrary, the Arbitral Tribunal FINDS, DECLARES, RULES, ORDERS and AWARDS that Croatia's claims based on bribery, corporate governance and MOL's alleged breaches of the 2003 Shareholders Agreement are all dismissed."

With regards to bribery the Tribunal found that: "Having considered most carefully all of Croatia's evidence and submissions on the bribery issue, which has been presented in a most painstaking and comprehensive way, the Tribunal has come to the confident conclusion that Croatia has failed to establish that MOL did in fact bribe Dr Sanader. Accordingly, Croatia's case that the FASHA and GMA be rendered null and void due to the alleged bribery fails."

Although an international arbitral award is final, binding and enforceable from the moment of its notification to the parties, Croatia challenged the decision in front of the Swiss Federal Supreme Court in a so-called setting-aside proceeding.

Hungarian Horizon Energy Ltd – MOL arbitration

HHE initiated under INCITRAL rules arbitration proceedings against MOL before the Arbitral Tribunal seated in London, for the breach of the Joint Operating Agreement (and related agreements). The total amount of the various monetary claims exceed USD 42 million.. Hearings will be held in the week of 24 July. Final award is not awaited by the end of 2017/early 2018.

CEOC - MOL arbitration

MOL has received three notices of arbitration from CEOC Ltd. in relation to three Field Re-development Framework Agreements on 7 May 2015. CEOC submitted its detailed Statement of Claim in late November 2015 claiming USD ~47million which was increased to USD ~58 million in 2016. The Parties submitted their statements by the end of July 2016. The governing law of the dispute is Hungarian, while the arbitration goes under UNCITRAL rules, placed in Vienna. The court hearings were held in Vienna on 24-31 October 2016. Parties submitted their post hearing briefs by 3 March 2017. Final decision is awaited around Q2 2017.

SALBATRING ENERGIJA, Medunarodna trgovina, d.o.o. (INA Group)

SALBATRING ENERGIJA, Medunarodna trgovina, d.o.o. (“SALBATRING”) initiated the arbitration procedure. INA received Salbating's full Statement of Claim on 20 June 2015 by which Salbating is claiming the amount of USD 27,950,385 plus the interest and costs. Arbitration is still ongoing the hearing was scheduled for October 2017.

CONCESSIONS (INA Group)

On 29 July 2011 the Ministry of Economy, Labour and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA of the license to explore hydrocarbons in exploration areas “Sava”, “Drava” and “North-West Croatia”. On 29 August 2011, INA filed three administrative lawsuits against the Ministry's Decisions. The Administrative Court annulled the Ministry's Decisions. On 10 November 2014, and on 20 February 2015 the Ministry adopted new Decisions in which it again deprived INA of the license to explore hydrocarbons in exploration areas “Sava” and “North-West Croatia” and “Drava”, with the same explanations. INA filed lawsuits against new Ministry Decisions regarding exploration areas “Sava”, “Drava” and “NW Croatia” and requested the Court to order a temporary measure. During April, 2015, the Administrative Court passed Resolution in which it rejected INA's request for temporary measure. INA filed its Appeal, but in June 2015, High Administrative court rejected such INA's Appeal.

In November 2016 the Administrative Court reached a decision and rejected INA's claim in the case regarding exploration area “Drava”. INA has filed an appeal against that decision in December 2016. The Administrative court did not reach decisions regarding INA's lawsuits regarding exploration areas “Sava” and “North-West Croatia”.

e) 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 65,726 million for the estimated cost as at 31 December 2016 for probable and quantifiable costs of rectifying past environmental damage (see Note 16). 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 MOL Petrochemicals 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 MOL Petrochemicals 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 MOL Petrochemicals and MOL to jointly perform this plan in order to manage the underground water contamination. The total amount of liabilities 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 in cases where the wells are deeper than 1,800 m. 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 4-6 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 2016, on Group level the aggregate amount of environmental liabilities recorded on the statement of financial position was HUF 40.1 billion (31 December 2015: HUF 38.4 billion)

f) Contingent assets

On 23 December 2016 the Final Award has been rendered related to the legal case between the Republic of Croatia and MOL Plc. where the company was defendant. The Tribunal ordered Croatia, the losing party, to bear all costs of arbitration, as well as MOL's legal fees, administrative fees and other costs. The total amount has been demanded from the Republic of Croatia. Croatia has filed its appeal against the decision at the Federal Supreme Court of Switzerland.

27. Notes to the consolidated statements of cash flows

Accounting policies

Bank overdrafts repayable on demand are included as component of cash and cash equivalent in case where the use of short-term overdrafts forms an integral part of the entity's cash management practices.

	2016 HUF million	2015 restated HUF million
Cash and cash equivalents comprise the following at 31 December		
Cash and cash equivalents according to Balance Sheet	216,928	131,838
Cash and cash equivalents as part of Disposal Group	-	-
Total Cash and cash equivalents	216,928	131,838

	2016 HUF million	2015 restated HUF million
Analysis of net cash outflow on acquisition of subsidiaries, joint operations as business combinations		
Cash consideration	31,057	(50,194)
Cash at bank or on hand acquired	(3,835)	3,122
Net cash outflow on acquisition of subsidiaries, joint operations	27,222	(47,072)

	2016 HUF million	2015 restated HUF million
Analysis of net cash flow related to sale of subsidiaries, joint operations as business combinations		
Cash consideration	2,152	-
Cash at bank or on hand disposed	(5,715)	-
Net cash flow related to sale of subsidiaries, joint operations (cash out)	(3,563)	-

	2016 HUF million	2015 restated HUF million
Net cash outflow on acquisition of subsidiaries as asset-deals		
Cash consideration	-	(30,244)
Total	-	(30,244)

	2016 HUF million	2015 restated HUF million
Analysis of cash flow related to joint ventures and associates		
Cash consideration of acquisition and capital increase	(3,599)	(14,084)
Cash consideration of sale and capital decrease	887	734
Total	(2,712)	(13,350)

	2016 HUF million	2015 restated HUF million
Analysis of other non-cash items		
Write-off of inventories, net	6,027	14,830
Write-off of receivables, net	2,587	10,078
Release of translation reserves	46	(27,794)
Other non-highlighted items	5,249	(3,095)
Total	13,909	(5,981)

28. Earnings per share

Accounting policies

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, 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 taking into consideration all dilutive potential ordinary shares that were outstanding during the period:

- ▶ 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.

Both in 2016 and 2015, 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 million
Basic Earnings Per Share 2015	(268,575)	91,813,076	(2,925)
Diluted Earnings Per Share 2015	(268,575)	91,813,076	(2,925)
Basic Earnings Per Share 2016	261,601	91,083,241	2,872
Diluted Earnings Per Share 2016	261,601	91,083,241	2,872

	2016 HUF million	2015 restated HUF million
Net profit attributable to ordinary shareholders	263,497	(260,999)
Coupon payment to holders of capital securities of Magnolia (-)	(1,896)	(7,576)
Net profit attributable to ordinary shareholders for basic earnings per share	261,601	(268,575)
Coupon payment to holders of capital securities of Magnolia (+)	-	-
Fair value of conversion option	-	-
Net profit attributable to ordinary shareholders for diluted earnings per share	261,601	(268,575)

	2016 HUF million	2015 restated HUF million
Weighted average number of ordinary shares for basic earnings per share	91,083,241	91,813,076
Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities	-	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	91,083,241	91,813,076

29. Related party transactions

a) Transactions with associated companies and joint ventures in the normal course of business

	2016 HUF million	2015 restated HUF million
Trade and other receivables due from related parties	4,465	8,545
Trade payables due to related parties	12,871	14,042
Net sales to related parties	26,144	24,506

The Group purchased and sold goods and services with associated companies and joint ventures during the ordinary course of business in 2016 and 2015. All of these transactions were conducted under market prices and conditions.

Capital and contractual commitments related to Ural Group Limited (which is associated company related to Fedorovskyfield) is HUF 49,142 million.

INA d.d. concluded a Gas Purchases Obligation, Take or Pay Contract - flexible natural gas sales agreement with MET International A.G. (which is associated company) effective from 1 November 2015 till 1 April 2017. On December 31, 2016 the value of future liabilities until the termination of the contract are HRK 30.3 million without VAT (cca. Net HUF 1,246 million).

b) Remuneration of the members of the Board of Directors

Directors' total remuneration approximated HUF 130 million in 2016 (2015: HUF 125 million). In addition, the directors participate in a long-term incentive scheme details of which are given below.

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.

c) Number of shares held by the members of the Board of Directors and Executive Board and the Management

	2016 Number of shares	2015 Number of shares
Board of Directors	260,334	243,894
Executive Board (except Board of Directors members)	115,508	119,508
Senior Management (except Board of Directors and Executive Board members)	10,843	11,843
Total	386,685	375,245

d) Transactions with Management, officers and other related parties

In October 2016 MOL has purchased one share for EUR 1,000 in DAC ARÉNA, a.s. from E.H.C.S. a.s. which is an entity controlled by a member of Board of Directors of MOL Group. After the share purchase MOL Group increased its ownership in DAC ARÉNA a.s. to 22.5% through a 2 million EUR capital increase in November 2016.

In 2016 entities controlled by the members of key management personnel purchased fuel from MOL Group in the total value of HUF 1,841 million. MOL Group purchased PR, media and other services from companies controlled by key management personnel in the total value of HUF 56 million.

MOL Group provided subsidies through sponsorship for sport organisations controlled by key management personnel in the total value of HUF 250 million.

Entities controlled by key management personnel possess 215,000 shares.

e) Key management compensation

The amounts disclosed contains the compensation of managers who qualify as a key management member of MOL Group.

	2016 HUF million	2015 HUF million
Salaries and wages	853	864
Other short-term benefits	687	866
Share-based payments	896	187
Total	2,436	1,917

f) Loans to the members of the Board of Directors and Supervisory Board

No loans have been granted to key management personnel.

30. Events after the reporting period

On 31 January 2017 MOL Group has acquired 51% shareholding of OT Industries Vagyonkezelő (OVK) for HUF 45 million. OVK has six fully owned operating subsidiaries. There is neither revenue nor profit or loss figures available for 2016 financial year. The transaction qualifies as 2017 transaction and does not affect the 2016 figures. The initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue.

31. Appendices**a) Appendix I.: Issued but not yet effective International Financial Reporting Standards and Amendments**

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective. Based on preliminary assessment the group believes that the adoption of the following standards will not have significant impact on its consolidated results and financial position:

- ▶ IFRS 2 Share-based Payment - Amendments to clarify the classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018, this amendment has not been approved by EU yet).
- ▶ IFRS 4 Insurance contracts - Amendments regarding the interaction of IFRS 4 and IFRS 9 (effective for annual periods beginning on or after 1 January 2018, this standard has not been approved by EU yet)
- ▶ IFRS 10 Consolidated Financial Statements - Amendment regarding the sale or contribution of assets between an investor and its associate or joint venture (effective date is not defined, this amendment has not been approved by EU yet)
- ▶ IFRS 10 Consolidated Financial Statements - Amendment regarding the application of the consolidation exception (effective for annual periods beginning on or after 1 January 2017)
- ▶ IFRS 12 Disclosure of Interests in Other Entities - Amendment regarding the application of the consolidation exception (effective for annual periods beginning on or after 1 January 2017, this amendment has not been approved by EU yet)
- ▶ IFRS 14 Regulatory Deferral Accounts (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016, this standard will not be endorsed for use in the EU)
- ▶ IAS 7 Statement of cash flows - Amendment resulting from the disclosure initiative (effective for annual periods beginning on or after 1 January 2017, this amendment has not been approved by EU yet)
- ▶ IAS 12 Income taxes - Amendments regarding the recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017, this amendment has not been approved by EU yet)
- ▶ IAS 28 Investments in Associates and Joint Ventures - Amendment regarding the sale or contribution of assets between an investor and its associate or joint venture (effective date is not defined, this amendment has not been approved by EU yet)
- ▶ IAS 28 Investments in Associates and Joint Ventures - Amendment regarding the application of the consolidation exception (effective for annual periods beginning on or after 1 January 2017)
- ▶ Amendments resulting from Annual Improvements 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2018)

The Group is currently considering the implications of the following standard which is expected to have an impact on the Group's consolidated results and financial position:

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 covers the classification, measurement and derecognition of financial instruments, new impairment methodology and a new hedge accounting model. IFRS 9 is intended to replace IAS 39 Financial instruments: recognition and measurement. Effective for annual periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 will replace IAS 18 Revenue and IAS 11 Construction contracts. Effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018.

IFRS 16 Leases

In the case of the lessee, the new standard provides a single accounting model, and require recognition of assets and liabilities for all leases. Exceptions are leases contracted for less than 1 year, and leases with low value underlying assets. This removes the present classification as either finance or operative leases for lessee. Lessors continue to classify leases as operating or finance similarly to IAS 17 Leases. IFRS 16 Leases replaces IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27. Effective for annual periods beginning on or after 1 January 2019, this standard has not been approved by EU yet.

b) Appendix II.: Subsidiaries

Company name	Country (Incorporation/Branch)	Range of activity	Ownership	
			2016	2015
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%
CEGE Közép-európai Geotermikus Energia Termelő Zrt.	Hungary	Geothermal energy production	100%	100%
CEGE Geotermikus Koncessziós Kft.	Hungary	Geothermal energy production	100%	100%
CROPLIN, d.o.o.	Croatia	Natural gas trading	49%	49%
Csanád Szénhidrogén Koncessziós Kft. ²	Hungary	Exploration and production activity	100%	-
EMSZ Első Magyar Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
Hawasina GmbH ⁶	Switzerland / Oman	Exploration and production activity	-	100%
INA Naftaplín International Exploration and Production Ltd.	United Kingdom	Exploration and production activity	49%	49%
Kalegran B.V.	Netherlands	Exploration financing	100%	100%
Kalegran Ltd.	Cyprus / Iraq	Exploration and production activity	100%	100%
KMSZ Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
Ménrót Kft.	Hungary	Exploration investment management	100%	100%
Karpinvest Kft.	Hungary	Exploration investment management	100%	100%
MH Oil and Gas BV.	Netherlands	Exploration investment management	100%	100%
MNS Oil and Gas B.V.	Netherlands	Exploration financing	100%	100%
MOL ENERGY UK Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOLGROWEST (I) Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOLGROWEST (II) Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOL OPERATIONS UK Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOL UK FACILITIES Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOL Cameroon B.V.	Netherlands	Exploration financing	100%	100%
MOL Central Asia Oil and Gas Co. B.V.	Netherlands / Syria / Kazakhstan	Exploration and production activity	100%	100%
MOL (FED) Kazakhstan B. V.	Netherlands	Exploration financing	100%	100%
MOL (FED) Kazakhstan B.V. Rep. Office	Kazakhstan	Exploration financing	100%	100%
MOL (FED) Kazakhstan B.V. BO	Kazakhstan	Exploration investment management	100%	100%
MOL (MV) Russia B.V.	Netherlands	Exploration financing	100%	100%
MOL Matjushkinskaya B.V.	Netherlands	Exploration financing	100%	100%
Matjushkinskaya Vertical LLC ⁷	Russia	Exploration and production activity	-	100%
MOL Nordsjön B.V.	Netherlands	Exploration financing	100%	100%
MOL Norge AS	Norway	Exploration activity	100%	100%
MOL Pakistan Oil and Gas Co. B.V.	Netherlands / Pakistan	Exploration and production activity	100%	100%
MOL-RUSS Oo.	Russia	Management services	100%	100%
MOL West Oman B. V.	Netherlands	Exploration financing	100%	100%
Panfora Oil and Gas S.r.l.	Romania	Exploration and production activity	100%	100%

Company name	Country (Incorporation/Branch)	Range of activity	Ownership	
			2016	2015
Platounko Investments Ltd.	Cyprus	Exploration financing	100%	100%
Tápió Szénhidrogén Koncessziós Kft. ²	Hungary	Exploration and production activity	100%	-
Theatola Ltd.	Cyprus	Exploration investment management	100%	100%
Greentrade Ltd.	Cyprus	Exploration investment management	100%	100%
USI Ltd.	Cyprus	Exploration investment management	100%	100%
Gas-Midstream				
FGSZ Földgázszállító Zrt.	Hungary	Natural gas transmission	100%	100%
Downstream				
Dunai Gőzfejlesztő Kft. ⁵	Hungary	Steam and hot water supply	-	100%
Energopetrol d.d.	Bosnia and Herzegovina	Retail trade	33%	50%
Holdina d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	49%
IES S.p.A.	Italy	Refinery and marketing of oil products	100%	100%
Greengas S.r.l. ⁷	Italy	Hydrogen plant operation	-	49%
Nelsa S.r.l.	Italy	Trading of oil products	74%	74%
IES Power & Gas S.r.l.	Italy	Energy services	70%	70%
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 Kosovo d.o.o.	Kosovo	Trading of oil products	49%	49%
INA Maloprodajni servisi d.o.o.	Croatia	Trade agency in the domestic and foreign market	49%	49%
INA Maziva Ltd.	Croatia	Lubricants production and trading	49%	49%
INA Slovenija d.o.o. (formerly: Interina d.o.o. Ljubljana)	Slovenia	Trading of oil products	49%	49%
Leodium Investment Kft.	Hungary	Financial services	100%	100%
MOL Austria GmbH	Austria	Wholesale trade of lubricants and oil products	100%	100%
Roth Heizöle GmbH	Austria	Trading of oil products	100%	100%
MOL Commodity Trading Kft.	Hungary	Financial services	100%	100%
MCT Slovakia s.r.o.	Slovakia	Financial services	100%	100%
MOL E-mobilitás Kft. ²	Hungary	Investment management	100%	-
MOL E-Üzemanyag Kereskedelmi és Szolgáltató Kft. ²	Hungary	Electrical traffic solutions	100%	-
MOL Germany 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 Retail Holding Kft.	Hungary	Real estate management	100%	100%
MOL Kiskereskedelmi Ingatlan Kft.	Hungary	Real estate management	100%	100%
MOL Romania PP s.r.l.	Romania	Retail and wholesale trade of fuels and lubricants	100%	100%

Company name	Country (Incorporation/Branch)	Range of activity	Ownership	
			2016	2015
MOL CEE Investments B.V. (formerly: MOL Romania DS Investment B.V.)	Netherlands	Investment management	100%	100%
MOL Retail Comert s.r.l.	Romania	Retail trade	100%	100%
MOL Serbia d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
MOL Slovenia Downstream Investment B.V.	Netherlands	Investment management	100%	100%
MOL naftna družba, trgovsko podjetje d.o.o. ²	Slovenia	Retail trade	100%	-
MOL Slovenia d.o.o.	Slovenia	Retail trade of fuels and lubricants	100%	100%
MOL Solar Investment Kft. ²	Hungary	Investment management	100%	-
MOL Solar Operator Kft. ²	Hungary	Power production	100%	-
MOL South-East Europe Hold- ing Kft. ²	Hungary	Investment management	100%	-
MOL Kiskereskedelem Zrt. ²	Hungary	Retail and Wholesale	100%	-
Moltrans Kft.	Hungary	Transportation services	100%	100%
MOLTRADE-Mineralimpex Zrt.	Hungary	Importing and exporting of energeti- cal products	100%	100%
MOL CZ Downstream Investment B.V.	Netherlands	Investment management	100%	100%
MOL Čerpací stanice s.r.o. ³	Czech Republic	Retail trade	-	100%
Pap Oil s.r.o. ³	Czech Republic	Retail trade	-	100%
MOL Česká republika s.r.o.	Czech Republic	Wholesale and retail trade	100%	100%
MOL Retail Česká s.r.o. ³	Czech Republic	Retail trade	-	100%
MOL Ukraine LLC	Ukraine	Wholesale and retail trade	100%	100%
MULTIPONT Program Zrt.	Hungary	Marketing agent activity	100%	83%
Petrol d.d.	Croatia	Trading of oil products	49%	49%
SLOVNAFT a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	99%	99%
CM European Power Slovakia s.r.o.	Slovakia	Operation of thermo-power plant	99%	50%
Slovnaft Polska S.A.	Poland	Wholesale and retail trade	99%	99%
Slovnaft Retail s.r.o. ⁴	Slovakia	Retail trade	-	99%
Slovnaft Trans a.s.	Slovakia	Transportation services	99%	99%
SWS s.r.o.	Slovakia	Transport support services	51%	51%
VÚRUP a.s.	Slovakia	Research and development	99%	99%
Zväz pre skladovanie zásob a.s.	Slovakia	Wholesale and retail trade, ware- housing	99%	99%
Terméktároló Zrt.	Hungary	Oil product storage	74%	74%
Tifon d.o.o.	Croatia	Retail trade of fuels and lubricants	100%	100%
MOL Petrolkémia Zrt.	Hungary	Petrochemical production and trading	100%	100%
Tisza-WTP Kft. ¹	Hungary	Feed water and raw water supply	0%	0%
TVK-Erőmű Kft.	Hungary	Electricity production and distribution	100%	100%

Company name	Country (Incorporation/Branch)	Range of activity	Ownership	
			2016	2015
Corporate and other				
Crosco Naftni Servisi d.o.o.	Croatia	Oilfield services	49%	49%
CorteCros d.o.o. ⁷	Croatia	Production of anticorrosion products	-	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%
Rotary Zrt.	Hungary	Oilfield services	49%	49%
Sea Horse Shipping Inc.	Marshall Islands	Platform ownership	49%	49%
Geoinform Kft.	Hungary	Hydrocarbon exploration	100%	100%
Hostin d.o.o.	Croatia	Tourism	49%	49%
Magnolia Finance Ltd. ¹	Jersey	Financial services	0%	0%
MOL Aréna Kft. ²	Hungary	Investment management	100%	-
MOL Cyprus Co. Ltd.	Cyprus	Captive insurance	100%	100%
MOL Group Finance S.A.	Luxemburg	Financial services	100%	100%
MOL Group International Services BV	Netherlands	Financial and accounting services	100%	100%
MOL Investment Kft.	Hungary	Financial services	100%	100%
MOL Magyarország Szolgáltató Központ	Hungary	Business services	100%	26%
MOL Csoportszintű Pénzügyi Szolgáltató Kft.	Hungary	Accounting services	100%	26%
MOL Magyarország HR Szolgáltató Kft.	Hungary	HR services	100%	26%
MOL Magyarország Infor- matikai Szolgáltató Kft.	Hungary	IT services	100%	26%
MOL Magyarország Pénzü- gyi Szolgáltató Kft.	Hungary	Accounting services	100%	26%
MOL Magyarország Társasági Szolgáltató Kft.	Hungary	Company services	100%	26%
MOL Reinsurance Co. Ltd.	Ireland	Captive insurance	100%	100%
MOL Vagyonkezelő Kft.	Hungary	Investment management	100%	100%
Petrolszolg Kft.	Hungary	Repairs and maintenance services	100%	100%
PLAVI TIM d.o.o.	Croatia	IT services	49%	49%
Slovnaft Montáže a opravy a.s.	Slovakia	Repairs and maintenance services	99%	99%
STSI integrirani tehnički servisi d.o.o.	Croatia	Repairs and maintenance services	49%	49%
Ticinum Kft.	Hungary	Asset management	100%	100%
Top Računovodstvo Servi- si d.o.o.	Croatia	Accounting services	49%	49%
TVK Ingatlankezelő Kft.	Hungary	Real estate management	100%	100%

1) Consolidated as required by "IFRS 10 – Consolidated Financial Statements;

2) Fully consolidated from 2016; 3) Merged to MOL Česká republika s.r.o. in 2016;

4) Merged to Slovnaft a.s. in 2016; 5) Merged to Ménrót Kft. in 2016; 6) Liquidated in 2016; 7) Sold in 2016

c) Appendix III.: Clean CCS profit / (loss) from operation (Clean CCS EBIT)

Clean CCS-based profit / (loss) from operation and its calculation methodology is not regulated by IFRS. CCS stands for Current cost of supply. Clean CCS EBIT is the most closely watched earnings measure in the oil and gas industry as it best captures the underlying performance of a refining operation as it removes non-recurring special items, inventory holding gains and losses, impairment on raw materials and own-produced inventory and cargo hedge.

Inventory holding gain/loss

EBIT after excluding the inventory holding gain/loss reflects the actual cost of supplies of the analyzed period therefore it provides better portray on the underlying production and sales results and makes the results comparable to other companies in the industry.

Impairment on raw materials and own-produced inventory

Inventories must be measured at the lower of cost or net realisable value.

The cost of inventories must be reduced - i.e. impairment must be recognized on closing inventory of the period- if the cost is significantly higher than the expected sales price minus cost to sell.

In case of finished products, impairment should be recognized if the closing value of the inventory at the end of period is above the future sales price of the product minus cost to sell. In case of raw materials and semi-finished products that will be used further in production, it has to be examined whether, following their use in production; their value can be recovered in the selling price of the produced finished products. If their value is not fully recoverable impairment must be recognized to the recoverable level.

Cargo hedge

By cargo hedge transactions the exposure to crude oil price variance is being hedged by changing the actual pricing of cargo (to monthly average).

Since the CCS methodology is based on switching to period average crude oil prices, the CCS effect together with the effect of the cargo hedge transactions results led to unnecessary duplication, therefore the P&L effect of the cargo hedges is to be eliminated.

Non recurring special items

One-off items are single, significant (more than EUR 10 million P&L effect), non-recurring economic events which are not considered as part of the core operation of the segment therefore they do not reflect the actual performance of the given period.

	2016 HUF million	2015 restated HUF million
Clean CCS profit/ (loss) from operation reconciliation		
Profit/ (loss) from operation	307,905	(217,231)
Inventory holding gain/loss	(26,362)	78,738
Impairment on raw materials and own-produced inventory	(6,356)	1,338
- thereof affects raw materials	(633)	(723)
- thereof affects own-produced inventory	(5,722)	2,061
Cargo hedge	3,217	(7,562)
CCS profit/ (loss) from operation	278,404	(144,717)
Hedge adjustments	4,957	4,295
Special items	22,968	480,814
Clean CCS profit/ (loss) from operation	306,329	340,393

	2016 HUF million	2015 HUF million
Special items		
Profit/ (loss) from operation excluding special items	330,873	263,584
Upstream		
Impairment in INA Group	-	(109,470)
Impairment in UK	-	(218,168)
Other impairment	-	(20,122)
MOL Plc. mining royalty penalty claw-back	-	35,227
Akri-Bijell block exit	-	(130,603)
Cameroon exit	-	(17,306)
Matjushkinskaya Vertical divestment	(3,234)	-
Kalegran inventory impairment	(3,344)	-
Total special items in Upstream	(6,578)	(460,442)
Downstream		
Provision for redundancy at INA	-	(9,203)
IES impairment (Asset Held for Sale IFRS5)	(5,982)	-
HCK (HydroCracker) impairment	(4,471)	-
Total special items in Downstream	(10,453)	(9,203)
Corporate and Other		
Akri-Bijell block exit	-	(1,538)
Impairment in INA Group	(5,937)	(9,632)
Total special items in Corporate and Other	(5,937)	(11,170)
Total impact of special items on profit/ (loss) from operation	(22,968)	(480,815)
Profit/ (loss) from operation	307,905	(217,231)

Supplementary and Sustainability Information



HISTORICAL SUMMARY OF FINANCIAL INFORMATION (IFRS)

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER

	2012 (HUF mn)	2012 (USD mn [*])	2013 (HUF mn)	2013 (USD mn [*])	2014 (HUF mn)	2014 (USD mn ^{**})	2015 RESTATED (HUF mn)	2015 RESTATED (USD mn ^{**})	2016 (HUF mn)	2016 (USD mn ^{**})
Net revenue and other operating income	5,536,986	24,565	5,476,113	24,480	4,893,205	21,082	4,177,650	14,951	3,578,321	12,714
Total operating expenses	5,331,691	23,654	5,494,741	24,563	4,853,125	20,859	4,394,881	15,689	3,270,416	11,615
Profit from operations	205,295	911	(18,628)	(83)	40,080	223	(217,231)	(738)	307,905	1,099
Profit for the year attributable to equity holders of the parent	151,484	672	21,442	96	4,078	47	(260,999)	(903)	263,497	941

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER

	2012 (HUF mn)	2012 (USD mn ^{***})	2013 (HUF mn)	2013 (USD mn ^{***})	2014 RESTATED (HUF mn)	2014 RESTATED (USD mn ^{***})	2015 RESTATED (HUF mn)	2015 RESTATED (USD mn ^{***})	2016 (HUF mn)	2016 (USD MN ^{***})
Non-current assets	3,170,278	14,352	2,802,642	12,993	3,242,487	12,513	2,858,226	9,972	2,867,180	9,763
Current assets	1,595,929	7,225	1,838,246	8,522	1,399,535	5,401	1,056,657	3,686	1,236,606	4,210
Total assets	4,766,207	21,576	4,640,888	21,515	4,642,022	17,914	3,914,883	13,658	4,103,786	13,973
Equity attributable to equity holders of the parent	1,699,116	7,692	1,687,739	7,824	1,749,745	6,752	1,452,219	5,067	1,492,072	5,081
Minority interest	547,205	2,477	473,517	2,195	445,993	1,721	364,349	1,271	309,554	1,053
Non-current liabilities	1,146,314	5,189	1,078,925	5,002	922,396	3,560	971,404	3,389	918,681	3,128
Current liabilities	1,373,572	6,218	1,400,707	6,494	1,523,888	5,881	1,126,911	3,931	1,383,479	4,711
Total equity and liabilities	4,766,207	21,576	4,640,888	21,515	4,642,022	17,914	3,914,883	13,658	4,103,786	13,973

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

	2012 (HUF mn)	2012 (USD mn [*])	2013 (HUF mn)	2013 (USD mn [*])	2014 RESTATED (HUF mn)	2014 RESTATED (USD mn ^{**})	2015 RESTATED (HUF mn)	2015 RESTATED (USD mn ^{**})	2016 (HUF mn)	2016 (USD mn ^{**})
Net cash provided by operating activities	454,033	2,014	614,685	2,748	434,528	1,863	586,803	2,088	519,385	1,843
Net cash provided by / (used in) investing activities	(298,509)	(1,324)	(124,994)	(559)	(558,459)	(2,400)	(213,253)	(781)	(306,968)	(1,086)
Net cash provided by / (used in) financing activities	(148,992)	(661)	(239,251)	(1,070)	(257,036)	(1,146)	(444,688)	(1,565)	(125,881)	(439)
(Decrease)/increase in cash and cash equivalents	6,532	29	250,440	1,120	(380,967)	(1,572)	(71,214)	(259)	85,090	312

* Calculated with yearly average HUF/USD: In 2012 225.4, in 2013 223.7.

** Each month in 2014, 2015, 2016 is translated on its actual monthly average HUF/USD NBH rate

*** Year-end HUF/USD:

2012	220.9
2013	215.7
2014	259.1
2015	286.6
2016	293.7

UPSTREAM

The tables presented below provide supplementary information for the Group upstream activities. These disclosures are not audited.

GROSS RESERVES (ACCORDING TO SPE RULES)*

PROVED RESERVES (1P)	NATURAL GAS		CRUDE OIL AND CONDENSATE		COMBINED MMBOE
	MCM	MMBOE	KT	MMBBL	
Hungary					
Hungary as of December 31, 2012	9,562.4	47.8	4,326.4	32.9	80.7
Hungary as of December 31, 2013	8,306.7	43.5	3,930.3	29.7	73.2
Hungary as of December 31, 2014	8,268.5	43.3	3,781.9	28.6	71.9
Hungary as of December 31, 2015	7,688.6	41.8	3,268.6	25.1	67.0
Revision of previous estimates	594.4	3.7	214.9	1.6	5.6
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(1,682.4)	(9.9)	(847.8)	(6.4)	(16.3)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2016	6,600.6	35.6	2,635.6	20.4	56.3
Croatia					
Croatia as of December 31, 2012	14,385.2	93.6	10,042.4	74.8	168.4
Croatia as of December 31, 2013	12,774.9	83.2	10,163.1	75.7	158.9
Croatia as of December 31, 2014	11,841.7	77.2	9,721.9	72.3	149.5
Croatia as of December 31, 2015	10,233.5	67.5	9,199.9	68.5	136.0
Revision of previous estimates	2.5	0.1	(53.3)	(0.4)	(0.3)
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(1,213.2)	(7.6)	(676.7)	(5.1)	(12.7)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Croatia as of December 31, 2016	9,022.8	60.0	8,470.0	63.0	123.0
U.K. (North Sea)					
U.K. (North Sea) as of December 31, 2014	113.3	0.7	1,920.7	15.5	16.2
U.K. (North Sea) as of December 31, 2015	82.4	0.5	1,951.2	14.1	14.6
Revision of previous estimates	16.8	0.1	61.9	0.4	0.8
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(88.0)	(0.5)	(342.2)	(2.5)	(3.2)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
U.K. (North Sea) as of December 31, 2016	11.2	0.1	1,670.8	12.0	12.1
KRI**					
KRI as of December 31, 2012	0.0	0.0	0.0	0.0	0.0
KRI as of December 31, 2013	0.0	0.0	0.0	0.0	0.0
KRI as of December 31, 2014	0.0	0.0	1,791.4	12.0	12.0
KRI as of December 31, 2015	0.0	0.0	1,617.8	10.8	10.8
Revision of previous estimates	0.0	0.0	2.0	0.0	0.0
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	(198.4)	(1.3)	(1.3)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
KRI as of December 31, 2016	0.0	0.0	1,421.4	9.5	9.5

PROVED RESERVES (1P)	NATURAL GAS		CRUDE OIL AND CONDENSATE		COMBINED MMBOE
	MCM	MMBOE	KT	MMBBL	
Russia					
Russia as of December 31, 2012	0.0	0.0	13,971.9	98.7	98.7
Russia as of December 31, 2013	0.0	0.0	11,390.4	80.0	80.0
Russia as of December 31, 2014	0.0	0.0	6,466.5	45.5	45.5
Russia as of December 31, 2015	0.0	0.0	6,153.1	43.2	43.2
Revision of previous estimates	0.0	0.0	62.6	0.4	0.4
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	(363.4)	(2.6)	(2.6)
Purchase/sale of minerals in place	0.0	0.0	(389.3)	(2.9)	(2.9)
Russia as of December 31, 2016	0.0	0.0	5,463.0	38.2	38.2
Pakistan					
Pakistan as of December 31, 2012	843.3	5.6	111.7	0.9	6.5
Pakistan as of December 31, 2013	647.9	4.4	281.0	2.1	6.5
Pakistan as of December 31, 2014	390.1	2.6	180.7	1.4	4.0
Pakistan as of December 31, 2015	292.7	2.0	96.9	0.7	2.8
Revision of previous estimates	356.3	2.5	99.3	0.7	3.4
Extension and discoveries	28.5	0.2	75.8	0.6	0.8
Production	(254.4)	(1.8)	(125.5)	(0.9)	(2.8)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Pakistan as of December 31, 2016	423.1	2.9	146.5	1.1	4.2
Kazakhstan					
Kazakhstan as of December 31, 2012	2,301.5	13.5	1,232.6	9.8	23.4
Kazakhstan as of December 31, 2013	2,301.5	13.5	1,232.6	9.8	23.4
Kazakhstan as of December 31, 2014	4,962.0	29.2	1,973.1	15.7	44.9
Kazakhstan as of December 31, 2015	4,962.0	29.2	1,973.1	15.7	44.9
Revision of previous estimates	0.0	0.0	0.0	0.0	0.0
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	0.0	0.0	0.0
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Kazakhstan as of December 31, 2016	4,962.0	29.2	1,973.1	15.7	44.9
Syria, Egypt and Angola					
Syria, Egypt and Angola as of December 31, 2012	2,750.1	16.2	1,348.5	11.0	27.2
Syria, Egypt and Angola as of December 31, 2013	2,750.1	16.2	1,290.8	10.6	26.8
Syria, Egypt and Angola as of December 31, 2014	2,750.1	16.2	1,123.3	9.3	25.5
Syria, Egypt and Angola as of December 31, 2015	2,750.1	16.2	1,053.0	8.8	25.0
Revision of previous estimates	0.0	0.0	188.3	1.4	1.4
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	(151.5)	(1.1)	(1.1)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Syria, Egypt and Angola as of December 31, 2016	2,750.1	16.2	1,089.9	9.1	25.3

PROVED RESERVES (1P)	NATURAL GAS		CRUDE OIL AND CONDENSATE		COMBINED MMBOE
	MCM	MMBOE	KT	MMBBL	
TOTAL MOL Group					
TOTAL MOL Group as of December 31, 2012	29,842.4	176.7	31,033.5	228.2	404.9
TOTAL MOL Group as of December 31, 2013	26,781.0	160.8	28,288.2	207.9	368.7
TOTAL MOL Group as of December 31, 2014	28,325.5	169.2	26,959.6	200.4	369.5
TOTAL MOL Group as of December 31, 2015	26,009.2	157.2	25,313.7	187.0	344.3
Revision of previous estimates	970.0	6.4	575.7	4.3	11.3
Extension and discoveries	28.5	0.2	75.8	0.6	0.8
Production	(3,238.0)	(19.9)	(2,705.5)	(19.9)	(40.0)
Purchase/sale of minerals in place	0.0	0.0	(389.3)	(2.9)	(2.9)
TOTAL MOL Group as of December 31, 2016	23,769.7	143.9	22,870.4	169.1	313.5
INA					
INA as of December 31, 2012	17,135.2	109.8	11,390.9	85.8	195.6
INA as of December 31, 2013	15,524.9	99.4	11,453.9	86.2	185.6
INA as of December 31, 2014	14,591.7	93.4	10,845.2	81.7	175.1
INA as of December 31, 2015	12,983.6	83.7	10,252.9	77.3	161.0
Revision of previous estimates	2.5	0.1	135.0	1.0	1.1
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(1,213.2)	(7.6)	(828.1)	(6.2)	(13.8)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
INA as of December 31, 2016	11,772.8	76.1	9,559.8	72.1	148.3

* The reserves include information about 100% of MMBF Ltd's reserves. These disclosures do not contain information about MOL Group's share in equity consolidated Pearl project.

** KRI - Kurdistan Region of Iraq

GROSS RESERVES (ACCORDING TO SPE RULES)*

PROVED + PROBABLE RESERVES (2P)	NATURAL GAS		CRUDE OIL AND CONDENSATE		COMBINED MMBOE
	MCM	MMBOE	KT	MMBBL	
Hungary					
Hungary as of December 31, 2012	20,714.7	99.7	7,774.3	59.4	159.0
Hungary as of December 31, 2013	16,804.4	82.2	7,696.1	58.1	140.3
Hungary as of December 31, 2014	14,261.4	75.2	6,388.1	48.3	123.5
Hungary as of December 31, 2015	13,546.2	74.2	5,554.5	42.8	116.9
Revision of previous estimates	(29.2)	(0.2)	68.4	0.5	0.3
Extension and discoveries	558.7	3.7	82.9	0.6	4.4
Production	(1,682.4)	(9.9)	(847.8)	(6.4)	(16.3)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2016	12,393.3	67.8	4,858.0	37.5	105.2
Croatia					
Croatia as of December 31, 2012	19,545.8	127.7	12,621.4	93.9	221.6
Croatia as of December 31, 2013	17,666.1	115.6	12,447.8	92.5	208.1
Croatia as of December 31, 2014	15,258.1	99.5	12,846.5	95.4	194.9
Croatia as of December 31, 2015	12,264.7	81.2	12,163.7	90.3	171.5
Revision of previous estimates	(163.3)	(0.8)	(242.8)	(1.8)	(2.5)
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(1,213.2)	(7.6)	(676.7)	(5.1)	(12.7)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Croatia as of December 31, 2016	10,888.1	72.8	11,244.3	83.5	156.3

PROVED + PROBABLE RESERVES (2P)	NATURAL GAS		CRUDE OIL AND CONDENSATE		COMBINED MMBOE
	MCM	MMBOE	KT	MMBBL	
U.K. (North Sea)					
U.K. (North Sea) as of December 31, 2014	188.9	1.1	3,602.5	29.3	30.4
U.K. (North Sea) as of December 31, 2015	179.6	1.1	3,409.9	24.6	25.7
Revision of previous estimates	(41.3)	(0.2)	93.7	0.7	0.7
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(88.0)	(0.5)	(342.2)	(2.5)	(3.2)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
U.K. (North Sea) as of December 31, 2016	50.3	0.3	3,161.4	22.8	23.2
KRI**					
KRI as of December 31, 2012	0.0	0.0	0.0	0.0	0.0
KRI as of December 31, 2013	0.0	0.0	0.0	0.0	0.0
KRI as of December 31, 2014	0.0	0.0	2,298.6	15.4	15.4
KRI as of December 31, 2015	0.0	0.0	2,125.0	14.2	14.2
Revision of previous estimates	0.0	0.0	13.0	0.1	0.1
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	(198.4)	(1.3)	(1.3)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
KRI as of December 31, 2016	0.0	0.0	1,939.6	13.0	13.0
Russia					
Russia as of December 31, 2012	0.0	0.0	24,776.6	176.2	176.2
Russia as of December 31, 2013	0.0	0.0	18,398.9	129.9	129.9
Russia as of December 31, 2014	0.0	0.0	10,371.6	74.5	74.5
Russia as of December 31, 2015	0.0	0.0	10,006.4	71.9	71.9
Revision of previous estimates	0.0	0.0	(12.3)	(0.1)	(0.1)
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	(363.4)	(2.6)	(2.6)
Purchase/sale of minerals in place	0.0	0.0	(2,516.4)	(19.4)	(19.4)
Russia as of December 31, 2016	0.0	0.0	7,114.3	49.8	49.8
Pakistan					
Pakistan as of December 31, 2012	1,189.1	7.9	123.7	1.0	8.9
Pakistan as of December 31, 2013	1,909.9	13.1	613.3	4.6	17.7
Pakistan as of December 31, 2014	1,455.7	10.0	451.5	3.4	13.4
Pakistan as of December 31, 2015	1,222.2	8.4	365.3	2.7	11.1
Revision of previous estimates	(34.6)	(0.2)	3.5	0.0	0.1
Extension and discoveries	56.6	0.4	112.1	0.8	1.3
Production	(254.4)	(1.8)	(125.5)	(0.9)	(2.8)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Pakistan as of December 31, 2016	989.8	6.7	355.4	2.7	9.8
Kazakhstan					
Kazakhstan as of December 31, 2012	3,667.4	21.6	1,900.8	15.1	36.7
Kazakhstan as of December 31, 2013	3,667.4	21.6	1,900.8	15.1	36.7
Kazakhstan as of December 31, 2014	6,670.6	39.3	2,651.7	21.1	60.4
Kazakhstan as of December 31, 2015	6,670.6	39.3	2,651.7	21.1	60.4
Revision of previous estimates	0.0	0.0	0.0	0.0	0.0
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	0.0	0.0	0.0
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Kazakhstan as of December 31, 2016	6,670.6	39.3	2,651.7	21.1	60.4

PROVED + PROBABLE RESERVES (2P)	NATURAL GAS		CRUDE OIL AND CONDENSATE		COMBINED MMBOE
	MCM	MMBOE	KT	MMBBL	
Syria, Egypt and Angola					
Syria, Egypt and Angola as of December 31, 2012	4,357.9	25.7	2,337.2	19.0	44.6
Syria, Egypt and Angola as of December 31, 2013	4,357.9	25.7	2,118.3	17.3	43.0
Syria, Egypt and Angola as of December 31, 2014	4,357.9	25.7	2,042.6	16.8	42.5
Syria, Egypt and Angola as of December 31, 2015	4,357.9	25.7	1,976.0	16.3	42.0
Revision of previous estimates	0.0	0.0	108.5	0.8	0.8
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	(151.5)	(1.1)	(1.1)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Syria, Egypt and Angola as of December 31, 2016	4,357.9	25.7	1,933.0	16.0	41.6
TOTAL MOL Group					
TOTAL MOL Group as of December 31, 2012	49,475.0	282.5	49,534.0	364.6	647.0
TOTAL MOL Group as of December 31, 2013	44,405.7	258.1	43,175.1	317.6	575.7
TOTAL MOL Group as of December 31, 2014	42,192.6	250.7	40,653.1	304.3	554.9
TOTAL MOL Group as of December 31, 2015	38,241.2	229.7	38,252.6	284.0	513.7
Revision of previous estimates	(268.4)	(1.4)	31.9	0.3	(0.6)
Extension and discoveries	615.3	4.1	195.0	1.5	5.7
Production	(3,238.0)	(19.9)	(2,705.5)	(19.9)	(40.0)
Purchase/sale of minerals in place	0.0	0.0	(2,516.4)	(19.4)	(19.4)
TOTAL MOL Group as of December 31, 2016	35,350.1	212.5	33,257.6	246.4	459.4
INA					
INA as of December 31, 2012	23,903.7	153.3	14,958.6	112.9	266.2
INA as of December 31, 2013	22,024.0	141.2	14,566.0	109.8	251.1
INA as of December 31, 2014	19,616.0	125.1	14,889.2	112.2	237.4
INA as of December 31, 2015	16,622.6	106.9	14,139.7	106.6	213.5
Revision of previous estimates	(163.3)	(0.8)	(134.3)	(1.0)	(1.7)
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(1,213.2)	(7.6)	(828.1)	(6.2)	(13.8)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
INA as of December 31, 2016	15,246.0	98.5	13,177.3	99.5	197.9

* The reserves include information about 100% of MMBF Ltd's reserves. These disclosures do not contain information about MOL Group's share in equity consolidated Pearl project.

** KRI - Kurdistan Region of Iraq

HYDROCARBON PRODUCTION

DAILY HYDROCARBON PRODUCTION BY COUNTRIES (THOUSAND BOEPD)	2012	2013	2014 RESTATED	2015 RESTATED	2016
Hungary	46.2	43.2	41.6	41.0	44.4
Croatia	42.1	37.2	35.2	37.6	36.3
U.K. (North Sea)	-	-	1.3	4.9	8.0
Russia	12.1	7.6	2.9	1.9	1.3
Pakistan	5.6	5.8	6.6	6.8	7.5
Kurdistan Region of Iraq	0.5	0.2	1.9	3.6	3.6
Syria	3.1	-	-	-	-
Egypt	1.9	1.9	2.0	2.1	2.1
Angola	1.5	1.1	1.2	1.2	1.1
Average hydrocarbon production of fully consolidated companies	113.0	97.0	92.7	99.1	104.1
Russia (Baitex)	5.5	6.6	4.8	4.8	5.8
Kurdistan Region of Iraq (Pearl Petroleum)*	-	-	-	-	2.3
Average hydrocarbon production of joint ventures and associated companies	5.5	6.6	4.8	4.8	8.1
Group level average hydrocarbon production	118.5	103.7	97.5	103.9	112.2

* Production from Pearl Petroleum reported from 2016

DAILY HYDROCARBON PRODUCTION BY PRODUCTS (THOUSAND BOEPD)	2012	2013	2014 RESTATED	2015 RESTATED	2016
crude oil	37.4	31.6	29.7	35.2	40.9
natural gas	66.7	57.8	54.9	56.9	55.6
condensate	9.0	7.6	8.1	7.1	7.5
Average hydrocarbon production of fully consolidated companies	113.0	97.0	92.7	99.1	104.1
crude oil	5.5	6.6	4.8	4.8	5.8
natural gas	-	-	-	-	-
condensate	-	-	-	-	2.3
Average hydrocarbon production of joint ventures and associated companies	5.5	6.6	4.8	4.8	8.1
Group level average hydrocarbon production	118.5	103.7	97.5	103.9	112.2

COSTS

DIRECT PRODUCTION COSTS* (USD/BOE)	2012	2013	2014 RESTATED	2015 RESTATED	2016
Average unit OPEX of fully consolidated companies	N.A.	N.A.	8.0	7.6	6.6
Average unit OPEX of joint ventures and associated companies	N.A.	N.A.	5.5	2.4	1.9
Group level average unit OPEX	7.3	8.3	7.8	7.3	6.3

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

COSTS INCURRED (HUF MN)*

	CONSOLIDATED COMPANIES				TOTAL	ASSOCIATED COMPANIES	TOTAL
	CEE**	WE***	CIS****	OTHER*****			
For year ended 31 December 2015							
Acquisition of properties	0	33,160	0	0	33,160	-	33,160
Proved	0	11,044	0	0	11,044	-	11,044
Unproved	0	22,115	0	0	22,115	-	22,115
Exploration	15,472	5,851	751	54,370	76,444	-	76,444
G&G	2,367	2,230	90	3,119	7,807	-	7,807
Drilling	11,841	2,264	414	47,000	61,518	-	61,518
Rental fee, other	1,264	1,356	247	4,251	7,118	-	7,118
Development	44,259	52,536	1,272	11,990	110,056	-	110,056
Total costs incurred	59,731	91,546	2,023	66,360	219,660	-	219,660
For year ended 31 December 2016							
Acquisition of properties	0	0	0	0	0	-	0
Proved	0	0	0	0	0	-	0
Unproved	0	0	0	0	0	-	0
Exploration	7,113	5,438	120	10,106	22,777	-	22,777
G&G	229	2,903	3	1,117	4,251	-	4,251
Drilling	5,523	1,273	0	7,065	13,861	-	13,861
Rental fee, other	1,362	1,262	117	1,924	4,665	-	4,665
Development	42,893	46,083	234	6,986	96,195	-	96,195
Total costs incurred	50,006	51,521	353	17,092	118,972	-	118,972

* 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. These disclosures do not contain information about MOL Group's share in equity consolidated Pearl project.

** CEE: Hungary, Croatia

*** WE: United Kingdom, Norway

**** CIS: Russia, Kazakhstan

***** Other: Kurdistan Region of Iraq, Syria, Oman, Pakistan, Egypt, Angola

EARNINGS (HUF MN)*

	CONSOLIDATED COMPANIES					ASSOCIATED COMPANIES	TOTAL
	CEE**	WE***	CIS****	OTHER*****	TOTAL		
For year ended 31 December 2015							
Sales	264,096	20,820	2,616	38,821	326,353	-	326,353
third parties	162	20,820	2,616	38,821	62,419	-	62,419
intra-group	263,934	0	0	0	263,934	-	263,934
Production costs	(44,522)	(13,347)	(2,799)	(18,248)	(78,914)	-	(78,914)
Exploration expense	(2,820)	(2,230)	(90)	(3,119)	(8,259)	-	(8,259)
DD&A	(237,155)	(270,921)	(19,163)	(183,168)	(710,407)	-	(710,407)
Other income/(costs)	17,501	(17,425)	(3,158)	(17,074)	(20,156)	-	(20,156)
Earnings before taxation	(2,900)	(283,103)	(22,594)	(182,788)	(491,384)	-	(491,384)
Taxation	(31,801)	(3,751)	651	666	(34,234)	-	(34,234)
Earnings from operation	(34,700)	(286,854)	(21,943)	(182,121)	(525,618)	-	(525,618)
For year ended 31 December 2016							
Sales	221,991	30,276	1,540	40,806	294,613	-	294,613
third parties	1,365	30,276	1,540	40,806	73,987	-	73,987
intra-group	220,626	0	0	0	220,626	-	220,626
Production costs	(43,097)	(17,196)	(1,801)	(11,127)	(73,220)	-	(73,220)
Exploration expense	(548)	(2,903)	(3)	(1,117)	(4,570)	-	(4,570)
DD&A	(110,710)	(15,530)	(2,251)	(18,673)	(147,164)	-	(147,164)
Other income/(costs)	(11,551)	27,459	(5,387)	(28,874)	(18,352)	-	(18,352)
Earnings before taxation	56,087	22,106	(7,902)	(18,985)	51,306	-	51,306
Taxation	(42,551)	4,013	(6)	(2,199)	(40,743)	-	(40,743)
Earnings from operation	13,536	26,119	(7,907)	(21,184)	10,563	-	10,563

* 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. These disclosures do not contain information about MOL Group's share in equity consolidated Pearl project.

** CEE: Hungary, Croatia

*** WE: United Kingdom, Norway

**** CIS: Russia, Kazakhstan

***** Other: Kurdistan Region of Iraq, Syria, Oman, Pakistan, Egypt, Angola

EXPLORATION AND DEVELOPMENT WELLS

COUNTRY	CEE'	WE''	CIS'''	OTHER''''	TOTAL
For year ended 31 December 2015					
Wells tested	14	4	62	21	101
o/w exploration/appraisal	8	0	1	8	16
oil and gas producer	0	0	0	2	2
oil producer	0	0	0	0	0
natural gas producer	0	0	0	0	0
dry/non-commercial	7	0	1	4	12
suspended	1	0	0	1	2
o/w development wells	6	4	61	14	85
oil producer	1	2	59	13	75
natural gas producer	2	0	0	0	2
dry/ non commercial	2	0	1	1	4
Injection	1	2	1	0	4

COUNTRY	CEE'	WE''	CIS'''	OTHER''''	TOTAL
For year ended 31 December 2016					
Wells tested	6	11	66	8	91
o/w exploration/appraisal	3	1	1	6	11
oil and gas producer	0	0	0	3	3
oil producer	1	0	0	0	1
natural gas producer	1	0	0	0	1
dry/non-commercial	1	1	0	3	5
suspended	0	0	1	0	1
o/w development wells	3	10	65	2	80
oil producer	2	9	65	0	76
natural gas producer	1	0	0	2	3
dry/ non commercial	0	1	0	0	1
Injection	0	0	0	0	0

* CEE: Hungary, Croatia

** WE: United Kingdom, Norway

*** CIS: Russia, Kazakhstan

**** Other: Kurdistan Region of Iraq, Syria, Oman, Pakistan, Egypt, Angola

DOWNSTREAM

REFINING & MARKETING

GROUP'S PROCESSING BY REFINERIES

(THOUSAND TONNES)'	2012	2013	2014	2015	2016
Duna Refinery	8,080	8,107	8,413	7,925	7,981
Bratislava Refinery	6,309	6,828	6,146	6,905	6,761
Mantova Refinery	2,431	2,445	337	1,176	1,082
INA refineries	3,832	3,587	3,159	3,543	3,851
Total	20,652 / 20,237 *	20,507	17,541	19,039	19,229

* Data has been corrected in line with calculation method change in 2012

EXTERNAL REFINED PRODUCTS SALES (KT)

	2012	2013	2014	2015	2016
LPG	598	606	476	492	521
Naphtha	46	46	0	14	67
Motor gasoline	4,036	3,987	3,614	3,826	3,816
Diesel	9,065	9,363	9,133	9,402	9,724
Heating oils	852	780	721	702	645
Kerosene	348	419	384	396	438
Fuel oil	332	677	554	470	508
Bitumen	1,015	1,026	629	553	541
Other products	1,489	1,188	1,216	1,380	1,552
Total refined products	17,781	18,092	16,725	17,234	17,811
o/w Retail segment sales	3,375	3,480	3,513	3,856	4,246
Petrochemical feedstock transfer	1,986	1,994	1,991	2,285	1,994

CRUDE OIL PRODUCT SALES (KT)*

	2012	2013	2014	2015	2016
Sales in Hungary	3,840	3,908	3,937	3,972	4,036
Gas and heating oils	2,325	2,393	2,417	2,381	2,448
Motor gasolines	983	954	927	921	958
Fuel oils	17	13	9	4	0
Bitumen	87	91	126	141	115
Lubricants	46	15	16	18	27
Other products	382	442	442	507	488
Sales in Slovakia	1,515	1,501	1,515	1,586	1,695
Gas and heating oils	972	976	1,016	1,068	1,096
Motor gasolines	393	368	356	365	374
Lubricants	21	8	9	10	10
Bitumen	20	15	30	28	20
Other products	109	134	104	115	195
Sales in Croatia	1,715	1,796	1,666	1,687	1,724
Gas and heating oils	1,068	1,133	1,090	1,110	1,135
Gasolines	424	470	405	397	391
Lubricants	9	10	9	0	0
Bitumen	71	80	65	58	59
Other products	143	103	97	122	139
Export sales	10,113	10,294	9,133	9,528	9,835
Gas and heating oils	5,552	5,641	5,332	5,557	5,688
Gasolines	2,237	2,194	1,926	2,143	2,092
Lubricants (without base oil)	40	27	28	29	34
Bitumen	837	840	408	328	347
Other products	1,447	1,592	1,439	1,471	1,674
Total crude oil product sales	17,183	17,499	16,251	16,773	17,290

* Without LPG sales

GROUP'S PROCESSING BY REFINERIES FEEDSTOCKS IN 2016

(THOUSAND TONNES)*	DUNA REFINERY	BRATISLAVA REFINERY	INA REFINERIES	MOL GROUP TOTAL
Own produced crude oil	655	0	599	1,254
Imported crude oil	5,926	5,738	2,530	14,194
Condensates	102	2	84	188
Other feedstock	1,299	1,020	639	3,593
Total refinery throughput	7,981	6,760	3,851	19,229
Purchased and sold products	1,262	54	464	1,564

GROUP'S REFINERY PRODUCTION (YIELD) BY PRODUCTS IN 2016

(THOUSAND TONNES)*	DUNA REFINERY	BRATISLAVA REFINERY	INA REFINERIES	MOL GROUP TOTAL
LPG	87	190	211	484
Naphtha	987	408	64	1,460
Motor gasoline	1,109	1,520	853	3,641
Diesel and heating oil	3,060	2,976	1,407	8,340
Kerosene	193	93	112	398
Fuel oil	6	323	488	746
Bitumen	527	0	0	506
Other products	1,300	641	276	1,860
Own consumption + losses	712	609	439	1,793

*Data has been corrected in line with calculation method change in 2012

RETAIL
RETAIL SALES

RETAIL SALES OF REFINED PRODUCTS (KT)*	2012	2013	2014	2015	2016
Motor gasoline	1,099	1,105	1,073	1,143	1,237
Gas and heating oils	2,186	2,289	2,347	2,615	2,909
Other products	90	86	93	98	100
Total refined product retail sales	3,375	3,480	3,513	3,856	4,246

* Volume sold on company owned service stations

GASOLINE AND DIESEL SALES BY COUNTRIES (KT)

	2012	2013	2014	2015	2016
Hungary	753	776	846	917	1,043
Slovakia	415	413	444	526	610
Croatia	964	941	1,044	1,045	1,028
Romania	464	498	492	571	643
Czech Republic	51	134	145	350	455
Other	638	632	449	349	367
Total	3,285	3,394	3,420	3,758	4,146

SERVICE STATIONS

NUMBER OF MOL GROUP SERVICE STATIONS*	2012 RESTATED	2013 RESTATED	2014 RESTATED	2015 RESTATED	2016
Hungary	360	366	364	364	479
Croatia	439	435	434	431	430
Italy	215	196	116	107	83
Slovakia	209	212	214	253	252
Romania	135	147	159	202	206
Bosnia and Herzegovina	110	104	102	100	101
Austria	26	23	24	0	0
Serbia	34	38	42	47	53
Czech Republic	149	149	192	316	306
Slovenia	37	38	40	40	56
Other	1	1	1	1	1
Total	1,748	1,703	1,734	1,861	1,967

* With restatement of Italy, and Austria due to methodology change

PETROCHEMICAL
PETROCHEMICAL PRODUCTION (KT)

	2012	2013	2014	2015	2016
Ethylene	623	684	656	737	678
Propylene	321	348	327	378	347
Other products	534	623	555	615	671
Total olefin	1,478	1,655	1,538	1,730	1,696
Butadiene				16	52
Raffinate				23	80
Total BDEU production				39	132
LDPE	164	158	151	177	193
HDPE	322	351	349	390	323
PP	447	472	443	534	500
Total polymers	933	981	943	1,101	1,016
TOTAL petrochemical production	2,411	2,636	2,480	2,870	2,844

PETROCHEMICAL SALES BY REGION (KT)

	2012	2013	2014	2015	2016
Hungary	451	444	390	428	403
Slovakia	65	60	75	109	106
Other markets	714	798	661	761	735
Total petrochemical product sales	1,230	1,302	1,126	1,298	1,245

CONSOLIDATED SUSTAINABILITY PERFORMANCE DATA (GRI)

Definitions of the indicators used below can be found on our website

INDICATOR	NOTE	UNIT	2014	2015	2016	GRI STANDARD CODE	SDG LINKAGE
Climate Change							
Greenhouse Gas Emissions							
Carbon Dioxide (CO ₂)	1.2	mnt	5.79	6.11	5.98	305-1	SDG 13
Carbon Dioxide based on equity share approach (CO ₂) ⁽²⁾	1.2	mnt	5.16	5.68	5.97	305-1	SDG 13
Carbon Dioxide (CO ₂) under ETS	1.2	mnt	5.12	5.61	5.27	305-1	SDG 13
Methane (CH ₄)	1.2	t	690	354	1,471	305-1	SDG 13
Total Direct GHG (Scope-1)	1.2	mnt CO ₂ eq	5.81	6.15	6.07	305-1	SDG 13
Total Indirect GHG (Scope-2)	1.2	mnt CO ₂ eq	1.24	1.27	1.33	305-2	SDG 13
Total GHG emission of Upstream (Scope-1 + Scope-2)	1.2	mnt CO ₂ eq	0.92	0.71	0.68	305-1 305-2	SDG 13
Total GHG emission of Refining (Scope-1 + Scope-2)	1.2	mnt CO ₂ eq	5.56	4.65	4.52	305-1 305-2	SDG 13
Total Indirect GHG from product use, business trips and crude oil supply (Scope-3)	1.2	mnt CO ₂ eq	55.70	58.03	59.14	305-2	SDG 13
CO ₂ emission from flaring from Upstream activities	1.2	mnt CO ₂ eq	0.07	0.06	0.11	305-7	SDG 13
Energy Consumption							
Natural Gas	1.2	GJ	21,024,637	17,917,957	22,970,085	302-1	SDG 12
Other hydrocarbon (fuel, gas, etc.)	1.2	GJ	59,089,080	67,374,322	60,582,484	302-1	SDG 12
Total primary energy consumption	1.2	GJ	80,113,717	85,292,279	83,552,569	302-1	SDG 12
Electricity	1.2	GJ	9,084,171	9,562,509	9,781,690	302-1	SDG 12
Other indirect energy (steam, heat, etc.)	1.2	GJ	8,168,338	8,322,541	8,410,555	302-1	SDG 12
Total indirect energy consumption	1.2	GJ	17,252,509	17,885,050	18,192,245	302-1	SDG 12
Total energy consumption of Upstream (direct + indirect)	1.2	GJ	7,826,090	8,579,143	7,669,124	302-1	SDG 7
Total energy consumption of Refining (direct + indirect)	1.2	GJ	59,017,293	62,246,256	59,815,587	302-1	SDG 7
Total energy consumption	1.2	GJ	97,366,226	103,177,328	99,713,661	302-1	SDG 7

INDICATOR	NOTE	UNIT	2014	2015	2016	GRI STANDARD CODE	SDG LINKAGE
Environment							
Air Emissions							
Sulphur Dioxide (SO ₂)	2.1	t	5,368	6,146	7,077	305-7	SDG 13
Nitrogen Oxides (NO _x)	2.1	t	4,715	5,175	5,718	305-7	SDG 13
Volatile Organic Compounds (VOC)	2.1	t	5,251	7,950	4,695	305-7	SDG 13
Carbon Monoxide (CO)	2.1	t	2,275	2,309	1,559	305-7	SDG 13
Particulate Matter (PM)	2.1	t	367	353	274	305-7	SDG 13
Water							
Total Water Withdrawal	2.2	th m ³	94,130	84,657	85,175	303-1	SDG 6
Total Water Discharge	2.2	th m ³	103,795	94,002	92,233	306-1	SDG 14
Total Petroleum Hydrocarbons (TPH)	2.2	t	95	38	61	306-1	SDG 14
Chemical Oxygen Demand (COD)	2.2	t	1,647	1,514	1,739	306-1	SDG 14
Biological Oxygen Demand (BOD)	2.2	t	471	307	344	306-1	SDG 14
Solid Substances (SS)	2.2	t	873	765	835	306-1	SDG 14
Waste							
Hazardous Waste	2.3	t	80,866	92,720	139,032	306-2	SDG 12
Non-hazardous Waste	2.3	t	170,970	183,686	113,894	306-2	SDG 12
Waste Disposed / Landfilled	2.3	t	102,413	94,197	107,501	306-2	SDG 12
Waste Reused / Recycled / Recovered	2.3	t	149,423	182,461	145,424	306-2	SDG 12
Reused/recycled ratio	2.3	%	59.3	66.0	61.4		SDG 12
Spills and Discharges⁽³⁾							
Number of Spills (>1m ³)	2.3		2	6	11	306-3	SDG 12
Number of Spills (>1bbl)			29	11	41		SDG 12
Volume of Spills (>1m ³) (HC content)	2.3	m ³	85	17	637.1	306-3	SDG 12
Volume of Spills (>1bbl) (HC content)		m ³	98	36	657.9		SDG 12
Other							
HSE-related Penalties	2.5	mn HUF	18	21	12	307-1	SDG 12
HSE investments		mn HUF	12,550	15,518	16,627		SDG 12
HSE operating costs		mn HUF	12,477	14,159	14,901		SDG 12
Spending on waste (operating cost)		mn HUF	2,371	2,048	2,193		SDG 12
Spending on emissions (operating cost)		mn HUF	1,030	1,270	1,581		SDG 12
Spending on remediation (investment + operating cost)	2.3	mn HUF	1,919	2,057	1,670		SDG 12
Spending on environmental management and prevention (operating cost)	2.3	mn HUF	296	454	311		SDG 12
ISO 14001 certifications in proportion to revenue		%	66	66	67		

'n.a.' indicates where no data is available

Data was calculated according to GRI definitions.

(1) The Sustainable Development Goals (SDGs) launched by the United Nations is an important proxy linking MOL Group SD performance to national and supranational sustainable development aspirations

(2) GHG emissions according to the share of equity in the operation. Upstream Joint Ventures (INA offshore, Egypt, Angola, UK offshore, KRI) are excluded. Slovnaft Power Plant is included.

(3) Spills excluding spills from road accidents from 2014 onwards

INDICATOR	NOTE	UNIT	2014	2015	2016	GRI STANDARD CODE	SDG LINKAGE
Health and Safety							
Safety Indicators							
Lost Time Injury (LTI) employees	3.1		66	79	70	403-2	SDG 3
Lost Time Injury (LTI) for contractors	3.1		39	21	21	403-2	SDG 3
Lost Time Injury Frequency (LTIF) - employees	3.1		1.35	1.77	1.67	403-2	SDG 3
Lost Time Injury Frequency (LTIF) - contractors ⁽¹⁾	3.1		0.67	0.41	0.42	403-2	SDG 3
Total Recordable Injury Rate (TRIR) - Own staff + Contractor ⁽²⁾	3.1		1.50	1.44	1.34	403-2	SDG 3
Total Reportable Occupational Illnesses Frequency (TROIF)	3.1		0.0	0.0	0.0	403-2	SDG 3
Lost Day Rate (LDR)	3.1	%	0.20	0.16	0.09	403-2	SDG 3
Absentee Rate (AR)	3.1	%	2.83	3.17	4.09	403-2	SDG 3
Number of fatalities – employees	3.1		0	1	0	403-2	SDG 3
Number of fatalities – contractors - onsite	3.1		1	4	0	403-2	SDG 3
Number of fatalities – contractors - offsite	3.1		4	1	2	403-2	SDG 3
Number of fatalities – 3rd parties	3.1		2	3	21	403-2	SDG 3
Process safety events (Tier1+Tier2)	3.3		33	41	24	NA	SDG 3
Human Capital							
Employees							
Total workforce	4.2	n° of persons	27,499	25,959	24,986	102-8	SDG 8
Number of part-time employees	4.2	n° of persons	282	380	409	102-8	SDG 8
Number of full-time employees	4.2	n° of persons	27,217	25,579	24,577	102-8	SDG 8
Leavers	4.2	n° of persons	2,383	3,229	3,100	102-8	SDG 8
Number of new hires	4.2	n° of persons	1,764	3,142	3,009	401-1	SDG 8
Employee turnover rate	4.2	%	8.7	12.4	12.4	401-1	SDG 8
Employees with access to trade union memberships	4.4	%	94.4	94.9	96.1	304-1	SDG 8
Employees with potential coverage of collective bargaining agreements	4.4	%	88.7	91.5	89.0	304-1	SDG 8
Diversity							
Proportion of women in total workforce	4.2	%	21.4	22.0	24.3	405-1	SDG 5
Proportion of women in non-managerial positions	4.2	%	21.5	21.9	24.3	405-1	SDG 5
Proportion of women in managerial positions ⁽³⁾	4.2	%	19.4	23.8	24.2	405-1	SDG 5
Trainings							
Average hours of training per employee	4.3	hours	24	34	28	404-1	SDG 4
Avg. training cost per employee	4.3	th HUF	76	114	97	404-1	SDG 4
Total training cost	4.3	mn HUF	2,089	2,970	2,418		SDG 4

INDICATOR	NOTE	UNIT	2014	2015	2016	GRI STANDARD CODE	SDG LINKAGE
Communities							
Social Indicators							
Donations	5.2	mn HUF	3,005	1,898	1,571	203-1	SDG 1
In-kind giving (products and services)	5.2	mn HUF	96	34	31	203-1	SDG 1
Corporate volunteering	5.2	hours	6,291	6,085	7,265	203-1	SDG 1

n.a.' indicates where no data is available
 Data was calculated according to GRI definitions.
 (1) First reported in 2013. Single service companies of MOL Group are considered in LTIF-employees indicator. In part due to this reason contractor LTIF is significantly lower.
 (2) Contractors include filling station staff.
 (3) Including top, and mid-managerial (general and first-line management) levels

INDICATOR	NOTE	UNIT	2014	2015	2016	GRI STANDARD CODE	SDG LINKAGE
Economic Sustainability							
Economic Data⁽¹⁾							
Revenues		bn HUF	4,929	4,268	3,628	201-1	SDG 8
Financial assistance received from government		bn HUF	1.2	1.5	1.7	201-4	SDG 8
Operating costs		bn HUF	4,095	3,195	2,648	201-1	SDG 8
Company cash		bn HUF	834	1,073	980	201-1	SDG 8
Employee wages and benefits		bn HUF	260	267	240	201-1	SDG 8
Capital investors		bn HUF	175	211	125	201-1	SDG 8
Payments to governments		bn HUF	161	107	115	201-1	SDG 8
Economic value retained		bn HUF	238	488	499	201-1	SDG 8
Research & Development spendings		mn HUF	1,592	2,904	3,679		SDG 9
Research & Development spending on renewables in downstream		mn HUF	268	232	329		SDG 7
Customer Satisfaction⁽²⁾							
Wholesale fuel customer satisfaction	6.6		4.32	4.48	4.32	102-43	
Fuel Card customer satisfaction	6.6		4.25	4.43	4.35	102-44	
Ethics							
Ethical notifications	6.2	cases	88	90	93	102-17	SDG 10
Ethical investigations	6.2	cases	61	58	63	102-17	SDG 10
Ethical misconduct ⁽³⁾	6.2	cases	16	27	24	102-17	SDG 10
Total investigations performed by Corporate Security	6.2	cases	877	1,241	1,222	205-3	SDG 10
Total number of misconduct revealed by Corporate Security	6.2	cases	427	562	578	205-3	SDG 10

n.a.' indicates where no data is available
 Data was calculated according to GRI definitions.
 (1) Data is calculated according to GRI definition, see in details on MOL's website
 (2) Customer satisfaction measurement varies by business. The aggregate figures are simple averages drawn from surveys done on Wholesale Fuel customers (fewer clients buying large quantities) and Fuel Card customers (more clients buying smaller quantities). 2016 average comprises Hungarian and Croatian survey results. Further details can be found in the Customer section of the report and on our website.
 (3) The investigations which commenced in 2015 and closed in 2016 revealed an additional 2 cases of misconduct, resulting in a total of 27 case of misconduct for 2015. At the end of 2016 13 investigations were in progress.

NOTES ON SUSTAINABILITY PERFORMANCE

1 CLIMATE CHANGE

General aim: Manage risks and opportunities related to climate change

ACHIEVEMENTS:

- ▶ Energy efficiency projects, mainly under the Next Downstream Program, contributed to the avoidance of 127% more CO₂ emissions than in 2015. A total of 111 thousand tonnes of CO₂ were saved in 2016.
- ▶ A total of 350 thousand tonnes of CO₂ emissions avoided on an annual basis through the ongoing EOR project in INA
- ▶ Fourfold increase in MOL's innovative rubber bitumen sales
- ▶ Increase in advanced biofuel research spending of 152% in 2016

CHALLENGES:

- ▶ 2017 is foreseen to be the "Year of the Climate" on the EU legislative agenda: in order to meet the Paris commitments, European decision makers are working on the post-2020 energy and climate regulatory framework.
- ▶ Increasing the share of low-carbon energy carriers in conventional fossil products

Climate change is a major issue and is impacting the business environment of MOL Group. From a long-term perspective, it involves risks which must be prepared for or mitigated, and opportunities from which MOL can benefit. The new 2030 Strategy of MOL Group addresses perceived future market changes such as changes in customer behaviour that curb demand for fossil fuels over the long-term in reaction to climate change related issues.

RISKS

The management of climate change related risks is part of the general risk management process of MOL Group. Risks are assessed based on a unified methodology and categorized according to severity and probability in heat maps at different organizational levels. The Board of Directors reviews risk responses and controls and defines mitigation activities on a regular basis. The Finance and Risk Management Committee (FRC) of the Board of Directors discusses risks and responsive measures for managing overall risk to MOL, including climate change related risks.

The following areas are considered to represent the most significant climate change related risks to MOL Group for the time horizon leading up to 2030: the revision of the European Emissions Trading System (ETS), more biofuels with a focus on advanced, waste-based fuels, alternative fuels infrastructure, fuel quality, vehicle efficiency and e-mobility. The financial impact of each of these is estimated to range between HUF 1.4 - 42.4 bn per year. Revision of the ETS would have potentially greater impact depending on which scenario is adopted.

OPPORTUNITIES

The Clean Energy Package – a set of EU regulations – may have a significant impact on the long-term demand for fossil fuels and energy. Besides defining obligations, it also opens up new business opportunities in the area of "clean fuel/energy". In the long term, customer preferences may shift towards more environmental friendly products, which will impact the industry. MOL Group's new 2030 Strategy takes into account these scenarios and defines a trajectory for the group which involves turning risks into opportunities over the long term.

The following section of this report describes the activities MOL is initiating to build its future product portfolio and increase the energy efficiency of its operations.

1.1 FUTURE PRODUCT PORTFOLIO

Related objectives: "Maximize the share of low-carbon products and services"

MOL Group continuously assesses the opportunities for new investments that will broaden its portfolio. With the new 2030 MOL Group Strategy, the development of R&D culture and organization and actual activities will be more in focus. Some projects which will tap into the innovation potential of colleagues are already in flow, such as Downstream R&D's Innovation Café series about different topics with four events per year, the Green Fund for fostering projects with environmental benefits, and Wellhead, the innovation platform of Hungarian E&P, to name just a few.

This chapter is not designed to provide a holistic overview of all MOL's business development activities, but focuses on developments that may contribute in the short or long term to improving the environmental performance of the product portfolio.

In 2016, MOL Group continued implementing activities related to developing and deploying technologies that reduce its GHG footprint. Several downstream projects targeted the smart and value-generating utilization of waste feedstocks, including waste oils and fats, automobile tyres, agricultural and forestry wastes.

Refining Developments

Chemically-stabilized rubber bitumen

2016 was an important year for MOL Group's innovative chemically stabilized rubber bitumen, as the volume produced and sold surpassed that of the previous three years combined. Another sign of its growing market adoption is that numerous roads that are experiencing heavy traffic have been paved with this high quality product. Furthermore, the volume of waste tyres re-used for rubber bitumen in 2016 amounted to the equivalent of 100,000 tyres. MOL Group also received significant international attention for this innovative product by winning the prestigious Innovative Product of the Year Global Award 2016 of the Institution of Chemical Engineers (ICHEM), Manchester.

Waste-based fuel production

The importance of waste-based fuels is continuously increasing for economic reasons and the need to reduce GHG emissions. The proportion of biodiesel from waste origins that is blended into conventional diesel fuel has been growing significantly, particularly since 2012, and further growth is forecast. Used cooking oil based biodiesel typically reduces emissions of GHG by 83% compared to fossil diesel, meaning that it is a realistic method of reducing emissions across the transport sector.

MOL Group has also developed a refining technology that permits the direct utilization of higher volumes of renewable waste feedstocks. The implementation of this waste co-processing technology at the Danube Refinery is currently ongoing. The project is designed to produce a diesel blending component in the Gasoil Hydrotreater Unit from a mixture of conventional and waste animal fat feedstocks. As part of MOL Group's waste utilization efforts, the Danube Refinery has implemented a new mode of operating at one of its processing units in 2016 which facilitates the conversion of used, heavy lubricants (e.g. motor oils) into valuable fuel and chemical product streams.

Advanced renewable fuels

Apart from waste fats and oils, MOL Group has also been investigating different opportunities for producing advanced biofuels, mainly from cellulosic feedstocks; i.e. agricultural and forestry wastes.

Cellulosic biomass requires a more complex chemical conversion process than waste fats and oils before it can be used as a drop-in alternative or product which can easily be blended into conventional fossil fuels. In 2016 several promising thermochemical and biochemical conversion techniques were assessed to improve understanding of the key technological and commercial parameters of biofuel production. The now ongoing update of MOL Group's Renewable Fuel Strategy should help define the most promising pathways from a feedstock, technology and product perspective, while also taking into account the future requirements of the Renewable Energy Directive.

Concerning the key conversion technologies for cellulosic feedstocks, MOL Group has commenced work on two new innovation projects as part of strong international research and development consortium. One of the projects targets the development of an optimized cellulosic biomass gasification technology which will involve evaluating the different methods of utilization of the resulting bio-based synthesis gas. The other new project initiative deals with cellulosic biomass liquefaction and efficient product upgrades to fuel streams that utilize pre-existing standard refining technologies.

To complement our advanced renewable fuel initiatives, the 2015 assessment of available biomass types and volumes in MOL Group's core markets was extended by detailed mapping of the highest volume feedstocks.

CO₂ conversion & utilization

MOL Group started in 2015 to explore options for CO₂ conversion technologies that may decrease the CO₂ footprint of the company, and efforts to explore opportunities for CO₂ utilization continued in 2016. Comprehensive technology scouting work identified several technologies that utilize CO₂ as feedstock while also producing valuable chemicals. Some of these techniques were investigated in detail, including methanol and urea production. Unfortunately, these technological processes did not prove to be economi-

cally feasible, so more lucrative alternatives are being sought out. CO₂ emission reduction technologies remain one of the focal areas of MOL Group, and some options are undergoing detailed analysis.

Petrochemical Developments

The polyethylene and polypropylene grades manufactured by MOL Group are the raw materials for many different plastic products used in all areas of life. In this respect, MOL Group is dedicated to providing value-added, safe and sustainable polymer solutions which address the needs of direct customers, as well as those of end-users.

Phthalate-free polypropylene product portfolio

In 2016 MOL Group continued development of a project which targets replacement of the catalyst systems used for production of its polypropylene portfolio with phthalate-free alternatives. The trigger for this project is the concern that traces of phthalate derivatives that originate in the catalyst may end up in final plastic products. Following the efforts of recent years, from now on all TATREN polypropylene products are being produced using new catalyst technology. Additionally, a project to replace the catalyst system used in the production of the last portion of TIPPLEN grades (which are still manufactured using phthalate-based catalysts within MOL Group's second polypropylene product portfolio) was continued.

Reduction of volatile organic compounds (VOC)

To address increasing customer demand for polypropylene grades with reduced levels of volatile organic compounds (VOC), mainly for automotive interiors, MOL Group entered into a new collaboration with one of its technology providers. Based on the first trials, VOC content can be significantly decreased with the help of the new catalyst systems. After successful completion of further plant trials, we plan to launch the new and improved products in 2017.

Reducing the weight of plastic products to save energy and reduce plastic waste

One promising solution for reducing the environmental footprint of plastics is to develop polymers which enable plastic converters to produce final products with the same performance, but using less material. This will reduce the weight of the products, resulting in a decrease in the energy consumption of transport, and ultimately also in less plastic waste. In 2016, MOL Group was working on several projects for developing new polypropylene grades with improved mechanical properties which should mean that the wall thickness of the targeted pipe and packaging solutions can be significantly reduced. Initial results from these projects are positive, so it is expected that at least one of the new products will be launched during 2017.

Geothermal Developments

MOL Group is committed to investing in the utilization of geothermal energy as a renewable energy source and is also investigating opportunities with other renewable sources, such as solar power generation. With geothermal energy, there is a clear opportunity for the knowledge and technological expertise that has been accumulated within the Group to be leveraged. Additionally, the geological potential of this energy source in Central-Eastern Europe is favourable. After winning a concession tender and signing a concession contract for the Jászberény Geothermal Exploration in H1 2014, CEGE Ltd. (fully owned by MOL Nyrt.) initiated an exploration program. The official two-year exploration period started in March 2015. In 2016, the planning of one short and one long well test was concluded, and a request for the extension of the concession period is currently being developed.

Biofuel Sourcing

MOL Group does not produce biofuels, but two of its companies (MOL Plc. and Slovnaft) have minority shares in joint ventures that are involved in the production of biodiesel. These companies operate independently from MOL Group and are considered financial investments.

In 2016, MOL Plc. and Slovnaft a.s. purchased 450 million litres of biocomponents, similarly to previous years, for blending into petrol and diesel products.

MOL Group uses both conventional and waste-based biofuels only from sustainable sources. These are produced from certified renewable sources and from waste feedstock, including used cooking oil which is collected through the filling station network of MOL Group.

The biocomponents purchased in 2016 comply with the requirements of the EU Renewable Energy Directive (RED). MOL Group companies (MOL Plc., Slovnaft a.s. and INA d.d.) comply with the European ISSC certification system as distributors. ISSC certifies the entire supply chain of bio-based feedstocks and renewables to ensure the application of strict ecological and social sustainability standards, greenhouse gas emissions savings and traceability throughout the supply chain.

1.2 ENERGY EFFICIENCY AND GHG EMISSIONS

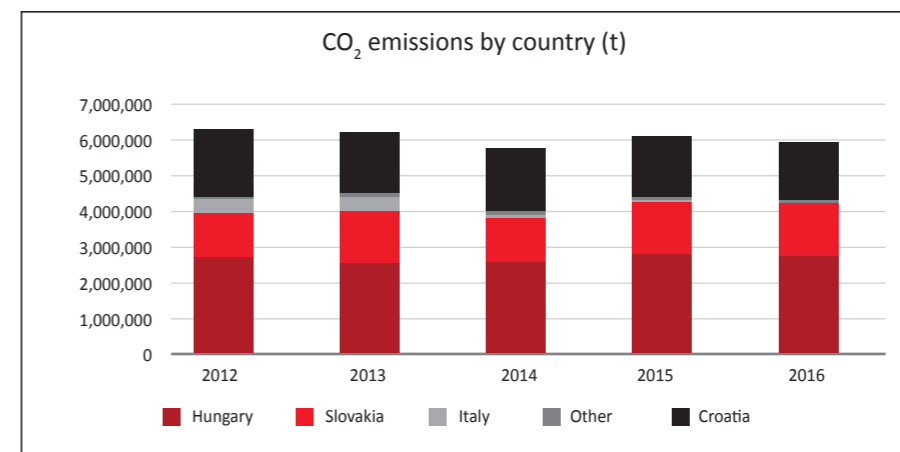
GHG emissions

Related strategic objectives:

"By 2020 decrease direct and indirect GHG emissions by 200 thousand tonnes of CO₂ equivalent through energy efficiency initiatives in Downstream"

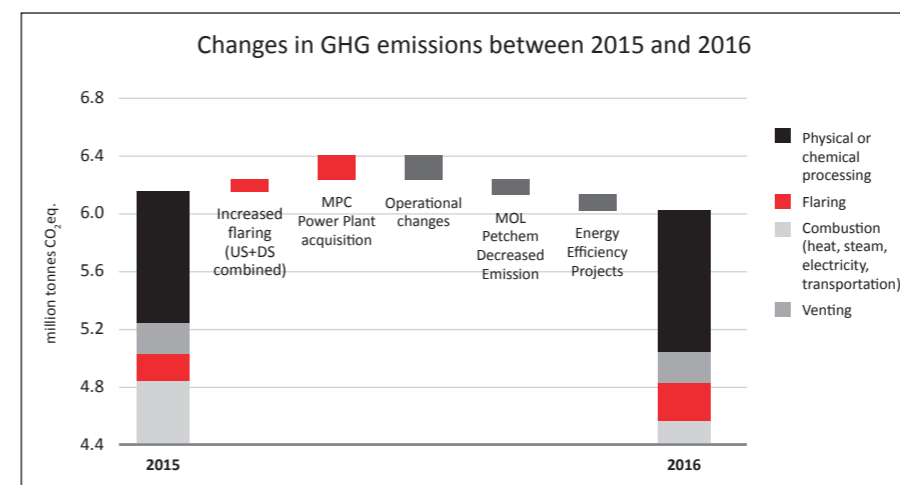
"By 2020 decrease GHG emission from flaring and venting by 200 thousand tonnes of CO₂ equivalent in Upstream"

In 2016, the total direct CO₂ emissions of MOL Group amounted to 5.98 million tonnes of CO₂ equivalent. This is 2% less than in 2015, when emissions came to 6.1 million tonnes of CO₂ equivalent, and 5% less compared to 2012 (6.3 million tonnes). The single largest component of such GHG emissions is carbon-dioxide (CO₂), the emissions of which are shown in the chart below on a country basis.



Several factors influenced emissions trends in 2016, as explained below.

- Energy efficiency programs and initiatives continue to bring savings (see the separate Energy Efficiency chapter for details).
- The EOR project in Croatia continues to bring significant savings in terms of CO₂ emissions (the incremental change compared to 2015 is lower).
- In 2016 the first project financed by the MOL Group Green Fund started (an LED lighting installation in MOL Pakistan main office and at one production site). The results of the project will be available in 2017. The Green Fund was established in MOL Group in 2016 under the Sustainable Development 2020 Action Plan and is designed to support investment projects with outstanding environmental benefits.



Refining and Petrochemical operations are the primary GHG emissions sources of MOL Group. We have been monitoring the GHG

performance of our refining businesses since 2010 using the CONCAWE – Solomon CO₂ intensity indicator (CWT – Complexity Weighted Tonnes). In a similar manner, for our petrochemical business we use an indicator of the production of high value chemicals (HVC). These indicators are production-based and they take into account the complexity of the installations.

For upstream business we monitor performance using the IOGP standard indicator – kg CO₂/toe.

The results presented below indicate a slight increase in carbon intensity (1%) for the refining sector compared to 2012, and a 1.06% decrease for the petrochemical sector (these variations are mainly due to turnarounds and a change in the calculation methodology for Croatian operations that entered into effect in 2014).

CO₂ intensity (production-weighted average) of refineries and petrochemical sites of MOL Group [GRI Standard 305-2]

YEAR	2012	2013	2014	2015	2016	CHANGE 2012-2016 (%)
Refining (t CO ₂ /kt of CWT)	36.43	35.59	35.54	37.94	36.65	0.6
Petchem (t CO ₂ /t HVC)	1.031	1.020	1.020	1.040	1.020	(1.1)

Change in CO₂ intensity by refinery (t CO₂/kt of CWT) and by petrochemical site (t CO₂/t HVC) [GRI Standard 305-2]

SITE	REFINING				PETROCHEMICAL		
	DUNA REFINERY (MOL)	SLOVNAFT (SLOVNAFT)	MANTOVA (IES)	SISAK (INA)	RIJEKA (INA)	MOL PETRO-CHEMICALS	SLOVNAFT PETRO-CHEMICALS
Change (%) 2016/2012	(3.95)	(1.09)	(100)	10.59	7.58	(1.09)	12.39

Scope 3 GHG emissions

MOL Group accounts under Scope 3 emissions those GHGs emitted from the value chain which are not directly related to company operations. Such emissions are typically the result of the use of refinery products or natural gas by customers, or are generated by suppliers who provide services to MOL Group. MOL Group reports on Scope 3 emissions in order to provide a context for its direct emissions, and to increase the transparency of its total footprint.

Scope 3 GHG emissions by origin (t CO₂) [GRI Standard 305-3]

EMITTED BY	SOURCE OF EMISSION	2012	2013	2014	2015	2016
Customers	Use of purchased refinery products (t CO ₂)	50,305,352	51,060,438	48,486,612	50,571,763	51,848,469
Customers	Use of purchased natural gas (own production) (t CO ₂)	7,528,676	6,566,103	6,025,497	6,247,138	5,921,792
MOL Group	Business trips (t CO ₂)	3,943	4,414	2,984	2,508	2,335
Suppliers	Production of crude oil (purchased from external sources) (t CO ₂)	1,722,810	1,399,445	1,179,981	1,203,727	1,371,241
Total		59,560,780	59,030,400	55,695,074	58,025,136	59,144,406

Scope 3 emissions increased in 2016 compared to 2015, mainly as the result of the increased volume of products sold to customers. Also, supplier-side GHG emissions increased as a result of increased crude processing.

Although accounting for a small share of total MOL Group emissions, business trip-related CO₂ emissions are also tracked and reported. These business-travel-related emissions decreased in 2016 (2,335 tonnes of CO₂ equivalent) when compared to 2015 (2,508 tonnes of CO₂ equivalent).

Flaring and venting

Flaring refers to the controlled burning of hydrocarbons for technical or safety reasons. The gas flared in Exploration and Production is typically ‘associated petroleum gas’ (APG), while in Downstream gases generated during the refining process are usually flared for safety reasons. Oil and gas leakages are considered to be losses of valuable material that represent operational inefficiency. Venting of gas refers to release without burning. In E&P, venting occurs when the main component of the associated gas is carbon-dioxide (CO₂).

Flaring is important from both an environmental point of view and the perspective of operational efficiency. In recognition of the importance of this topic, MOL Group in 2015 decided to join the Zero Routine Flaring Initiative of the World Bank. The amount of gas flared during MOL Group’s activities is shown in the tables below:

Flaring in E&P activities (for which MOL Group is operator) in 2016 [GRI OG6]

FLARING IN UPSTREAM ACTIVITIES IN 2016	MOL US	INA US	MOL PAKISTAN	RUSSIA	TOTAL
Flared hydrocarbon (tonnes)	15,839	7,993	7,375	908	32,115
CO ₂ (tonnes)	24,847	47,347	21,689	18,149	112,032

In Exploration and Production the reported volume of flaring increased. In Croatian E&P operations the increase in flaring was a result of the overhaul of operations, while in Hungary a review of the reported Flaring amount also contributed to the increase. In BaiTex there was a significant increase as a result of new projects.

Flaring in Downstream activities in 2016 [GRI OG6]

FLARING IN DOWNSTREAM ACTIVITIES IN 2016	MOL REFINING	SLOVNAFT (REFINING + PETROCHEMICALS)	INA (RIJEKA+SISAK REFINERIES)	MOL PETROCHEMICALS	TOTAL
Flared hydrocarbon volumes (tonnes)	12,928	14,699	29,489	13,874	70,990
CO ₂ (tonnes)	25,349	38,550	94,758	43,373	202,030

All downstream production is located in the EU, where flaring is used only for shutdowns, start-up operations or in the case of emergencies, as per legal requirements. In MOL Group’s downstream operations there was an overall increase in the amount of gases flared. This is the result of increased flaring at sites with longer periods of maintenance work or specific technical issues. Meanwhile, at other sites with more reliable operations, a significant decrease was recorded.

Energy Efficiency

MOL Group is running a highly energy-intensive business. In 2016, energy efficiency remained key to improving financial results and resilience, as well as responding to external (primarily legislative) pressure. A number of energy efficiency measures also involve reducing GHG emissions, which we continue to monitor and report on.

In 2016, one-off energy efficiency projects brought an estimated 111,000 tonnes of CO₂ savings; i.e. an 127% increase compared to 2015, and also resulted in HUF 339 mn of financial savings for the year.

Since 2011, annual reductions of 555,000 tonnes of CO₂ emissions and HUF 15 billion in costs (approx.) have been achieved through group-wide efforts to reduce the energy consumption of Upstream and Downstream operations.

From the projects implemented in 2016, the Next Downstream Program (NxDSP) - the group-level strategic framework of the Downstream division - was responsible for most of the efficiency improvements.

In MOL Hungary, cleaning and modification of refining heat exchanger resulted in 8,720 tonnes of CO₂ savings. However, a project designed to reduce the fuel consumption of the Mild-HydroCracker process heater caused a one-off negative impact on year-on-year CO₂ savings at the Duna Refinery. This was due to the processing of more energy-demanding high-sulphur content alternative crude oil in 2016. Nonetheless, energy efficiency initiatives at the group level, and especially in INA, mitigated these negative effects and even increased CO₂ savings for 2016. In INA, the improvement of the refineries within the NxDSP eliminated a total of 60 thousand tonnes of CO₂ emissions in 2016 through projects involving condensate collection (the reduction of demineralised water production and evaporation, and steam loss via reparation of steam traps), steam network maintenance, and reduced flaring - among others.

At MOL Petrochemicals, the largest CO₂ savings come from the energy generation and olefin units (5,500 and 5,000 tonnes of avoided emissions, respectively). The single biggest reduction was due to methane fraction utilization at the TVK Power Plant which resulted in a reduction of 4,280 tonnes of CO₂ emissions, and 4.8 million GJ of energy savings.

Of the major projects announced in 2015, in Slovnaft the LDPE4 unit test runs and delayed start-up did not bring CO₂ reductions, since as of 2016 the unit had not replaced the older, less efficient technologies of LDPE2 and LDPE3. The new Butadiene extraction unit in MOL Petrochemicals has been in operation since October 2015. The unit is generating excess hydrogen fuel gas, which can substitute for natural gas consumption in the olefin units or at TVK Power Plant. In 2016, the Butadiene unit resulted in CO₂ savings in the order of 19.6 thousand tonnes.

Exploration and Production activities are responsible for less than 10% of overall group-level consumption, while Downstream operations, and (mainly) refinery and petrochemical production account for more than 90% of group-level energy consumption (including both direct and indirect energy sources).

In addition to the most important business-related activities, improvements are continuously taking place at MOL's other assets, such as the filling station network, office buildings and warehouses.

All business lines have implemented projects to support the meeting of targets. They include:

- The refurbishment of the engines of two locomotives used in Hungarian operations in 2016 has led to gasoil savings of 30% in each case, and a saving on lubricants of more than 90%. A further five locomotives will be refurbished in 2017.
- Asset maintenance resulted in energy savings in the order of 5-10% at selected sites in Hungary where heating systems and boilers were replaced, or insulation was improved.
- In 2016, 285 service stations switched to LED lighting, which resulted in overall CO₂ emission reductions of 2,100 tonnes, while energy-efficiency standards are now in force during each Fresh Corner-related refurbishment (58 in Hungary, 6 in Serbia in 2016).
- MOL Hungary installed two additional electric chargers at its low-carbon-footprint service station in Budapest (on Istenehyi Street), which now allow for the simultaneous charging of four cars. The required electrical energy is partly provided by the integrated solar panels installed on the canopy of the service station, and on the "solar tree" above the fuel dispensers. The further, country-wide deployment of electric chargers is expected in the years to come, which will decrease the indirect energy consumption of customers.

2 ENVIRONMENT

General aim: Reduce environmental footprint

ACHIEVEMENTS:

- ▶ MOL's LDAR programme has continually been extended over the past few years and now includes not only downstream production sites, but also logistic and Exploration & Production sites in Hungary
- ▶ All exploration and production sites that are considered critical now have in place biodiversity action plans

CHALLENGES:

- ▶ Increases in air emissions (both SO₂ and NO_x) as a result of the use of crude with higher sulphur content, as well as an increase in the volume of production
- ▶ The total volume of hydrocarbons in spills of above 1 m³ significantly increased due to 2 incidents at Croatian and Slovakian refineries

AIR EMISSIONS

Related strategic objective: "By 2020 reduce NO_x and SO_x emissions by 15% respectively"

MOL Group operates a wide range of oil and gas technologies and equipment and the industry itself is considered to be a significant source of air pollutants. MOL Group is constantly monitoring these emissions and has programmes in place to reduce its volatile organic compounds (VOC), SO₂, NO_x, CO and Particulate Matter (PM) emissions.

A leak detection and repair programme (LDAR) has been ongoing in MOL Group since 2010, coupled with a programme for improving the monitoring and reporting of such emissions. Every year, the scope of the LDAR programme has been extended to cover more units. This explains the reported increase in VOC emissions between 2012 and 2016.

However, the program has resulted in significant decreases of VOC over the past few years at the individual site level and in 2016 efforts continued with further improvements. The significant reduction between 2015 and 2016 is attributable to new vapour recovery units commissioned at the two Croatian refineries, but also due to a change in the calculation methodology at the Hungarian production sites.

At our Slovak refinery, the LDAR programme has been operational since 1998. Since then, VOC emissions have been reduced by 60%. In 2016, five production units were surveyed, accounting for more than 48,000 data points. At our Hungarian refinery, nine production units were measured before the turnaround, and four units after. The data indicated a reduction in VOC emissions by 50 tonnes just for the four units.

Efforts to reduce the VOC emissions from retail activities have also continued. Now the entire Hungarian network and half of the Croatian one are covered by VRU II-type recovery units.

Total air emissions (excl. GHG) by type (tonnes) [GRI Standard 305-7]

YEAR	2012	2013	2014	2015	2016	CHANGE 2012-2016 (%)
SO ₂	7,878	5,776	5,368	6,146	7,077	(10)
NO _x (Nitrogen Oxides)	6,839	6,057	4,715	5,175	5,718	(16)
VOC (Volatile Organic Compound)	4,501	5,643	5,251	7,950	4,695	4
CO (Carbon Monoxide)	2,889	4,248	2,275	2,309	1,560	(46)
PM (Particulate Matter)	460	552	367	353	274	(40)

As a result of constant investment into production units, SO₂ emissions were lower by 10% in 2016 compared to 2012, and NO_x emissions by 16%. The 15% increase in SO_x emissions in 2016 compared with 2015 is partially attributable to an increase in the volume of production at our Slovakian and Croatian refineries and in Russian E&P operations. Other contributory factors include the lower quality of fuel gas that was used out our E&P Hungarian operations, and the higher sulphur content of the crude used at the Slovak facility.

NO_x emissions in 2016 were slightly higher (by 11%) than for 2015, but lower by 16% compared with 2012 data. One factor in the increase is the larger number of gas compressors that were operating in 2016 compared to 2015 in the Central Croatian Exploration and Production Region.

CO and PM emissions continued to decrease compared to previous years, with a reduction of 60% in PM compared to 2012, and 54% for CO.

WATER MANAGEMENT

Related objective: "Improve water management techniques in water-stressed areas"

A variety of types of water sources are used by MOL Group for its operational activities: surface and groundwater, sea water, the municipal water supply system, and wastewater that comes from production activities or other organizations. Improving water efficiency not only reduces our environmental footprint but often leads to a reduction in operating costs.

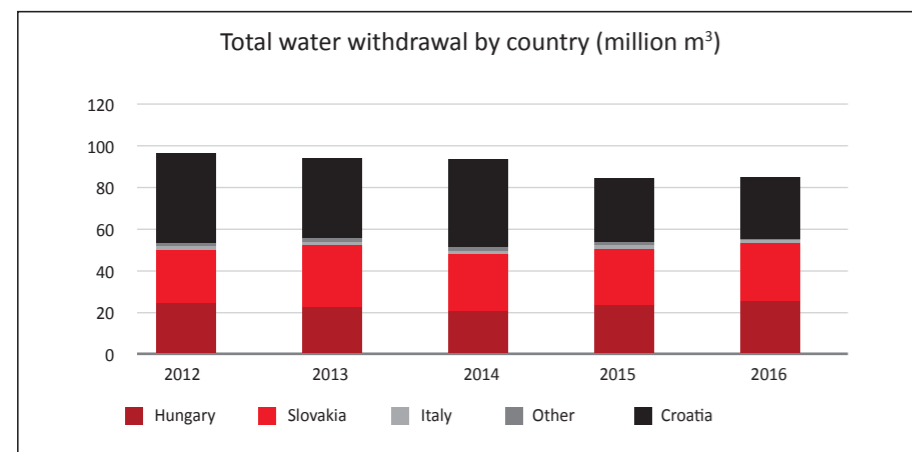
In 2016, MOL Group's total water withdrawals amounted to 85.175 million m³, which represents a decrease of 12% compared to 2012 (96.72 million m³) but a slight increase (1%) over 2015 figures. The tendency is attributable to the yearly change in production capacity that is based on market demand, as well as numerous water-saving initiatives that have been implemented over the last 5 years.

Total water withdrawals by source (thousand m³) [GRI Standard 303-1]

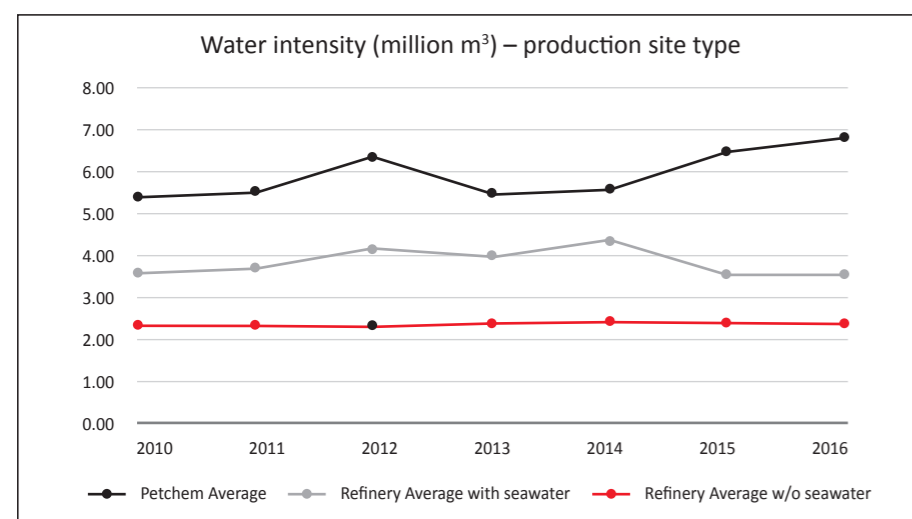
YEAR	2012	2013	2014	2015	2016	CHANGE 2012-2016 (%)
Municipal Water Supplies or Other Water Utilities	2,839	2,682	2,177	12,295	14,913	425
Surface Water Withdrawals	44,155	50,218	46,929	39,231	38,045	(14)
Ground Water Withdrawals	13,887	11,869	10,755	10,971	9,932	(28)
Rainwater Collected and Stored	16	-	188	158	41.2	158
Wastewater from Other Organizations	2,274	-	91	209	929	(59)
Total fresh water withdrawals	63,173	64,769	60,140	62,866	63,860	1
Non-fresh water withdrawals	33,589	29,749	33,990	21,790	21,315	(37)
Total water withdrawals	96,762	94,518	94,130	84,655	85,175	(12)

The variability in the quantities of Municipal Water or Other Water Utilities and Surface Water withdrawals between the period 2012/2014 and last two years is explained by the increase in the use of water from these sources at our Croatian refineries, while at the same time less non-fresh water for cooling was used as electricity was purchased from third parties, and less cooling water was needed (37% less water).

Total fresh water withdrawal (million m³) by country [GRI Standard 303-1]



In 2016, we also started to monitor the water efficiency of our main production sites.



In 2016, we continued to implement a variety of initiatives in order to keep the Group on track and improve its water-withdrawal-related targets:

- At our Slovak facility, a second production unit has now been linked to a water recirculation system, cutting down annual fresh water withdrawals at the site by 0.6 million m³.
- In 2016, a project for renovating a cooling tower at one of the Croatian refineries reduced fresh water withdrawals by 0.5 million m³.
- Besides making a significant reduction in CO₂ emissions, the enhanced oil recovery (EOR) project that was implemented over the past few years at our Croatian Exploration and Production facilities has brought water savings. We now use formation water produced by the EOR project to maintain reservoir pressure, and for well workovers, thus avoiding the use of fresh water.

Water discharges

Water discharge figures fluctuated compared with 2012, and also 2015. TPH registered a 15% decrease compared to 2012 due to ongoing improvement projects, but when compared with 2015 increased by 61%. This increase is explained by two factors: a couple of process incidents were recorded at our Slovak and Croatian operations, but reporting coverage also improved at our Croatian facilities. BOD and COD discharges increased compared to 2015 by 15% and 12% respectively, but compared with 2012 data, COD remained approximately the same, while BOD was reduced by 18%. These trend towards annual increases can be explained by the same process incidents at Slovak and Croatian operations, while the increase in SS occurred due to the reconstruction of a fire pit at our Hungarian Exploration and Production facilities that produced sewage water with higher TSS content.

Amount of contaminants (tonnes) [GRI Standard 306-1]

YEAR	2012	2013	2014	2015	2016	CHANGE 2012–2016 (%)*
Total Petroleum Hydrocarbons (TPH)	73	63	95	38	61	(16)
Chemical Oxygen Demand (COD)	1,743	1,712	1,647	1,514	1,739	0
Biological Oxygen Demand (BOD)	419	417	471	307	344	(18)
Solid Substances (SS)	688	609	873	765	835	21

Efforts to improve the quality of discharge waters, as well as reporting coverage, will continue in the future. Despite the two major incidents that happened at our Croatian sea facility (see section on Spills), the results of sea water quality tests were excellent for all beaches around the Municipality of Kostrena. The Institute of Public Health of Primorsko - Goranska County continuously examines the quality of the sea and marine sediments in the immediate area of our facility and has acknowledged the effectiveness of the clean-up operation that was conducted after the incidents occurred.

Produced water

Significant quantities of produced water are managed by our exploration and production facilities. During 2016, over ten million m³ of water was produced (9.96 million m³ in EU countries, and 0.16 million m³ in non-EU countries). In order to minimize MOL Group's impact, the company aims to re-inject, whenever feasible, the produced water. Compared to 2015, the amount of produced water at our EU operations has remained almost constant (a slight decrease), while in non-EU countries it decreased due to reduced activity in Oman and the Kurdistan region of Iraq. At our EU operations, produced water is re-injected, and projects for making improvements are continuously being implemented. In Pakistan (Makori West field) a water reinjection system with a capacity of 3,000 barrels per day continued to operate in 2016 at full capacity. This also translated into a reduction in the quantity of water that is sent to evaporation ponds of 43%.

Quantity of produced water from Exploration & Production activities in 2016 (m³) [GRI OG5]

	EU OPERATIONS	NONEU OPERATIONS	TOTAL MOL GROUP
Amount of produced water	9,499,907	625,003	10,124,910
Total amount of re-injected produced water	10,682,596	485,698	11,168,294
Water sent to evaporation ponds	0	86,222	86,222

The proportion of re-injected water is higher than 100% because it covers the total amount re-injected. Water re-injection takes place at Exploration and Production sites to maintain underground pressure, and additional water is also injected to increase pressure.

Water-stressed areas

Water scarcity refers to either a lack of water (quantity), or a lack of access to good quality (safe) water. MOL Group considers water scarcity to be a major issue and as such has been taking measures to decrease the water demand of its operations. Only a minor part of our operations are in potentially water-stressed areas. Our exploration and production facilities in Europe are not located in water-scarce areas, but we are committed to continuously reducing our demand for water (see the water withdrawal reduction data and projects described above) and reducing water pollution as well. We have taken action to assess the situation in more depth with our international operations which, according to external studies (such as water availability maps from the World Resource Institute), are situated in potentially water-scarce areas (e.g. Pakistan and the Kurdistan Region of Iraq). As a result, a detailed hydrological study of the Teri water basin (Pakistan) was carried out with the aim of assessing available water resources and the potential impact of our operations. The study concluded that, due to local circumstances, our operations are not disturbing the water balance, and that water resources are satisfying the needs of the surrounding six villages and of MOL Pakistan. We do not use any water in processing at our production facilities. Water is used only for drinking and domestic purposes. For drinking purposes we mostly use bottled water instead of local tap water. In the case of seismic and drilling activities, water is also used in the drilling process and for drinking and domestic purposes. However, as a precautionary measure we have taken steps to protect water sources. These measures include periodical analysis of the quality of ground water through monitoring wells, ongoing implementation of the Water Conservation Action Plan developed in 2014, and the use of treated effluent water for gardening purposes.

Unconventional Exploration and Production

Unconventional exploration techniques such as reservoir fracking have revolutionised the energy industry but prompted environmental and community concern. One of the main concerns is that fracking uses huge amounts of water that must be transported to the fracking site at significant environmental cost. Another important concern is that potentially carcinogenic chemicals may escape and contaminate groundwater around the fracking site. The third and most important concern is that the fracking process can cause small earth tremors.

Although MOL Group is not directly involved in unconventional exploration, realizing the sensitivity of the issue it has defined a set of environmental standards for responsible limited enhanced recovery methods to enhance the production of conventional fields. These requirements encompass stakeholder concerns, water / land-use and protection, well-integrity, the use of chemicals and other risks which are anticipated from specific risk studies. MOL and its subsidiary INA have successfully undertaken enhanced recovery on a few pre-existing wells during which all risks were managed during the entire life-cycle of the activities, from contracting to cessation of production.

WASTE MANAGEMENT, SPILLS AND SOIL AND GROUNDWATER PROTECTION, AND SITE RESTORATION

Waste management

MOL Group is a vertically-integrated oil and gas company which means the types of waste it generates are very diverse. The company's daily operations produce a wide range of solid and liquid wastes (including oily sludge, waste chemicals and spent catalysts, etc.). The total amount of waste generated in 2016 increased compared to 2012 (by 45%). The increase can be explained through reference to the following projects:

- Various construction and demolition projects are on-going at all production sites in Hungary, Croatia and Slovakia. 79.8 thousand tonnes of waste (of which 34% was hazardous and 66% non-hazardous waste) was generated by these projects, which represents one third of the total quantity of waste generated in 2016 by MOL Group.
- There was a significant increase in the quantity of hazardous waste produced in 2016 compared to previous years due to site closure activities at the Kurdistan region of Iraq facility, and a large-scale spill in Croatia caused by an Illegal attempt at tapping into a pipeline.

The waste recovery rate decreased in 2016 compared to 2015, but increased in comparison with 2012 by 15%.

Waste generation and treatment (tonnes) [GRI Standard 306-2]

YEAR	2012	2013	2014	2015	2016	CHANGE 2012-2016 (%)
Hazardous Waste	82,331	60,528	80,866	97,720	139,032	69
Non-hazardous Waste	80,891	185,528	170,970	183,686	113,894	41
Total Waste Generated	163,222	246,056	251,836	276,406	252,926	55
Waste Disposed/Landfilled	76,867	86,574	102,413	94,197	107,501	40
Waste Reused/Recycled	86,355	159,482	149,423	182,209	145,424	68
Total Waste Disposed and Recovered	163,222	246,056	251,836	276,406	252,926	55
Ratio of reused/recycled Waste	53%	65%	59%	66%	61%	15

Several initiatives have impacted MOL Group's waste generation and waste recycling figures. These include the following:

- At Hungarian Exploration and Production operations we have started to utilize crushed concrete from demolition projects to build secondary containments or for repairing roads, instead of handling it as waste.
- In 2016, the proportion of the spent catalyst recycled at our Slovakian operation reached 99%.
- More than 12 tonnes of outdated electric and electronic equipment were disposed of at our Croatian facilities.
- Various activities for encouraging selective waste collection and recycling were implemented throughout the retail network in Hungary, Slovakia and Croatia.
- The campaign for the collection of used household cooking oil was extended to five countries in 2016. It now includes Slovakia, Hungary, Romania, Croatia and Serbia with a total of 473 filling stations involved. As a result, a total of 246 tonnes of cooking oil was collected in 2016, which represents an increase of 7.5% compared with 2015 when 229 tonnes of used cooking oil were collected.

- We are recollecting used oil as well as oil packages, which are treated at our own waste management facilities, producing significant amounts of steam or the flux oil needed for bitumen production. Compared to 2015, we collected 19% less used lubricant in 2016 due to market conditions in Hungary and a legislative change in Slovakia.

Recollected lubricant and lubricant packaging (tonnes)

	2015	2016	CHANGE 2015-2016 (%)
Recollected and treated lubricants	11,345	9,201	(19)
Recollected packaging of lubricants	465	1,149	147
Total	11,810	10,350	(12)

From 2015 we started to centrally collect and report on the quantities of hazardous wastes that are exported/imported at our operations. As for some waste streams there are no proper treatment facilities at the local level, limited amounts of very specific wastes (e.g. refinery catalysts/tank sludge) are exported for treatment to Germany or Austria. The total amount of hazardous waste exported for treatment in 2016 reached 5,625 tonnes (a 43% increase compared with the 3,930 tonnes of hazardous waste exported in 2015). The Group's environmental standards define its policy related to managing drilling mud and include regulations about mud selection, waste minimisation, recycling and responsible disposal. Relevant data about this topic are presented below. Recycling rates for hazardous and non-hazardous waste are higher at the EU operations where the infrastructure for such services is much more developed.

Hazardous and non-hazardous waste from E&P activities in 2016 (tonnes) [GRI OG7]

	EU OPERATIONS	NON EU OPERATIONS	TOTAL MOL GROUP
Hazardous waste from drilling activities, well completion and workover activities	985	4,135	5,120
Non-hazardous waste from drilling activities, well completion and workover activities	12,116	0	12,116

Waste disposed and recycled from E&P activities in 2016 (tonnes) [GRI OG7]

	EU OPERATIONS	NON EU OPERATIONS	TOTAL MOL GROUP
Hazardous waste from drilling activities, well completion and workover activities - disposed	105	1,905	2,010
Hazardous waste from drilling activities, well completion and workover activities - recycled	880	0	880
Non-hazardous waste from drilling activities, well completion and workover activities - disposed	933	0	933
Non-hazardous waste from drilling activities, well completion and workover activities - recycled	11,183	0	11,183

Spills

MOL Group is aware of the impact that spills can have on the environment and communities, so taking spill prevention measures into account is a priority when we design and operate our facilities. Regular maintenance and inspection campaigns are conducted and emergency response plans are in place and are constantly updated for each of our sites. When we detect a spill, all the necessary measures are immediately taken to restore the pre-spill status of the affected area.

In 2016, we established the strategic objective of reducing the number of spills of over 1 barrel by 30% by 2020. However, our local reporting systems still report data in m³ so we decided to offer a transition period to allow changes to be made in reporting metrics. The performance table reflects both m³ and barrels, but for this year the figures reported below are included in m³.

In 2016, a total of 11 spills to environment (of more than 1 m³ of hydrocarbon content), with a total hydrocarbon volume of 637.1 m³ were recorded across MOL Group, a considerable increase compared to 2015 when there were only 6 spills to environment with a total hydrocarbon volume of 16.9 m³.

This number does not include third party road accidents registered at our Pakistani operation. Compared with the previous year, the number of spills from road accidents decreased (from nine in 2015 to seven in 2016), but the volume of hydrocarbons slightly increased (from 184 m³ in 2015 to 202 m³ in 2016).

At MOL Group refineries, four large spills with a total volume of 544.9 m³ were registered. Two in Slovakia (of 2 m³ and 86 m³) were caused by corrosion and operational failure, respectively. There were an additional two in Croatia of 18.7 and 431 m³. The first spill was due to historical contamination of one of the sewage systems, as a result of which more than twenty initiatives were put in place to prevent similar future spills, while the second one was caused by the underground leakage of an old storage tank that had no secondary containment.

At logistics sites one large spill of 50 m³ was registered in Hungary and one of 24 m³ in Croatia. While the first was caused by the mechanical failure of a flange gasket, the second one was due to operational failures.

At our upstream operations, four large spills were registered. Two in Croatia (3 m³ and 5.2 m³) were due to corrosion, and two in Hungary which were due to the rupture of a pipeline (4 m³) and operational failure (1 m³).

One spill to environment with a volume of 5 m³ was registered at one Hungarian retail site due to the failure of underground equipment (the rupture of an unloading pipeline).

MOL Group did not operate any off-shore installations in 2016 (MOL Group only participated in offshore exploration or production activities through joint ventures as a non-operating member). However, MOL Group still ensures that measures are in place to protect marine ecosystems in the vicinity of operations that are located near the coast (e.g. in Croatia at the Rijeka Refinery or the UK and Norwegian North Sea).

Soil and subsurface water protection and site restoration

The main goals of the soil and subsurface water protection activities of MOL Group are to protect human health and the environment, to prevent the spread of contamination, to enable redevelopment, and to limit liabilities. MOL Group is fully committed to a risk-based approach according to which the necessity for remediation and/or for risk reduction activity is based on a site-specific risk assessment that takes into account the future use of the site, the nature of pollutants and the dispersal and exposure potential of the substances involved. It is widely recognized that this approach is the most resource-effective way to manage soil and groundwater impacts.

All remedial work is carried out in accordance with the applicable current standards and regulations, and in co-operation with local authorities and communities. Provision for Environmental Expenditure is made for the estimated cost of the remediation of past environmental damages, primarily soil and groundwater contamination, and the disposal of hazardous wastes in Hungary, Croatia, Slovakia and Italy.

Soil and groundwater protection activities in MOL Group in 2016

ACTIVITIES	NUMBER OF SITES
Environmental assessments (mapping the risks)	144
Site investigation (preliminary or detailed)	124
Design of remediation solutions	6
Clean-up works	45
Monitoring	151

In the case of active remediation, the typical remedy is 'pump & treat' for contaminated subsurface water, and in-situ, ex-situ extractive and the bioremediation technologies for contaminated soil. During the year, 20,889 tonnes of hazardous and non-hazardous waste was generated by remediation activities. 69% of the total amount of waste was recycled last year, mainly in Italy, Croatia, Bosnia Herzegovina and Iraq. In 2016 the annual cost of soil and groundwater protection activities was HUF 1,669.9 million (USD 5.9 million), which is 63% of planned expenditure.

In Hungary in 2016, the investigation, design and permitting phases of the "Necklace project" finished at the Tisza site with the involvement of the local community and authorities. The first priority of the remediation project is to prevent historical contamination spreading in the groundwater through use of a hydraulic system consisting of 70 extraction wells. The new protective system will start operating in 2017.

A new project was launched in INA in 2016 within the scope of programme development for coordinating and harmonizing remediation activities and remediation strategy development.

At the Slovak operational sites in 2016, the permitting phase of the "Little Danube" project was completed. The goal is to install monitoring equipment in order to improve leak-detection capabilities.

Soil and groundwater protection activities at Italian operational sites include the operation of a pump-and-treat system at the Mantova site, and monitoring activity at the Bellei Energy site. The annual cost of the management of remediation-related activities was HUF 63.5 million in 2016.

At international upstream operational sites, MOL Group completed successfully site restoration projects. In Iraq, the restoration of waste, water, cuttings and drilling pits was completed, and in Oman the remediation of two fields finished in 2016.

In the case of mergers and acquisitions, it is critical to understand the potential liabilities which may be incurred by soil and groundwater status. In 2016, the acquisition of ENI Hungaria Ltd. and ENI Slovenija d.o.o was completed. As a result of the transactions, the retail network has grown to around 450 service stations in Hungary, and 57 service stations in Slovenia, and an environmental assessment of the stations has been carried out.

BIODIVERSITY

Related objective: "Implement Biodiversity Action Plans for all critical operation sites"

The activities of the oil and gas industry have a direct and indirect impact on biodiversity. MOL Group recognizes these impacts and the fact that it must operate safely and responsibly in order to protect the natural environment and local communities. We apply stringent standards to help reduce any impacts our operations may have, particularly in critical habitats (areas rich in biodiversity or which are under protection). For any new major projects, as well as for significant expansions of existing operations, we conduct biodiversity-related studies as a part of environmental and social impact assessment.

Based on a 2014 group-wide study, it was assessed that MOL Group's exposure to biodiversity risks is not very significant. In total, 162 sites were surveyed, and, according to the results of the survey, only eight sites are located in biodiversity-critical areas (six exploration and production, and two downstream), while 35 exploration and production operations are located close to or within Natura 2000 sites (European nature conservation areas). Two of the exploration and production operations are situated in water-stressed areas (see the chapter on Water), while one can be found in a water-protected landscape. In 2015 we started, and have continued in 2016 to develop or update all the biodiversity action plans of our upstream operations that are considered critical or close to Natura 2000 sites. At the same time, communication and training campaigns for our own workers have been provided, for example, at the Croatian exploration and production facilities.

In addition to these activities, work with external biodiversity experts and local communities to protect biodiversity was also a focus during 2016:

- In Hungary we continued working on awareness-raising projects in partnership with the Órségi National Park, Hortobágy National Park, Kiskunsági National Park and the Körös-Maros National Park. Activities included printing various brochures and participating in various local events.
- In Croatia, at five service stations that are located in the vicinity of protected areas (Lastovo, Karlobag-grad, Jablanac, Učka and Ston), information leaflets were printed and distributed to customers with the aim of raising awareness about the importance of biodiversity.
- In Slovakia, the partnership between the NGO SOS Bird Life Slovakia and the refinery has continued. The avifauna in the area of the refinery has now been studied by ornithologists for more than ten years. These efforts have been complemented by the now-regular annual volunteering of our Slovakian employees that helps maintain the habitat of Bird Island which is situated in the vicinity of our production site.

HSE COMPLIANCE

In 2016, MOL Group paid penalties for Health, Safety and Environment-related breaches of rules in 35 cases, resulting in total penalties of HUF 11.9 million (USD 42,300). The single largest penalty (HUF 2.2 mn) was awarded to Matjushkinskaya Vertical Ltd. for burning associated petroleum gas. Other penalties involved minor costs and are in most cases related to the violation of water of air legislation and/or incorrect site documentation.

3 HEALTH AND SAFETY

General aim: Ensure operational HSE excellence

ACHIEVEMENTS:

- ▶ Our HSE Leadership Program trained more than 600 managers with a view to improving HSE culture
- ▶ A pilot program to reduce ‘slips & trips’ incidents was implemented at MOL Hungarian operations; the program will be renamed to “Unconscious Behavior” going forward
- ▶ A new Training Centre was established in Slovnaft to provide own staff, firefighters and contractors with on-going training to enhance their ability to respond to any unpredictable, dangerous or emergency situations
- ▶ An SCC contractor certification requirement was rolled out throughout group operations

CHALLENGES:

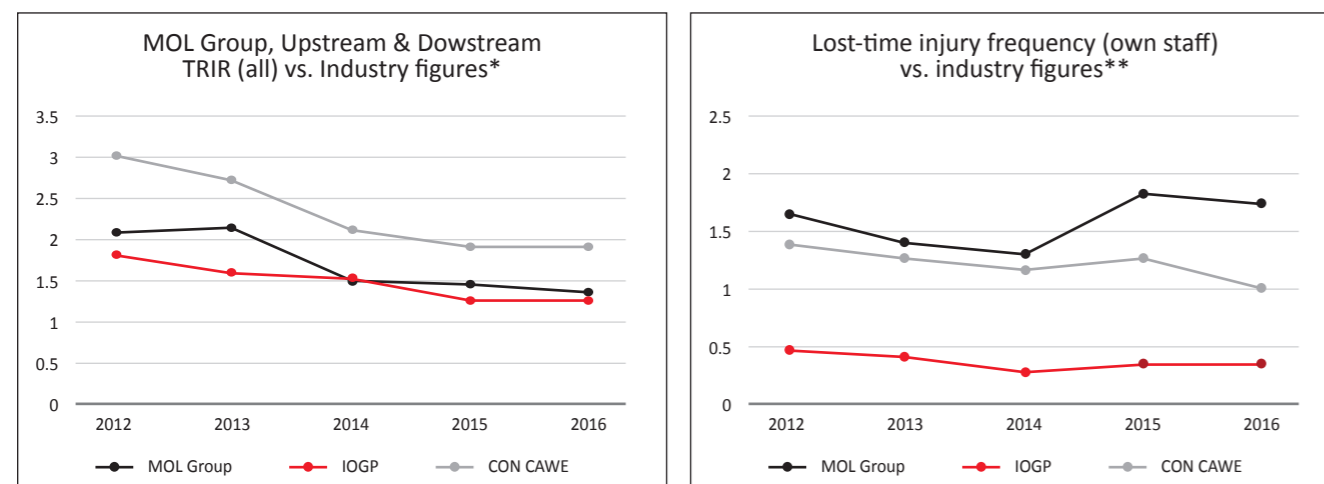
- ▶ Multiple third party fatalities due to road accidents, and two contractor fatalities in international upstream operations in Pakistan
- ▶ Decrease slips & trips: the primary cause of personal injury

PERSONAL SAFETY

Workforce Safety performance

Related objective: "Implement programs that aim for zero incidents"

MOL Group’s objective is still to be in the top quartile of Oil and Gas companies in terms of safety performance. In 2016, the lowest-ever number of total recordable injuries (TRI) was recorded among our employees and contractors (combined), both in terms of Lost-time (90 vs. 100) and Non-Lost-time (31 vs. 39) injuries (excluding first-aid cases). The Total Recordable Injury Rate (TRIR), used since 2014 as a leading indicator of personal safety for own and contracted personnel that aggregates data about workplace injuries that need medical attention, slightly improved again (1.34) compared to last year’s performance (1.44) for the entire group’s own and contracted activities (combined). Downstream performed better than the CONCAWE 2015 industry average, but Upstream lagged behind the IOGP 2015 industry average, despite the fact that the man-hours worked by own and contracted personnel for the whole Group dropped by around 5% in 2016.



* Benchmarks for 2016 are the same as for 2015 since new data were not available at the time the report was drafted
 ** IOGP benchmark for 2016 is the same as for 2015 since new data were not available at the time the report was drafted

The LTIF own-staff country breakdown indicates significant increases in some countries in 2016.

COUNTRIES	HUNGARY	SLOVAKIA	CROATIA	OTHER EUROPE	E&P INTER-NATIONAL
2015	0.94	0.33	2.2	1.24	0
2016	1.75	0.18	1.64	3.17	0.62

In parallel, we regret to report the sad loss of two contractor employees. In 2016, one of these work-related fatalities occurred in connection with HAZMAT (hazardous material) road transportation activities, while the second fatality occurred during pipeline construction operations.

In March 2016, a serious incident occurred at MOL Group’s Pakistani operations when fifteen third-party individuals (villagers) lost their lives after a gas vapour explosion occurred when a road tanker (bowser) was involved in a road accident and overturned close to the refinery. Based on the results of an investigation, significant improvements and changes in HAZMAT road transportation services have commenced, involving professional experts from MOL Group Logistics. These will cover changes in procurement processes, technical and HSE standards and other requirements regarding this critical activity. This incident resulted in the meticulous assessment of the entire contractor management system of the local subsidiary (MOL Pakistan), as well. In 2016, the major cause of all personal injuries (with and w/o lost time) was still slips and trips (at the same height) (21.8%) followed by cuts, punctures, and scrapes (17.5%), then ‘struck by’ (9.9%), exposure to noise, chemical, biological, vibration or radiation (8.1%), and ‘other’ (7.1%).

Workforce Safety Programs

In 2016, the implementation of numerous programs such as Fall protection, Lock-out/Tag-out (LOTO), Stop card and Job safety analysis (JSA) with Last-minute risk assessment (LMRA), which was launched in 2015, ensured the continuing compliance of our businesses with MOL Group’s Life Saving Rules (LSR) program, and confirmed managerial dedication to further improving overall performance in occupational health and safety. In 2016, many of the project elements continued through physical implementation of systems in all areas of businesses.

In 2016, Energy isolation (LOTO), Job Safety Analysis (JSA) and STOP card program projects were fully implemented at INA reflected by the increase in the number of reported Stop cards, making INA the best performer with the Stop card system across the Group.

Another focus of occupational health and safety at INA and Slovnaft was the permit-to-work (PTW) system. This was implemented in projects at both companies, including E-PTW (electronic permit-to-work) pilots at INA and Slovnaft, and the PTW system was unified and standardized within INA Group. The aim of this E-PTW project is to create a transparent, simple-to-operate electronic version of a permit-to-work process, and to increase the level of safe work control and thus overall safety performance by gradually replacing paper-based permits to work with electronic versions.

MOL Group continued its HSE Leadership Engagement Program in four countries in which we operate, starting with an anonymous assessment of the safety cultures of both management and shop-floor (blue-collar) workers. This continued in 2015 with HSE Leadership Engagement training for the TOP150, and then in 2016 for the TOP600+ managers and leaders of MOL Group with a view to developing and improving HSE culture and leadership. The program will continue throughout the next three years, involving employees from the remaining leaders to shift leaders.

Important achievements at MOL Group operational sites include the following: Slovnaft obtained a “Safe Enterprise” certificate, awarded for excellent compliance with the requirements of occupational health and safety, fire and environmental protection. The preconditions for obtaining the certificate are total-level OHS care, a high work-performance culture, fire safety, social care and a low accident rate. At the same time, Slovnaft launched a new campaign called HSE - Your sixth sense for company employees and also for contractors which promotes the idea that a responsible approach to HSE is part of daily work and daily activity. Also, a new HSE Training Centre was opened at the Slovnaft Refinery. MOL Hungary Refining and Petrochemical businesses launched the second wave of their Safety Awareness Program with five focal areas (Management engagement, HSE objectives and results, Process safety management, Safe work environment and Contractor safety) and an action plan was designed for each focal area.

Road Safety

In 2016, while the number of non-HAZMAT road accidents decreased (50 vs. 59), MOL Group operations witnessed an increase in the number of HAZMAT transport-related road accidents compared to last year (64 vs. 51) for own and contracted activities combined, although though the distance driven increased by almost 15 percent. No MOL Group own fatalities occurred, but one contractor and 21 third party fatalities occurred in connection with road transportation (the shipping of HAZMAT). These figures resulted in a RAR (other) of 0.58 and a RAR (HAZMAT) of 0.67, which indicates a slight improvement in both transportation activities.

In 2016, MOL Group continued its comprehensive Road Safety Program for own and contractor employees. The program focused on two major areas: 1) road transportation, and 2) passenger cars. The Road Transportation Program involved light and heavy duty vehicles, including hazardous material transport, with a focus on safe truck driving via Truck Drivers’ Safety Fundamentals (TDSF). Apart from the fatal accidents, at MOL Pakistan the number of HAZMAT road transportation accidents increased again (from 9 to 16), with one off-site contractor fatality.

Unfortunately, Moltrans Ltd. witnessed a serious road accident in July, 2016 with one third-party fatality occurring after a Slovakian personal vehicle (with three passengers) crossed over from the opposite lane into the lane of a road tanker, causing a head-on collision.

As part of the Safe Driving Program implemented in 2011 at INA the training continues, while Interina Slovenia and Plavi tim joined this program in 2016. By virtue of the Safe Driving Program, the Road accident rate (RAR other) of INA FS dropped by more than 23% to 0.69, while RAR (HAZMAT) decreased from 1.3 to 0.39 in 2016.

At MOL Pakistan several new initiatives were taken to reduce the number of road accidents:

- Strict inspection of tankers using a revised checklist,
- Implementation of a Logistics Management System (LMS)
- Monthly HSE/follow-up meetings with HC transportation contractors
- Regular HSE training for drivers, including contractor staff (drivers and helpers)
- A new logistics department was established to specifically deal with logistical affairs
- A specialized HSE induction video for HAZMAT drivers was prepared in three languages
- Fleet management audits were conducted for all MOL and contractor vehicles at production and drilling sites

Contractor Safety

Related objective:

- ▶ "Improve contractor HSE management program"
- ▶ "Introduce comprehensive supplier risk assessment and have prequalification for at least 80% of the critical suppliers in each subsidiary"

Given the nature of the industry, one of the most significant challenges in the supply chain is to manage the health, safety and environment (HSE)-related risks of the investment and maintenance works performed by contractor companies. Accordingly, MOL Group applies the same standards to contractors as it does for its own operations.

In 2016 we recorded 23 contractor lost-time and 17 non-lost-time injuries, which is a slight increase compared to the previous year.

Key tools for improving the HSE performance of our contractors include prequalification audits, a detailed HSE Appendix for contracts, compulsory 24/7 HSE supervision by the main contractor in the case of large complex projects, a HSE Plan, Job Safety Analysis for critical work, the strict enforcement of Life Saving Rules, regular site inspections, and the post evaluation of HSE performance. To minimize risks through the entire value chain, only two levels of subcontractors are allowed.

Consideration of HSE factors starts as early as the stage of selection of suppliers. In 2016 the following steps were undertaken:

- Implementation of a new, comprehensive and integrated vendor management solution (a platform for financial, legal, ethics and HSE pre-screening and initial risk assessment)
- During the technical evaluation of bids, companies with a high post-evaluation score and specific HSE certificates were awarded extra points (worth up to 5%)
- From 2017, MOL Group has required an SCC/VCA certificate (Safety Checklist for Contractors) from all contractors who undertake high risk HSE activities in all European, on-shore operations. SCC is a safety framework that focuses on the risks and challenges of contractor work which also includes an employee certification scheme. In 2016, hundreds of suppliers started the certification process and, as per our survey and estimate, 44% of all potential high-risk suppliers had been certified by the beginning of 2017.
- In 2016, a total of 243 contracts for high HSE risk activities (with a total value of HUF 139.5 bn – EUR 448 mn) were signed, and 392 companies were audited for prequalification to make sure they comply with the technical and HSE requirements of projects. In 35 cases, suppliers could not meet our requirements. HSE prequalification is compulsory for all high-HSE risk activities, and optional for medium-risk contracts.

Number of HSE supplier pre-qualification audits by significant regions in 2016

[GRI Standard 414-1, GRI Standard 308-1]

NUMBER OF HSE SUPPLIER PRE-QUALIFICATION AUDITS	HUNGARY	SLOVAKIA	CROATIA	INTER-NATIONAL E&P (RUSSIA, PAKISTAN)	OTHER COUNTRIES	TOTAL
2016	200	31	56	55	50	392

During the completion of a project, several measures are employed to minimize the risk of any HSE incidents:

- MOL Group internal regulations require each main contractor to guarantee 24/7 HSE supervision during work (in the case of high-risk, complex projects).
- Every on-site contractor is obliged to participate in basic HSE induction training, and pass a test every year.

- At the group level, a total of 13,708 site inspections were performed to manage the HSE performance of contractors. In the case of 1,844 audits in which instances of non-compliance were identified, corrective activities were initiated and penalties were imposed, where applicable. In 50 cases workers were banned from sites, and in 378 cases written warnings were sent out. In one case, a contract was terminated. Moreover, a total of HUF 29.5 mn (USD 104,954) was imposed in penalties for breaching HSE rules. As a result of our 'Life Saving Rules program', the number of non-compliance cases significantly decreased. The most common non-compliance issue relates to the wearing of personal protective equipment (PPE).

As a form of capacity building, regular supplier forums (15 major forums in core countries) are organised for our critical suppliers to inform them about relevant topics and prepare them for upcoming events, such as refinery turnarounds. To share knowledge, HSE newsflashes are distributed and numerous training materials, templates and other documents are made public on our website at www.mol.hu/hu/molrol/beszallitoi-kozpont.

HEALTH PROTECTION AND PROMOTION

Occupational Health

Related objective: "Implement programs to ensure a healthy workplace"

In 2016, similarly to previous years, no occupational illnesses were recorded across the entire MOL Group. Having a healthy workplace is critical to MOL Group's success. We operate a number of local programs in order to protect employees' health, to ensure that appropriate medical responses and treatment are given, to manage stress and to encourage employees to lead a healthy lifestyle by minding their work-life balance.

The protection of employees from occupational health hazards is assured by compliance with national laws and internal MOL Group regulations and practices, and high quality operating staff. MOL applies some best practices in its local operations which are continuously improved.

In Croatia, the HEALTH-INA project has been in place since 2013. This has harmonized occupational health protection and health promotion activities. Additionally, in the drilling company Rotary, appointed certified first-aiders are available at all workplaces. MOL Plc.'s Occupational Health Management System was revised in 2016 to fine-tune medical programs according to the needs of the businesses and the results of risk assessment. MOL's production unit staff are regularly monitored through biological tests to minimize occupational exposure to less than 50% of the legally permitted limits, followed by internal investigations and action plans regarding control measures in each case of deviation.

Qualitative Risk Assessment was carried out at the two major processing facilities at MOL Pakistan Industrial Hygiene. Air sampling for Hydrocarbons (BTEX) as well as Noise and vibration monitoring was carried out at selected points. First-aid Teams were nominated for both major sites and also in the Branch Office.

Workplace Health Promotion

Health promotion programs are organized locally in order to contribute to both the health and well-being of employees. Some selected best practices are listed below.

INA has become the official partner of the two-year campaign "Healthy workplaces for all ages" of the European Agency for Safety and Health at Work (EU-OSHA). With this partnership INA has become one of the first companies in Croatia to join a network of leading public and private organizations that raise awareness and encourage others to successfully manage workforce aging. In addition to standard medical care, Slovnaft employees are given access to high-quality healthcare programs, including oral check-ups, a vitamin C infusion program, stool tests, and streptococci and CRP examinations. The provision of prevention programs can be expanded based on the interests of employees, and reflects the most common illnesses that Slovnaft employees contract. These are typically metabolic disorders, cardiovascular disease and disorders of the musculoskeletal system. Slovnaft also organized a Health Day on 7th September 2016 with the participation of approximately 700 employees at which a healthy breakfast was served, and diagnostic and preventive tests, lectures and discussions about health were offered. A similar Health Week event was organized at MOL Czech Republic. More than 200 employees from MOL's Czech headquarters participated in the event, which also provided support for children who live in orphanages.

In 2016, MOL Hungary organized the second wave of the workplace health promotion program called 'STEP'. Overall, more than 7,000 employees participated a total of 14,500 times in different workplace health promotion programs during the year, especially at medical screenings, in movement-based activities and vaccinations. In addition, a cancer prevention campaign was also launched which included breast cancer prevention presentations and medical screenings. In MOL Hungary, partially as a result of such health prevention and promotion activities, the Absence Rate was below 2.5% in 2016.

At MOL Pakistan a Preventive Health Care Programme was launched at the Branch Office, as well as at the Condensate and Gas Processing Facilities. Besides individual plans, a general summary report with recommendations was shared with management, depicting the overall health status of MOL Pakistan.

In Russia, BaiTex is offering employees access to local sports complexes through partnerships. In August 2016, employees had the opportunity to join a sports day under the aegis of the All-Russian Athlete Day.

3.1 PROCESS SAFETY AND RISK ASSESSMENT

Process Safety Management

Related objectives: "Strengthen facility safety, improve rating in benchmarks"

The main goal of process safety management (PSM) is to establish and operate an efficient management system which ensures the prevention of technology-related process incidents and protects people, assets and the environment against harm. Implementation of the Process Safety Management system in MOL Group started in 2006. Our PSM-related goal is to continuously decrease the number and severity of process incidents, and be in the top 25 percentile of CONCAWE and IOGP benchmarks.

In 2016, there were 24 TIER 1-2 Process Safety Events (PSEs) at MOL Group in total, which is a significant decrease compared to 2015. However, the number of TIER 1 events was slightly higher. The consequences of TIER 1 events in 2016 were severe from a financial point of view, but fortunately there were no fatalities caused by process events. The financial loss (direct cost) of TIER 1 process safety events was approximately HUF 2.5 bn (USD 8.8 mn).

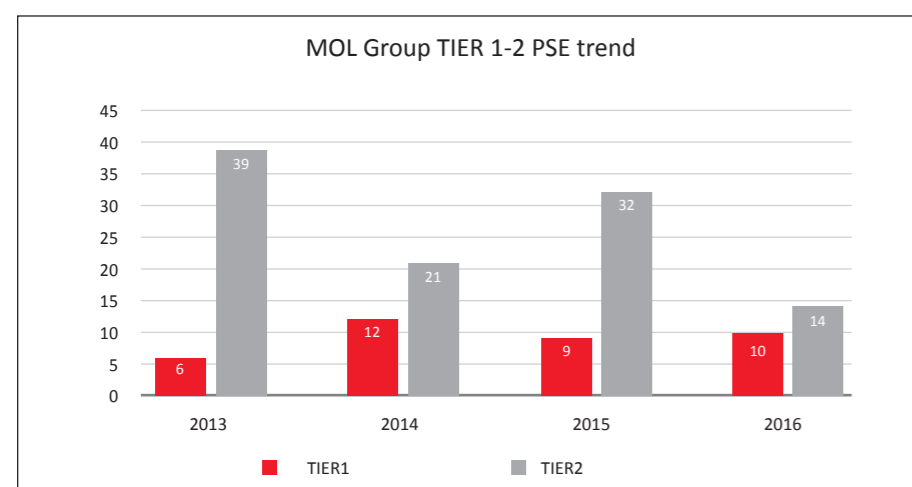
Other types of process safety incidents categorized as TIER 1 events included incidents which caused personal injury involving minor consequences and a few lost days.

Number of TIER 1-2* process safety events in MOL Group companies in 2016 [GRI Standard 414-1]

2016 PROCESS SAFETY EVENTS (PSE)	MOL GROUP	MOL	SLOVNAFT	INA	IES	US INTERNATIONAL
PSE TIER 1	10	3	1	6	0	0
PSE TIER 2	14	5	3	4	0	2
PSE TIER 1+2	24	8	4	10	0	2

*Note: TIER 1 category events are more serious from the perspective of consequences than TIER 2 category events. Categorization is based on API RP 754 (from 2010).

The MOL Group TIER 1-2 process safety events trend is shown in the following chart:



Top Management commitment towards PSM, especially that of MOL Group's CEO, was demonstrated during PSM implementation status visits at SN Logistic Depot and INA Croatia.

In 2016 we organized the third PSM Best Practice Workshop at which internal MOL Group and also international good practices were presented. The most appreciated presentations involved lessons learnt from process safety events.

The efficiency and level of PSM system implementation is continuously monitored and measured. To measure the level of imple-

mentation, we use PSM Cross audits (based on an annual audit plan) in which the implementation of selected PSM elements are compared with predefined audit questionnaires. In 2016, there were 19 PSM cross audits which evaluated the level of PSM implementation at different businesses and sites. The overall evaluation of PSM implementation indicates continuous improvement, which proves the commitment and high-level attention of management and employees.

In 2016, an external company (AON Risk Solutions) performed two external assessments of implemented safety-related processes and technical solutions. One of the assessments was done at Slovnaft Production in Bratislava (Slovakia). The result of the assessment was a risk rating of 'Standard' compared to similar facilities elsewhere in the world. Another assessment was performed at the Sisak Refinery (Croatia), but the final report is not available yet.

Local-level implementation of PSM-related programs mainly focused on the implementation of the newly established Asset Integrity program, which aims at ensuring the mechanical integrity of assets and the reliability of equipment and will mean that our technologies are safely operated, without serious process events.

Emergency response and crisis management

Emergency and crisis preparedness has clear business relevance to the Oil and Gas industry, and improving and maintaining emergency response capabilities is crucially important.

In 2016 there were two serious fires in MOL Group (i.e. TIER1 process safety events) – one in MOL Petrochemical, and one in Slovnaft Production – when emergency response processes needed to be activated. In both cases, the evaluation of the emergency response showed that our companies are well prepared to efficiently respond from a technical and also a human resource and skills perspective. In 2016 there were no incidents which required the activation of a crisis management process.

4 HUMAN CAPITAL

General aim: Enhance Employee Experience via further building capability, increased organizational performance and strengthened corporate culture in line with MOL Group 2030 – Enter Tomorrow Strategy.

MOL Group's 2030 HR strategy was issued in 2016 as an integral part of the MOL Group 2030 Business Strategy, with a key commitment to enhancing Employee Experience across MOL Group. Based on global and regional challenges such as an agile workforce, a candidate-driven market and the retention of the blue-collar population, six strategic directions have been identified. The long-term goal of MOL Group is to attract, develop and retain relevant profiles through a process of early engagement, personalized development, enhanced employee experience, as well as the construction of a culture of innovation.

ACHIEVEMENTS:

- ▶ MOL Group won the 2016 Leadership Excellence Award for Best Use of Classroom Training by HR.com for its modular leadership program Intensity, along with HRO Today's first place in Innovation in HR Technology, which recognizes the novel technology platform introduced for the Growwww program.
- ▶ Technical capability building continued with the extension of the program in E&P and program launch in Downstream; the introduction of a technical career ladder as an alternative to a managerial career path which will generate relevant technical capacity-building in a structured and advanced way for almost 2,000 professionals
- ▶ Employee Wellbeing platforms have been launched in the two largest regional companies (MOL Hungary and INA) to enhance work-life balance and the level of engagement through the communication of benefits to a major population of employees
- ▶ The proportion of female Growwwers reached 50%, which is above the gender split average of MOL Group and the industry, reinforcing the goals of MOL Group's Diversity & Inclusion framework

CHALLENGES:

- ▶ A candidate-driven market is posing new challenges for employee lifecycles, from recruitment to retention
- ▶ The attraction and retention of a blue-collar population is increasingly challenging in Central Eastern Europe
- ▶ The increasing pace of change, industry downturns and market volatility are affecting the talent pool

4.1 ATTRACTING EMPLOYEES

Related objectives:

- "Employer Branding approach to attract all professionals and make MOL Group the Choice of Employees"
- "Extend Human Capital related programs to engage a wider talent pool in shaping the Oil & Gas industry "

Human Resources are in transition in the Oil & Gas industry and globally due to the scarcity of mid-level careers, the high proportion of retirees and the novel expectations of Generation Y. Employers will need to keep engaging a growing workforce with atypical employment options, and the transformation of the industry will require the need to attract the most innovative talent from a shrinking skill pool.

MOL Group is preparing for new developments in the global educational scene. A less formalized and institutionalized educational system will increase the challenge of finding the relevant profiles for pre-existing and new businesses, including the reinforced Petchem division.

In 2016, MOL Group launched its new recruitment platform TALEO in order to make the recruitment process for internal and external candidates in seventeen companies across nine countries faster, easier and more efficient.

Talent Attraction

MOL Group's talent acquisition strategy is built on two pillars: secondary schools and university relationships. The secondary school concept covers partnerships with relevant vocational and high schools and promotes natural sciences, as well as the diverse opportunities available in the Oil & Gas industry among students.

To attract students to the natural sciences and fill the university pipeline, Junior Freshhh, MOL Group's online competition-based program, has been successfully extended. In 2016, 1,566 teams registered for the online simulation, 30% more than in 2015, as a result of the continuous upgrading of the online game and the consistent Employer Branding approach.

In order to maintain the focus on and structured approach to attracting fresh graduates, MOL Group rolled out a University Framework program to present the key principles for successful and beneficial partnerships, and continued with its award-winning Talent Acquisition programs. While Junior Freshhh and Freshhh international student competitions and the graduate recruitment and development program Growww continued successfully, a Female Engineering Program was launched to attract female STEM students, in line with our Diversity & Inclusion value proposition.

Freshhh, MOL Group's innovative online university student competition, targets potential MOL Group employees from across the globe. The most talented students have the opportunity to secure direct entry into MOL Group's Growww graduate selection process. Since the competition started in 2007, close to 30,000 students have participated; 7.5 times more in 2016 than at the beginning of the program in 2007. In 2016 a record number of 2,300 three-member teams from 53 countries applied to enter the competition.

In 2016, 163 Growwwers joined 25 MOL Group companies in 11 countries. The proportion of female Growwwers reached 50%, which is well above the gender split average of MOL Group and the Oil & Gas industry in general. More than 1,900 graduates have joined MOL Group through the Growww program since 2007, with a retention rate of 73% (in Slovnaft, the long-term retention rate increased to 69%), and the promotion rate reached 34%. To date, 21% of Growwwers from earlier years are working at Headquarters.

As the number of STEM students is decreasing every year, MOL's goal is to identify the best potential niche for attracting and sourcing to ensure a diverse young professional pipeline for business, and strengthen employer branding in line with the Diversity & Inclusion framework. The Female Engineers' MOL PrograMe targets female students mainly from the universities in countries in which the company operates. From 69 applicants, three students were awarded a HUF 1.6 mn scholarship, an opportunity to participate in an international Oil & Gas conference in 2017, and an internship or work placement at MOL Group after finishing their studies.

Employer Branding

Aligned with the Enter Tomorrow 2030 Strategy goal of becoming the Choice of Employees, and in order to raise MOL Group's Employer Branding to the highest standard on the international market, a new Employer Branding framework was created in 2016 to attract potential employees to the company in the most effective way. A 'Real faces' campaign was designed with employees from across the Group, whose personal stories reveal why it is worth choosing MOL Group as an employer. In order to reach the most students and communicate its Employee Value Proposition, MOL Group is investing heavily into its social media strategy and presence, and is further enhancing its image as a desired employer on the global market.

Attraction of Blue Collar Employees

The blue collar workforce challenge requires prompt action in terms of recruiting and hiring the necessary number and quality of manpower in all three regional companies (MOL, INA and Slovnaft) based on local needs and the market situation. Therefore, as part of the Blue Collar 2020 Strategy, strong focus has been put on developing vocational school relationships in 2016.

Besides corporate-level initiatives, several local best practices which have had significant success are also in place to ensure the attraction of young talents.

- INA continued to focus on cooperating with the student associations eSTUDENT, AIESEC Croatia and BEST. For the fifth consecutive year, INA was ranked the Most Desirable Company in 2016 in the Oil & Gas category, and remained in top five Most Desirable Employers.
- In 2016, MOL Romania signed a partnership agreement concerning internships with Babes-Bolyai University in Cluj (Economic Studies) and initiated a second partnership in the country with the Academy of Economic Sciences in Bucharest.
- In MOL Serbia, a strategic partnership with the AIESEC student organization was established.
- Slovnaft launched a 3-month internal "Colleagues for Colleagues" program for new operators, within the frame of which 38 internal lecturers delivered induction presentations to over 40 new operators in Q3-Q4, 2016 as part of the Generation Exchange project.
- INA has developed a concept for a blue-collar sourcing strategy in Croatia which will be implemented during 2017.

4.2 RETAINING AND REWARDING EMPLOYEES

Related objective:

- "Boost pay-for-performance culture of MOL Group by providing a competitive and motivational reward scheme that encourages outstanding business results."
- "Integrated annual People Cycle incorporates performance and career management, resulting in a structured approach to development and succession planning"

In 2016, the external market environment was unfavourable for the Oil and Gas industry, and especially for the Exploration & Production business. MOL Group's total headcount decreased by almost 4% compared to 2015, due to the optimization of operations, mainly at Exploration & Production International companies, and the continuing headcount reduction program at INA Group. In addition to this, INA Group also saw restructuring in its retail station model in the form of the outsourcing of employees to a dedicated retail services company, as well as downsizing at oil services companies. Changes in the scope of consolidated companies during 2016 also affected group-level headcount.

Competitive Remuneration

MOL Group reward schemes have been designed to reinforce a merit-based culture by motivating employees to continuously increase their performance to obtain exceptional results. MOL Group aligns and harmonizes rewards across the Group in companies with similar business profiles by applying tailored remuneration strategies, taking into consideration local benchmarks and the company's market position.

MOL Group's reward strategy is built on the international Total Remuneration approach, which includes major compensation elements such as the Annual Base Salary, Short- and Long-Term Incentives and Benefits.

Ratio of corporate minimum wage to local minimum wage at significant (more than 100 employee) operating locations (%) [GRI Standard 202-1]

COUNTRY (MAIN COMPANY)	2016
Austria (Roth Heizöle GmbH)*	110%
Bosnia Herzegovina (Energopetrol d.d.)	100%
Czech Republic (MOL Česká republika, s.r.o.)	245%
Croatia (INA d.d.)	115%
Hungary (MOL Plc.)	139%
Italy (IES S.p.A)**	132%
Pakistan (MOL Pakistan Ltd.)	345%
Romania (MOL Romania PP s.r.l.)	146%
Russia (BaiTex LLC)	217%
Slovakia (Slovnaft a.s.)	162%

* ratio is calculated based on industrial (Trading) Collective Agreement, min. wage data for Austria

** ratio is calculated based on industrial (Oil) Collective Agreement, min. wage data for Italy

MOL Group implements strict guidelines to ensure equal employee compensation, regardless of gender, age and nationality. Group-level compensation policies are transparent and are published in group and local regulations. Company-level rules are also defined in the Collective Agreements of regional companies.

Short-Term and Long-Term Incentives

The strategy behind MOL Group’s remuneration policy is to incentivise employees through a combination of short-term and long-term initiatives. The aim of the MOL Short-Term Incentive system is to motivate strategic groups to achieve challenging financial, operational and individual performance goals which reflect the delivery of key annual business priorities within the framework of MOL Group’s long-term strategy.

The purpose of the Long-Term Incentive system is to drive and reward the delivery of sustainable value creation and to ensure that there is complete alignment between MOL Group senior & top management and the strategic interests of shareholders. The Long-Term Incentive system consists of a Stock Option Plan and a Performance Share Plan.

Benefits and Employee Wellbeing

MOL Group believes that investment in employee wellbeing contributes to keeping employees engaged, helping them maximize their capability for innovation and reach their full potential. Larger MOL Group companies (e.g. MOL Hungary and INA) offer a wide range of initiatives to support employees in respect of their health, conscious financial planning, the workplace environment, and community and employer care at every stage of life. These competitive benefits and wellbeing programs comprise an essential part of employees’ Total Remuneration.

Insurance is a crucial form of benefit in the Oil & Gas industry, and MOL Group places significant focus on the health and safety of its workforce who are engaged in various working conditions. Personal insurance is provided to all employees across the Group in the form of Group Life and accident insurance, Business travel insurance and Assignee travel & health insurance.

In order to support the long-term financial security of its employees, MOL Group also ensures that employees are covered by social benefits and pensions. Such schemes are usually state controlled, but partially private systems also exist. Employees may choose a voluntary pension fund and are allowed by law to use a part or the whole of the fringe benefits provided by the company for this purpose.

Cash awards for recognizing extraordinary performance and achievement

At an increasing number of companies, separate award budgets and a project bonus framework are being used to recognize employees who make extraordinary achievements with one-off payments.

Local Benefits

MOL Group provides attractive benefit schemes across its locations to ensure its competitiveness on local markets, together with all elements of the pay mix. Flexible benefits schemes are available at Flagship companies (e.g. MOL Plc.) that enable employees to tailor their benefits in the most personalized way. When basic benefit elements are defined, local legislation, the tax environment and competitiveness on local markets are evaluated in order to support overall Group-level consistency.

Flexible Working Opportunities

Flexible working options are available at several companies across MOL Group (Slovnaft, MOL Energy UK, MOL Headquarters, a pilot in MOL Hungary, INA and MOL Romania) in areas where the job roles and business settlements enable these arrangements. The aim of these programs is to leverage the creativity and productivity of employees and encourage diversity and a sustainable work-life balance. The two main forms are FlexiPlace (which supports working from home) and FlexiTime (which enables flexible starting and finishing times at the workplace).

Local formal recognition programs

Formal recognition programs are in place across the Group to reward the best performing colleagues and value ambassadors (e.g. ‘Award your Colleague’ in INA.; ‘Employee of the Year’, and ‘Best Employee’ awards in Slovnaft).

Lifetime awards (Loyalty awards): MOL Group appreciates employees’ loyalty. Awards are given in MOL Group Regional companies and within INA Group to employees who have created outstanding achievements and made a significant contribution through their work during their tenure.

Strategy for Workforce in Operational Areas

MOL Group operations are facing a challenge in terms of motivating, attracting and retaining workforce in operational areas due to the changing labour market and demographic challenges in Central Eastern Europe. Blue Collar employees are a significant proportion of all employees and their role is crucial to ensuring the sustainable operations of the Group, as well as contributing to strategic projects. As a result, MOL Group is defining a long-term workforce strategy for stabilizing the blue collar pipeline.

By maintaining the basic group-level remuneration guidelines, key areas for action were identified in 2016 and a targeted approach will be applied and rolled out in 2017. For instance, one main focal area is to promote Blue Collar pay for increasing levels of competence and certification, which will also support Blue Collar career paths. A pay-for-competence concept has been introduced to the Rijeka refinery in INA, and in three divisions in Slovnaft (Production Operations, Logistics, Power & Heat Generation and CMEPS), ensuring the existence of a transparent career ladder and training system for over 1,000 employees.

Another key goal is to build a more motivating and simplified but variable pay scheme. Revision of pay scales, grades and compensation package elements that will increase external competitiveness is ongoing.

MOL Group also focuses on building a more integrated employee experience for Blue Collar employees by strengthening employee wellbeing, and increasing their awareness of the total rewards which are available in addition to base salary.

Providing support for workforce mobility within MOL Group sites can promote its attractiveness to employees. In this regard, MOL makes a tangible contribution to rental costs, workers’ hostels and commuting to work.

Annual People Cycle (APC)

The Annual People Cycle framework is a continuously developing system of processes, methodologies and tools that identify, measure and develop employee performance by aligning individual and team objectives with the mid- and long-term strategic goals of MOL Group. As a result of the focused activities of 2016, organizational performance was higher overall. One of the tangible outputs of APC improvement is the fact that short-term incentives are now directly connected to overall business performance and each employee’s impact on this.

Employees covered by a predefined and standardized performance appraisal process (%) [GRI Standard 404-3]

EMPLOYEE CATEGORY	2012	2013	2014	2015	2016
Executive/ Top management	100%	100%	100%	100%	100%
Middle/ General management	100%	100%	100%	100%	100%
First Line Management/ Supervisor	85%	100%	100%	100%	100%
Specialist groups	64%	64%	70%	72%	73%
Employees (below HAY18)	41%	42%	51%	54%	55%

As of 2016, the Employee Performance Management System process has been implemented at a further five companies (covering cca. 1,600 employees).

Career Management System (CMS) & Development processes enable the organization to develop and retain identified talent. During People Review Meetings, talent is reviewed and development plans and career paths are defined and followed up.

Number of participants in career management system and development processes [GRI Standard 404-3]

APC PROCESS	NUMBER OF PARTICIPANTS PER YEAR				
	2012	2013	2014	2015	2016
CMS & Development	1,535	2,000	2,100	2,100	2,100

Employee Engagement

Strategic objectives: "By 2020 increase employee engagement level to 55%"

Employee engagement decreased by two percentage points according to the 2015 survey, which was due to, among other things, organisational changes prompted by volatile market conditions at the time of the survey. However, the response rate was particularly high at 80%, and every second employee contributed open comments.

Employee engagement survey results (%)

EMPLOYEE ENGAGEMENT RESULTS	2010	2012/13	2015
Coverage	90	96	85
Response rate	64	62	80
Engagement level	70	47*	45

* Engagement methodology changed in 2012 due to the use of a new service provider. As a result, the engagement data in the table do not show the trend for engagement from 2010 to 2012, since the basis of calculation is different. Compared to results from 2010, the difference is a 2% point decrease.

In response to the survey results, action plans have been prepared to improve the level of engagement. Across the Group, 64% of such activities were in progress or had already been completed by the end of 2016. The number of activities was reduced compared to the 2012/13 survey in order to maintain focus on the most critical areas. One example from the field of operations is that in INA one of the most critical areas, change management, was addressed by increasing the specific capabilities of relevant target groups through a development program called "Leading positive change" which received very positive feedback from participants.

4.3 DEVELOPMENT OF HUMAN CAPITAL

Related objective: "Build Leadership capabilities, fill technical competency development gaps and have a global leadership competency framework"

Training and development data for MOL Group [GRI Standard 404-1]

MOL GROUP TRAINING DATA			
	2014	2015	2016
Average training time per employee (hours)	24	34	28
Average cost of training per employee (th HUF)	76	114	97
Average hours of training per employee group (hours)			
Top Management (HAY 24 and above)	52	53	57
Middle Management (HAY 21 to 23)	53	77	83
First Line Management (HAY 18 to 20)	52	69	81
Expert (HAY 14 to 17)	38	61	42
Executor (HAY 13 and below)	21	19	25
Average training cost per employee group (th HUF)			
Top Management (HAY 24 and above)	1,107	1,433	2,111
Middle Management (HAY 21 to 23)	854	1,426	1,818
First Line Management (HAY 18 to 20)	368	483	569
Expert (HAY 14 to 17)	200	161	152
Executor (HAY 13 and below)	61	42	34

Learning and development objectives

In 2016, the main objectives of all learning and development activities were first to continue the leadership development journey using a more tailored approach and in line with the 2030 Strategy; and second, to strengthen fundamental capabilities and keep track of technical capability building to maintain a skilled workforce in our operations.

Training and development increases the company's reputation, helps attract and retain employees, and supports the ultimate goals of MOL Group's 2030 Strategy: to be the Choice of Employees. Based on research into the key elements of the Employee Engagement results, professional development also keeps employees motivated at work, and thus builds loyalty towards the company.

The major challenge for employee development is the fact that the changes characterizing the business environment today outpace the time required for the development of responses. Various business expectations result in the need to attract a variety of employee profiles, whose development path also needs to be modified to reflect these new demands.

Leadership development

The second generation of the LEAD internal leadership development program was launched at the end of 2015 in partnership with the regionally acknowledged Cotrugli School of Business, and the globally-renowned Thunderbird Global School of Management. Curricula were tailored to the new strategic directions, and also shortened and intensified through action learning, and individual and team coaching. The program finished in December, 2016 with 55 participants pitching their innovative projects to the Executive Board, each strongly supporting the strategic goals that have been defined in MOL Group's 2030 Enter Tomorrow Strategy. MOL Group's modular leadership training program, Intensity, has proven to be successful based on the first two years' experience. In 2016, 650 participants (40% more than in 2015) attended Intensity courses with an extended portfolio on Strategy and Diversity and Inclusion. In 2016, the program course selection platform was upgraded to provide an exceptional user experience and a quick and easy application process. Overall course satisfaction reached 86% - a 3% increase on 2015.

Additionally, leadership development programs are in place in our subsidiaries and business units as well:

- The NEXT Downstream Production Leadership Development kicked off at the end of 2016 to create an appropriate, capable talent pipeline for Production. 15 participants across INA, MOL, and SN took up the challenge and started the 18-month program

- In MOL Hungary, JUMP, a managerial and expert talent program, was launched with the participation of 30 managerial-level and 30 expert-level talents.
- The SMART program started in Slovnaft for twelve potential leaders in 2016, and four participants were already promoted to their first managerial position during the first year of the program.

Technical capacity building

Related objective: "Sustain Technical Career Ladder (TCL) in E&P by ensuring correlation between career ladder and compensation; implement DS TCL."

Following the 2015 implementation of the Technical Career Ladder in E&P business for core petrotechnical jobs, the program was further extended in E&P. The TCL was also introduced to Downstream business in 2016 in order to build sustainable internal capabilities, and transfer knowledge in critical roles.

Employees enrolled in Technical Competency Measurement (number of people)

	2012	2013	2014	2015	2016
Exploration & Production	650	750	850	1,100	1,165
Downstream	500	750	950	950	1,846
HSE	30	30	300	300	300
Total	1,180	1,530	2,100	2,350	3,311

Exploration & Production HR Workstream

Following the successful launch of the Technical Career Ladder in 2015, a Group Practice "E&P Technical Competence & Career Development Framework" was issued in July 2016, and locally across E&P countries by 31st December 2016.

Based on business requirements, three new technical support Job Families were designed, and 30 critical petrotechnical professional positions were identified in Exploration & Production. The positions were included in the 2016-2017 recruitment plan as part of the Exploration & Production Technical Career Ladder program and technical capability activities.

In order to close critical skill gaps that were identified across the E&P value chain, relevant training has been delivered, including IHRDC Atlantica training for Reservoir Engineering, Drilling Engineering and Project Management. In total, 30 E&P employees attended a multidisciplinary 10-day simulation in a classroom workshop, and 250 E&P employees enrolled for self-learning courses on the IHRDC IPIMS e-learning platform based on the critical skill gaps that were identified. A Pearson Business English language program was attended by 91 employees at the Group E&P level.

In order to promote knowledge transfer across generations, the E&P Mentoring Program was expanded. In total, 57 mentors supported 129 mentees from five E&P countries during the mentoring training events.

Downstream-specific programs

The Downstream Technical Career Ladder Project started with the objective of strengthening and developing technical capabilities in line with the People strategic pillar in Downstream. In 2016, Technical Disciplines as well as seven Job Families were designed, and Technical Career Path, Competence Model, and Technical Learning Curricula were developed. Disciplines and Job Families were also defined, and a governance structure for disciplines and Job families was established. On 5th December, the project went live successfully. 30+ workshops were held with 50+ Subject Matter Experts. 1,000 Downstream petrotechnical professionals were allocated to a Job Family.

In 2016, the Culture 2030 program started with an assessment of MOL DS culture, defining target culture by identifying gaps and designing initiatives. An online culture survey, 41 personal interviews and workshops were organized with key stakeholders across Downstream and relevant supporting functions. The total scope of the survey was 14,000 employees in 14 countries, and 65% of respondents filled in the survey in total. Key areas for improvement have been identified and the implementation of the desired changes will start in 2017.

In 2016, 52 technical experts participated in the 5th Downstream Production Rotation program at 6 refining and Petchem sites in three countries. The goal of the temporary rotation of employees is to share professional refining-related knowledge and expertise throughout the Group, as well as to strengthen the networks among Group Downstream Production sites.

The 5th generation of PIMS Academy, the accredited post-graduate program, started in September 2015 with the enrolment of 1 Greek, 2 Slovakian, 2 Croatian, 2 Hungarian, 2 Romanian and 5 Omani participants. Nine students signed employment contracts with MOL Group in September, and have started an on-the-job year within Optimisation departments in HQ, MOL FS, Slovnaft and INA.

In line with MOL Group's Retail vision to become the leading brand in our core markets and the aspirations outlined in the 2030 strategy "To be the choice of customers", MOL Group has developed a Host program, a complex customer service program designed to build sustainable competitive advantage around customer service at service stations, together with its selected supplier partner Imparta. In 2016, the full concept and the training content were developed, along with the implementation process. The Generation Exchange 2016-2021 program was launched at Slovnaft Flagship with four focal areas. The goal is to ensure the sufficient transfer of knowledge between new joiners and experienced employees. EDUCATION 75+ provides relevant education to newly recruited operators. 4+1 is the concept of 4 days at work, and 1 school day of training. RE-PAS, meanwhile, is a re-qualification course for unemployed potential employees, while VSoCH 20+ attracts students from the field of Chemical Operator to the new opportunities provided by Slovnaft.

4.4 COMMITMENT TO FAIR EMPLOYMENT

Related objective: "Enhance responsible employer practices to ensure the engagement and diversity of the workforce"

Employee Relations

MOL Group is supportive of freedom of association and collective bargaining, and is committed to continuously improving social dialogue. In 2016, according to a weighted-average calculation based on data provided by MOL's European Work Council, more than half of all employees were represented by trade unions in companies where such representation is possible (96% of all employees).

Trade unions and collective bargaining agreements (%) [GRI Standard 102-41]

	2012	2013	2014	2015	2016
Employees with potential access to trade union membership	95	96	94	95	96
Employees with potential coverage of collective bargaining agreements	92	90	89	92	89

One example of such employee representation is the New Europe Program which was extended in 2015 for the period 2016-2020. This agreement between MOL Group and the European Works Council has been in place since 2006, providing a framework for the key activities that contribute to the sustainable and responsible operating of MOL Group.

The Program focuses on six areas (Social Dialogue, Talent Acquisition and Management, Capability Development, Reward and Recognition, Diversity and Inclusion, Health Protection and Promotion, Occupational and Process Safety), and, in line with the key goals of each area, it defines measures which should be implemented between 2016 and 2020 for the benefit of employees. The European Works Council represents employees at a Group level, and has members from all major subsidiaries.

Employee representative bodies are well-embedded in company operations at MOL Hungary. Discussions and consultations happen on regular basis, not only about major changes but about everyday business operations and strategic directions. Thanks to the frequent discussions, we are able to maintain open and living co-operation with trade unions and workers' councils.

Based on new stipulations derived from the Labour Act in Croatia, Trade Unions have initiated and conducted elections for a total of ninety-two safety-at-work commissioners in INA Group companies.

The INA Works Council was established in 2011. During 2016, all INA Group companies with more than twenty employees established Works Councils, with a total of sixty-nine Works Council members.

Social dialogue is continuously improved through cooperation with the INA Works Council and trade unions via regular meetings between HR representatives and social partners, and negotiations about employee fringe benefits. During 2016, 22 meetings with social partners were held, and a further 60 meetings with trade unions on topics such as collective negotiation, agreements about governing the working conditions of INA Works Council, and specific agreements about the social clause for employees related to benefits for protected employees. 123 consultation events were held with Works Council/Trade Unions, in line with the obligations of the Labour act.

At Slovnaft, regular monthly meetings have been organized with top managers, and there have been an additional 23 meetings to cover specific topics.

Diversity and Inclusion

Diversity & Inclusion is an important pillar and key driver of MOL Group's overall Human Capital platform, and is crucial to sustaining the strength of international growth. MOL Group's Diversity & Inclusion vision is to build a stronger company by fostering an inclusive culture that leverages diversity as a competitive advantage.

With strong support across the business, MOL Group is committed to promoting a culture of diversity and to creating an environment that helps the global workforce of diverse backgrounds, experiences and perspectives to contribute to collaboratively achieving results without boundaries. MOL Group fosters equal opportunities for all employees and job applicants, irrespective of race, colour, religion, gender, national origin or age.

MOL Group's Diversity & Inclusion (D&I) strategy focuses on three key areas: internationalization, the retention of young talents, and knowledge transfer between generations.

Part-time employment at MOL Group

	2012	2013	2014	2015	2016
Part-time employees (number of people)	293	263	282	380	409
Ratio of part-time employees to total workforce (%)	0.99%	0.91%	1.03%	1.46%	1.63%

In 2016, all relevant Sustainable Development activities were implemented. The proportion of women enrolled in Growww 2016 reached 50%, while the internalization rate (Growwwers who continue their career at MOL Group) was maintained across the Group. Knowledge transfer was ensured via tailored mentoring through the Growww program, as well as in the E&P HR Workstream, Internal Academy sessions, and further local knowledge-sharing initiatives.

As highlighted among the Talent Acquisition programs, MOL aims to ensure the existence of a diverse young professional pipeline for business, and also to strengthen employer branding in line with the Diversity & Inclusion framework. The Female Engineers MOL PrograMe was launched to attract female students, with a main focus on universities in countries in which the company operates. For further details, see Subchapter 4.1 above.

In order to further support the advancement of women across the Group and continue dialogue and knowledge-sharing process, a Group-wide Women Leadership Network Lean-In platform was launched in which best practices, knowledge and experience can be discussed with peers from multiple countries.

On a Group level, the proportion of women in top management and staff positions decreased by 2% compared with 2015 respectively to 7% and 24%, while the proportion of women in mid-managerial positions increased by 3% to 25%. To highlight positive trends, at subsidiaries of MOL Group the number of female CEOs has been maintained at eight. The proportion of women in top management is 29% in Slovnaft Flagship. In MOL Romania, the Country Coordination Team female ratio reached 60%, while in MOL Slovenia the proportion of women in second-level management is 50%, and the return rate of employees on maternity/parental leave is 100%. In Hungary, employee representation bodies and the Company signed MOL Plc.'s third Equal Opportunity Plan in 2015 for the period 2015-2017. In 2016, MOL Plc. put special focus on working parents. A 'New parent info package' booklet has been prepared to provide legal support and a summary of all necessary procedures and benefits for those who go on parental leave.

INA received certification for being a "Mamforce Company". This valued form of recognition is based on an employee survey of flexible working hours, the working conditions of parents with young children, promotion and equal gender relationships, and confirms INA's dedication to "family friendly" HR management.

MOL Group keeps track of the number of employees with reduced working capability to be able to provide better opportunities for them. Since legal definitions of reduced capability for work vary by country, we use our own internal definition. In 2016, 370 people with reduced working capability were employed throughout MOL Group, which represents 1.5% compared to total headcount. At MOL Hungary (including MOL Petrochemical, Petrolszolg, MOL Lub, MSC) altogether 21 disabled people were employed in 2016, which resulted in HUF 20.3 million savings on the rehabilitation contribution the company would otherwise have had to pay.

5 COMMUNITIES

General aim: Enhance trust and credibility among stakeholders

ACHIEVEMENTS:

- ▶ In 2016, MOL Group supported social investment projects with 0.26 % of its EBITDA, or 1.6 billion HUF in absolute terms (excluding leveraged donations derived from tax-base decreasing donation instruments)
- ▶ The MOL Group Corporate Volunteering Framework was developed and launched

CHALLENGES:

- ▶ Improve social and stakeholder engagement skills of local leadership and site/project managers
- ▶ Measure the socio-economic impact of projects
- ▶ Ensure good stakeholder management in connection with projects related to the 2030 Strategy

5.1 COMMUNITY RELATIONSHIPS

Related objectives:

- "Develop, improve a group-level social engagement plan"
- "All countries to have an annually updated social engagement plan, implementing key pillars of engagement"

Community engagement

MOL Group member companies, as integral parts of society, are mindful of wider social and environmental concerns and their own local responsibilities. MOL Group's goal for its corporate giving activities is to be in line with the expectations of the communities that live in the vicinity of operational areas. According to MOL Group's Social Engagement Policy, key stakeholders within the community and their issues or concerns that may impact the Company or its business goals are identified and analysed on a yearly basis.

MOL Group and its member companies engage with local stakeholders in several different ways. The most common methods are site-level relationships, public hearings and joint activities. General operations-related concerns are usually related to operating technologies (e.g. seismic measures, or investment projects that have environmental effects such as noise, emissions, or immisions). Naturally, we maintain ongoing communication with authorities and official bodies, landowners, and elected representatives related to the regulatory environment and our license to operate. Responses, comments and suggestions acquired through consultations and dialogue with the opinion leaders and representatives of main interest groups are used as a valuable source of information in activity planning. In addition, we also have some special ways of engaging: e.g. through employing local workforce and experts, contracting local suppliers, and building capacity through local supply chain initiatives in line with local procurement principles.

MOL Group believes that listening and responding to local concerns enables us to constructively resolve disputes before they escalate, thus reducing the manifestation of conflict. We consider each grievance notification from a community to be significant. To receive and manage grievances from both internal and external stakeholders we also operate an online grievance management system through which anybody can submit an ethical notification.

One of the most frequent causes of local grievances is the environmental concern of local communities. In 2016, 19 grievances related to environmental issues were received by our operational sites.

Non-European Operations

In international upstream operations, relationships in the industry with local communities, governments and partners alike are fundamental to fulfilling MOL Group's mission. We have established the position of "Community Relationship Officer": these individuals assist us with maintaining a continuous flow of information between MOL Group and local communities. The officers are local MOL Group employees who are the first points of contact for local communities in connection with business activities. They not only survey the needs of social investment activities, but also help by choosing among the initiatives proposed by locals, while maintaining the focus on the application of central, corporate objectives.

Both in Pakistan and in Russia, MOL Group has local procedures in place for grievance management.

In Pakistan, we have around 40 sites, and our Community Complaints Management Register (CCMR) acts as a tool for addressing complaints and grievances that arise in the target community. The register is a site-wide instrument that contains details about complaints that have been recorded, and the mitigation measures taken by MOL Pakistan.

Number of environmental grievances managed at relevant operations [GRI Standard 103-2]

	NUMBER OF FORMAL GRIEVANCE REPORTS FROM LOCAL COMMUNITIES RELATED TO ENVIRONMENTAL ISSUES IN 2016	NUMBER OF GRIEVANCES ADDRESSED (OR REVIEWED) DURING THE REPORTING PERIOD	NUMBER OF GRIEVANCES RESOLVED DURING THE REPORTING PERIOD	NUMBER OF GRIEVANCES RESOLVED BY REMEDIATION
MOL Upstream (Hungary)	0	0	0	0
MOL Duna Refinery	3	3	2	1
MOL Petrochemicals	0	0	0	0
Slovnaft Refinery	8	8	7	0
INA Upstream (Croatia)	0	0	0	0
INA Rijeka Refinery	6	6	6	6
INA Sisak Refinery	2	2	2	2
MOL Pakistan	0	0	0	0
Russia	0	0	0	0
Kurdistan	0	0	0	0

European Operations

In the Central-Eastern European region, we are capitalizing on existing relationships with municipalities and governments. The most important operational sites of MOL Group in Europe are facilities with up to 50 years of history. Our relationship with the communities that surround our facilities is well established, and its management is part of our daily operations.

In Hungary, MOL Petrochemicals held public hearings at Tiszapalkonya related to environmental investment into eliminating groundwater contamination.

At SLOVNAFT, attempts to launch the new production unit LDPE4, together with the routine shutdowns of other units in the refinery, increased the negative side effects of production (noise, flares and smells) which made it even more important to handle grievances. Timely notification of the neighboring areas that would be affected (via push SMS) was made a priority.

INA Upstream actively participates in the process of the local Strategic Environmental Impact Assessment (EIA) of individual municipalities and towns. The participation of local communities is ensured through regular consultations with the public.

5.2 SOCIAL INVESTMENTS

Related objectives: "Develop a comprehensive and effective social investment management system, including local social investment plans, with measurable targets in each country of operation"

In 2016, MOL Group supported social investment projects using 0.26% of its EBITDA.

Donations, in-kind giving and volunteering at MOL Group [GRI Standard 203-2]

SOCIAL INVESTMENT BY COUNTRY*	UNIT	HUNGARY	ROMANIA	SLOVAKIA	CROATIA	CZECH REPUBLIC	ITALY	INTER-NATIONAL UPSTREAM	TOTAL
Donations in cash	HUF million	611.9	392.9	139.4	128.6	16.1	3.3	279.3	1,571.5
In-kind giving (product/services)**	HUF million	14.8	0.0	1.9	14.4			0.0	31.1
Leverage	HUF million	6,275.4	-	-	-			-	6,275.4

* Including companies with approved Corporate Giving Plans

**Excluding the monetized value of corporate volunteering

1 Without corporate tax incentives indicated as leverage, according to LBG methodology

MOL Group's social responsibility objectives are to improve social and environmental conditions and contribute to the long-term socio-economic development of communities, rather than simply funding community investment projects.

Social investment priority areas for MOL Group are the following:

- **Education:** MOL seeks to facilitate access to basic and secondary education in areas where such circumstances are not assured. MOL Group also considers that supporting the next generation of young talents is a priority. Investing into local human capital benefits both business and society.
- **Healthcare:** The goal is to improve quality of life and create room for social innovation. Such benefits can be generated either by improving access to healthcare services and drinking water, or promoting sports and a healthy lifestyle, depending on the specific needs of local communities.
- **Environmental protection:** the company defines its own standards, as well as implements projects which raise awareness about the importance of saving traditional habitats.

MOL Group prefers to support diversified initiatives and projects which only require support during the start-up phase and which are later self-sustaining, especially when such initiatives are responses to global concerns.

MOL Group overall dedicated 27% of its social investment to education and young people, 9% to environmental protection, 8% to health and 8% to social welfare and economic development.

The distribution of corporate giving between European and Non-European operations is 84% vs. 16%, respectively.

Non-European Operations

MOL Group provides tailor-made support to local communities. Supporting education, making a contribution to the economic well-being of local communities, and providing healthcare-related programmes are the core of MOL Group's social investment strategy. 31% of International Upstream related corporate giving was allocated to education and young people, while to economic development and social issues the companies dedicated 8%. Health-related issues account for 2% of the budget.

Education

MOL Group offers full scholarships for a total of four years for eight Kurdish students at Hungarian Universities, including relocation costs, pre-engineering programmes, extra English lessons and MOL site visits.

Healthcare

MOL Pakistan supported using HUF 2.8 mn (USD 10,000) the district court of Karak, along with the bar council, to construct a shelter for litigants and a lavatory block as there were no such facilities in the vicinity.

MOL Pakistan also supported with HUF 1.4 mn (USD 5,000) Free Medical/ Eye Camps in TAL Block. The health of the poor and marginalized communities of TAL Block is compromised due to their extreme poverty. Having a medical check-up is a luxury for ordinary residents of this area. Access to medical facilities is seriously hindered by the restrictions on female mobility, and is further burdened by the fact that a number of Afghan Refugees live in the area. The main focus of the support involved providing 'doorstep' facilities/services for the medical and eye-related illnesses that confront the local community. The eye camps proved to be a success, and the need for more general medical camps was also established.

Sport

MOL Pakistan has been supporting sporting activities in its operational areas in Tal Block for the last decade. Cricket and football are the most well-known, popular sporting activities. MOL Pakistan supported a cricket tournament held for physically handicapped individuals with HUF 1.4 mn (USD 5,000).

BaiTex LLC donated HUF 422 thousand (RUB 100 thousand) for the purchase of sports equipment, repair work, etc. to the Municipal Budgetary Institution for Supplementary Education, Youth Sports School, in Buguruslan city.

Social welfare:

The Russian subsidiary of MOL Group BaiTex LLC is committed to supporting the general development and sustainable growth of the Samara and Severny District. During the year 2016, HUF 12.66 mn (RUB 3 mn) was donated to the Charity Fund of the Samara Region Social Development (Sodeystviye) for financing social, economic, sports and cultural programmes in the region, as well as children's and youth sports, and the promotion of healthy life styles.

BaiTex LLC supported the redecoration of the administrative building of the Integrated Social Service Centre of Buguruslan city, and the development of the Municipal Autonomous pre-school Educational Institution (kindergarten) with a total of HUF 842 thousand (RUB 199,800) each. The company also donated to the Social Rehabilitation Centre for Minors ("Aistenok") to support the

repair of a rehabilitation room, and also provided funds to support the activities of the Orenburg Region, Disabled Society to the amount of HUF 422 thousand (RUB 100 thousand).

European Operations

MOL Group constantly monitors and investigates customer habits and the public recognition of its programmes via corporate giving awareness-tracking surveys to better understand the needs of society in core operating countries (Hungary, Slovakia, Croatia and Romania). This survey involves more than 8,000 stakeholders at a group level.

84.5% of stakeholders prefer that donations go to support healthcare-related issues. Second on the list is environmental protection (82.7%), while education is third (79.5%).

MOL Group's corporate giving budget is aligned with business efforts and public expectations. According to our internal data collection system, 26% of donations focus on education and young people, 11% on environment protection, while 10% are spent on improving healthcare.

MOL's corporate giving is also connected to business sites, such as the above-mentioned, non-European projects in international exploration and production operations which account for 40% of the total social investment budget. Other such initiatives include, for example, maintaining cooperation with our most important stakeholders and professional organizations. The data do not include donations related to corporate tax incentives provided by the state.

The social investments of MOL Group companies in Central Europe are mainly carried out through foundations which support various causes, such as young talents (sports and art categories), healthcare, and special therapies for chronically ill children.

The majority of our education and health-related projects are administered through such organizations in different proportions (Hungary: 53.3%, Slovakia: 43.1% Romania: 100%). In Hungary, Slovakia, Romania, Croatia and Italy we also support local environmental initiatives through our Green Belt Programmes. In 2016, the project was extended to the Czech Republic as well.

Volunteering

Corporate volunteering by employee/country*

	HUNGARY	ROMANIA	SLOVAKIA	CROATIA	CZECH REPUBLIC	INTERNATIONAL UPSTREAM	ITALY	TOTAL
Employee volunteering (hours)	0	0	873	6,304	88	0	0	7,265

* Including companies with more than 100 employees

In 2016, the MOL Group Corporate Volunteering Framework was defined at the Group level. It now provides a systematic approach to volunteering which enables new ideas to be implemented and raises the level of motivation of our colleagues. In the short run, MOL Group is first focusing on "traditional volunteering", which will gradually be transformed into "Skills-Based Volunteering" according to the framework.

The framework was launched at the end of October with a "Tell your story" competition in which employees from seven different countries submitted more than 50 stories about how they are volunteering in their free time. In the second phase, launched in mid-January 2017, employees have the opportunity to propose new corporate volunteering ideas that focus on meeting local community needs, and can put forward the names of NGOs that MOL could work with.

At Slovnaft in 2016, the 2016 Earth Day marked an important milestone in the internal volunteering initiative through the establishment of the Slovnaft Club of Volunteers. Around 60 new members signed up, and are now being regularly informed about upcoming volunteering initiatives and can play an active role in them. Slovnaft also organized two volunteering initiatives in 2016: "Our city" (in which 80 volunteers helped to improve the city they live in by collecting trash near bike paths, painting the playgrounds of local kindergartens, or cleaning up around the Danube River) and "Bird Island" (in September, 60+ employees helped professional environmentalists from SOS Birdlife Slovakia to clean up Bird Island on the Danube, and prepare the area for nesting). In 2016, the INA Volunteer Club organized 42 initiatives with the participation of 771 members. The Club focused on developing ecological, humanitarian and projects for children and youth. The Club currently has 988 members, which is an increase of 27.13% compared to 2015. The Volunteering Centre Osijek praised the INA Volunteer Club in its "Recognition for contribution of business sectors to the development of volunteering" in Slavonia and Baranja in 2012, 2014, 2015 and 2016.

5.3. LOCAL SUPPLIERS AND EMPLOYMENT

Local suppliers

Employing local people in the areas in which we operate, as well as hiring local contractors when possible, is beneficial to the local economy as the income it generates increases the purchasing power of these communities.

MOL Group understands that hiring local suppliers has multiple benefits and can also be a way of establishing a positive relationship with local communities. As a result, MOL Group contracts with such suppliers whenever it is beneficial, taking into consideration the expectations of local governments.

In the countries in which we have International Upstream operations, local procurement is especially important because operational sites are very often situated in areas populated by low-income communities. Hiring local contractors and employees therefore strengthens the relationship MOL Group has with all the stakeholders of the region, including local governments and communities. In countries where MOL Group is only involved in exploration activities, the opportunities for hiring local suppliers can be limited due to the special knowledge and technology we require. However, where MOL Group undertakes production activities as well, the proportion of local suppliers is high, especially in Russia where the involvement of local enterprises is close to 100%.

Number and ratio of local suppliers* [GRI Standard 204-1]

	2014		2015		2016	
Number of local suppliers (pcs)	20,695		18,274		24,643	
Hungary	16,415	14,383			11,930	
Slovakia	1,864	1,950			10,850	
Croatia	1,081	1,086			1,179	
Pakistan	606	513			472	
Russia	357	242			183	
Other	372	100			29	
Ratio of local suppliers:	A	B	A	B	A	B
A) by number/ B) by contracted value	89%	72%	88%	64%	88%	65%
Hungary	92%	77%	91%	64%	92%	57%
Slovakia	80%	65%	78%	44%	86%	63%
Croatia	83%	93%	85%	78%	85%	82%
Pakistan	68%	79%	74%	79%	65%	52%
Russia	100%	100%	98%	98%	100%	100%
Other	58%	44%	51%	65%	100%	100%

*Locally-registered suppliers; the increase in total number of suppliers in Slovakia is due to the inclusion of SMaO (maintenance single-service companies) in the scope of reporting

Maintaining a local supply chain creates the greatest benefit to society and to the local economy, especially when locally-owned small businesses are hired as contractors. The total value of contracts signed between MOL Group and locally registered businesses in 2016 was ca. HUF 15.3 bn (EUR 51 mn) in upstream international countries (Pakistan, Oman, and Russia).

Supplier management

In 2016 the implementation of a Supplier Qualification System (SQS) continued. This system is an important component of a group-level, integrated system that will deal with all supplier-related information, from the pre-screening to the post-evaluation stage. SQS includes data about suppliers' basic legal, ethical, financial and HSE related processes, and facilitates automatic risk assessment which assists in the pre-screening process.

Local employment

Across E&P International Operating companies, in MEA (MOL Pakistan, Kalegran, MOL Oman), CIS (Russian Operating Companies - MOL Russ, Baitex) and North Sea (MOL Norge, MOL Energy UK) countries, MOL follows local regulatory requirements and Production Sharing Agreement stipulations (where applicable) to ensure local content and maintain the expat quota - thus the majority of employees at E&P International Operating Companies are local nationals. MOL focuses on developing its local technical and office employees and ensures expat knowledge transfer (through mentoring, tutoring, internal training, etc.). In 2016, Russian divestment from Matjushkinskaya Vertical resulted in a decrease in the number of local managers.

Local managers in major international upstream locations [GRI Standard 202-2]

COUNTRY	INDICATOR	LOCALS	TOTAL
Russia	Number of local senior executives	1	1
	Number of local managers	0	3
Pakistan	Number of local senior executives	1	4
	Number of local managers	20	34
Overall	Number of local senior executives	2	5
	Number of local managers	20	37

Indirect Economic Impact

In the main countries where MOL Group has Upstream and midstream operations, the most significant indirect impact of MOL Group on the economies of these countries is through the energy it supplies. Another area in which the company can have a significant positive impact on the societies of host countries as a result of our operations is by improving access to infrastructure and energy. The development of infrastructure and improvements in access to energy can be directly related to our operations, or can occur based on contractual or other commitments.

The Russian subsidiary of MOL Group BaiTex LLC is committed to supporting the general development and sustainable growth of Samara and Severny District. HUF 6.3 mn (RUB 1.5 mn) worth of support was given to Severny District, partially for the maintenance of electrical power systems, and also for the development of educational infrastructure.

Previous examples of MOL Group's indirect economic impact include the non-voluntary financial support given by MOL Pakistan for the construction of the Khushal Garh bridge, which is a safer and better connection between the two main provinces of Khyber Pakhtunkhwa and Punjab in Pakistan. MOL Pakistan also supports improvements in local water infrastructure which provide safe drinking water and help the agricultural activities of local communities. Furthermore, free eye and medical services are offered for the local community.

6 ETHICS AND GOVERNANCE

General aim: Focus on responsible operations and long-term economic development

ACHIEVEMENTS:

- ▶ In 2016, a MOL Ethics Management System third-party audit was completed. Results indicate strong institutions, outstanding system design and good compliance with defined processes
- ▶ The first group-level human rights risk assessment and vulnerable group identification process was carried out
- ▶ The group Code of Ethics and Business Conduct was updated
- ▶ A total of 11,970 hours of ethics training and eLearning courses were successfully deployed in MOL Group (including at MOL Plc., 48 MOL Group companies and 16 companies consolidated by INA d.d.)
- ▶ In 2016 in Pakistan's E&P operations we have delivered human-rights training, including soft skills training, to 100% of private security contractors and armed forces.
- ▶ "Who is our Customer" research continued in 2016, providing insight into general satisfaction, perceived quality and customer loyalty

CHALLENGES:

- ▶ The inclusion of human-rights-related risk assessment in business processes is required, with a focus on international operations
- ▶ Further improvement of ethical corporate culture and the development of institutions that can effectively and comprehensively investigate grievances and provide real remedies to stakeholders

One of the most essential components of MOL Group's operations is our commitment to ethical behaviour. In the long run we will only be able to face the challenges of competitive market environments successfully if we accept the imperative of moral responsibility, both as individuals and as a company. We are aware that ethics is at the core of corporate governance, and that it should be integrated into our corporate strategy and operations. Our sustainability strategy mirrors this approach by linking ethics and governance issues.

6.1 ETHICS AND COMPLIANCE

Related objective: "Implement key pillars of ethics management system (code of ethics, e-learning, managerial presentation and business partner code of ethics) in all companies and reach 100% coverage"

MOL Group is determined to operate in good faith within the appropriate legal framework, obeying relevant laws, rules and regulations. We view regulatory measures as a minimum baseline, while our ethical framework goes beyond legal compliance, integrating standards which are commensurate with our stakeholders' expectations.

We operate a comprehensive ethics management system and compliance programme which is focused on strengthening fair and transparent market behaviour, respecting fundamental human rights, fighting corruption, and preserving and developing our ethical values. The foundation of this is our Code of Ethics (CoE) which covers, inter alia, human rights, various transparency and integrity topics, anti-corruption, privacy, community relations, HSE and fair market behaviour. The CoE is available in 13 languages (English, Bosnian, Croatian, Polish, Hungarian, German, Italian, Russian, Romanian, Serbian, Slovakian, Slovenian and Ukrainian). 100% of all MOL Group employees receive and sign our Code of Ethics and we make efforts to integrate ethical values and expectations through our entire supply chain. The Business Partner Code of Ethics which highlights the ethical values that are of utmost importance to our supply chain – including human rights, anti-corruption and fair market behaviour – is a component of 91% of supplier contracts. 74% of joint ventures in which MOL Group has a stake of less than 51% have adopted their own version of the Code of Ethics (except for companies with no employees, or companies where the MOL Group stake is less than 15%, thus influence is limited).

Within the ethics management system, MOL Group places special emphasis on disseminating the values and norms of the Code of Ethics through ethics-related training.

- Ethics eLearning and classroom courses – these address all the topics covered by the Code – were successfully completed by employees at IES. S.p.A., MOL energy UK, MOL Česká republika and all new employees at MOL Plc., Slovnaft a.s., MOL Petrochemicals Co. Ltd., MOL Hungary Corporate Services Ltd. and MOL Hungary Financial services Ltd.
- In order to raise ethical awareness in retail networks, tailor-made training was conducted for service station operator partners and attendants in Croatia, the Czech Republic, Slovakia and Romania.
- Tailor-made, focus-group specific training materials were prepared for Procurement employees and in human rights topics, and pilot training sessions were held at MOL LUB Ltd., and at the Annual Sustainable Development workshop for the affected employees of MOL, Slovnaft and INA Flagship companies.
- Based on estimates, eLearning, classroom courses, other ethics training and filling station training events totalled 11,970 hours.

Conducting ethics risk assessments has been a key pillar of our ethics management system since 2011. According to data for 2016, the greatest ethical risks in MOL Group are breaches of HSE and property protection (Security) rules, corruption (incl. gifts to business partners and conflicts of interest), harassment/bullying, the private use of corporate assets, information security breaches, and personal data protection. As a Downstream-specific risk, trade restrictions that potentially affect deals with partners were identified. Possible disputes with local communities were identified as an Upstream-specific risk. According to external benchmarks, the riskiest countries for MOL Group operations (both from a corruption and from a human-rights perspective) are Kazakhstan, Iraq, Pakistan, Russia, and the Ukraine. In order to decrease risks, several initiatives have been rolled out:

- Integration of an ethics compliance questionnaire into our supplier prequalification system
- Security training at MOL Group companies, including the topics of avoiding fraud and conflicts of interest, and abiding by house security rules
- Human rights training for security staff in Pakistan
- A retail fuel-loss risk assessment matrix was drawn up, and a related pilot project for identifying cases of fraud was completed by the Security Anti-fraud Team

A third party audit was undertaken to evaluate MOL Group's ethics management system. The scope included overall operations and (but was not limited to) Code of Ethics content, ethics risk-assessment methodology, the Ethics Council and local ethics officers' network organisational and internal regulatory design (at the Group level according to industry benchmarks), and compliance checks with Code roll-out and mandatory training on a sample of the mother company two subsidiaries in Hungary, and two abroad. According to audit findings, MOL Group has strong institutions and performs outstandingly in terms of process design. Several gaps were identified regarding social media issues, the lack of attempts to address sector-specific issues, risk-based anti-corruption due diligence, the lack of pre-defined human rights adverse effect mitigation plans, and tailor-made ethics compliance and ethical decision making training on specific topics for managers and contractors.

The results of external benchmarking, gap analyses, the audit findings and recommendations were fully taken into consideration during the review of the Code of Ethics, and a new Code of Ethics and Business Conduct was finalized by the end of 2016. Implementation of the new Code will start in 2017, and operations will later be enhanced according to the recommendations.

Group Compliance and Ethics organization activities include operation of the whistleblowing system ('SpeakUp!') and conducting

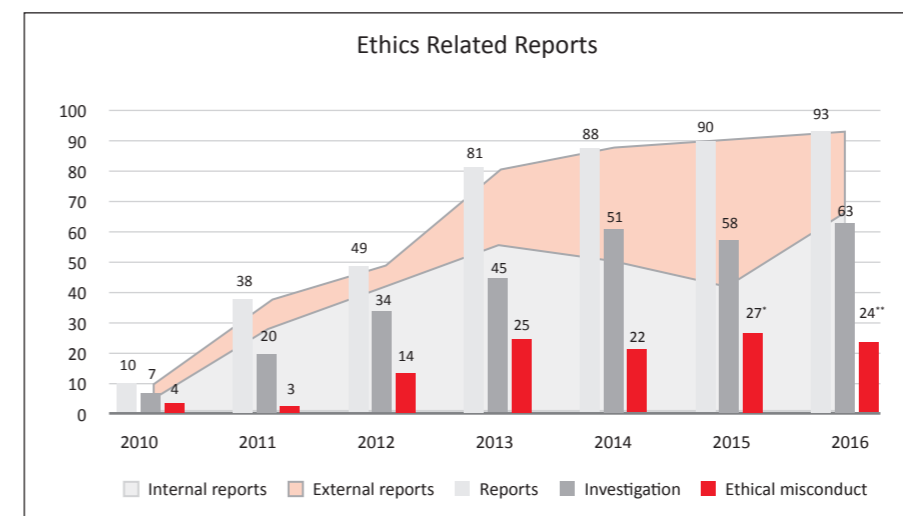
internal investigations, preparation of risk analysis and trainings of employees. In addition to comply with competition law, personal data protection rules and international trade controls and to prevent insider trading, Group Compliance and Ethics reviews internal processes and risk factors, conducts audits, makes recommendations and provides consultancy.

6.2 ETHICAL CASES

The Group Ethics Officer (a member of the Group Compliance and Ethics unit) coordinates responses on behalf of the Ethics Council to grievances and reports addressed to the Ethics Council via the 'Speak Up!' whistle-blowing system, investigations into ethics-related issues, whistle-blower protection and ethics-related questions, and provides general decision-making support. Cases of misconduct are detected and investigated using various mechanisms throughout the MOL Group by applying the principle of subsidiarity. Cases are inspected by the Ethics Council only if the whistle-blower has turned to (or the concerned functionary escalates the case to) the Ethics Council. Data about these cases can be found in the corresponding chapters of this report, thus the Ethics Council statistics does not mirror every – typically minor or trivial – internal ethics, compliance or security investigations. Data about cases managed by Security can be found at the end of this section.

Grievances and whistle-blower reports are handled confidentially, while the (web-based) grievance submission process is publicly available in English and in Hungarian and anonymous reports are accepted as well. In addition, the Ethics Council operates a 24/7 hotline with an answering machine.

The number of reports submitted via 'Speak Up!' and ethics investigations has increased over the last five years. Compared to the 90 ethics-related complaints/reports submitted in 2015, a higher number (93) were received by MOL Group and the INA Group Ethics Councils in 2016. This continuous increase indicates an improvement in awareness about ethics issues by internal and external stakeholders, in line with our strategy. The proportion of ethics-related reports arriving from external (non-MOL Group company employee) stakeholders decreased (53% of the total in 2015; 30% in 2016.) for two reasons: first, this year less anonymous reports, which were previously counted statistically as external reports, were submitted; second, the 'Speak Up!' website update provides more precise information about compliance and ethics issues, thus minor customer satisfaction issues emerging from retail can be channelled directly to customer services.



* Investigations which commenced in 2015 and closed in 2016 revealed an additional two cases of misconduct, resulting in a total of 27 case of misconduct for 2015.
 **As of the end of 2016, 13 investigations were ongoing.

External reports were primarily submitted by customers (37%), suppliers, supplier subcontractors and employees (22%), concerned other third party, citizens (11%), and former service-station partners and employees (11%). One report/grievance was filed by a former employee and one by a shareholder (8%). In 11% of external reports, the relationship with MOL Group was not revealed, since whistle-blowers have the option not to disclose such details.

Ethics reports were received from 11 countries. Hungary (38%) and Croatia (11%) – the counties with the largest MOL Group operations – and also Pakistan (22%) are top of the list. The latter figure (relating to Pakistan) is probably connected with the weaker rule-of-law, and the tendency to seek alternative forms of justice where possible.

The most frequent topics of ethics complaints are shown in the table below.

Topics of ethics complaints/'whistle-blower' reports in 2016

TOPICS	SHARE OF ETHICS REPORTS IN 2016 [%]
Harassment / Inappropriate communication	24
Fraud / Theft	14
Discrimination / unethical performance evaluation	14
Unlawful employment / termination	6
Misuse of assets / digital systems	5
Insufficient service / Impoliteness	5
Conflict of interests	4
Bullying / Threatening	4
Corruption / Bribery	3
Unethical supplier	3
Defamation	2
HSE Breach of rules	2
Workplace violence	2
Misleading information	2
Biased tender evaluation	2
Sexual Harassment	2
Violation of privacy	1
Other	2

Regarding ethical reports, in 63 cases an investigation was considered justified, and in 24 cases ethical misconduct was verified (Ongoing cases at the end of 2016: 12 in MOL; 1 in Ethics Council).

Consequences for ethical misconduct included the termination of six employment contracts and one supplier contract, eight written disciplinary notices, and two verbal disciplinary warnings. In three cases the Ethics Council made recommendations about how to correct and improve business processes, and in one case the Ethics Council ordered a customer to be reimbursed. Regarding three complaints concerning fake job offers made by fraudsters in the name of MOL, criminal charges were initiated. One employee with theft-related disorders who had caused minor damage to colleagues was ordered to attend therapy. There were no confirmed cases of corruption but in one case of a confirmed conflict of interest, disciplinary measures were initiated.

In 2016, stakeholders sought advice from the Ethics Council in 7 instances, all of whom received satisfactory replies. The Ethics Council annually reports about ethics-related cases to the Board of Directors' Sustainable Development Committee and to the Supervisory Board, and publishes in internal publications and on the web (anonymized) details about the established cases of misconduct to raise awareness about ethical norms. More information about the nature of such misconduct is available on our website (www.molgroup.info/en/sustainability/ethics-and-governance/ethics-and-compliance/ethics-cases).

Regarding security reports, in 2016 from the total of 1,222 investigations, MOL Group Security identified 578 cases of misconduct (47.3%). 70.3% of cases of misconduct were committed at filling stations, 28% involved misuses of corporate property, breaches of security rules or fraud at MOL Group companies, 1% involved conflicts of interest, and 0.7% related to security risks that concerned business partners. As a result of the revealed conflicts of interest, managers who exercised employer's rights were informed so that consequences could be determined for individuals. Within MOL Group's filling station network, we distributed financial penalties to distributors and terminated the operational contracts/employment contracts of some station attendants. When criminal offences were committed against MOL Group companies, charges were pressed against the perpetrators.

6.3 ANTI-CORRUPTION

MOL Group condemns every kind of corruption and is fighting against such behaviour through the means of prevention, intelligence and investigation.

An Anti-Fraud Team (AFT) was established at the end of 2015 within the framework of Group Security. In 2016, the main focus was on developing AFT and creating an Anti-Fraud Policy and the related training plan. The policy and the training plan are under revision and the plan is for them to be published in 2017. The policy is designed to be in line with the UK Bribery Act and the US Foreign Corrupt Practices Act.

Within the Anti-Fraud Team, the main operational focus in 2016 was to kick off an end-to-end risk assessment for all business and functional areas. The first step was to establish a risk assessment methodology for fuel losses in the Retail sector (for service

stations). During the year, the methodology was created and piloted, first in Hungary. After the evaluation of the Hungarian pilot, the Fuel Loss Risk Assessment was piloted internationally in Croatia, Slovakia and Romania.

During the year 2016, data-mining pilots were also conducted as part of conflict of interest investigations.

MOL Group operates conflict of interest avoidance processes based on strict regulations. Every employee has to fill out a conflict of interest statement, and Group Security carries out periodic investigations.

Anti-Fraud related training (about internal investigations and conflicts of interest) are mandatory for all employees and newcomers. The training that started in 2014-2015 will be renewed and then delivered biannually.

MOL Group sponsorship activities rely on strict ethical standards. We do not support religious organisations, political goals and parties, and any organisations or events violating human rights, the interest of the common good, offend public morals, or represent any discriminative opinion. For more information visit: www.molgroup.info/en/about-mol-group/sponsorship/corporate-giving-principles

6.4 HUMAN RIGHTS

MOL Group is committed to respecting fundamental human rights, a principle which is also included in our Code of Ethics and is rolled out along the supply chain through our Business Partner Code of Ethics as a binding requirement. Furthermore, MOL Group undertakes due diligence processes and recognises human-rights issues. In 2016 we continued to adopt the UN Guiding Principles on Business and Human Rights (the 'Ruggie Framework').

In 2016, ethics eLearning courses – addressing, inter alia, human rights issues – were successfully completed by employees with intranet access at IES. S.p.A., MOL energy UK, MOL Česká republika and all new employees at MOL Plc., Slovnaft a.s., MOL Petrochemicals Co. Ltd., MOL Hungary Corporate Services Ltd. and MOL Hungary Financial services Ltd. The annual Sustainable Development Workshop involved a deep presentation and analysis of business and human rights relationships.

Starting from 2015, we have taken Human Rights Watch and Freedom House country evaluations into account in our risk assessments as external benchmarks. Based on these, the riskiest countries for MOL Group operations and non-operated assets from a human-rights perspective are Cameroon, Iraq, Kazakhstan, Oman, Pakistan, Russia and the Ukraine. A total of 51 subsidiaries in 19 countries have been subject to an internal human-rights risk assessment survey based on local management estimates.

In 2016 we identified rights-holders as vulnerable groups of workers, business partners/contractor staff, local communities and special vulnerable groups (such as women and minorities). More information is available at our website (www.molgroup.info/en/sustainability/ethics-and-governance/ethics-and-compliance/human-rights)

In 2016, a Human Rights Due Diligence Roadmap was approved which defines a five-year action plan for implementing the corresponding processes.

In 2016 a number of specific human-rights issues and concerns were raised by internal and external stakeholders relating to topics such as personal data handling, discrimination and a hostile work environment. Grievances were received from local community inhabitants who complained of noise, smells or flaring during non-standard operations (e.g. shut downs and start-ups of units). Concerned subsidiaries started to handle concerns and respond with appropriate remedial activities.

To ensure that human rights are protected through the supply chain, we strive to improve our Responsible Supply Chain Management and extend the implementation of our ethics values and norms, transfer human rights-related knowledge, conduct prequalification activities, audits and due diligence. The Business Partner Code of Ethics which highlights the ethical values that are of utmost importance to our supply chain – including human rights – is a component of 91% of supplier contracts. In order to raise ethical and human rights-related awareness in retail networks, tailor-made training was conducted for service station operator partners and attendants in the Czech Republic, Romania, Serbia and Slovakia.

A risk-based supplier prequalification system was implemented which includes an ethics compliance due-diligence questionnaire with classic code of conduct and internal policy-related questions. It also collects data about fair labour practices and other human-rights related factors.

In Pakistan's E&P operations we have delivered human-rights training, including soft skills training, to private security contractors and armed forces for 100% of security personnel in 2016.

MOL Group is not engaged in activities which affect indigenous people. MOL's modus operandi ensures the safeguarding of the rights of tribal populations and indigenous people. In this spirit, we commit to gaining free prior and informed consent in the event that indigenous people should be relocated from their land. So far, no resettlements have occurred at any of our international operating locations.

6.5 TRANSPARENCY

The integrated Annual Report remains MOL Group's most important sustainability-related disclosure. Several other forms of communication and channels are also used to disclose and inform internal and external stakeholders about our sustainability performance. Key sustainability performance indicators and activities have been part of "Quarterly Flash reports", alongside key financial indicators for more than two years. In 2016, we reduced the number of full written quarterly reports – in line with the EU Trans-

parency Directive - to biannual frequency, while quarterly reporting takes the form of a management call with investors in which sustainability context is also explained. MOL Group's website (www.molgroup.info/en/sustainability) contains additional information about the topics described in this report, some in more detail and in a format that better suits a larger, non-expert audience.

Large subsidiaries of MOL Group publish sustainability information in different ways:

- INA Group publishes its own integrated financial, non-financial Annual Report and has webpages dedicated to the topic of Sustainable Development.
- Every two years, MOL Production publishes a sustainable development report about three refineries: the Danube, the Tisza and the Zala. In 2015, data covering the period 2013–2014 were published. The next report about the period 2015–2016 will be published in 2017.
- MOL Logistics publishes environmental reports every year.
- Slovnaft publishes its key sustainability performance indicators in its Annual Report, and also dedicates a section of its website to Sustainable Development and HSE
- IES shares sustainability-related information on its website.

Local reports are available through our website (www.molgroup.info/en/sustainability/report-and-data/local-reporting).

We consult a number of stakeholder groups about sustainability performance and reporting. In 2016, among other related initiatives we can highlight the following:

- According to MOL's standard practices, the executive management of the European Workers' Council (EWC) reviewed work-force-related information published in the MOL Group Annual Report and web pages, both at the outline stage and the commenting stage of the first draft
- In 2016 in Slovnaft an information platform using push SMS to communicate with the public was operational. The system dispatches notifications about the construction of the LDPE4 plant and planned shutdowns of other units.
- In October 2016, INA hosted a Workshop on Volunteering under the framework of the UN Global Compact Croatia and Croatian Employers' Association to share best practice with other members of the UN Global Compact Croatia.
- MOL Hungary organized a sustainability forum during the Health Safety & Environment days held at the Tisza refinery site where sustainability experts from the parent and group companies presented details about the SD framework.

In countries where MOL Group is only involved in Exploration and Production operations, the energy industry as a whole may generate a significant proportion of national income (through royalties or production-sharing agreements). Consequently, MOL Group considers it fundamentally important to observe any legislation or initiative connected to the transparency of payments related to extractive activities. In 2016, MOL Group supported the Extractive Industries Transparency Initiative (EITI) principles and criteria for financial reporting. We started to support EITI at an international level in 2013, and have been cooperating with the initiative in the countries in which we are implementing the system. MOL Group has operations or owns non-operated assets in several EITI-compliant countries: Cameroon, Norway and Kazakhstan. In parallel with the entry into force of new EU transparency requirements in 2016, MOL Group will be publishing a report on payments to governments in 2017.

6.6 CUSTOMERS

MOL Group has approximately 30,000 wholesale customers and 10 million retail customers in 10 countries.

Considering the slowing growth in demand and steady increase in production costs, it is critical to streamline supplies to customers, and to listen very carefully to their requirements. Product line management was thus introduced to optimize product streams, and create the shortest path and time from product to customer.

Customer satisfaction

Each of the product lines has one or more customer-bases, depending on whether the product is marketed to wholesale customers or retail customers. In wholesale we differentiate between Wholesale Fuel customers (fewer clients who buy larger quantities) and Fuel Card customers (more clients who buy smaller quantities). In terms of analysing customer satisfaction, we do not currently use one overarching methodology since we deal with different customers in different markets, and our multibrand strategy allows the decentralized relationship management of customers.

Wholesale

MOL Group has been conducting customer satisfaction surveys among its wholesale customers since 2002 with the aim of understanding customer expectations towards our company. The scope of the surveys are determined by MOL Group commercial and business strategy, with a focus on core markets. Lubricant product group results are consolidated into MOL and Slovnaft wholesale satisfaction indices. Surveys are conducted on these markets by independent market research companies. Based on the loyalty segments and satisfaction matrix, plans for improvement are quantified and implemented into the company's quality objectives. The activities are monitored quarterly, and are modified according to the results of the survey each year.

Wholesale customer satisfaction performance on a scale of 1-5 [GRI Standard 102-43]

COUNTRY	TYPE OF CUSTOMERS	DATE					COMMENT
		2012	2013	2014	2015	2016	
Hungary	fuels* customers	4.37	4.27	4.33	4.44	4.38	Different methodologies used every two years (focus group in even years and telephone interviews in odd years). 2016 results are based on preliminary calculations and are subject to change.
	card customers	4.33	4.29	4.34	4.39	4.30	
Slovakia	fuels* customers	4.30	4.20	4.30	4.40	-	No satisfaction survey conducted regarding 2016 data.
	card customers	3.90	4.10	4.30	4.30	-	
Croatia	fuels* customers	4.02	4.15	4.00	4.30	4.26	Y2014 data cannot be compared with other years as survey was done using different methodology by external company
	card customers	4.05	4.26	4.20	4.49	4.40	
Romania	fuel customers	4.24	4.49	4.65	4.76	**	** 2016 results will be available in Q2 2017 to ensure optimal response rate.
	card customers	-	-	4.16	4.53	**	

* Includes fuel, lubricants, bitumen, LPG, heating oil customers

For further details about wholesale customer relationship management and survey methodology, please consult our website:

www.molgroup.info/en/sustainability/ethics-and-governance/responsibility-in-marketing-processes

Retail

The "Who is our customer" research project started in 2015 and was ongoing in 2016. The research comprised several major stages: a Qualitative Phase, TGI Analysis, and a Quantitative Phase and was carried out in five countries (the Czech Republic, Croatia, Hungary, Slovakia and Romania).

In 2016, in the latest phase of the research, 1,200 participants between the ages of 18-59 were involved from Hungary. This group consisted of both drivers and non-drivers in a representative sample according to gender, age, region, and settlement size. The research resulted in valuable information about the two strategic customer segments who visit MOL service stations and who account for 60% of fuel and 90% of non-fuel sales. The research also validates the implementation of our new customer-centric initiatives (HOST program, new fuel strategy, Fresh Corner concept).

MOL Group tracks customer complaints on an annual basis in the form of number of complaints per million transactions. Since 2012, a general increasing trend in the number of customer complaints can be observed due to better awareness of customers' right to claim quality services, to an increasing number of environmentally and socially conscious customers, to issues concerning the fulfilment of guarantee and warranty obligations connected with promotional activities which resulted in the sale of large numbers of items.

The main communication channels of Retail are the service stations themselves, at which we regularly organise promotional events for customers. We operate a call center that is open 24 hours a day, and also provide support for banking and fuel card-related issues.

MOL subsidiary companies are also developing new ways to interact with and better understand customers. For example, MOL Austria started a "Day on the Road" project where office employees were offered a chance to spend one day with the company's truck drivers, and to learn more about their work, while Slovnaft developed the Staffino mobile app which allows customers to send instant feedback about their experience at service stations (e.g. about food quality or staff). In 2016, customers made 3,777 evaluations, from which equipment and services were identified as problematic issues. At INA, a call centre was introduced to the Commercial Sector in order to provide a better ordering service for entities who buy heating oil. INA buyers can also order using an online form that is available on INA's webpage, and receive a confirmation SMS with the exact date of delivery.

Petrochemicals

MOL Group regularly (annually) conducts customer satisfaction research using a sample size of 550-600 chosen from among the most important Domestic (Hungarian, Slovakian) and European polymer partners of MOL Group. The objectives of the analysis are to monitor the satisfaction level of our partners, to identify the companies' strengths, and to pinpoint areas in need of development, as well as to track performance trends.

In the autumn of 2016, we conducted this satisfaction research using a sample size of 579 of which 456 successful interviews were conducted. Similarly to last year, MOL performs well in terms of maintaining contact with customers (availability and competency of sales experts) and delivering on time. Product quality proved to be the main reason that customers use MOL Group, and 71% of respondents evaluated MOL as being more reliable than its competitors. To offer a better and more customer-focused service, we plan to improve the price publishing process.

Lubricants

We sell lubricants and auto chemicals in over 40 countries. The objective of our customer management team is to provide full professional support to our partners in the processing of orders and the organization of the transport of products, as needed. We also operate a call centre during normal working times.

We have introduced a lubricant support helpdesk (the so-called 'tribology' expert advisory team) for our domestic and international customers. The aim is to provide professional support for our products and services, both automotive and industrial lubricants. We also organise training for customers on regular basis; moreover, we are ready to arrange local specialized training on demand for our dealers on their own premises.

Responsible advertising

In order to avoid misleading advertising, we thoroughly examine the intelligibility of the messages we seek to convey. Most commonly, this means doing research with focus groups, where participants are able to express their opinions and insights about particular messages and visuals. We use this method at the early and mid-phases of developing advertisements so as to obtain continuous feedback about how understandable and clear the messages we want to communicate are.

In addition, all of our communication materials are checked by our Legal department - both at the Group level and locally in countries where MOL Group operates - before they are released to the public. This process promotes more responsible advertising.

Product Safety

MOL Group is continuously assessing substances that are used by consumers which may have harmful effects on human health or the environment (substances classified as carcinogenic, mutagenic and reproductive toxic - CMR; persistent, bioaccumulative and toxic - PBT; or very persistent or very bioaccumulative - vPvB) within the frame of Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation. Declarations of compliance with REACH, as well as the relevant material safety data sheets, are available on our websites:

- MOL Hungary: www.mol.hu/en/polymers/certificates
- Slovnaft: www.slovnaft.sk/en/products/material-safety-data-sheets
- INA: www.ina.hr/customers/products-and-services/safe-management-of-product/safety-data-sheets-10027/10027

In addition, in 2016, two new registration dossiers for substances manufactured by INA (Vacuum gas oil, light and Vacuum gas oil, heavy) were successfully submitted to the European Chemicals Agency (ECHA) which implements REACH regulation. These will inform customers about the products and their impact on human health and the environment.

Customer safety

Retail is continually initiating programs that promote the safety of customers and the environment. For example, defibrillators were installed at selected highway stations, visual checks were organized for drivers, and in 2017 we plan to introduce a new Consumer Awareness Safety program.

MOL Hungary organized customer health screening at ten service stations. These included eye checks, body mass index (BMI), blood sugar, blood pressure, and bone-density tests.

7 ABOUT SUSTAINABILITY REPORTING

7.1 OUR APPROACH TO REPORTING

Since 2008, MOL Group has been reporting its financial, governance, environmental and social performance in one integrated report. Starting in 2013, sustainability performance information has also been included in quarterly management reports. In 2016, we reduced the frequency of reporting from quarterly to biannual, in line with the EU Transparency Directive which abolishes the requirement for quarterly reports by publicly traded companies in favour of semi-annual reports. We are continuously deepening the Triple-Bottom-Line approach to corporate management with activities that further improve the integration of financial and non-financial management. Disclosure about the management approaches in the Notes on Sustainability Performance section attests to these strategic activities.

Key achievements, challenges, performance data and trends relating to relevant sustainability topics for MOL Group are described throughout the report and are integrated into the descriptions of business operations and performance. A detailed account about 2016 sustainability performance is provided in the dedicated sections Sustainability Performance and Notes on Sustainability Performance.

The main target audiences of the Annual Report are shareholders, investors and sustainability analysts. The structure of the relevant chapters is tailored to meet their information needs and reading habits. However, further information about MOL Group's policies, management approaches and other sustainability-related topics for all audiences is published on our website at

www.molgroup.info/en/sustainability.

All sustainability performance data published in this report have been reviewed by EY (please find further details in the section on Audits, below).

This report has been prepared in accordance with the GRI Standards: Comprehensive option. MOL Group has decided to integrate into reports the new Global Reporting Initiative (GRI) Standards published in 2016, although this is not mandatory until 2018 (GRI is the most widely used sustainability reporting standard globally). The Annual Report's GRI accordance level is 'comprehensive', which means that we are reporting on all disclosures listed under material topics that have been identified (see more under Materiality Assessment, below). A GRI content index has been uploaded to our website: www.molgroup.info/annualreport2016/gri-index.

In addition, we are using the GRI sector supplement for 'Oil and Gas Sector Disclosures' guidelines and the IPECA-API 'Oil and Gas Industry Guidance on Voluntary Sustainability Reporting' protocol when defining the content of reports and selecting which indicators to cover. Last, but not least, MOL Group will use this report in fulfilment of the legally binding requirements of Directive 2014/95/EU on the disclosure of non-financial and diversity information. The content index will also serve as a guide to the implementation of all of the above guidelines and the directive.

7.2 MATERIALITY

We use materiality assessment as a means of prioritising material topics in reporting, without excluding any other relevant topics. Topics considered to be material and strategic are addressed in more detail, whereas other topics (which are plotted on our materiality matrix) are covered less extensively in the report. We discuss the process of materiality analysis in more detail at the beginning of this report. The most material topics, according to our assessment, are GHG emissions and energy efficiency, process safety and crisis management, ethics and transparency, and also occupational safety management. In 2016, we integrated MOL Group's new 'Enter Tomorrow 2030 Strategy', so our Future product (energy efficient and low-carbon) portfolio is also becoming more material, which signifies the more focused approach to finding innovative, new business pathways in a changing world as we go forward. In a similar fashion, customers will be more at the centre of corporate strategy, and hence sustainability-related activity. In the current report we will start including customer-related disclosures due to their classification as a primary stakeholder group. Less material topics in 2016 included suppliers, human rights and biodiversity. From a GRI reporting perspective, these topics are considered non-material, thus we only disclose a selection of indicators for them.

7.3 SCOPE AND BOUNDARY

MOL consolidates sustainability information based on a 'control approach'. We account for almost 100 percent of the sustainability data from operations controlled by the company, including those in which MOL or one of its subsidiaries acts as operator. HSE-related data is collected only at operations with significant potential health, safety and/or environmental impact. In 2016 there were no significant changes in the scope of companies covered compared to 2015. HSE data coverage is 93.1% in proportion to revenue. MOL Group's dedicated reporting system (provided by Enablion), MARK HSE, incorporates environmental, safety and energy-related data from all HSE-relevant companies within the portfolio,

Human Resources (HR) data, including sustainability reporting-related information, is collected using the group's SAP enterprise resource management system. The scope of HR data collection is 100%, including the financially consolidated FGSZ, in terms of headcount, turnover and trainings. Other sustainability-related data are collected for subsidiaries with a headcount of over 100 employees. Data coverage in such cases is therefore lower (84.4% in proportion to revenue in 2016).

Social investment data is collected from operations and subsidiaries which have approved corporate giving plans. Such plans are elaborated based on business interests and local community interests, and are segmented via a systematic stakeholder prioritization ranking method controlled by our social engagement policy. Data was collected for almost all donations activities, although only for 91.5% of operations, since not all entities have donation activities.

Ethics-related data is of the widest scope in terms of sustainable development focal areas, as ethics reporting requirements have been extended to all consolidated companies with at least one employee. In 2016, this represents coverage of 99.4% in proportion to revenue. INA d.d. covers all of its subsidiaries itself, and reports INA Group-level consolidated data to Group Compliance & Ethics. The supply chain is considered less material according to our materiality assessment, since MOL's activities with the largest potential impact are executed within the company's operational boundaries, as described above. Hence, the performance of MOL Group's suppliers is incorporated using only the following indicators:

- GHG Scope 2 and 3 emissions
- Contractor safety incidents, including fatalities
- Spending on local suppliers

7.4 REPORTING ON JOINT VENTURES

Operated joint ventures by definition fall within the scope of data reporting.

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 exceptions are for GHG emissions and HSE penalties, where in performance tables equity-share-based emissions are reported from MOL Group-related joint venture companies as well.

Concerning non-operated joint ventures, the performance data included in the sustainability chapter do not include quantified information since MOL Group does not have operational control over these ventures (except for the inclusion of headcount data in the case of financially-consolidated companies). However, MOL Group hereby declares that it has presented any information related to the 2016 sustainability performance of these companies that was found to be material.

Midstream Joint Ventures and non-operated companies:

- Hungary (FGSZ): this natural gas transmission company is a 100% consolidated subsidiary, but it is not MOL operated due to the unbundling regulations of the European Union. The key sustainability performance of FGSZ is summarized using the indicators included in the table below.

Selected performance indicators for FGSZ Plc. 2014–2016

INDICATOR	UNIT	2014	2015	2016
Total Direct GHG (Scope-1)	mn t	106,198	107,632	135,481
Total Water Withdrawals	m ³	9,013	12,097	8,724
Number of Spills (>1m ³)		0	0	0
Fatalities – own employees		1	0	0
Lost Time Injury Frequency (LTIF) – employees		2.9	3.7	0
Total workforce		768	760	746
Donations	mn HUF	28	348	0

Downstream Joint Ventures and non-operated companies:

- Hungary (JSR MOL Synthetic Rubber Ltd.): Through a joint venture with JSR Corporation we have started constructing a new plant (60 kt/y capacity) to manufacture synthetic rubber (S-SBR) in Tiszaújváros. During this early phase of the project, safe construction is the most important sustainability issue. Zero lost time injuries were defined as the KPI. At the worksite, all the HSE rules pertaining to existing production facilities have been applied, and HSE performance is regularly discussed. As a result of these efforts, there were no personal injuries in 2016 during the more-than-140,000 working hours on the project.
- Slovakia (Thermal Power Plant): the operator (CMEPS) of this power plant continued to focus on the waste recovery-related improvements which started in 2014. These involve the recovery of precious metals from the waste stream and the production of gypsum from desulfurization by-products. CMEPS was acquired by Slovnaft in December 2016 and will be consolidated as of 2017.

- Austria (Danuoil): Danuoil is a joint venture between Heizöle Roth & Genol (50% Genol & 50% Heizöle Roth). There is no operational responsibility for MOL Austria/Roth, and the workforce is employed by Genol. The MOL Austria Group LOG HSE Management system is implemented at DANUOIL, and MOL Austria's HSE manager supervises supporting and consultancy services such as providing annual HSE training to operational staff, along with offering full support for SEVESO inspections, or other legal compliance requirements. Danuoil has recorded zero lost-time injuries since 2012.

Upstream Joint Ventures and non-operated companies:

- Europe (UK): HSE performance is discussed at senior meetings with JV partners. If there are any areas of concern or incidents, the learning outcomes are discussed along with any remediation measures that are required. MOL Group management was not informed about any significant incidents during 2016.
- Europe (Norway): Ongoing 'farm in/out' discussions are ongoing. The HSE department undertook an appraisal and provided input when required. MOL Group management was not informed about any significant incidents that took place during 2016.
- FSU (Kazakhstan): Discussions are ongoing with partners about the possibility of an early production project, with full HSSE support. MOL Group management was not informed about any significant incidents that took place during 2016.

Middle East Joint Ventures and non-operated companies:

- KRI (Shaikhan field): In the Kurdistan Region of Iraq, Gulf Keystone (GKP) is the operator of the Shaikhan field. Information about HSE performance is regularly collected from this partner. MOL Group management was informed about one third-party fatality during 2016.
- In Pakistan, MOL has non-operated interests in two blocks (Karak, and Ghuri). MOL operational teams (Drilling, Project, etc.) review the HSE features of all projects that are undertaken by partners during the project sanction and approval process. MOL Group management was not informed about any significant incidents that took place during 2016.

7.5 NOTES ON SUSTAINABILITY DATA

We create our sustainability performance indicators (as published in this report) using measurements and calculations where possible, whereas best available estimates are used only when necessary. Sustainability data is generated and calculated taking into consideration pertinent legislation at a local level. Aggregation processes are carried out according to relevant corporate guidelines and policies. In 2016, MOL Group renewed its HSE reporting handbook, which was cascaded to the local level. Collection of data is carried out through regional divisions and local businesses as necessary. The completeness and accuracy of the data that is reported is supervised at the group level and through a dedicated sustainability assurance process, where the majority of sustainability performance data are reviewed following limited assurance, while two indicators – LTIF and CO₂ under ETS – go through a reasonable assurance procedure.

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 involving mechanical and/or biological treatment, but the process may extend to chemical treatment steps when needed). MOL Group does not believe that breaking down this data further according to destination and treatment method is material. Accordingly, it is not reported.
- According to the information provided by contractors, waste disposal methods were classified using European Union guidelines.
- Communal waste is not included in MOL Group waste figures since collectors are legally responsible for reporting the amount of waste collected, disposed and recovered.

Notes on Human Capital data:

- MOL Services Center, a holding of five companies, is financially consolidated as of 2015 and will still be regarded as a contractor in relevant HR indicators in 2016. We will report consolidated HR figures for MSC as of 2017.

Notes on divested upstream operations:

- Sustainable development performance of international upstream operations divested during the reporting year are not reported.

Restatements:

- Ethics and Governance Investigations which commenced in 2015 and closed in 2016 revealed an additional two cases of misconduct, resulting in a total of 27 case of misconduct for 2015.

- In the case of the Lost Time Injury Frequency (LTIF) and Total Recordable Injury Rate (TRIR), the safety indicators for 'own staff' from 2016 only include MOL Group employees. In previous years, contracted filling station staff have been considered in the indicators. Figures have been recalculated for 2014 and 2015 accordingly.
- Specific GHG emissions figures were restated for 2015 in Upstream Sustainable Development Highlights due to a miscalculation of production quantities serving as the denominator of the intensity calculation. Specific GHG emissions decreased as a result of the modification.

7.6 AUDITS

MOL Group's sustainable development (SD) and health, safety and environmental (HSE) practices focus on making continuous improvements. We therefore perform a number of internal and external assessments in order to audit compliance with internal regulations, to pinpoint areas and opportunities for improvement, and to raise awareness, particularly about SD-related stakeholder expectations.

We conduct three types of audit:

- HSE compliance audits (internal): six audits are conducted throughout the year to check HSE-related process-compliance by group or local-level HSE experts
- Sustainable Development practice audits (internal): In 2016, nine audits were performed by internal experts in subsidiaries for the purpose of raising awareness at the group-level and highlighting specific SD-related areas of relevance to the daily operations of the specific entities. Sustainability performance indicators and reporting practices are also reviewed.
- External assurance: the assurance process is planned and performed according to the International Federation of Accountants' ISAE3000 standard. Within this framework, EY reviews all data under a limited scope of assurance, and for CO₂ under ETS and Lost Time Injury Frequency Rates under the scope of reasonable assurance. Since 2014, sustainability performance has also been audited in accordance with the AA1000AS standard in order to strengthen our materiality process. In 2016, after benchmarking our competitors' scope of sustainability assurance the Board of Directors decided not to change the process, which is in line with the best practices in the industry. In 2016, EY audits identified a total of 30 issues and initiated 24 corrective activities. The number of findings has continued to decline since 2013, while the number of corrective actions that are required tends to change from one year to the next. Overall, the assurance process is invaluable for improving data collection processes and reporting discipline in MOL Group.

8 INDEPENDENT AUDITOR'S REPORT (SUSTAINABILITY)

INDEPENDENT ASSURANCE REPORT TO MOL HUNGARIAN OIL AND GAS PLC MANAGEMENT

RESPECTIVE RESPONSIBILITIES

MOL Hungarian Oil and Gas ("MOL") management is responsible for the collection and presentation of the information within its 2016 Sustainable Development Report ("the Report"). MOL management is also responsible for the design implementation and maintenance of internal controls relevant to the preparation of the Report, so that it is free from material misstatement, whether due to fraud or error.

Our responsibility, in accordance with our engagement terms with MOL management, was to carry out procedures to meet the requirements for a 'limited level' assurance engagement on Sustainable Development data in the Report ("selected data"), and to meet the requirements for a 'reasonable level' assurance engagement for the 'CO₂ emission under the EU Emissions Trading Scheme (ETS)' and 'Lost Time Injury Frequency (LTIF)' data. We do not 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 the Report is entirely at its own risk.

Our assurance engagement has been planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, and to

meet the requirements of a Type 1 assurance engagement as defined by AA1000AS (2008). The AA1000AS (2008) assurance principles of Inclusivity, Materiality and Responsiveness (collectively "the criteria") have been used as criteria against which to evaluate the Report.

We have also assessed whether the Report meets the requirements for "Comprehensive" reporting as defined by the Global Reporting Initiative Standards.

SUMMARY OF WORK PERFORMED

The procedures we performed were based on our professional judgement and included the steps outlined below:

1. Interviewed a selection of MOL executives and senior managers to understand the current status of Sustainable Development activities and progress made during the reporting period of 1st January 2016 to 31st December 2016.
2. Reviewed selected documents relating to Sustainable Development aspects of MOL's performance, to understand progress made across the organisation and to test the coverage of topics within the Report.
3. Reviewed MOL's processes for determining material issues to be included in the Report.
4. Reviewed MOL's approach to stakeholder engagement through interviews with employees with responsibility for managing engagement activities at Group and selected site level managers.
5. Reviewed the consolidation of the selected data at Group level by:
 - Holding interviews with specialists responsible for managing, collating, and reviewing data at corporate level.
 - Conducting data walk-throughs of reporting systems to assess the accuracy of calculations and assumptions, including an assessment of the effectiveness of MOL's internal review procedures.
 - Performing additional testing procedures in relation to the CO₂ emission under ETS (review of third-party verification reports) and own staff LTIF indicators (verification of data to source documents on a larger sample both at Group and site level, recalculation of the indicator) at both site and corporate level to gain reasonable assurance over these indicators.
6. Conducted site visits at four MOL locations (Slovnaft Refinery, MOL Ceska, Petrolszolg, Algyó/MOL Upstream) to test the application of MOL's reporting procedures and test a sample of performance data back to source documentation for accuracy and completeness. Our site visits focused on the following indicators presented in the Report: Energy consumption (Natural gas, Other hydrocarbon, Electricity, Other indirect energy), Air emission (Carbon Dioxide, Nitrous oxides, Sulphur oxides, Particulate Matter, Direct GHG emissions from various sources), Water (Freshwater withdrawal from various sources, Water discharge), Waste (Hazardous Waste, Non-hazardous Waste, Waste disposed or landfilled, Waste reused or recycled, Aqueous drilling mud and cuttings), Spills (Number and volume of spills), HSE related penalties (number and value of HSE related penalties), Health and safety (Number of fatalities, Lost Time Injury, Lost Time Injury Frequency, Number of worked hours, Restricted Work Day Case, Medical Treatment Case, First Aid Case), Process safety (Tier 1 and Tier 2 process safety events), Employees (Number of full-time and part-time employees, Leavers, Employee turnover rate, Average hours of training per employee), Communities (Donations).
7. Reviewed the narrative content of the Report and the presentation of the selected data to assess whether:
 - The coverage of issues in the Report is consistent with the outputs of MOL's materiality process, and that the descriptions of MOL's approaches to materiality are consistent with our observations.
 - The selected data presented in the Report corresponds with the information we have reviewed during the course of our work.
 - The Report is consistent with the requirements for "Comprehensive" reporting according to the GRI Standards.
 - There is supporting evidence for 25 qualitative statements, selected on a risk basis, within the Report.

LIMITATIONS OF OUR REVIEW

Except for the CO₂ emission under EU Emissions Trading Scheme (ETS) and Lost Time Injury Frequency (LTIF) data where we have carried out procedures to meet the requirements for reasonable assurance, we conducted our work to express a limited assurance conclusion over the selected data. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

Our scope of work was limited to the Sustainable Development information included in the Report.

The scope of our engagement was limited to the reporting period, and therefore 2016 performance only.

We did not seek evidence to support the statements and claims presented within the Report except for the 25 selected qualitative claims.

We did not undertake a comprehensive review of all Sustainable Development data reported by each of the sites we visited but examined selected data sources and reviewed the processes for reporting data to Group.

We have not provided assurance over claims made by MOL that are statements of belief or forward looking in nature. The responsibility for the prevention and detection of fraud, error and non-compliance with laws or regulations rests with MOL management. Our work should not be relied upon to disclose all such material misstatements, frauds, errors or instances of non-compliance that may exist.

OUR CONCLUSIONS

Based on the scope of our review our conclusions are outlined below:

Inclusivity

Has MOL been engaging with stakeholders across the business to develop its approach to Sustainable Development?

- We are not aware of any key stakeholder groups which have been excluded from engagement.
- We are not aware of any matters that would lead us to conclude that MOL has not applied the inclusivity principle in developing its approach to Sustainable Development.

Materiality

Has MOL provided a balanced representation of material issues concerning its Sustainable Development performance?

- We are not aware of any material issues concerning the Sustainable Development performance of MOL which has been excluded from the Report.
- Nothing has come to our attention that causes us to believe that MOL management has not applied its processes for determining material issues to be included in the Report.

Responsiveness

Has MOL responded to stakeholder concerns?

- We are not aware of any matters that would lead us to conclude that MOL has not applied the responsiveness principle in considering the matters to be reported.

Completeness, accuracy and consistency of performance information

How complete and accurate is the 'selected Group data' presented in the Report (outlined above in step 5 and 6 of "Summary of work performed")?

- In our opinion, the Report presents fairly, in all material respects, the CO₂ emission under ETS and own staff LTIF indicators of the Group for the year ended on 31st December, 2016. We are not aware of any errors that would materially affect the other Sustainable Development data as presented in the Report.
- With the exception of the exclusions identified in the Report, we are not aware of any material operated subsidiaries and joint ventures (as defined by MOL) that have been excluded from the Group level data relating to the topics above.
- Nothing has come to our attention that causes us to believe that the selected data has not been collated properly at Group level.
- We are not aware of any errors that would materially affect the data as presented in the Report.

Does MOL have procedures in place to enable the consistent collection and reporting of data across its reporting locations?

- We are not aware of any inconsistencies in the data collection approach at the locations we have visited that would materially affect the data as presented in the Report.

Reporting

Does the Report meet the requirements for "Comprehensive" reporting set out in the GRI Standards?

- Nothing has come to our attention that causes us to believe that MOL management's assertion that the Report meets the GRI Standards requirements for "Comprehensive" reporting is not fairly stated.

How plausible are the statements and claims within the Report?

- We are not aware of any misstatements in the assertions made across the 25 claims selected during our review.

OBSERVATIONS AND AREAS FOR IMPROVEMENT

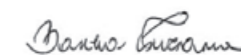
Our observations and areas for improvement will be raised in a report to MOL management. Selected observations are provided below. These observations do not affect our conclusions on the Report set out earlier in this statement.

- MOL introduced a new data collection and reporting system, MARK HSE in 2015 – thus, 2016 was the first year of reporting HSE related data entirely relying upon the new system (rest of the data, i.e. HR or Communications are handled in separate systems also a few HSE related indicators were collected, aggregated, and reported manually). Whilst our reviews suggest there has been a continuous and general improvement in data quality since the transition, we have still observed examples of where clarification is required to improve understanding of reporting definitions at the site level. We therefore recommend that MOL continues to work with individuals across the business, and refine its reporting guidance, to improve the understanding of the system and reporting requirements.
- Both at site visits and our Group level procedures for LTIF, we experienced a general lack of understanding regarding the reporting of worked hours of own employees, resulting in incorrect reported figures. While the deviation between initially received data and supporting documents acquired during our review was not material, the proportion of business units having reported incorrect figures is significant. Therefore, we suggest MOL strengthen the understanding of related MOL Group requirements at site level.
- Although guidance for reporting social investment data based on the LBG Methodology was introduced in 2014, we still identified several examples of the guidance being applied incorrectly during the course of our work for 2016 - this included wrong categorizations, use of incorrect exchange rates and mistakes from data aggregation. We therefore strongly encourage MOL to develop a more thorough review of the data reported at Group level, and to provide training to the individuals that are responsible for applying the guidance.
- Sustainable development performance of international upstream operations divested or abandoned during the reporting year (i.e. Matjushkinskaya Vertical) was not reported due to lack of data. Although this is clearly stated in the Report, going forward we suggest MOL aim to ensure data collection and reporting of divested companies for the period under MOL operation and control.

OUR INDEPENDENCE AND COMPETENCE

With the exception of this work, we have provided no other services relating to MOL's approach to Sustainable Development reporting throughout 2016.

We have implemented measures to ensure that we are in compliance with the applicable independence and professional competence rules as articulated by the IFAC Code of Ethics for Professional Accountants and ISQC1. Our assurance team has included members from our global Climate Change and Sustainability Services Practice, which undertakes similar engagements to this with a number of significant multinational businesses.



Ernst & Young Kft.
Budapest, 31 March 2017

EUROPEAN WORKS COUNCIL REVIEW

In 2017 the European Works Council (EWC) of MOL Group was asked once again to review the “Notes to Sustainability Performance” Chapter of the company’s 2016 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, and main topics of interest were proposed by EWC members.
- The EWC then reviewed the “Human Capital” and – as part of that – the “Employee relations” chapters during the preparation process and commented on whether the content was complete and balanced. Their recommendations were also incorporated into these chapters.
- At the final stage of the review, the EWC was provided with the full text of the report and a roundtable was organized at which 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 which concerns the Works Council.
- According to the EWC, the published information is accurate and the statements disclosed are valid.

GLOSSARY OF OIL AND GAS TERMS

Average realised hydrocarbon price

Total revenue realised on hydrocarbon sales per barrel

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.

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 metre oil is equal to 6.29 barrel.

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.

Boepd

Barrel of oil equivalent per day

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 Mediterranean (CIF MED) region.

Butadiene (1,3 - butadiene)

1,3-Butadiene is a simple conjugated diene with the formula C₄H₆. Butadiene is produced as a by product of the steam cracking process used to produce ethylene and other olefins. Typically isolated from C₄ fraction. Colourless gas, flammable, irritative, carcinogen. It is an important industrial chemical used as a monomer in the production of synthetic rubber.

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.

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).

Downstream

Refining and Marketing, Retail and Petrochemicals

Enhanced oil recovery (EOR)

Processes/technologies that can be used to recover more oil relative to the primary and secondary methods.

Field development

Process of implementing underground and aboveground facilities necessary for the recovery of hydrocarbon reserves.

FPSO

Floating Production, Storage and Offloading

Gross production

Total quantity of crude oil and natural gas from hydrocarbon fields prior to the deduction of royalties.

HDPE

High density polyethylene

JV

Joint venture

Liquified Propane Gas (LPG)

Hydrocarbon gas compound mainly consisting of propane and butane, 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

MMbbl

Million barrel

MMboe

Million barrel of crude oil equivalent

mboepd

Thousand barrel of crude oil equivalent per day

MCM

Million cubic metre

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.

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 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.

Polimer

A complexity of repeating units of organic or inorganic macromolecules

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.

Propylene

The second member of the alkene homologous series, empirical formula: C₃H₆. There is a single double bond between two carbon atoms.

Proved reserves (SPE 1P)

Proved reserves are those quantities of petroleum claimed to have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology.

Proved + probable reserves (SPE 2P)

It includes proved reserves + probable reserves (that are attributed to known accumulations and claim 50% confidence level of recovery).

Putting into production

Accomplishment of surface and underground facilities necessary for the production of hydrocarbon reserves.

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.

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.

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

Thermal Power Plant (TPP)

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%).

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.

Unit production cost

Total cost of lifting, gathering and processing of crude oil and natural gas per barrel of crude oil equivalent

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

Clean-CCS EBITDA / Operating profit

As of Q2 2013 our applied clean CCS methodology eliminates from EBITDA / operating profit inventory holding gain / loss (i.e.: reflecting actual cost of supply of crude oil and other major raw materials); impairment on inventories; FX gains / losses on debtors and creditors; furthermore adjusts EBITDA / operating profit by capturing the results of underlying hedge transactions. Clean CCS figures of the base periods were modified as well according to the improved methodology.

EBITDA (Earnings before interest, tax, depreciation and amortisation)

Operating profit plus depreciation and amortisation

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)

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.

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

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.

Business and Human Rights

This area is examining the impact of a company's activities on human rights, and proposes guidelines to manage these. In 2011, the UN Committee lead by Harvard Kennedy School of Government Professor John Ruggie published guidelines for states and companies regarding how to observe and manage their human rights impacts. MOL Group follows the resulting UN Guiding Principles on Business and Human Rights, and the corresponding general and sectorial indicator of the GRI Standards to devise its actions and report on activities.

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.

CO₂ intensity – CWT

We have been monitoring the GHG performance of our refining business since 2010 using the CONCAWE – Solomon CO₂ intensity indicator (CWT – Complexity Weighted Tonnes). This indicator is production-based and takes into account the complexity of the installations. The methodology is based on different emissions factors characterising different point sources. The measurement unit is one tonne of CO₂ per one kilotonne of production (t CO₂/kt).

CO₂ intensity – HVC

In our petrochemical business we are using an indicator of the production of high value chemicals (HVC). With this, MOL Petrochemicals' performance becomes comparable on an international level. The measurement unit is one tonne of CO₂ per one kilotonne of production (t CO₂/kt).

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 Engagement Survey

Employee engagement is a strategic part of a healthy and productive workplace and a priority for sustaining and promoting our human capital and business strategy. We deploy biannually an employee engagement survey (the Roundtable Survey) in most of our companies within MOL Group and many of our locations

worldwide. Since 2012, Aon Hewitt's 'Say, Stay, Strive' model has been used. Engagement is calculated by determining each employee's average response to the six engagement questions based on the Aon Hewitt six-point response scale. If the average rating for an employee equals or exceeds 4.5, that individual is assessed as 'engaged'. The engagement score is the total proportion of employees who are 'engaged'.

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.

European Works Council

European works councils (EWCs) are bodies representing the European employees of a company. Through them, workers are informed and consulted at transnational level by management on the progress of the business and any significant decision that could affect them. The right to establish EWCs was introduced by Directive 94/45/EC for undertakings or groups of undertakings employing at least 1,000 employees in the European Union and the other countries of the European Economic Area (Iceland, Liechtenstein and Norway) with at least 150 employees in each of two Member States. Source: www.ec.europa.eu/social/BlobServlet?docId=6647&langId=en

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). MOL Group is collecting direct and indirect GHG emissions data according to international standards (e.g. GHG Protocol) listed under scopes:

- **Scope 1 emissions (direct emissions)** – are direct GHG emissions from sources that are owned or controlled by MOL Group. Scope 1 can include emissions from fossil fuels burned on site, emissions from entity-owned or entity-leased vehicles, and other direct sources
- **Scope 2 emissions (indirect emissions)** – are indirect GHG emissions resulting from the generation of electricity, heating and cooling, or steam generated off-site, but purchased by the entity
- **Scope 3 emissions** – include indirect GHG emissions from sources not owned or directly controlled by MOL Group but related to the entity's activities. They are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Some examples include third party deliveries, business travel activities and use of sold products and services (e.g. fuel, etc.)

GRI (Global Reporting Initiative)

A multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.

Growww program:

The Growww graduate recruitment and development program, launched in 2007, provides graduates with a unique opportunity to start their career in a global company and to build work experience through training, on-the-job assignments and mentoring from the best professionals in various Oil and Gas disciplines in an intercultural working environment.

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.

Leverage (social investments)

Is the leverage of cash and resources coming from the employees, partners of a company or other third party donor, as a result of a social investment project implemented by the same company.

London Benchmarking Group donation measurement methodology

It is an internationally acclaimed method to measure a company's social investments. Over 300 companies worldwide are using the LBG methodology to measure, manage and report on the value, output, leverage and impact of such projects.

LTIF (Lost Time Injury Frequency)

The number of incidents of lost time injury (LTI) per one million hours worked

Materiality assessment

The purpose of materiality assessment is to highlight a company's most important strategic sustainability areas, which will be in the focus of transparency and of resource allocation to foster improvements. Materiality assessment is a key pillar of the GRI reporting standard.

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, 1987).

Social Investments

The voluntary contribution of companies to communities located near their operations and to society at large with the aim to support external stakeholders in their fields of interest, typically through transfer of knowledge, skills or resources.

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

Technical Career Ladder

A career ladder in human resources is a system clearly setting professional knowledge and experience requirements to make career advancement and promotion more transparent. Group E&P and Group HR implemented a Technical Career Ladder (TCL) across the E&P community in 2015 and allocated 940 petro-technical professionals (PTPs) to 7 TCL levels through 14 Job Families.

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 °C), or which has similar volatility under the actual conditions of use (methane is not included); most ground-level ozone (smog) results from a reaction between NO_x 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.

www.molgroup.info/hu/sustainability

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Announcements

The company publishes its announcements

- in MOL's website: www.molgroup.info/en/, direct link: www.molgroup.info/en/investor-relations/regulated-information
- in Budapest Stock Exchange's website: www.bse.hu/ and
- in Warsaw Stock Exchange's website.

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IMPRINT

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AGM Documents		molgroup.info Click: General meetings		
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