Report of the Board of Directors on the 2019 business operation

MANAGEMENT DISCUSSION AND ANALYSIS OF 2019 BUSINESS OPERATIONS

1. OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT

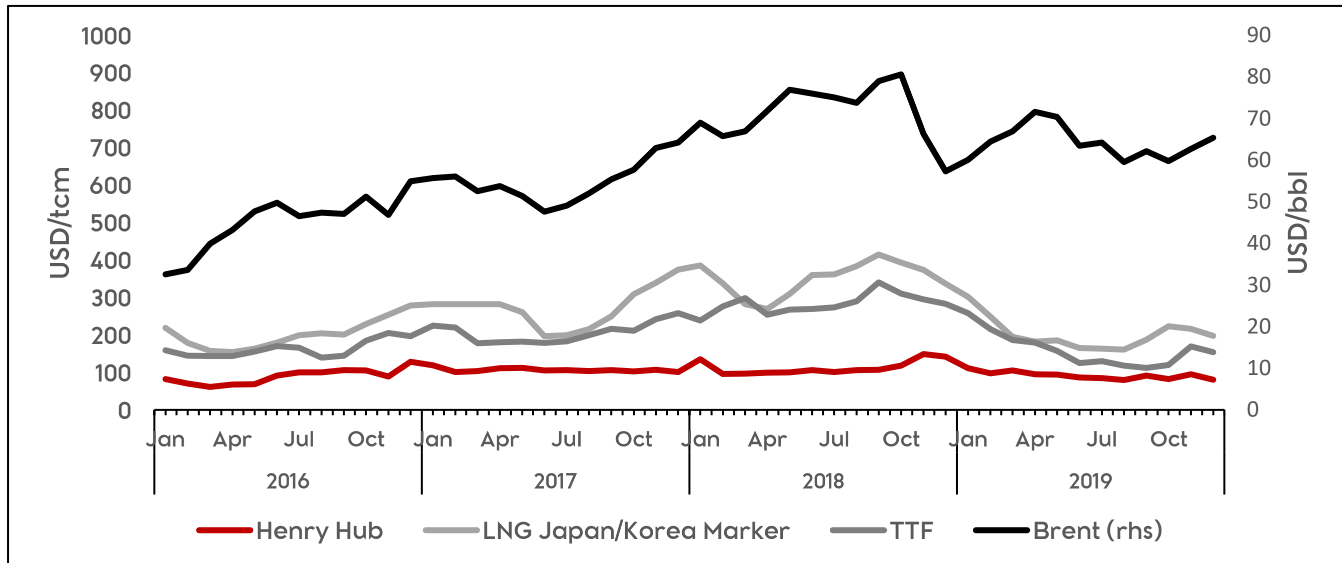
Macroeconomic environment

Global GDP growth has slowed down to 3% in 2019, marking the lowest growth rate since 2009 in the aftermath of the global financial crisis. The downturn in economic activity has been highly synchronized, showing a negative trend in virtually all major economies. The main reason behind the sluggish growth has been the sharp and geographically broad-based slowdown in manufacturing and global trade. The intensification of trade tensions between the US and China coupled with higher policy uncertainty and increased geopolitical risks have negatively affected global value chains as well as the business sentiment and confidence globally, keeping investments low last year. By contrast, private consumption held up relatively well for most countries during the year, supported by favorable financing conditions, firm labor markets and modest inflationary pressures.

The sharp downturn in global merchandise trade growth in 2019 was mainly driven by the contraction in import demand from China and the other emerging Asian economies. However, the growth downgrade of China reflects not only the negative impact of escalating tariffs but also slowing domestic demand despite government efforts to support the economy. The slowdown in Chinese growth is structural as the economy is simultaneously facing unsustainably high domestic debt levels, the quest of moving to a more consumption and innovation-based growth model in a challenging external environment.

Across developed economies, the growth momentum has slowed considerably. The U.S. economy continues to grow, but at a visibly slower pace. Even though Boeing's troubles, trade disruption, fading impact of the fiscal stimulus and a tight job market held back growth last year, growth has been surprisingly solid, compared to other advanced countries. Although the economic expansion in the euro area is now the longest on record since the introduction of the euro, its pace has become rather subdued. The manufacturing and export-led slowdown was particularly severe in Germany. Europe's largest economy has turned from a growth engine to one of the region's weakest performers. Uncertainty over Brexit, strikes in France and an underperforming Italian economy also weighed on Euro zone growth in 2019. In contrast, CEE economies are standing firm. Solid rates of growth in the region, including Hungary, reflected strong domestic demand, which provided some offsetting support to the weakness of the external environment.

Figure 1 Brent and gas prices dtd (Bloomberg source)



Oil and natural gas market develpments

In 2019 the price of Brent (FOB spot) averaged at 64 USD/bbl, 10% lower than the average of 2018. Brent oil prices briefly spiked to 73 USD/bbl in the aftermath of the Abqaiq attack, but they quickly reverted to below pre-attack levels as a result of the remarkably quick restoration of Saudi supplies. Although OPEC production cuts and supply disruptions, as well as geopolitical risks, provided support for prices, worries related to the oil demand outlook – due to the slowing global economy and the worldwide large refinery maintenance program to prepare for the IMO bunkering fuel specification change – and still strong non-OPEC production growth pulled prices down.

At the same time, the global gas markets saw historically low prices due to a global oversupply of LNG. Global LNG export capacities increased by about 8% in 2019, mainly in the U.S., Australia and Russia, at a time when demand growth slowed compared to previous years. Asian LNG demand growth stalled in 2019 after several years of strength. Mild winter weather conditions in Asia played an outsized role in the demand weakness, coming mainly from China, South Korea and Japan. While the low level of pricing did not bring about substantive coal-to-gas switching within Asia, it forced LNG cargoes to shift to the European market. The resulting increase in LNG supply in Europe swelled gas stocks to near capacity, forcing a maximization of coal-to-gas switching, with even lignite being displaced by gas. Coal-to-gas switching was aided also by European carbon prices of near 30 EUR/mt. All in all, European consumers benefited from the global supply glut, absorbing the LNG surplus at historically low prices.

Downstream

The refining margin environment was less favourable in 2019 compared to 2018. 2019 started off driven by the long-term ongoing pressure of a lighter global crude slate, surging NGL production competing with refined light products, and additions to refinery conversion capacity designed for medium-heavy crude. Globally, new refining capacity additions outpaced demand growth resulting in a global oversupply. These trends weighed on gasoline and naphtha pricing while fuel oil was driven relatively higher. Countering this was a very high level of refinery outages which peaked in 2Q19 but persisted for most of the year. That tightened up all product balances and led to a reasonable gasoline season and firmer middle distillate cracks. This was then followed by operational impacts leading up to the global bunker fuel specification change set for January 1st, 2020. Those changes led to a collapse in high sulphur fuel oil prices beginning in August in the West, a bit later in Asia. Low vs. high sulfur price spreads exploded both for fuel oil and heavier crudes. Diesel cracks saw significant support but did not take off as the expected increase in demand for marine gasoil did not affect balances in 2019.

Although the price of naphtha was at the bottom of the historical range throughout 2019 due to ample supply and strong competition from LPG as a petrochemical feedstock, petrochemical margins fell below the 5-year average in 2019. The weakness of the integrated petrochemical margin was due mainly to the underperformance of polymers. The primary cause of low polyethylene and polypropylene prices was weak demand due to a slowing economy and subdued industrial performance, as showcased by falling global car sales. In Europe, German car manufacturing was hit especially hard, production dropping to a level unseen since 2009, when the economy was in recession. In terms of Polyethylenes the impact of weak demand was exacerbated by a strong supply extension in the US, supported by an increased ethylene production on the back of cheap ethane feedstock.

Macro figures (average)	**FY 2019**	**FY 2018**	**Ch %**
Brent dated (USD/bbl)	64.2	71.3	(10)
Ural Blend (USD/bbl)(10)	64.3	70.0	(8)
Brent Ural spread (USD/bbl)(5)	0.4	1.4	(68)
CEGH gas price (EUR/MWh)	14.8	23.1	(36)
Premium unleaded gasoline 10 ppm (USD/t)(11)	613.4	674.7	(9)
Gas oil – ULSD 10 ppm (USD/t)(11)	590.9	641.2	(8)
Naphtha (USD/t)(12)	480.6	584.8	(18)
Fuel oil 3.5 (USD/t)(12)	324.0	393.8	(18)
Crack spread – premium unleaded (USD/t)(11)	127.6	135.2	(6)
Crack spread – gas oil (USD/t)(11)	105.2	101.8	3
Crack spread – naphtha (USD/t)(12)	(5.2)	45.3	n.a.
Crack spread – fuel oil 3.5 (USD/t)(12)	(161.8)	(145.4)	11
Crack spread – premium unleaded (USD/bbl)(11)	9.4	9.6	(3)
Crack spread – gas oil (USD/bbl)(11)	15.1	14.8	2
Crack spread – naphtha (USD/bbl)(12)	(10.3)	(5.6)	83
Crack spread – fuel oil 3.5 (USD/bbl)(12)	(13.0)	(9.1)	43
MOL Group refinery margin (USD/bbl)	4.2	5.4	(22)
Complex refinery margin (MOL + Slovnaft) (USD/bbl)	5.1	6.3	(18)
Ethylene (EUR/t)	1,006.7	1,100.4	(9)
Butadiene-naphtha spread (EUR/t)	394.1	518.2	(24)
MOL Group petrochemicals margin (EUR/t)(9)	371.9	399.2	(7)
HUF/USD average	290.7	270.3	8
HUF/EUR average	325.4	318.9	2
HUF/HRK average	43.9	43.0	2
HRK/USD average	6.6	6.3	5
3m USD LIBOR (%)	1.9	2.3	(16)
3m EURIBOR (%)	(0.4)	(0.3)	19
3m BUBOR (%)	0.2	0.1	87

Macro figures (closing)	**FY 2019**	**FY 2018**	**Ch %**
Brent dated closing (USD/bbl)	66.8	50.2	33
HUF/USD closing	294.7	280.9	5
HUF/EUR closing	330.5	321.5	3
HUF/HRK closing	44.4	43.4	2
HRK/USD closing	6.6	6.5	2
MOL share price closing (HUF)	2,940	3,078	(4)

Notes and special items are listed in Appendix I and II.
Historical macro figures are available in the annual Data Library on the company's website

2. 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 risks of the business within acceptable levels and support the resilience of the operations as well as the sustainability of the company. For this purpose, as an integral part of the corporate governance structure, a comprehensive Enterprise Risk Management (ERM) system was developed which focuses on the organisation's value creation process, meaning factors critical to the success and threats related to the achievement of objectives but also occurrence of risk events causing potential impact to people, assets, environment or reputation. All significant risks throughout the whole Group are identified, assessed evaluated, treated and monitored through the ERM framework, covering all business and functional units, geographies as well as projects, considering all time horizons.

In order to ensure an effective risk management, risks are being managed (assess, evaluate, treat) as a 1st line of defence by Risk Owners who are managers responsible for each business areas including supervising the existing mitigation and the implementation of new mitigation actions in their organisations. Group level business and functional units, specialised risk management functions, the Group Risk Management department provide oversight. The Management Committee, the Chief Executives Committee, the Board of Directors and the Supervisory Board together with their specialized committees provide supervision and assurance on the effectiveness of the group level application of the risk management framework.

Regular risk reporting to top management provides oversight on top risks and assurance that updated responses, controls, and appropriate mitigation actions are set and followed. Effectiveness of the risk management system is considered by the Management Committee, the Chief Executives Committee, the Board of Directors, Supervisory Board and their respective Committees.

The main risk drivers of the Group

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

Market and financial risks include, but are not limited to:

- **Commodity price risk:** MOL is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks reflect the integrated business model with downstream processing more crude than own production and selling refined products. This risk is monitored in order to support strong financial position and capacity to fund operations and investments. When necessary, commodity hedging is considered to eliminate risks other than 'business as usual' risks or general market price volatility.
- **Foreign exchange (FX) risk:** MOL's current FX risk management policy is to monitor the FX risk and to balance the FX exposures of the operating & investment cash flow with the financing cash flow exposures when necessary and optimal.
- **Interest rate (IR) risk:** According to risk management policy of MOL Group IR risk is continuously monitored and managed by the adequate mix of funding portfolio.

Credit risk: MOL Group provides products and services to a diversified customer portfolio - both from business segment and geographical point of view – with deferred payment terms – representing an acceptable credit risk profile. MOL Group's risk management tracks and manages 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.

Operational risks include, but are not limited to:

- **Physical asset safety and equipment breakdown risk:** High asset concentration in Downstream is a significant risk driver. The potential negative effects are mitigated by comprehensive HSE activities and a group-wide insurance management program.

- **Crude oil supply risk:** Crude supply disruption is a major risk factor for the Downstream business, as it can hamper continuous operations. In order to mitigate this risk, supplies of crude oil via pipelines are currently diversified with regular crude cargo deliveries from the Adriatic Sea.
- **Cyber risk:** Recently increased cyber risks needs high attention and effective management to ensure the company is able to monitor, detect and respond to cyber threats. MOL has set up a clear vision and strategy in order to manage cyber incidents and cyber threats (people, process and technology) so the company is able to identify and manage cyber risks.

Strategic risks include, but are not limited to:

- **Regulatory risk:** MOL has significant exposure to a wide range of laws, regulations, environmental and government policies that may change significantly over time. Government actions may be affected by the elevated risk of economic and, in some regions, political crisis, increasing their impact on MOL's operations.
- **Country risk:** The international presence of MOL Group contributes to diversification but also exposure to country specific risk at the same time. Therefore, political risk and compliance are monitored with local regulations and international sanctions to keep country risk in the investment portfolio within acceptable limits.
- **Reputation risk:** MOL, as a major market player in the region, operates under special attention from a considerable number of stakeholders, and the Group is constantly seeking to meet their responsibilities towards them.
- **Climate change risk:** The transitional and physical risks associated with climate change have the potential to adversely impact MOL's current and future revenue streams, expenditures, assets and financing. MOL Group launched its 2030 Strategy as a response to the potential mid-long-term decrease in demand for fossil fuels, primarily driven by a combination of regulatory changes, electrification and digitalization of transportation, energy and fuel efficiency gains, as well as changes in consumer behaviour and advances in technology. MOL Group's transformational strategy is meant to respond to these challenges by opening new business lines, with an increasing focus on the extension of the (petro)chemical value chain. Several strategic and operational steps have been taken at both group and divisional level. For more details, go to the Management Discussion & Analysis, and the Notes on Sustainability Performance.

Main risk management tools

As a general risk management framework, MOL Group operates an Enterprise Risk Management system.

Hedging Policy: to ensure the profitability and the financial stability of the group, financial risk management is in place to handle short-term, market related risks. Commodity price, FX and interest rate risks are measured regularly by using a complex model based on advanced statistical methods and are managed – when necessary - with hedging measures.

Insurance Policy: transferring of the financial consequences of the operational risks is done by insurance management, which represents an important risk mitigation tool used to cover the most relevant exposures and liabilities arising out of the operations. Insurance is managed through a joint program for the whole group to exploit considerable synergy effects.

Crisis and Business Continuity Management: following best industry practice and focusing on low probability high potential risks that could disrupt operations, value chain and cash generation, MOL Group has implemented and is currently working to integrate a crisis management and business continuity program in order to reduce recovery times within tolerable limits for processes critical to the business.

3. FINANCIAL AND OPERATIONAL OVERVIEW OF 2019

	(IFRS), in HUF billion			(IFRS), in USD million		
Summary of results	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
Net sales revenues	5,266.7	5,168.7	2	18,100	19,054	(5)
EBITDA	685.1	764.2	(10)	2,354	2,819	(16)
EBITDA excl. special items[(1)]	**688.7**	**747.0**	**(8)**	**2,366**	**2,757**	**(14)**
Clean CCS-based EBITDA [(1) (2)]	**708.9**	**728.2**	**(3)**	**2,436**	**2,687**	**(9)**
Profit from operation	294.1	352.9	(17)	1,012	1,305	(22)
Profit from operation excl. special items[(1)]	**318.2**	**362.7**	**(12)**	**1,092**	**1,339**	**(18)**
Clean CCS-based operating profit [(1) (2)]	**338.4**	**343.9**	**(2)**	**1,162**	**1,269**	**(8)**
Net financial gain / (expenses)	(17.4)	(36.5)	(52)	(59)	(134)	(56)
Net profit attributable to equity holders of the parent	**223.2**	**301.2**	**(26)**	**770**	**1,111**	**(31)**
Operating cash flow before ch. in working capital	711.7	704.1	1	2,445	2,600	(6)
Operating cash flow	704.2	596.1	18	2,428	2,189	11
EARNINGS PER SHARE						
Basic EPS	316.9	431.6	(27)	1.1	1.6	(31)
Basic EPS excl. special items	359.4	441.9	(19)	1.2	1.6	(25)
INDEBTEDNESS						
Simplified Net debt/EBITDA	0.82	0.41	-	0.82	0.41	-
Net gearing[(4)]	19%	12%	-	19%	12%	-

Key financial data by business segments

	HUF billion			USD million		
Net Sales Revenues [(3) (6)]	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
Upstream	490.8	545.1	(10)	1,691	2,011	(16)
Downstream	4,651.9	4,595.9	1	15,986	16,935	(6)
Gas Midstream	95.1	95.7	(1)	327	356	(8)
Consumer Services	1,708.6	1,597.3	7	5,871	5,892	0
Corporate and other	311.7	254.1	23	1,068	933	14
Total Net Sales Revenues	**7,258.1**	**7,088.1**	**2**	**24,943**	**26,127**	**(5)**
Intersegment transfers[(7)]	(1,991.4)	(1,919.4)	4	(6,843)	(7,072)	(3)
Total External Net Sales Revenues [(6)]	**5,266.7**	**5,168.7**	**2**	**18,100**	**19,054**	**(5)**

EBITDA	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
Upstream	309.1	356.9	(13)	1,065	1,314	(19)
Downstream	224.6	293.0	(23)	771	1,082	(29)
Gas Midstream	54.2	50.3	8	187	189	(1)
Consumer Services	137.3	114.8	20	471	423	11
Corporate and other	(37.2)	(42.0)	(11)	(129)	(154)	(16)
Intersegment transfers[(7)]	(2.9)	(8.8)	(67)	(11)	(35)	(69)
Total EBITDA	**685.1**	**764.2**	**(10)**	**2,354**	**2,819**	**(16)**

EBITDA Excluding Special Items [(1)]	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
Upstream	305.2	344.2	(11)	1,052	1,269	(17)
Downstream	232.3	288.5	(20)	796	1,065	(25)
Downstream - clean CCS-based[(2)]	252.5	269.7	(6)	866	995	(13)
Gas Midstream	54.2	50.3	8	187	189	(1)
Consumer Services	137.3	114.8	20	471	423	11
Corporate and other	(37.2)	(41.9)	(11)	(129)	(154)	(16)
Intersegment transfers[(7)]	(3.1)	(9.0)	(66)	(11)	(35)	(69)
Total - clean CCS-based[(1) (2)]	**708.9**	**728.2**	**(3)**	**2,436**	**2,687**	**(9)**
Total EBITDA Excluding Special Items	**688.7**	**747.0**	**(8)**	**2,366**	**2,757**	**(14)**

	HUF billion			USD million		
Depreciation	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
Upstream	172.2	212.6	(19)	592	783	(24)
Downstream	143.8	132.4	9	493	486	1
Gas Midstream	14.0	13.7	2	48	51	(6)
Consumer Services	34.8	27.3	27	120	101	19
Corporate and other	27.1	27.1	0	93	100	(7)
Intersegment transfers[7]	(1.0)	(1.7)	(41)	(3)	(6)	(50)
Total Depreciation	**391.0**	**411.3**	**(5)**	**1,342**	**1,514**	**(11)**
Operating Profit[6]	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
Upstream	136.9	144.3	(5)	473	532	(11)
Downstream	80.8	160.6	(50)	278	596	(53)
Gas Midstream	40.3	36.6	10	138	138	0
Consumer Services	102.5	87.6	17	352	322	9
Corporate and other	(64.3)	(69.0)	(7)	(222)	(255)	(13)
Intersegment transfers[7]	(2.1)	(7.3)	(71)	(8)	(29)	(72)
Total Operating Profit[6]	**294.1**	**352.9**	**(17)**	**1,012**	**1,305**	**(22)**
Operating Profit Excluding Special Items[1] [6]	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
Upstream	141.0	130.6	8	486	483	1
Downstream	100.9	180.3	(44)	346	665	(48)
Gas Midstream	40.3	36.6	10	138	138	0
Consumer Services	102.5	87.6	17	352	322	9
Corporate and other	(64.3)	(65.1)	(1)	(222)	(241)	(8)
Intersegment transfers[7]	(2.1)	(7.3)	(71)	(8)	(29)	(72)
Total Operating Profit Excluding Special Items[1] [6]	**318.2**	**362.7**	**(12)**	**1,092**	**1,339**	**(18)**
Capital Expenditures	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
Upstream	104.8	84.6	24	360	335	7
Downstream	416.3	170.1	145	1,422	617	130
Gas Midstream	48.9	9.4	420	163	34	379
Consumer Services	51.2	54.7	(6)	175	199	(12)
Corporate and other	38.4	42.3	(9)	131	151	(13)
Intersegment transfers[7]	(2.4)	(4.2)	(43)	(8)	(10)	(20)
Total	**657.2**	**356.8**	**84**	**2,242**	**1,326**	**69**

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

3.1 KEY ACHIEVEMENTS AND SUMMARY OF 2019 RESULTS

MOL delivered Clean CCS EBITDA of HUF 709bn in 2019 (USD 2.44bn), decreasing by 3% from the 2018 level and slightly above the upgraded target (USD 2.4bn).

- The Upstream segment's EBITDA, excluding special items, reached HUF 305bn (USD 1.1bn) in 2019, representing a 13% decrease compared to 2018 reflecting lower oil and gas prices. Total hydrocarbon production remained unchanged year-on year at 111 mboepd, while group-level average unit production cost increased slightly to USD 6.4/boe, but remained at a highly competitive level.
- Downstream Clean CCS EBITDA decreased by 6% to HUF 252bn. Profitability was adversely affected by deteriorating refining (MOL group refining margin was USD 4.2/bbl, down 22% year-on-year) and petrochemical margins (MOL Group Petrochemicals margin down by 7% to 372 EUR/t). This was partly offset

by strong sales margin and lower energy prices, as well as the continuous internal efficiency improvement delivered as part of the DS2022 program.

- Consumer Services EBITDA increased in 2019 by 20% to HUF 137bn (USD 471mn), driven by the dynamic expansion of non-fuel margin and by healthy fuel market trends in the CEE, supporting both fuel volumes growth and and also fuel margins.
- Gas Midstream full-year EBITDA increased by 8% to HUF 54bn (USD 187mn) in 2019, mainly due to increasing domestic transmission revenues and declining OPEX .
- Corporate and other segment delivered an EBITDA loss of HUF 37bn in 2019, slightly decreasing year-on-year.
- Net financial expenses decreased significantly to HUF 17bn in 2019 compared to HUF 37bn in the previous year, as net interest expenses declined and no big FX loss burdened the P&L in 2019.
- Total CAPEX spending reached HUF 609bn (USD 2.2bn) in 2019, increasing 71% year-on-year on, mainly due to the increasing spending on Downstream transformational projects. Sustain capex also rose in 2019, mainly because of the major turnarounds in Downstream.
- Operating cash flow before working capital increased marginally, by 1% to HUF 712bn, while operating cash flow increased by 18% year-on-year to HUF 704bn as there was no major movement in working capital in 2019 (as opposed to a rather large build up in the previous year).
- Net debt increased to HUF 559bn in 2019 from HUF 315bn a year ago. Net Debt/EBITDA rose to 0.82 from 0.41, and net gearing also increased to 19% from 12%, yet the level of indebtedness remained low and the balance sheet stayed very robust. MOL maintained investment grade credit rating at all the major credit rating institutions.
- Total headcount increased to 26,032 in 2019 from 25,970 in 2018.
- Key group financial and operational figures and historical financial statements are available in the annual Data Library on the company's website.

Operational highlights

- MOL signed an agreement with Chevron in November to acquire its non-operated E&P and mid-stream interests in Azerbaijan, including a 9.57% stake in the Azeri-Chirag-Gunashli ("ACG") oil field and an effective 8.9% stake in the Baku-Tbilisi-Ceyhan ("BTC") pipeline for total consideration of USD 1.57bn (subject to adjustments at closing) with an effective date of 1 January 2019.
- In 2019 MOL Group has acquired 100% shareholding in Aurora, a German plastic compounder company.
- The polyol project is on schedule and on budget; major construction site works boosted up in 2019, oversize equipment transportation has begun, and the overall project completion stood at around 50% in February 2020.
- A final investment decision was made for the Rijeka Refinery Residue Upgrade project, aiming at turning INA's Downstream into a sustainable and profitable business; the project includes the construction of a delayed coker with an expected commissioning in 2023.
- MOL has again been selected as an index component of the Dow Jones Sustainability Indices (DJSI) during the 2019 indices review process. This is the fourth year running that MOL was recognized for its corporate sustainability leadership and made it to the DJSI index.
- MOL Group won the newly established „Best of ESG" award of the Budapest Stock Exchange.

3.2 OUTLOOK ON THE STRATEGIC HORIZON

MOL Group once again delivered robust financial results in 2019 in a deteriorating external environment with lower oil and gas prices and weaker downstream margins. Clean CCS EBITDA came in at USD 2.44bn, slightly beating the upgraded guidance, and only 9% lower than in 2018, a further testament to the high-quality, low-cost asset base and the resilient, integrated business model. Organic capex increased substantially to USD 2.08bn, as 2019 was the first year with visible investments in strategic transformational projects. Despite the peak capex, Simplified Free Cash Flow remained positive in 2019 at USD 0.36bn.

2019 was also a year of important milestones along the 2030 strategic journey. A major Upstream acquisition in Azerbaijan, a final investment decision on the Rijeka Refinery Residue Upgrade project, reaching 50% completion on the polyol project and closing another record breaking in Consumer Services were just some of the key highlights of the year.

MOL Group provided a progress report and an update on its strategy implementation and its mid-term financial framework at its Investor Day in November 2019, confirming the base macro framework and upgrading the cash flow ambitions for 2019-23 to incorporate the ACG acquisition in Azerbaijan and the upgraded internal performance targets. The primary financial target remains to generate sufficient operating cash flows to cover the Group's investment needs – including the Downstream transformational projects and the Upstream reserve replacement –, financial costs, taxes and rising base dividends to shareholders, while retaining a safe and strong balance sheet. MOL's mid-term base macro framework remains unchanged: an oil price in the range of USD 50-70/bbl and normalized downstream margins (USD 4-5/bbl refinery margin and EUR 300-400/t integrated petchem margin). Based on this, and assuming 6 months contribution from the ACG assets, MOL expects to deliver around USD 2.5bn EBITDA in 2020, rising gradually to USD 2.8-3.0bn by 2023, when the transformational projects start contributing. Sustain capex shall be around USD 1.2-1.3bn annually, including the ACG investments, while transformational projects will require more than USD 3bn investments in the 2019-23 period.

A major overarching project across all segments and functional areas is to fully integrate sustainability in the MOL 2030 business strategy. By the end of 2020, MOL Group expects to communicate an integrated Sustainability and Climate strategy, which will address, among other important sustainability areas, decarbonization of the businesses.

In Downstream, executing the DS 2022 program and the key strategic projects remain in focus. The polyol project, the Rijeka Refinery Residue Upgrade project (including the delayed coker) and several smaller strategic projects will be in implementation phase, while others are expected to reach final investment decisions. Downstream is also expected to come up with a detailed technological roadmap outlining the routes and options to deliver the 2030 strategic targets. Operationally, 2020 shall see relatively few maintenance activities and higher processing levels resulting in meaningful increase in own product sales compared to 2019. This, along with further efficiency improvement efforts, should support the profitability of the segment and help offsetting any further weakness in the downstream macro.

In Consumer Services, 2020 shall be another record-breaking year with earnings growth coming predominantly on the back of improving internal performance rather than a supportive external environment. Earnings growth will likely increasingly be driven by consumer goods retailing with the share of non-fuel margin rising further to above 30%. This will be supported by the continued rollout of the Fresh Corner concept in the network, where penetration exceeded 45% by the end of 2019. At the same time, the business will remain focused on exploiting the fuel market potential of the still growing CEE region. Furthermore, increasing investments will be directed towards building up mobility services in the region and digitalizing the customer interactions and operations.

In Upstream, the primary target for 2020 is to successfully close the ACG/BTC acquisition in Azerbaijan and then to integrate the new assets. Otherwise, the priority and homework are very similar to the previous few years: to deliver on the promises and to maximize cash generation of the existing barrels through maintaining an efficient

operation. With the addition of ACG, Upstream shall maintain a production level of around 120-130 mboepd through 2023 and further reduce its already very competitive unit production cost. This would allow the business to generate around USD 700mn Simplified Free Cash Flow annually at a USD 60/bbl oil price. Reserve replacement continues to be high on the agenda in the coming years, although the ACG acquisition was a significant milestone towards getting closer to the mid-term reserves ambitions. Exploration will continue in Norway in 2020, while MOL Group will also continue to monitor inorganic opportunities, but a transaction with the magnitude of the ACG deal is rather unlikely in the next couple of years.

3.3 UPSTREAM

Segment IFRS results (HUF bn)	FY 2019	FY 2018	Ch %
EBITDA	309.1	356.9	(13)
EBITDA excl. spec. items[(1)]	**305.2**	**344.2**	**(11)**
Operating profit/(loss)	136.9	144.3	(5)
Operating profit/(loss) excl. spec. items[(1)]	**141.0**	**130.6**	**8**
CAPEX and investments	**104.8**	**84.6**	**24**
o/w exploration CAPEX	27.5	18.9	46

Hydrocarbon Production (mboepd)	FY 2019	FY 2018	Ch %
Crude oil production	**47.8**	**44.5**	**7**
Hungary	11.7	13.0	(10)
Croatia	12.1	12.4	(3)
Kurdistan Region of Iraq	3.4	3.3	2
United Kingdom	17.6	12.7	39
Pakistan	0.6	0.9	(31)
Other International	2.4	2.1	13
Natural gas production	**47.8**	**51.2**	**(6)**
Hungary	22.7	24.9	(9)
Croatia	18.1	18.9	(4)
o/w. Croatia offshore	6.1	6.5	(6)
United Kingdom	1.1	1.3	(17)
Pakistan	5.9	6.0	(2)
Condensate	**6.3**	**6.5**	**(6)**
Hungary	3.4	3.6	(6)
Croatia	1.3	1.4	(11)
Pakistan	1.6	1.5	1
Average hydrocarbon production of fully consolidated companies	**101.9**	**102.2**	**0**
Russia (Baitex)	4.9	5.6	(13)
Kurdistan Region of Iraq (Pearl Petroleum)	4.2	2.8	55
Average hydrocarbon production of joint ventures and associated companies	**9.1**	**8.4**	**9**
Group level average hydrocarbon production	**111.0**	**110.6**	**0**

Main external macro factors	FY 2019	FY 2018	Ch %
Brent dated (USD/bbl)	64.3	71.0	(9)
HUF/USD average	290.7	270.2	8
CEGH gas price (EUR/MWh)	14.8	23.1	(36)

Average realised hydrocarbon price	FY 2019	FY 2018	Ch %
Crude oil and condensate price (USD/bbl)	60.5	65.3	(7)
Average realised gas price (USD/boe)	27.6	36.2	(24)
Total hydrocarbon price (USD/boe)	**46.1**	**51.1**	**(10)**

Production cost (USD/boe)			Ch %
Average unit direct production cost of fully consolidated companies	7.1	6.9	2
Average unit direct production cost of joint ventures and associated companies	1.9	1.8	6
Group level average unit direct production cost (USD/boe)	**6.4**	**6.3**	**2**

Key Upstream ESG Indicators	FY 2019	FY 2018	Ch %
Total Direct GHG (scope-1)	0.84	0.78	8
Volume of Spills (above 1 m3)	23.75	19.20	24
Total Recordable Injury Rate (own & contractors)	0.65	0.55	18
Total number of employees (average)	2,851	2,951	(3)

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

Capital Expenditures									
FY 2019 HUF bn	Hungary	Croatia	Kurdistan Region of Iraq	Pakistan	United Kingdom	Norway	Other	Total - FY 2019	Total - FY 2018
Exploration	4.8	1.9	0.0	1.0	0.0	17.0	2.9	27.5	18.9
Development	22.0	12.2	8.0	0.8	14.6	0.1	4.5	62.3	54.6
Acquisition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	3.2	8.7	0.2	0.1	2.6	0.0	0.0	15.0	11.1
Total - FY 2019	30.1	22.8	8.2	1.9	17.3	17.1	7.3	104.8	
Total - FY 2018	33.0	24.2	2.5	1.2	12.6	7.4	3.8		84.6

Tables regarding Hydrocarbon production (mboepd); Production cost (USD/boe); Average realised hydrocarbon price; Gross reserves (according to SPE rules): Proved reserves (1P), Proved + probable reserves (2P); Costs incurred (HUF mn); Earnings (HUF mn); Exploration and development wells are available in the annual Data Library on the company's website.

3.3.1 Financial overview of 2019

Upstream EBITDA, excluding special items, decreased 11% year-on-year in 2019 and amounted to HUF 305bn. The financial performance was primarily affected by the lower average realized hydrocarbon prices (by 10% or by 5 USD/boe less than in 2018). This was driven by a 7% decrease in realized crude prices and a 24% decrease in realized gas prices.

Total group production (including JVs and associates) remained on the same level as is in the previous year, with produced 111.0 mboepd. High production volumes were driven by UK assets while natural decline of mature fields in CEE region was only partially mitigated by production optimization activities.

Group-level average direct production cost, excluding DD&A, increased slightly, by 2%, to 6.4 USD/boe, but remains at a competitive level and demonstrates continued cost discipline.

Upstream CAPEX amounted to HUF 105bn in 2019, increasing 24% year-on-year. This was driven by higher spending in both exploration and development, mainly in Norway, Kurdistan Region of Iraq and in UK. CAPEX decreased in Hungary and Croatia compared to 2018 but spending in the CEE region still amounted to approximately half of the total segment spending with HUF 53bn, mostly on Production Optimization related initiatives. In 2020-2022 exploration spending will target offshore drilling in Norway, unconventional and shallow gas exploration in Hungary as well as exploration activities in Pakistan and Croatia. Development spending will focus on Production Optimization in CEE and in offshore development drilling in Croatia, as well as Shaikan development in Kurdistan Region of Iraq and first gas in Kazakhstan.

In 2019, Upstream was the biggest cash generator of MOL Group with USD 692mn simplified free cash flow generation which means that 18.1 USD/boe unit free cash flow was achieved on a portfolio level.

Changes in the Upstream regulatory environment

Russia: Changes in the Mineral Extraction Tax (MET) calculation were introduced at the end of 2016, having direct implications on royalty payments since 2017. According to the new regulations, the MET was raised to 306 RUB/ton for 2017, 357 RUB/t for 2018 and 428 RUB/t for 2019. In 2019, the period of application of the raised oil MET of 428 RUB/ton for 2020 was extended indefinitely. While MET is proportionally increasing, export duty will gradually decrease, overall having a slight increasing effect on total tax burden.

3.3.2 Operational overview of 2019

Exploration

Total of 10 wells were drilled in 3 countries, while further 4 have been spudded. 5 discoveries were made in 2019. Besides drilling, seismic acquisition campaigns progressed in Pakistan, Hungary and Romania. Exploration portfolio was extended with new licences acquired in Hungary and Croatia.

In Hungary, exploration program was delivered successfully with drilling four shallow gas exploration wells, Kaszaper-2, Mezőhegyes-Ny-9, Mezőhegyes-DK-4 and Mezőhegyes-21 (joint drilling with Vermillion): all four were discoveries and were tied into nearby infrastructure. In addition, two further wells, Sülysáp-EK-1 and Tótkomlós unconventional pilot, were spudded. Two exploration wells drilled in 2018 were evaluated, Komádi-Ny-5 was a discovery, while Zsáka-DK-1 turned out to be dry. Seismic acqusiton on South Battonya and Vecses area were completed. To further extend exploration opportunities, MOL participated in the 7th bid round and was awarded two new exploration licences, Kisvárda and Nyírbátor.

In Croatia, exploration activities continued regarding Drava-02 concession. Well Severovci-1, drilled in 2018, was classified as a gas discovery, Selnica-1 East was a dry well, while Jankovac-1 is being evaluated. In December 2019, the Government of Croatia approved INA's entry into the Second Exploration phase on the Drava-02 concession, expiring at the end of 2021. INA participated in two bid rounds and was awarded three exploration licenses: Drava-03 and North-Western Croatia-01 in the 2nd Croatian onshore bid round, and Dinarides Block 14 license in the 3rd Croatian onshore bid round.

In Romania, seismic acquisition campaign is ongoing on EX-1 licence, and the approval of EX-6 licence extension has been received from the National Agency for Mineral Resources.

In Norway, operated and non-operated exploration activities continued. One operated well was drilled on PL539 and the well proved to be dry, and the second operated drilling has commenced on PL820S. In addition, MOL participated in the drilling of two non-operated wells, Kark on PL019C, which was a sub-commercial discovery, and Freke/Gram on PL814, which proved to be dry. MOL Norge fully relinquished seven licences due to inferior prospectivity.

In the Middle East, Asia And Africa gion, exploration activities are ongoing in Pakistan, Egypt and Oman. In Pakistan, activities mainly focused on seismic acquisition. 3D Kot seismic acquisition in TAL Block and Margala 2D seismic acquisition have been completed, while TAL West 3D seismic acquisition has commenced. Exploration well Mamikhel South-1 has been spudded and is currently being drilled. In Oman, license extension for Block 66 was granted by the Ministry of Oil & Gas as the planned spud date for drilling the Men'nah exploration well was postponed to 2020. In Egypt, drilling of Rizk-2D well on East Yidma has finished successfully with oil discovery. This was INA's deepest exploration well in the last 35 years and the well has already been brought to production.

Field Development and Production

In 2019, MOL successfully carried out drilling of new development wells. Production optimization program continued in Hungary and Croatia which resulted in annualized production uplift of 1.9 mboepd with a total of 121 well workovers. In the UK, Catcher continued delivering plateau oil production of 66 mboepd.

In Hungary, field development activities included development drilling, tie-in activities and production optimization. Total of five development wells were drilled, two of them, Sas-Ny-26 and Sas-Ny-27, were successful, Szeged-8A and Szeged-37 were dry, while Földes-24 is being evaluated. Seven new wells were tied in and brought to production, while debottlenecking of Gomba gathering station increased the water handling capacity. Production optimization program continued successfully with 57 completed operations which brought 1.4 mboepd incremental production.

In Croatia, EOR project with CO2 and water injection continued on two oil fields, Ivanić and Žutica. Production optimization program continued with 64 completed well workovers and it contributed to 0.5 mboepd additional production on an annualized basis. INA also started artificial lift optimization through which sucker-rod pumps are being replaced with electrical submersible pumps. This yields less operating cost and lower number of workovers, leading to safer operations. Evaluation of early development well Legrad-1 South, drilled in 2018, has finished and the well proved to be dry.

In UK, Catcher continued delivering excellent results, with plateau oil production of 66 mboepd. In Scolty & Crathes area, the pipeline replacement, due to wax build-up issues, was completed safely and successfully, ahead of time and within the budget.

In CIS region, field development of the operated Baitugan field in Russia continued. The annual drilling program was completed successfully with 71 well workovers and 17 drilled wells, out of which two were horizontal. In Kazakhstan, Rozhkovskoye Field Development Plan was approved by Kazakhstan Central Commission for Exploration and Development of minerals.

In Pakistan, development of the operated TAL Block continued with the tie-in of Mardankel-3 and Makori Deep-2 wells and with commissioning of the two Central Front-End Compression facilities, one for Makori East and Makori Deep and the other for Tolanj. Successful production optimization jobs were performed on Makori East-02 and Makori East-06.

In the Kurdistan Region of Iraq, Shaikan field development project is ongoing with the aim of raising the production capacity to 55 mboepd. First new well for several years, well SH-12, was successfully drilled and has started producing in November, while one further well, SH-09, has been spudded.

In Egypt, field development activities continued. 18 development wells were drilled on non-operated concessions North Bahariya and Ras Qattara, and 52 well workovers were finished across East Yidma, North Bahariya and Ras Qatara concessions.

3.4 DOWNSTREAM

Segment IFRS results (HUF bn)	FY 2019	FY 2018	Ch %
EBITDA	224.6	293.0	(23)
EBITDA excl. spec. items[1]	**232.1**	**288.5**	**(20)**
Clean CCS-based EBITDA[1] [2]	**252.4**	**269.7**	**(6)**
o/w Petrochemicals[1] [2]	82.9	86.6	(4)
Operating profit/(loss) reported	80.8	160.6	(50)
Operating profit/(loss) excl. spec. items[1]	**100.9**	**180.3**	**(44)**
Clean CCS-based operating profit/(loss)[1] [2]	**121.2**	**161.5**	**(25)**
CAPEX	**403.1**	**170.1**	**137**
o/w transformational	228.8	46.6	391

MOL Group Without INA			
EBITDA excl. spec. items[1]	241.4	296.8	(19)
Clean CCS-based EBITDA[1] [2]	**260.0**	**285.6**	**(9)**
o/w Petrochemicals clean CCS-based EBITDA[1] [2]	82.9	86.6	(4)
Operating profit/(loss) excl. spec. items[1]	136.3	207.2	(34)
Clean CCS-based operating profit/(loss)[1] [2]	**154.9**	**196.0**	**(21)**

INA Group			
EBITDA excl. spec. items[1]	(9.2)	(8.2)	12
Clean CCS-based EBITDA[1] [2]	**(7.6)**	**(15.9)**	**(52)**
Operating profit/(loss) excl. spec. items[1]	(35.4)	(26.9)	31
Clean CCS-based operating profit/(loss)[1] [2]	**(33.7)**	**(34.6)**	**(2)**

Refinery margin	FY 2019	FY 2018	Ch %
Total MOL Group refinery margin (USD/bbl)	4.2	5.4	(22)
Complex refinery margin (MOL+Slovnaft) (USD/bbl)	5.1	6.3	(18)
MOL Group petrochemicals margin (EUR/t) [9]	372	399	(7)

External refined product and petrochemical sales by country (kt)	FY 2019 restated	FY 2018 restated	Ch %
Hungary	5,074.6	5,009.4	1
Slovakia	1,931.2	1,857.8	4
Croatia	2,219.5	2,008.2	11
Italy	1,949.6	2,061.0	(5)
Other markets	8,807.1	8,938.5	(1)
Total	**19,981.9**	**19,874.8**	**1**

External refined and petrochemical product sales by product (kt) [13]	FY 2019 restated	FY 2018 restated	Ch %
Total refined products	**18,657**	**18,410**	**1**
o/w Motor gasoline	4,018	3,699	9
o/w Diesel	10,592	10,382	2
o/w Fuel oil	394	612	(36)
o/w Bitumen	551	563	(2)
Total petrochemicals products	**1,324**	**1,465**	**(10)**
o/w Olefin products	210	219	(4)
o/w Polymer products	1,033	1,159	(11)
o/w Butadiene products	81	87	(7)
Total refined and petrochemicals products	19,981	19,875	1

Key Downstream ESG Indicators	FY 2019	FY 2018	Ch %
Total Direct GHG (scope-1)	5.91	6.40	(8)
Volume of Spills (above 1 m3)	282.50	10.00	n.a.
Total Recordable Injury Rate (own & contractors)	2.40	3.15	(24)
Process Safety Events TIER 1+2	24	19	26
Total number of employees (average)	9,541	9,643	(1)

Change in regional motor fuel demand	Market*			MOL Group sales		
FY 2019 vs. FY 2018 in %	Gasoline	Diesel	Motor fuels	Gasoline	Diesel	Motor fuels
Hungary	4	3	3	2	1	1
Slovakia	4	2	2	5	7	6
Croatia[(14)]	0	8	6	15	13	14
Other	3	3	3	(13)	0	(3)
CEE 10 countries	3	4	3	(2)	3	1

CAPEX (in HUF bn)	FY 2019	FY 2018	YoY Ch %	Main projects in FY 2019
R&M CAPEX and investments	140.5	105.5	33	MOL: Blending alternative crude in DR, New Rubber bitumen unit in ZR, New LPG-amine absorber, Catalyst Replacement SN: New Crude Oil tank, Catalyst replacement, Periodical maintenance INA: Propane-propylene splitter, Platforming 2 modernisation, Turnaround, New column on CDU
Petrochemicals CAPEX	259.0	61.0	325	MOL: Polyol, SC1 Boiler replacement, SC1 Lifetime extension, Metathesis Project SN: Ethylene Storage Tank, Low Nox burners for boiler, periodical maintenance
Power and other	3.6	3.6	(1)	
Total	**403.1**	**170.1**	**137**	

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

Tables regarding processing and production of the refineries of MOL Group (Duna, Bratislava, INA in kt); External Refined Product Sales (kt); Crude oil product sales (kt); Petrochemical production (kt); Petrochemical sales (kt); Petrochemical transfer to Refining and Marketing (kt) are available in the annual Data Library on the company's website.

3.4.1 Financial overview of 2019

In 2019 Downstream generated HUF 252bn Clean CCS EBITDA, which is 6% behind the previous year's performance. The decreasing result was fully attributable to a weaker macro environment: lower MOL Group Refinery margin and integrated petrochemical margin (down by 22% and 7%, respectively). A substantial drop in petchem margins was partly offset by strong sales margins and lower energy costs. Deteriorating macro condition was partly offset due to strong volumes and improved sales performance.

The EBITDA contribution of the DS2022 Program was almost USD 50mn in 2019, broadly achieved, thanks to efficiency improvement actions targeting asset availability, market position and strong focus on energy efficiency. DS2022 was able to fully compensate the negative effect of PTE increase and availability issues.

Downstream investments grew by 137% versus the 2018 base to HUF 403bn. Out of the total CAPEX spend USD 606mn was spent on sustaining current operation, and USD 776mn spent on transformational projects. The increase was driven by the ongoing transformational projects of which the largest one is the polyol project (USD 688mn in 2019), with other large ones being the propylene splitter in Rijeka (USD 37mn) and the alternative crude processing facilities (USD 29mn). The construction works of the new polyol complex in Tiszaújváros reached nearly 50% completion level by the end of 2019.

3.4.2 Operational overview of 2019

In Production the volume of processed total raw material and crude oil reached 17.5mn tons and 14.5mn tons, respectively. This was achieved despite the REB chloride content crisis, which was efficiently managed along the supply chain. Petrochemicals utilization slightly decreased from 93.8% to 92.5% due to planned and unplanned shutdowns. 2019 marked the execution of major turnarounds (TAs) in Slovnaft, INA and MPC sites, out of which Rijeka Refinery has conducted its biggest ever TA in its history. Besides regular maintenance activities, the projects improving energy efficiency, yield and decreasing environmental impact were also successfully implemented during the turnaround. Although there is always room for improvement in the HSE performance,

the area has improved materially in 2019, resulting in more than 20% lower TRIR compared to last year. By the end of the year the Group started to produce E10 grade gasoline on sites according to the national regulations enabling smooth and flawless introduction of new grade to the market.

In Logistics the handled volumes of own refined and petrochemical products and third part supply decreased by 4% to over 22mn tons, while overall transportation unit cost increased by 5.5%. Several new efficiency initiatives started in 2019, including excellence programs in the areas of terminal and pipeline operations focusing on higher productivity. At Rail Transportation core business products, implementation of GPS-based monitoring and positioning system has been completed to increase efficiency. Operation of the acquired terminal in Serbia was taken over and put onstream by MOL Group in September. Continuous transportation of two streams of Croatian domestic crude oil was established - towards Rijeka refinery by rail and towards Danube refinery by pipeline. Core functions of Logistics were performed with better HSE results than in the previous year.

In Commerce & Optimization besides core activity of the existing business lines, Fuels, Petrochemicals and Special Products, a new Customer Care organization was established to further increase customer focus. As its first major achievement a group-wide Digital Roadmap has been already created and it is ready to be implemented in the upcoming years. The Customer Satisfaction Survey was launched for the second time at Group level with an extensive scope involving all the countries and products with approximately 60.000 B2B customers, in line with the strategic targets of the DS2022 program.

As per the Strategic transformation initiatives, the flagship Polyol project progressed according to schedule in 2019. Having ThyssenKrupp Industrial Solutions as the EPC contractor for the main process units, also for the offsite and utility part of the new chemical complex in Tiszaújváros, by the end of 2019 the project has achieved close to 50% cumulated progress with no Lost Time Injuries (LTIs). During the year, the site has been prepared for the investment following which piling has been finalized, civil concrete works have been half-way done, and steel erection has also started till the year-end. All key equipment pieces have been ordered with pre-fabrication in the workshops of the vendors in and out of Europe. On top of these physical work streams, the detailed design has achieved almost 90% completion. 2020 will be an important year for the project as it aims to achieve above 80% readiness by year-end and roll-out at the end of 2021. Civil works are to be finalized, while key pieces of equipment are to be delivered to the site in the first half of 2020. Steel erection will ramp-up with construction headcount reaching 2,500 in the second half of the year.

Polyol R&D Center in Százhalombatta was established in 2019. The new pilot plant will enable Polyol R&D to simulate the industrial production of polyols on laboratory scale. This will not only play an important role in product development of polyols, but also ensure that the starting product portfolio can be delivered on time.

INA 2023 New Course program continues the transformation of INA Downstream. By enabling access of Croatian domestic crude into the JANAF system and resolving taxation of refining business, all prerequisites were met to make a final investment decision in the Residue Upgrade Program in Rijeka refinery in December 2019. Sisak Refinery proceeds with the transformation into an industrial site, which will include an approved bitumen production project, logistic hub and potentially lubricant production and a biorefinery as well.

In 2019 MOL Group has acquired 100% shareholding in Aurora, a German plastic compounder company. The acquisition contributes to MOL Group's Enter Tomorrow 2030 strategy aiming at transitioning from a traditional fuel-based business model in Downstream to a higher value-added petrochemical product portfolio. With the successful closing of the transaction, MOL Group strengthens its presence in recyclate-based compounds and its position as an automotive supplier. Aurora, with production plants located nearby automotive manufacturing and plastics conversion clusters, has a unique and lean closed-loop business model. MOL Group and Aurora are committed to growing the business in Germany further but also to expand to CEE region.

3.5 INNOVATIVE BUSINESSES AND SERVICES

2019 was another strong year for the Innovative Businesses and Services segment, with record breaking financial performance.

3.5.1 Consumer Services

Segment IFRS results (HUF bn)	FY 2019	FY 2018	Ch %
EBITDA	137.3	114.8	20
EBITDA excl. spec. items(1)	**137.3**	**114.8**	**20**
Operating profit/(loss) reported	102.5	87.6	17
Operating profit/(loss) excl. spec. items(1)	**102.5**	**87.6**	**17**
CAPEX	**51.2**	**54.7**	**(6)**
o/w organic	51.2	54.7	(6)

Total retail sales (kt)	FY 2019	FY 2018	Ch %
Hungary	1,345	1,276	5
Slovakia	725	685	6
Croatia	1,098	1,083	1
Romania	753	718	5
Czech Republic	525	498	5
Other(8)	405	369	10
Total retail sales	**4,851**	**4,629**	**5**

Non-fuel indicators	FY 2019	FY 2018
Non-fuel margin	28.8%	27.4%
Number of Fresh corner sites	877	687

Key Consumer Services ESG Indicators	FY 2019	FY 2018	Ch %
Total Direct GHG (scope-1+2)	0.08	0.07	9
Total Recordable Injury Rate (own & contractors)	0.78	0.70	11
Total number of employees (average)	4,544	4,464	2

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

Tables regarding the number of MOL Group service stations, retail sales of refined products (kt) and gasoline and diesel sales by countries (kt) are available in the annual Data Library on the company's website.

3.5.1.1 Financial overview of 2019

In 2019 Consumer Services EBITDA jumped 20% and reached HUF 137bn resulting again in a double-digit-growth for the year. The increase was mainly driven by the dynamic expansion of non-fuel margin and by healthy fuel market trends in the CEE region, supporting both fuel volumes and fuel margin growth. Due to the 6% lower organic capital expenditures simplified free cash flow of Consumer Services reached nearly USD 300mn in 2019. Higher operating expenditures reflect partly regional wage pressure and a high base effect.

Regional demand growth remained strong and had a major impact on volume sold. Retail fuel sales increased to 4.7% - above, or in line with the five core markets - while the like-for-like volume increase was 3.9%.

3.5.1.2 Operational overview of 2019

The segment consists of two main business lines: "Retail" includes both fuel and non-fuel retailing, while "Mobility" is comprised of all other services provided for people "on-the-go".

Retail

Retail completed over 350 reconstruction, car wash and growth projects, continuing with the installation of the new non-fuel concept, Fresh Corner at the stations. Number of Fresh Corners increased by 28% in 2019. Closing

number of own SeSs is close to 1,850, whilst together with the franchise network over 1,900. MOL Group maintained a leading position on the Hungarian, Croatian and Slovakian markets, as well as in Bosnia and Herzegovina, and remained the second largest market player on the Czech market, and the third largest market player on the Slovenian & Romanian markets and in Montenegro.

The implementation of the non-fuel concept accelerated, 190 Fresh corners were added across the network taking the total number of Fresh Corners to 877 with zero lost time injuries. Consequently, the non-fuel margin continued to increase at a higher pace than fuel margin, reaching 30% of the total margin at the end of the year. Retail has moved to industry tier one in terms of consumer acceptance and became the number one brand in the region, while reaching the highest net promoter score in Hungary. The segment managed to increase the active customer base again after 2018 by optimized loyalty strategy which is based on a more data-driven approach and digitalization.

MOL Group has been continuing the development of their Gastro offer to its customers. Based on the results of the Fresh Corner brand launched coffee concept MOL Group started the implementation of the hot-dog concept offering hot snacks in ca. 700 SeSs in 2019 for the people on the go. Grocery Category Management has been enhanced to the next level by implementing Spaceman Planogram developing software and by developing Supplier Management to increase the level of their contribution to the margin and strengthen the strategic cooperation with biggest suppliers on group level.

The development journey for service station employees started a few years ago and was inspired by the challenge how ashift in mindset and behavior can be achieved from being ‘pump attendant’ to service-oriented ‘host’. The unique classroom development program, SMILE, is tailor-made for the service station employees and has evolved to be an entire movement and a driver of the cultural transformation. Since it has started in Q2 2017, altogether almost 1,500 Area and Service Station Managers and more than 15,000 Hosts took part in the SMILE training across MOL Group.

With the SMILE roll-out the need wasrecognized to get even closer to the service station employees in order to deliver the training content they need on daily basis. Therefore, eSMILE was introduced in 2020– an e-learning platform that will satisfy all the training needs, accelerating learning results to address the speed to market and to help with quick and efficient onboarding of new hires, as well as reinforce the knowledge of Hosts that completed the SMILE classroom training program. eSMILE is an adaptive microlearning approach to training, wrapped up with gamification to drive Hosts’ engagement which can be accessed on any device of their choice. MOL Groupd has partnered with a global provider that has won several awards for their solution in learning technologies environment and the fully working solution will be deployed to every Host in the Group until the end of 2020.

Driving the change that shapes the future is important, therefore Group Retail aims to make sure that they are always relevant in all aspects of their business. They launched their multi-year digital transformation program to achieve three goals: personalize their loyalty customer interactions, enhance convenience of the customer experience and improve internal operations via leveraging data. In 2019, they made important steps in meeting the latter two goals. They introduced the MOL GO application in Hungary and Serbia and installed the first outdoor fuel payment terminals and pay-at-coffee machine devices in Croatia, Hungary and Slovakia to digitalize the loyalty cards and enhance convenience of payment for their key products. Furthermore, they rolled out their data lake platform and data visualization tool to four countries and started developing advanced analytics solutions to optimize pricing, workforce efficiency and service station location selection.

They continued their Consumer Safety Awareness campaign and address HSE aspects related to car sharing, charging & other new activities at service stations.

Mobility

Group E-Mobility has been established in order to develop and provide the charging infrastructure for Electric Vehicles (EVs or Battery Electric Vehicles - BEVs) under the brand of MOL Plugee in the region. MOL Group is aiming to become a leading regional player on the CEE e-mobility market and to differentiate the company itself in the operation of the electric charging network with state-of-the-art service level. By the end of 2019 MOL Group operated more than 70 charges in the region, which is expected to reach around 200 chargers by the end of 2020 and grow even further in the following years.

MOL Fleet Solution has been established as part of MOL Group's mobility strategy in 2017. The main target was to finance and manage vehicles owned and used by MOL Group and external clients and the fleets of small-, medium-sized or large businesses. The number of financed and managed cars has been growing dynamically and reached over 3,000 cars by the end of 2019.

MOL Limo is the leading player in car-sharing in Hungary with the largest fleet and service area. During 2019 the share of electric vehicles (EV) already reached 1/3 of the total fleet of 450 cars. In 2019 the MOL Limo coverage area was further extended in Budapest, including the Liszt Ferenc International Airport and the number of registered users has exceeded 50 thousand people. Gradual increase of the EV fleet is planned as well as analysis of opportunities to introduce the service in new locations in the CEE region.

3.5.2 Industrial Services(15)

Industrial Services was established with the aim to provide oilfield services and maintenance services for MOL Group internal customers with the intention to create value by providing these services to third-party companies as well. The strategic aim of Industrial Services is thus twofold: to increase the quality and level of services provided to internal customers as well as utilizing vast knowledge and providing services to third party customers.

After rationalising and optimizing the operation of oilfield service companies, the extension of optimized operation resulted in a 237% increase of 3rd party revenues in 2019 (from USD 21.7mn to USD 51.5mn) vs. 2017. Due to increased 3rd party services further asset renewal actions are planned for the upcoming years to be able to keep up with increasing 3rd party demand.

Maintenance service companies further increased the scope of works in their core businesses, increased cross-country maintenance resulting in a more cost efficient and reliable asset operation.

In 2020 the main focus of Industrial Services will be to further optimize operations, utilize synergies between the service companies. Former OT Industries company (KVV) partially integrated into Group Industrial Services during 2019.

Algyő-2 is an in-house reference project to support worldwide sales activities of MOL innovative Polymer EOR surfactant product. The polymer EOR project is under implementation with encouraging result, continuous business development and site visits are ongoing with potential customers.

3.6 GAS MIDSTREAM

Segment IFRS results (HUF bn)	FY 2019	FY 2018	Ch %
EBITDA	54.2	50.3	8
EBITDA excl. spec. items(1)	**54.2**	**50.3**	**8**
Operating profit/(loss) reported	40.3	36.6	10
Operating profit/(loss) reported excl. spec. items(1)	**40.3**	**36.6**	**10**
CAPEX and investments	**48.9**	**9.4**	**420**
o/w organic	12.9	9.4	37

Key Gas Midstream ESG Indicators	FY 2019	FY 2018	Ch %
Total Direct GHG (scope-1)	0.24	0.19	22
Volume of Spills (above 1 m3)	0.00	0.00	n.a.
Lost Time Injury Frequency (own staff)	0	0	n.a.
Total number of employees	677	688	(2)

Tables regarding transmission volumes (million cmc) are available in the annual Data Library on the company's website.

3.6.1 Financial overview of 2019

EBITDA of FGSZ Földgázszállító Ltd (hereinafter referred to as: FGSZ) totalled at HUF 54bn in 2019, 8% above the previous year's figure, mainly driven by the increasing transmission demand due to the uncertainty of Russia-Ukraine transit agreement and lower natural gas purchase prices. Regulated transmission volumes rose significantly (+20% YoY), domestic transmission was flat, while gas storage volumes increased significantly. Export volumes to Romania, Croatia and Ukraine were above the high base level of 2018 in line with changes of regional gas market demands. Non-regulated transit revenues were similar to prior year (-2% YoY), as a result of slightly lower Serbian and Bosnian transit volumes (-9% YoY) and favourable FX changes. Operating costs were significantly lower in 2019 (-10%) as purchased gas volumes (compressor fuel gas and network loss) and the gas purchase prices declined.

CAPEX spending increased in 2019, as FGSZ completed the 1st phase of Romania-Hungary (ROHU) interconnector (Csanádpalota compressor station) and started its network development project to strengthen the gas supply security of the North-Eastern region of Hungary. Due to the new compressor station at Csanádpalota the existing interconnection offers an increased 1.75 bcma bidirectional capacity between Hungary and Romania from 1 Oct 2019 on the Hungarian side – developments will be completed by 1 Oct 2020– with certain limitations on the Romanian side. The Open Season regarding the ROHU project phase II. is still ongoing. In case of a successful economic test, further system development can be carried out resulting in a 4.4 bcma bidirectional capacity from 1 Oct 2022 on the Romanian-Hungarian interconnection point. The possibility to deliver natural gas from the Black Sea and other southern sources could mean further diversification for the CEE region.

3.6.2 Operational overview of 2019

FGSZ is the sole operator of the nearly 6,000km long high-pressure natural gas transmission pipeline system in Hungary as FGSZ completed the acquisition of Hungarian Gas Transit Ltd. (MGT Zrt.) in Q4 2019. It performs its main activity under market conditions regulated by law. Beside the domestic natural gas transmission, FGSZ is also engaged in international transmission activities and operates bidirectional interconnection points with Slovak Republic, Ukraine, Romania and Croatia and unidirectional inlet point from Austria and exit point to Serbia.. 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, FGSZ aims to ensure the interoperability of the natural gas networks of the region on the part of Hungary; FGSZ also strives 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.

On October 10, 2019, FGSZ Ltd. became 100% owner of Hungarian Gas Transit Ltd. through the acquisition of the state-owned MGT shares, successfully completing the transaction to acquire MGT's line of business and its state-owned shares. The sale of MGT was governed by Government resolution No. 1366/2019 (VI.25). The transaction

agreement was signed by FGSZ and MGT on June 28, 2019. In accordance with the agreement FGSZ has completed the payment of HUF 38bn (including the prepayment of MGT's loans) to the Hungarian state for the Slovakian-Hungarian natural gas interconnector pipeline system. On October 4, 2019, FGSZ took over the operation of the 92km long natural gas transmission pipeline connecting Hungary to Slovakia.

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 national legislation(16) The capacity allocation application enables capacity allocation procedures and secondary capacity trading among other services. Today – beyond FGSZ – nine further transmission system operators use it partially or entirely on their system capacities throughout the EU: Eustream (Slovakia), Transgaz (Romania), Plinacro (Croatia), Bulgartransgaz (Bulgaria), DESFA (Greece), Gas Connect Austria (Austria), Gascade (Germany), Ontras (Germany) and Gaz-System (Poland).

4. APPENDICES

APPENDIX I - IMPACT OF SPECIAL ITEMS ON OPERATING PROFIT AND EBITDA

	HUF billion			USD million		
Special items - operating profit	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
OPERATING PROFIT EXCLUDING SPECIAL ITEMS	**318.3**	**362.7**	**(12)**	**1,092**	**1,339**	**(18)**
Upstream	**(4.1)**	**13.8**	**n.a.**	**(13)**	**49**	**n.a.**
Gain on INAgip acquisition	0.0	12.7	(100)	0.0	45	(100)
Impairment reversal in Growest	0.0	21.2	(100)	0.0	75	(100)
Kalinovac field impairment in INA Group	0.0	(6.7)	(100)	0.0	(24)	(100)
Molve field impairment in INA Group	0.0	(13.5)	(100)	0.0	(48)	(100)
Kalegran switch to accrual accounting	3.9	0.0	n.a.	14	0.0	n.a.
Year-end impairments (mainly in Hungary)	(8)	0.0	n.a.	(27)	0.0	n.a.
Downstream	**(20.1)**	**(19.7)**	**2**	**(68)**	**(69)**	**(1)**
Unutilised refinery impairment	(12.6)	0.0	n.a.	(42)	0.0	n.a.
Environmental provision	(7.5)	0.0	n.a.	(25)	0.0	n.a.
HCK (HydroCracker) impairment	0.0	(24.2)	(100)	0.0	(85)	(100)
Penalty from LDPE 4 constructor Slovnaft	0.0	4.5	(100)	0.0	17	(100)
Corporate and other	**0.0**	**(3.9)**	**(100)**	**0.0**	**(14)**	**(100)**
Impairment in CEGE	0.0	(3.9)	(100)	0.0	(14)	(100)
TOTAL IMPACT OF SPECIAL ITEMS ON OPERATING PROFIT	**(24.2)**	**(9.8)**	**145**	**(80)**	**(34)**	**138**
OPERATING PROFIT	**294.1**	**352.9**	**(17)**	**1,012**	**1,305**	**(22)**

Special items - EBITDA (USD mn)	**FY 2019**	**FY 2018**	**Ch %**	**FY 2019**	**FY 2018**	**Ch %**
EBITDA EXCLUDING SPECIAL ITEMS	**688.7**	**747.0**	**(8)**	**2,365**	**2,757**	**(14)**
Upstream	**3.9**	**12.7**	**(69)**	**14**	**45**	**(69)**
Gain on INAgip acquisition	0.0	12.7	(100)	0.0	45	(100)
Kalegran switch to accrual accounting	3.9	0.0	n.a.	14	0.0	n.a.
Downstream	**(7.5)**	**4.5**	**n.a.**	**(25)**	**17**	**n.a.**
Environmental provision	(7.5)	0.0	n.a.	(25)	0.0	n.a.
Penalty from LDPE 4 constructor Slovnaft	0.0	4.5	(100)	0.0	17	(100)
TOTAL IMPACT OF SPECIAL ITEMS ON EBITDA	**(3.6)**	**17.2**	**n.a.**	**(11)**	**62**	**n.a.**
EBITDA	**685.1**	**764.2**	**(10)**	**2,354**	**2,819**	**(16)**

APPENDIX II - NOTES

Number of footnote	
(1)	Special items that affected operating profit and EBITDA are detailed in Appendix I.
(2)	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 accurate CO2 cost recognition and capturing the results of underlying commodity derivative transactions. Clean CCS figures of the base periods were modified as well according to the improved methodology.
(3)	Both the 2018 and 2019 figures have been calculated by converting the results of each month in the period on its actual monthly average HUF/USD rate.
(4)	Net gearing: net debt divided by net debt plus shareholders' equity including non-controlling interests.
(5)	Brent dated price vs. average Ural MED and Ural ROTT prices.
(6)	Net external sales revenues and operating profit includes the profit arising both from sales to third parties and transfers to the other business segments. Upstream transfers domestically produced crude oil, condensates and LPG to Downstream and natural gas to the Gas Midstream segment. The internal transfer prices used are based on prevailing market prices. The gas transfer price equals the average import price. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.
(7)	This line shows the effect on operating profit of the change in the amount of unrealised profit deferred in respect of transfers between segments. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. Unrealised profits arise principally in respect of transfers from Upstream to Downstream and Gas Midstream.
(8)	From 2016 Austrian retail operations were reclassified into wholesale.
(9)	As of January 2018 an updated formula for calculating the „MOL Group petrochemicals margin" was introduced, replacing the previous „Integrated petrochemical margin". The purpose of the new formula is to better reflect the petchem product slate of the group.
(10)	CIF Med parity
(11)	FOB Rotterdam parity
(12)	FOB Med parity
(13)	Retail segment sales are shown in chapter 3.5.4. ("Consumer Services").
(14)	Regional diesel and gasoline figures do not reflect full year in the case of Croatia; because of data availability the average of January-November YoY figure is presented.
(15)	Internal corporate governance and external reporting structure of Innovative Businesses and Services are different, thus the financial result of the Industrial Services and new Ventures unit of the Innovative Businesses and Services segment is reported within „Corporate and other" segment.
(16)	Commission Regulation (EU) No 2017/459 on capacity allocation, Commission Regulation (EU) No 2017/460 on tariff, Regulation (EU EB) 2012/490 (contractual congestion management), Regulation (EU) No 1227/2011 (REMIT), Regulation (EU) No 703/2015 (interoperability), Directive 2000/31/EC (electronic commerce), Regulation (EU) No 910/2014 (eIDAS)