

MOL Hungarian Oil and Gas Public Limited Company and Subsidiaries

Consolidated Annual Report

31 December 2012

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To the Shareholders of MOL Hungarian Oil and Gas Plc.

Report on financial statements

1.) We have audited the accompanying 2012 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc. ("the Company"), which comprise the consolidated balance sheet as at 31 December 2012 - showing a balance sheet total of HUF 4,766,305 million and a profit for the year of HUF 156,165 million -, the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

4.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

6.) In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of MOL Hungarian Oil and Gas Plc. as at 31 December 2012 and of the results of its operations for the year then ended in accordance with the International Financial Reporting Standards as adopted by EU.

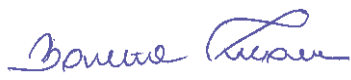
Other reporting requirement - Report on the consolidated business report

7.) We have reviewed the consolidated business report of MOL Hungarian Oil and Gas Plc. for 2012. Management is responsible for the preparation of the consolidated business report in accordance with the Hungarian legal requirements. Our responsibility is to assess whether the consolidated business report is consistent with the consolidated financial statements for the same financial year. Our work regarding the consolidated business report has been restricted to assessing whether the consolidated business report is consistent with the consolidated annual financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the consolidated business report of MOL Hungarian Oil and Gas Plc. for 2012 corresponds to the disclosures in the 2012 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc.

Budapest, 21 March 2013



Szilágyi Judit
Ernst & Young Kft.
Registration No. 001165



Bartha Zsuzsanna
Registered auditor
Chamber membership No.: 005268

**MOL Hungarian Oil and Gas Public Limited Company and
Subsidiaries**

Consolidated financial statements prepared in accordance with International
Financial Reporting Standards together with the independent auditors'
report

31 December 2012

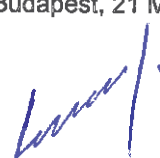
MOL Hungarian Oil and Gas Plc. and Subsidiaries

Consolidated financial statements

prepared in accordance with International Financial Reporting Standards

31 December 2012

Budapest, 21 March 2013



Zsolt Hernádi
Chairman of the Board of Directors
Chief Executive Officer



József Simola
Group Chief Financial Officer

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

Consolidated balance sheet

31 December 2012

	Notes	2012	2011
			Restated
		HUF million	HUF million
ASSETS			
Non-current assets			
Intangible assets	4	345,953	338,552
Property, plant and equipment, net	5	2,611,255	2,824,917
Investments in associated companies	10	118,891	104,797
Available-for-sale investments	11	20,571	20,649
Deferred tax assets	30	34,750	42,418
Other non-current assets	12	37,736	35,737
Total non-current assets		3,169,156	3,367,070
Current assets			
Inventories	13	507,727	545,234
Trade receivables, net	14	570,680	620,849
Securities		29,202	-
Other current assets	15	156,212	125,134
Prepaid taxes		14,749	24,364
Cash and cash equivalents	16, 37	318,579	311,133
Total current assets		1,597,149	1,626,714
TOTAL ASSETS		4,766,305	4,993,784
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	79,202	79,202
Reserves	18	1,468,892	1,419,311
Profit for the year attributable to equity holders of the parent		151,660	153,925
Equity attributable to equity holders of the parent		1,699,754	1,652,438
Non-controlling interests		547,383	591,203
Total equity		2,247,137	2,243,641
Non-current liabilities			
Long-term debt, net of current portion	19	682,787	862,149
Provisions	20	289,818	312,300
Deferred tax liabilities	29	123,988	119,823
Other non-current liabilities	21	57,646	50,720
Total non-current liabilities		1,154,239	1,344,992
Current liabilities			
Trade and other payables	22	912,430	1,010,547
Current tax payable		2,139	37,184
Provisions	20	42,474	37,227
Short-term debt	23	145,838	136,288
Current portion of long-term debt	19	262,048	183,905
Total current liabilities		1,364,929	1,405,151
TOTAL EQUITY AND LIABILITIES		4,766,305	4,993,784

The notes are an integral part of these consolidated financial statements

Consolidated income statement

31 December 2012

	Notes	2012 HUF million	2011 Restated HUF million
Net revenue	3, 24	5,522,316	5,343,234
Other operating income	25	30,025	23,251
Total operating income		5,552,341	5,366,485
Raw materials and consumables used		4,423,742	4,247,245
Personnel expenses	26	264,723	255,927
Depreciation, depletion, amortisation and impairment		319,566	349,840
Other operating expenses	27	370,452	381,304
Change in inventories of finished goods and work in progress		(518)	(78,867)
Work performed by the enterprise and capitalized		(46,045)	(42,146)
Total operating expenses		5,331,920	5,113,303
Operating profit		220,421	253,182
Financial income	28	26,752	80,148
Of which: Fair valuation difference of conversion option	28	11,764	10,548
Financial expense	28	73,839	135,000
Financial expense, net	28	47,087	54,852
Income from associates		32,682	20,066
Profit before tax		206,016	218,396
Income tax expense	30	49,851	33,126
Profit for the year		156,165	185,270
Attributable to:			
Equity holders of the parent		151,660	153,925
Non-controlling interests		4,505	31,345
Basic earnings per share			
Attributable to ordinary equity holders of the parent (HUF)	32	1,725	1,769
Diluted earnings per share			
Attributable to ordinary equity holders of the parent (HUF)	32	1,490	1,541

The notes are an integral part of these consolidated financial statements

Consolidated Statement of comprehensive income

31 December 2012

	Notes	2012	2011 Restated
		HUF million	HUF million
Profit for the year		156,165	185,270
<i>Other comprehensive income</i>			
Exchange differences on translating foreign operations including net investment hedge, net of tax	29	(131,731)	209,259
Net investment hedge, net of tax	29	39,335	(101,347)
Available-for-sale financial assets, net of deferred tax	29	646	(3,222)
Cash-flow hedges, net of deferred tax	29	246	1,160
Share of other comprehensive income for associates	29	(10,327)	14,938
Other comprehensive income for the year, net of tax		(101,831)	120,788
Total comprehensive income for the year		54,334	306,058
Attributable to:			
Equity holders of the parent		87,322	221,429
Non-controlling interest		(32,988)	84,629

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

Consolidated statement of changes in equity

31 December 2012

	Share capital	Share premium	Fair valuation reserve	Translation reserve	Equity component of debt and difference in buy-back prices	Retained earnings	Total reserves	Profit for the year attributable to equity holders of the parent	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Closing balance											
31 December 2010	79,202	(325,669)	7,534	153,663	(8,074)	1,424,760	1,252,214	103,958	1,435,374	539,407	1,974,781
Retained profit for the year	-	-	-	-	-	-	-	153,925	153,925	31,345	185,270
Other comprehensive income for the year	-	-	(2,278)	59,862	-	9,920	67,504	-	67,504	53,284	120,788
Total comprehensive income for the year	-	-	(2,278)	59,862	-	9,920	67,504	153,925	221,429	84,629	306,058
Transfer to reserves of retained profit for the previous year	-	-	-	-	-	103,958	103,958	(103,958)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(17,620)	(17,620)
Net change in balance of treasury shares held, net of tax	-	-	-	-	-	5,307	5,307	-	5,307	-	5,307
Transactions with non-controlling interests	-	-	-	-	-	(9,672)	(9,672)	-	(9,672)	(15,213)	(24,885)
Closing balance											
31 December 2011	79,202	(325,669)	5,256	213,525	(8,074)	1,534,273	1,419,311	153,925	1,652,438	591,203	2,243,641
Retained profit for the year	-	-	-	-	-	-	-	151,660	151,660	4,505	156,165
Other comprehensive income for the year	-	-	513	(60,766)	-	(4,085)	(64,338)	-	(64,338)	(37,493)	(101,831)
Total comprehensive income for the year	-	-	513	(60,766)	-	(4,085)	(64,338)	151,660	87,322	(32,988)	54,334
Transfer to reserves of retained profit for the previous year	-	-	-	-	-	153,925	153,925	(153,925)	-	-	-
Dividends	-	-	-	-	-	(38,278)	(38,278)	-	(38,278)	-	(38,278)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(10,936)	(10,936)
Equity recorded for share based payments	-	-	-	-	-	238	238	-	238	-	238
Net change in balance of treasury shares held, net of tax	-	-	-	-	-	(1,862)	(1,862)	-	(1,862)	-	(1,862)
Transactions with non-controlling interests	-	-	-	-	-	(104)	(104)	-	(104)	104	-
Closing balance											
31 December 2012	79,202	(325,669)	5,769	152,759	(8,074)	1,644,107	1,468,892	151,660	1,699,754	547,383	2,247,137

The notes are an integral part of these consolidated financial statements

Consolidated cash flow statement

31 December 2012

		2012	2011
			Restated
	Notes	HUF million	HUF million
Profit before tax		206,016	218,396
Depreciation, depletion, amortisation and impairment		319,566	349,840
Write-off of inventories, net		4,247	4,587
Increase / (decrease) in provisions		2,906	(5,227)
Net (gain) / loss on sale of property, plant and equipment		(2,174)	(6,286)
Write-off / (reversal of write-off) of receivables		6,038	15,115
Unrealised foreign exchange (gain) / loss on trade receivables and trade payables		(1,654)	4,530
Net loss on sale of subsidiaries		3,473	-
Interest income		(6,839)	(9,389)
Interest on borrowings		46,205	41,171
Net foreign exchange (gain) / loss excluding foreign exchange differences on trade receivables and trade payables		4,822	(55,642)
Fair valuation difference of conversion option (see Note 28)		(11,764)	(10,548)
Other financial (gain) / loss, net		1,253	75,651
Share of net profit of associate		(32,682)	(20,066)
Other non cash items		12,208	5,539
Operating cash flow before changes <i>in working capital</i>		551,621	607,671
Decrease / (increase) in inventories		4,452	(108,264)
Decrease / (increase) in trade receivables		15,020	(113,815)
Decrease / (increase) in other current assets		(11,537)	1,231
(Decrease) / increase in trade payables		(40,748)	18,357
(Decrease) / increase in other payables		(1,847)	20,523
<i>Income taxes paid</i>		(63,117)	(52,753)
Net cash provided by operating activities		453,844	372,950
Capital expenditures, exploration and development costs		(268,180)	(224,751)
Proceeds from disposals of property, plant and equipment		3,443	6,911
Acquisition of subsidiaries and non-controlling interests, net cash	37	(21,542)	(25,314)
Acquisition of associated companies and other investments		(969)	(1,695)
Net cash inflow / (outflow) on sale of subsidiary undertakings	8	(595)	805
Proceeds from disposal of associated companies and other investments		439	-
Changes in loans given and long-term bank deposits		2,137	12,545
Changes in short-term investments		(28,980)	209
Interest received and other financial income		7,327	27,247
Dividends received		9,744	5,334
Net cash used in investing activities		(297,176)	(198,709)

The notes are an integral part of these consolidated financial statements

Consolidated cash flow statement

31 December 2012

		2012	2011
			Restated
	Notes	HUF million	HUF million
Repayment of long-term notes		(5,051)	-
Issuance of long-term notes		109,280	11,000
Long-term debt drawn down	37	267,441	191,222
Repayments of long-term debt		(413,124)	(304,725)
Changes in other long-term liabilities		(231)	(768)
Changes in short-term debt		15,289	(8,513)
Interest paid and other financial costs		(73,360)	(60,204)
Dividends paid to shareholders		(38,311)	(23)
Dividends paid to non-controlling interest		(11,659)	(16,892)
Net cash provided by / (used in) financing activities		(149,726)	(188,903)
(Decrease) / increase in cash and cash equivalents		6,942	(14,662)
Cash and cash equivalents at the beginning of the year		311,133	313,166
Exchange differences of cash and cash equivalents of consolidated foreign subsidiaries		3,525	12,190
Unrealised foreign exchange difference on cash and cash equivalents		(3,021)	439
Cash and cash equivalents at the end of the year	37	318,579	311,133

The notes are an integral part of these consolidated financial statements

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

31 December 2012

1 General

MOL Hungarian Oil and Gas Public Limited Company (hereinafter referred to as MOL Plc., MOL or the parent company) was incorporated on 1 October 1991 on the transformation of its legal predecessor, the Országos Kőolaj- és Gázipari Tröszt (OKGT). In accordance with the law on the transformation of unincorporated state-owned enterprises, the assets and liabilities of OKGT were revalued as at that date. MOL Plc. and its subsidiaries (hereinafter referred to as the Group or MOL Group) are involved in the exploration and production of crude oil, natural gas and other gas products, refining, transportation and storage of crude oil and wholesale and retail marketing of crude oil products, production and sale of olefins and polyolefins. The number of the employees in the Group as of 31 December 2012 and 2011 was 29,298 and 31,471, respectively. The registered office address of the Company is 1117 – Budapest, Október huszonharmadika u. 18., Hungary.

The shares of the Company are listed on the Budapest and the Warsaw Stock Exchange. Depositary Receipts (DRs) are listed on the Luxembourg Stock Exchange and are quoted on the International Order Book in London and other over the counter markets in New York, Berlin and Munich.

2.1 Authorization, statement of compliance and basis of preparation

i) Authorization and Statement of Compliance

These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 21 March 2013.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and all applicable IFRSs that have been adopted by the European Union (EU). IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

Effective 1 January 2005, the change in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements in accordance with IFRS that have been adopted by the EU. Currently, due to the endorsement process of the EU and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS that have been adopted by the EU.

Presentation of the financial statements complies with the requirements of the relevant standards. With respect to the conversion option embedded in the perpetual exchangeable capital securities issued in 2006, the revaluation difference arising on this option has been presented as a separate line item on the face of the income statement. The management believes that by separating this non-cash item improves the transparency of the financial statements, since the gain or loss recognized thereon is not affected by the operations of the Group or any relevant factors of the external business environment influencing these operations. For further details on the conversion option see Note 17.

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

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

31 December 2012

ii) Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued and effective on 31 December 2012.

MOL Plc. prepares its statutory unconsolidated financial statements in accordance with the requirements of the accounting regulations contained in Law C of 2000 on Accounting (HAS). Some of the accounting principles prescribed in this law differs from IFRS.

For the purposes of the application of the Historical Cost Convention, the consolidated financial statements treat the Company as having come into existence as of 1 October 1991, at the carrying values of assets and liabilities determined at that date, subject to the IFRS adjustments.

The financial year is the same as the calendar year.

iii) Principles of Consolidation

Subsidiaries

The consolidated financial statements include the accounts of MOL Plc. and the subsidiaries that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. As required by IAS 27, immediately exercisable voting rights are taken into account when determining control.

The acquisition method of accounting is used for acquired businesses by measuring assets and liabilities at their fair values upon acquisition, the date of which is determined with reference to the date of obtaining control. The cost of an acquisition is measured at the aggregate of the consideration transferred and the amount of any non-controlling interest (formerly known as minority interest) in the acquiree. The income and expenses of companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

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

Non-controlling interests represent the profit or loss and net assets not held by the Group and are shown separately in the consolidated balance sheet and the consolidated income statement, respectively. For each business combination, non-controlling interest is stated either at fair value or at the non-controlling interests' proportionate share of the acquiree's fair values of net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequently the carrying amount of non-controlling interests is the initially recognised amount of those interests adjusted with the non-controlling interests' share of changes in equity after the acquisition. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a negative balance.

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

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

31 December 2012

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

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the Group jointly controls with its fellow venturers.

The Company's interests in its joint ventures are accounted for by the proportionate consolidation method, where a proportionate share of the joint venture's assets, liabilities, income and expenses is combined with similar items in the consolidated financial statements on a line-by-line basis. The financial statements of the joint ventures are prepared for the same reporting year as the parent company, using consistent accounting policies. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the venture.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. Losses on intragroup transactions are recognised immediately if the loss provides evidence of reduced net realisable value of current assets or impairment loss.

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

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee, but which is not a subsidiary or a jointly controlled entity.

The Group's investments in its associates are accounted for using the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized in other comprehensive income or directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of other comprehensive income or statement of changes in equity respectively. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

31 December 2012

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

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

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

2.2 Changes in Accounting Policies

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

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

- *IAS 12 Income Taxes (amendment) effective 1 January 2012*
- *IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The principal effects of these changes are as follows:

IAS 12 Income Taxes – Recovery of Underlying Assets

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

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in

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

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

31 December 2012

derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment may affect disclosures only and has no impact on the Group's financial position or performance.

2.3 Summary of significant accounting policies

i) Presentation Currency

Based on the economic substance of the underlying events and circumstances the functional currency of the parent company and the presentation currency of the Group have been determined to be the Hungarian Forint (HUF).

ii) Business Combinations and Goodwill

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

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

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the consideration transferred is lower than the fair value of the net assets of the acquiree, the fair valuation, as well as the cost of the business combination is re-assessed. Should the difference remain after such re-assessment, it is then recognised in profit or loss as other income. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than a segment based on the Group's reporting format determined in accordance with IFRS 8 Operating Segments.

Where goodwill forms part of a cash-generating unit (or group of cash generating units) and part of the operation within that unit (or group) is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the

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operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and un-amortised goodwill is recognized in the income statement.

iii) Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it.

Purchases and sales of investments are recognized on settlement date which is the date when the asset is delivered to the counterparty.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized as finance income or finance expense in the income statement.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. Such financial assets are recorded as current, except for those instruments which are not due for settlement within 12 months from the balance sheet date and are not held with the primary purpose of being traded. In this case all payments on such instruments are classified as non-current. As at 31 December 2012 and 2011, no financial assets have been designated as at fair value through profit and loss.

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Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments, have fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognized as other comprehensive income in the fair valuation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recorded as other comprehensive income is recognized in the income statement.

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

Fair value

For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date without any deduction for transaction costs. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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iv) Classification and Derecognition of Financial Instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and cash equivalents marketable securities, trade and other receivable and payable, long-term receivables, loans, borrowings, investments, and bonds receivable and payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The derecognition of a financial asset takes place when the Group no longer controls the contractual rights that comprise the financial asset, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party. When the Group neither transfers nor retains all the risks and rewards of the financial asset and continues to control the transferred asset, it recognises its retained interest in the asset and a liability for the amounts it may have to pay.

v) Derivative Financial Instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year as financial income or expense.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and the risks of the embedded derivative are not closely related to the economic characteristics of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and

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- a hybrid (combined) instrument is not measured at fair value with changes in fair value reported in current year net profit.

vi) Hedging

For the purpose of hedge accounting, hedges are classified as

- fair value hedges
- cash flow hedges or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk that could affect the income statement.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The changes in the fair value of the hedging instrument are also recognized in the income statement.

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The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash-flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income statement. The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income, while the ineffective portion is recognized in the income statement.

Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts previously taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

Hedges of a net investment

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

vii) Impairment of Financial Assets

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

Assets carried at amortised cost

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

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

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

Available-for-sale financial investments

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

viii) Cash and Cash Equivalents

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

ix) Trade Receivables

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

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

x) Inventories

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

xi) Property, Plant and Equipment

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, such as borrowing costs. Estimated decommissioning and site restoration costs are capitalized upon initial recognition or, if decision on decommissioning is made subsequently, at the time of the decision. Changes in estimates thereof adjust the carrying amount of assets. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs (except from periodic maintenance costs), are normally charged to income statement in the period in which the costs are incurred. Periodic maintenance costs are capitalized as a separate component of the related assets.

Construction in progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant asset is available for use.

The policy for accounting for exploration and development costs of oil and gas reserves is described in xv) below.

xii) Intangible Assets

Intangible assets acquired separately are capitalized at cost and from a business acquisition are capitalized at fair value as at the date of acquisition. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably.

Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Amortisation is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method. The amortisation period and the amortisation method are reviewed annually at each financial year-end. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against income in the year in which the expenditure is incurred. Intangible assets are tested for impairment annually either individually or at the cash generating unit level.

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. Costs in development stage can not be amortized. The carrying value of development costs is reviewed for impairment annually. The notes are an integral part of these consolidated financial statements.

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when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

The policy for accounting for exploration and development costs of oil and gas reserves is described in xv) below.

xiii) Depreciation, Depletion and Amortisation

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

Software	3 – 5 years
Buildings	10 – 50 years
Refineries and chemicals manufacturing plants	4 – 20 years
Gas and oil storage and transmission equipment	7 – 50 years
Petrol service stations	5 – 30 years
Telecommunication and automation equipment	3 – 10 years

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

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

xiv) Impairment of Assets

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

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

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

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

xv) Oil and natural gas exploration and development expenditures

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

Licence and property acquisition costs

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

Exploration expenditure

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

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Development expenditure

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

xvi) Interest-bearing loans and borrowings

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

xvii) Provisions

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

Provision for Redundancy

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

Provision for Environmental Expenditures

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

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Provision for Decommissioning

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

Provision for Retirement Benefits

The Group operates three long term defined benefit employee programmes. None of these schemes requires contribution to be made to separately administered funds. The cost of providing benefits under those plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

xviii) Greenhouse gas emissions

The Group receives free emission rights in Hungary and Slovakia as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. The Group has adopted a net liability approach to the emission rights granted. A provision is only recognized when actual emissions exceed the emission rights granted and still held. Where emission rights are purchased from other parties, they are recorded at cost, and treated as a reimbursement right, whereby they are matched to the emission liabilities and remeasured to fair value.

xix) Share-based payment transactions

Certain employees (including directors and managers) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by applying generally accepted option pricing models (usually by the binomial model). In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the parent company ('market conditions').

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the

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directors of the Group at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the binomial model. This fair value is expensed over the vesting period with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date to fair value with changes therein recognized in the income statement.

xx) Leases

The determination whether an arrangement contains or is a lease depends on the substance of the arrangement at inception date. If fulfilment of the arrangement depends on the use of a specific asset or conveys the right to use the asset, it is deemed to contain a lease element and is recorded accordingly.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Initial direct costs incurred in negotiating a finance lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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xxi) Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

xxii) Reserves

Reserves shown in the consolidated financial statements do not represent the distributable reserves for dividend purposes. Reserves for dividend purposes are determined based on the company-only statutory earnings of MOL Plc.

Translation reserves

The translation reserve represents translation differences arising on consolidation of financial statements of foreign entities. Exchange differences arising on a monetary item that, in substance, forms part of the company's net investment in a foreign entity are classified as other comprehensive income in the consolidated financial statements until the disposal of the net investment. Upon disposal of the corresponding assets, the cumulative revaluation or translation reserves are recognized as income or expenses in the same period in which the gain or loss on disposal is recognized.

Fair valuation reserves

The fair valuation reserve includes the cumulative net change in the fair value of effective cash flow hedges and available for sale financial instruments.

Equity component of debt and difference in buy-back prices

Equity component of compound debt instruments includes the residual amount of the proceeds from the issuance of the instrument above its liability component, which is determined as the present value of future cash payments associated with the instrument. The equity component of compound debt instruments is recognized when the Group becomes party to the instrument (see also iv).

xxiii) Treasury Shares

The nominal value of treasury shares held is deducted from registered share capital. Any difference between the nominal value and the acquisition price of treasury shares is recorded directly to share premium.

xxiv) Dividends

Dividends are recorded in the year in which they are approved by the shareholders.

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xxv) Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of sales taxes and discounts when delivery of goods or rendering of the service has taken place and transfer of risks and rewards has been completed.

Interest is recognized on a time-proportionate basis that reflects the effective yield on the related asset. Dividends due are recognized when the shareholder's right to receive payment is established. Changes in the fair value of derivatives not qualifying for hedge accounting are reflected in income in the period the change occurs.

xxvi) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

xxvii) Income Taxes

The income tax charge consists of current and deferred taxes.

The current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are never taxable or deductible or are taxable or deductible in other years. The Group's current income tax is calculating using tax rates that have been enacted or substantively enacted by the end of the reporting year.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

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Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and tax losses when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

At each balance sheet date, the Company re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Company recognises a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity, including an adjustment to the opening balance of reserves resulting from a change in accounting policy that is applied retrospectively.

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

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xxviii) Sales taxes

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

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

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

xxix) Foreign Currency Transactions

Foreign currency transactions are recorded in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognized in the consolidated income statement in the period in which they arise. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences on trade receivables and payables are included in operating profit, while foreign exchange differences on borrowings are recorded as financial income or expense.

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

Financial statements of foreign entities are translated at year-end exchange rates with respect to the balance sheet and at the weighted average exchange rates for the year with respect to the income statement. All resulting translation differences are included in the translation reserve in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation shall be recognized in the income statement. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

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

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

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xxx) Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period.

The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all dilutive potential ordinary shares that were outstanding during the period, that is:

- the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognized in the period in respect of the dilutive potential ordinary shares and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

xxxii) Segmental Disclosure

For management purposes the Group is organised into three major operating business units: Upstream, Downstream, Gas Midstream. The business units are the basis upon which the Group reports its segment information to the management who is responsible for allocating business resources and assessing performance of the operating segments.

xxxiii) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless they are acquired in a business combination. They are disclosed in the Notes unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.4 Significant accounting judgments and estimates

Critical judgments in applying the accounting policies

In the process of applying the accounting policies, which are described in note 2.3 above, management has made certain judgments that have significant effect on the amounts recognized in the financial statements (apart from those involving estimates, which are dealt with below). These are detailed in the respective notes, however, the most significant judgments relate to the following:

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Revenue recognition for oil and gas activities in Syria

Consequent to the political turmoil started in 2011 and the sanctions posed by US and EU on Syria, treatment of revenues from operations therein requires judgement. Having assessed the probability of receiving economic benefits from sales activities in INA Group's Syrian operations, including counterparty risk associated with GPC, the Syrian National Oil Company, the management decided that criteria set out in IAS 18 – Revenue Recognition were not met from early 2011. Therefore, beginning from this date, revenue was recognized only if cash has been received from GPC though until 26 February 2012 INA regularly issued invoices, the last invoice being issued for February 2012. August 2011 was the last month for which INA invoices were paid in full. INA's unrecorded revenues until February 2012 accumulate to approximately USD 370 million.

On 22 February 2012 Croatia adopted EU/UN sanctions towards Syrian Arab Republic, hence INA d.d. declared Force Majeure as from 26 February 2012. By declaring Force Majeure, INA d.d. suspended all its petroleum activities in Hayan and Aphia blocks as per Production Sharing Agreement (Hayan/Aphia) and recalled all its local and expatriate employees. Since the announcement of force majeure no revenue has been recognized at all. These circumstances also gave rise to an impairment indicator with respect to the Group's Syrian assets (being a separate cash generating unit, see Note 5).

Scope of environmental and field abandonment provision

The Group recognised significant amount of provisions in connection with its operations having environmental impact. Regulations, especially environmental legislation do not exactly specify the extent of remediation work required or the technology to be applied. Management uses its previous experience and its own interpretation of the respective legislation to determine the scope of environmental and field abandonment provisions. The amount of environmental provision is HUF 73,349 million and HUF 76,171 million, while field abandonment provision amounts to HUF 200,076 million and HUF 210,311 million as of 31 December 2012 and 2011, respectively (see Note 20).

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

Management uses judgment when capitalized exploration and evaluation assets are reviewed to determine capability and continuing intent of further development. Carrying amount of exploration and evaluation assets is HUF 227,819 million and HUF 214,266 million as of 31 December 2012 and 2011, respectively (see Note 4).

Sources of estimate uncertainty

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and the Notes thereto. Although these estimates are based on the management's best knowledge of current events and actions, actual results may differ from those estimates. These are detailed in the respective notes, however, the most significant estimates relate to the following:

Calculation of the fair values of financial instruments

Fair valuation of financial instruments (especially the conversion option embedded in the perpetual exchangeable capital securities issued by a special purpose entity, Magnolia Finance Ltd, see Note 17) is performed by reference to quoted market prices or, in absence thereof reflects the market's or the management's estimate of the future trend of key drivers of such

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values, including, but not limited to yield curves, foreign exchange and risk-free interest rates, and in case of the conversion option and MOL's call option on the 7% shareholding owned by CEZ, volatility of MOL share prices and dividend yield. Considering the worldwide financial crisis in the near past, current difficulties of the euro-zone and risks attributed to Central-Eastern-European economies, such fair value measurements contain an increased uncertainty. In case of the conversion option embedded in MOL's perpetual exchangeable capital securities, valuation was performed with reference to prices on the market of convertible instruments. Further details of financial instruments are described in Note 34.

Quantification and timing of environmental and field abandonment liabilities

Management estimates the future cash outflow associated with environmental and decommissioning liabilities using comparative prices, analogies to previous similar work and other assumptions. Furthermore, the timing of these cash flows reflects managements' current assessment of priorities, technical capabilities and urgency of such obligations. Both the amounts and the timing of these future expenditures are reviewed annually, together with expectations on the rates used to discount these cash flows. Long-term nominal discount rates are expected to be 4.0% (2011: 3.7%). Consequently, the carrying amount of these obligations (in case of environmental liabilities HUF 73,349 million and HUF 76,171 million, in case of field abandonment provision HUF 200,076 million and HUF 210,311 million as of 31 December 2012 and 2011, respectively, see Note 20) is exposed to uncertainty.

Impairment of non-current assets, including goodwill

The impairment calculation requires an estimate of the recoverable amount of the cash generating units, that is, the higher of fair value less costs to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. The most significant variables in determining cash flows are discount rates, terminal values, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the cash inflows and outflows, including commodity prices, operating expenses, future production profiles and the global and regional supply-demand equilibrium for crude oil, natural gas and refined products. While such cash flows for each non-current asset or investment reflects the management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the economic difficulties experienced worldwide, in the euro-zone and also in the Central-Eastern European region where the Group operates. In addition, recent turmoil in North-African and Middle-East countries add a further uncertainty to the recoverability assumptions of non-current assets therein. Discount rates were derived from the USD-based weighted average cost of capital for the Group (2012: 8.1%, 2011: 7.9%). In each case these rates are adjusted for segment-, country- and project-specific risks, as applicable. Impairment recorded in the consolidated income statement amounts to HUF 31,954 million and HUF 50,925 million in 2012 and 2011, respectively. These charges include an impairment loss HUF 17,865 million on intangible assets, mainly for exploration and evaluation assets written-off (2011: HUF 10,107 million), an impairment loss of HUF 14 million on goodwill (2011: HUF 34,828 million on goodwill allocated to the refining and wholesale activities of IES), an impairment loss of HUF 17,762 million (2011: HUF 15,545 million) and a reversal of impairment of HUF 3,673 million (2011: HUF 9,556 million) on property, plant and equipment. Carrying amount of goodwill is HUF 45,741 million and HUF 42,850 million as of 31 December 2012 and 2011, respectively (see Note 4).

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Availability of taxable income against which deferred tax assets can be recognized

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of such recognized deferred tax assets was HUF 34,210 million and HUF 37,999 million as of 31 December 2012 and 2011, respectively (see Note 30).

Actuarial estimates applied for calculation of retirement benefit obligations

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality or fluctuation rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Provision for retirement benefit is HUF 15,596 million and HUF 16,804 million at 31 December 2012 and 2011, respectively (see Note 20).

Outcome of certain litigations

MOL Group entities are parties to a number of litigations, proceedings and civil actions arising in the ordinary course of business. Management uses judgement when probability of future outflow of economic benefits is determined and estimations when the most likely outcome of these actions is assessed and provision is recognized on a consistent basis. Provision for legal claims is HUF 18,058 million and HUF 24,484 million at 31 December 2012 and 2011, respectively (see Note 20 and 35).

2.5 Issued but not yet effective International Financial Reporting Standards

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

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

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

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as recognition of unvested past service cost and transferring the remeasurement component of the defined benefit cost to Other comprehensive income to simple clarifications and re-wording. The amendments are expected not to have significant effect on the financial statements of the Group. Unvested past service cost as of 31 December 2012 amounted to HUF 1,028 million (2011: HUF 1,166 million). The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements prepared in accordance with IFRS. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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

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

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

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

IFRS 9 Financial Instruments: Classification and Measurement

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

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IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

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

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

The interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine and becomes effective from 1 January 2013. The interpretation will have no impact on the financial position or performance of the Group

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Improvements to IFRSs

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

IAS 1 Presentation of Financial Statements

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

IAS 16 Property, Plant and Equipment

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

IAS 32 Financial Instruments, Presentation

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

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3 Segmental information

2012			Gas	Corporate	Inter-	Total
	Upstream	Downstream	Midstream	and other	segment	
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Net Revenue						
Sales to external customers	270,104	4,793,031	422,590	36,591		5,522,316
Inter-segment sales	508,976	18,193	40,334	121,944	(689,447)	-
Total revenue	779,080	4,811,224	462,924	158,535	(689,447)	5,522,316
Results						
Profit/(loss) from operations	255,748	2,315	35,760	(56,517)	(16,885)	220,421
Net finance costs						47,087
Income from associates				32,682		32,682
Profit before tax						206,016
Income tax expense/(benefit)						49,851
Profit for the year						156,165
2011			Gas	Corporate	Inter-	Total
	Upstream	Downstream	Midstream	and other	segment	
	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million
Net Revenue						
Sales to external customers	358,800	4,547,765	397,715	38,954		5,343,234
Inter-segment sales	436,505	16,546	32,469	126,044	(611,564)	-
Total revenue	795,305	4,564,311	430,184	164,998	(611,564)	5,343,234
Results						
Profit/(loss) from operations	321,639	(74,230)	61,905	(44,510)	(11,622)	253,182
Net finance costs						54,852
Income from associates				20,066		20,066
Profit before tax						218,396
Income tax expense/(benefit)						33,126
Profit for the year						185,270

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2012 Assets and liabilities	Gas			Corporate	Inter-	Total
	Upstream	Downstream	Midstream	and other	segment	
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Property, plant and equipment, net	996,082	1,197,115	391,373	91,308	(64,623)	2,611,255
Intangible assets, net	247,529	73,862	5,732	21,558	(2,728)	345,953
Inventories	29,293	444,937	50,170	10,475	(27,148)	507,727
Trade receivables, net	162,965	482,204	59,677	21,981	(156,147)	570,680
Investments in associates				118,891		118,891
Not allocated assets						611,799
Total assets						4,766,305
Trade payables	59,380	366,753	153,547	31,138	(156,147)	454,671
Not allocated liabilities						2,064,497
Total liabilities						2,519,168
2012 Other segment information						
Capital expenditure:	128,270	111,745	9,480	8,375	-	257,870
Property, plant and equipment	72,430	109,927	7,932	3,686	-	193,975
Intangible assets	55,840	1,818	1,548	4,689	-	63,895
Depreciation and amortization	146,633	137,704	22,312	15,037	(2,120)	319,566
From this: impairment losses recognized in income statement	24,131	12,190	971	301	-	37,593
From this: reversal of impairment recognized in income statement	(4,147)	(1,488)	-	(4)	-	(5,639)

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2011 Assets and liabilities	Upstream HUF million (restated)	Downstream HUF million (restated)	Gas Midstream HUF million (restated)	Corporate and other HUF million (restated)	Inter- segment transfers HUF million (restated)	Total HUF million
Property, plant and equipment, net	1,119,479	1,267,913	414,006	93,901	(70,382)	2,824,917
Intangible assets, net	234,902	73,174	6,260	24,474	(258)	338,552
Inventories	34,286	481,806	32,513	13,211	(16,582)	545,234
Trade receivables, net	125,984	512,989	61,296	40,132	(119,552)	620,849
Investments in associates				104,797		104,797
Not allocated assets						559,435
Total assets						4,993,784
Trade payables	52,469	433,280	97,312	51,358	(119,552)	514,867
Not allocated liabilities						2,235,276
Total liabilities						2,750,143
2011 Other segment information						
Capital expenditure:	105,577	110,621	17,878	8,342	-	242,418
Property, plant and equipment	67,437	108,793	16,217	5,129	-	197,576
Intangible assets	38,140	1,828	1,661	3,213	-	44,842
Depreciation and amortization	154,254	160,019	19,939	17,738	(2,110)	349,840
From this: impairment losses recognized in income statement	14,112	44,949	691	796	-	60,548
From this: reversal of impairment recognized in income statement	(5,725)	(3,898)	-	-	-	(9,623)

Impact of the crisis tax on the profit from operations was HUF 30,389 million and HUF 28,960 million in 2012 and 2011 respectively. The portion of the crisis tax in 2012 by reporting segments of the Group were as follows: HUF 2,543 million at Upstream segment, HUF 27,055 million at Downstream segment, HUF 295 million at Gas Midstream segment, and HUF 496 million recorded at Corporate segment.

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The operating profit of the segments includes the profit arising both from sales to third parties and transfers to the other business segments. Upstream transfers crude oil, condensates and LPG to Downstream and natural gas to the Gas Midstream segment. The subsidiaries of Corporate segment provide maintenance, insurance and other services to the business segments. The internal transfer prices used are based on prevailing market prices. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.

Geographic information

Assets by geographic areas

At 31 December, 2012	Intangible assets	Property, plant and equipment	Investment in associated companies
	HUF million	HUF million	HUF million
Hungary	62,689	795,842	21,890
Croatia	100,093	877,859	-
Slovakia	5,887	406,142	1,697
Rest of European Union	34,339	210,596	3,322
Rest of Europe	39,615	145,778	-
Rest of world	103,330	175,038	91,982
Total	345,953	2,611,255	118,891

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

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Sales by geographical area

	2012 HUF million	2011 HUF million
Hungary	1,481,361	1,440,160
Croatia	752,866	658,930
Italy	677,394	632,856
Austria	513,128	470,066
Slovakia	446,995	408,827
Czech Republic	335,453	330,948
Romania	288,985	256,092
Poland	173,594	221,828
Bosnia-Herzegovina	129,272	145,289
Germany	150,089	134,737
Switzerland	130,754	124,607
Serbia	77,842	105,197
Slovenia	66,481	56,967
Russia	47,823	42,190
United Kingdom	16,538	30,065
Rest of Europe	74,367	91,738
Rest of Central-Eastern Europe	36,462	24,735
Rest of the World	122,912	168,002
Total	5,522,316	5,343,234

The Group had no single major customer the revenue from which would exceed 10% of the total net sales revenues in the years ended 31 December 2012 and 2011.

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4 Intangible assets

	Rights HUF million	Software HUF million	Exploration and evaluation assets HUF million	Goodwill HUF million	Total HUF million
At 1 January, 2011					
Gross book value	83,951	77,697	187,355	73,200	422,203
Accumulated amortization and impairment	(30,791)	(55,521)	(15,564)	(2,169)	(104,045)
Net book value	53,160	22,176	171,791	71,031	318,158
Year ended 31 December, 2011					
- additions	18,580	4,372	37,404	-	60,356
- amortization for the year	(8,520)	(5,281)	(240)	-	(14,041)
- impairment	(709)	(32)	(8,632)	(35,630)	(45,003)
- reversal of impairment	67	-	-	-	67
- disposals	(2,511)	(18)	-	-	(2,529)
- revaluation of emission quotas	(6,460)	-	-	-	(6,460)
- exchange adjustment	4,707	625	19,246	6,954	31,532
- transfers and other movements	9,357	(8,077)	(5,303)	495	(3,528)
Closing net book value	67,671	13,765	214,266	42,850	338,552
At 31 December, 2011					
Gross book value	135,420	51,244	239,266	85,407	511,337
Accumulated amortization and impairment	(67,749)	(37,479)	(25,000)	(42,557)	(172,785)
Net book value	67,671	13,765	214,266	42,850	338,552
Year ended 31 December, 2012					
- additions	29,913	5,067	54,932	-	89,912
- acquisition of subsidiary	-	22	-	6,711	6,733
- amortization for the year	(9,377)	(4,200)	(577)	-	(14,154)
- impairment	(857)	(30)	(18,930)	(14)	(19,831)
- reversal of impairment	1,966	-	-	-	1,966
- disposals	(19,140)	-	-	-	(19,140)
- revaluation of emission quotas	(6,331)	-	-	-	(6,331)
- disposal of subsidiaries	(1,198)	(114)	(58)	(1,123)	(2,493)
- exchange adjustment	(2,924)	(414)	(18,751)	(2,683)	(24,772)
- transfers and other movements	2,454	(3,869)	(3,074)	-	(4,489)
Closing net book value	62,177	10,227	227,808	45,741	345,953
At 31 December, 2012					
Gross book value	136,347	48,780	264,270	86,769	536,166
Accumulated amortization and impairment	(74,170)	(38,553)	(36,462)	(41,028)	(190,213)
Net book value	62,177	10,227	227,808	45,741	345,953

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Exploration and evaluation assets

Impairment in 2012 mainly related to exploration activities qualified unsuccessful in Hungary (HUF 7,235 million), to the write-off of unsuccessful Bijell-3 well in Kurdistan (HUF 6,607 million) and to the revision of reserves of Croatian field Ferdinandovac (HUF 4,309 million). Impairment in 2011 related to exploration activities qualified unsuccessful in Hungary, India and Pakistan.

Transfers from exploration and evaluation assets represent expenditures which, upon determination of proved reserves of oil and natural gas are reclassified to property, plant and equipment (see Note 2.3 xv.).

In addition to these exploration and evaluation assets, a further HUF 7,375 million and HUF 2,267 million exploration expenses were incurred in 2012 and 2011, respectively, which were not eligible for capitalization. Consistent with the successful effort method of accounting they were charged to various operating cost captions of the consolidated income statement as incurred.

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2012			2011		
	Net book value before impairment	Impairment	Net book value	Net book value before impairment	Impairment	Net book value
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
<i>Downstream</i>	42,669	14	42,655	74,377	34,828	39,549
- Roth Group	7,413		7,413	7,918		7,918
- Romanian retail network	4,315		4,315	4,732		4,732
- IES Group	9,156		9,156	44,607	34,828	9,779
- Croatian retail network	14,357		14,357	15,354		15,354
- I&C Energo	-	-	-	1,196		1,196
- Pap Oil	6,858		6,858	-		-
- TVK	477		477	477		477
- TVK Polska	93	14	79	93		93
<i>Upstream</i>	3,086	-	3,086	4,103	802	3,301
- Rotary (former DrillTrans)	3,086		3,086	4,103	802	3,301
Total goodwill	45,755	14	45,741	78,480	35,630	42,850

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable value of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit during its estimated remaining useful life and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and gross margins during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Gross margins are based on past practices and expectations of future changes in the market.

Roth Group

At 31 December 2012 goodwill of HUF 7,413 million (2011: 7,918 million) was allocated to the wholesale activities of Roth Group operating mainly on the Austrian wholesale market, forming a separate cash generating unit within Downstream business segment. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolates cash flows for the following years based on an estimated growth rate of 1%. This rate does not exceed the average long-term growth rate for the relevant Austrian markets. The rates used to discount the forecast cash flows reflecting risks specific to the Downstream segment vary between 8% and 9% in the years considered.

For the wholesale activities of Roth Group, there are reasonably possible changes in key assumptions which could cause the carrying value of the unit to exceed its recoverable amount. The actual recoverable amount for the wholesale activity of Roth Group exceeds its carrying amount by HUF 267 million. The implications of the key assumptions on the recoverable amount are discussed below:

- Discount rate assumptions – Management assessed discount rates based on the current and expected risk-free interest rate and the risks specific to the current activities of the unit. Even an increase of approximately 0.1 percentage points in this rate would give a value in use equal to the carrying amount of Roth Group's wholesale activities.

Romanian retail network

At 31 December 2012 goodwill of HUF 4,315 million (2011: 4,732 million) was allocated to the Romanian retail network of the Group. For goodwill allocation purposes, the Romanian filling stations' network as a whole (being a group of cash generating units) is considered. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the whole network and extrapolates cash flows for the average residual useful life of the filling stations assuming no growth rate in gross margin, reflecting a competitive position. The rates used to discount the forecast cash flows reflecting risks specific to retail activities vary between 10% and 12% in the years considered.

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

IES Group

At 31 December 2012 goodwill of HUF 9,156 million (2011: 9,779 million after an impairment loss of HUF 34,828 million was recognised) was allocated to the Italian refining and wholesale activities of the Group, prior to testing for impairment. For goodwill allocation purposes, the Mantova refinery and its wholesale activity (being a single cash generating unit) are considered. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolates cash flows for the average residual useful life of the refining assets. Crude oil prices and crack

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spreads take into consideration benchmark industry forecasts; wholesale margins used in the calculations represent management's assumptions applicable for MOL Group and for the specific Italian wholesale market, respectively. Rates used to discount the forecast cash flows reflecting risks specific to refining and wholesale activities vary between 9% and 11% in the years considered.

- Sales – Management has considered the possibility of lower than budgeted sales revenue, which can occur in case of higher-than-expected competition or a decline in fuel demands. A decrease of 0.8% in sales would reduce IES wholesale's value in use to its carrying value.
- Discount rate assumptions – Management assessed discount rates based on the current and expected risk-free interest rate and the risks specific to the current activities of the unit. An increase of 3.6 percentage points in this rate would give a value in use equal to the carrying amount of IES's wholesale activities.

Croatian retail network

At 31 December 2012 goodwill of HUF 14,357 million (2011: 15,354 million) was allocated to the Croatian retail network comprising of filling stations under INA and Tifon brands. For goodwill allocation purposes, the Croatian filling stations' network as a whole (being a group of cash generating units including the Tifon and INA brands) is considered. For the network cash flow forecasts are prepared which are derived from the most recent financial budgets approved by management and extrapolated cash flows for the average residual useful life of the filling stations based on an estimated growth rate which varies between 2% and 4% in the long-term. The rates used to discount the forecast cash flows reflecting risks specific to the Retail segment vary between 10% and 12% in the years considered.

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

Rotary

Subsequent to an impairment test performed at the end of 2012, no impairment has been recognized on the goodwill relating to the activities of Rotary, drilling subsidiary of INA d.d.. In 2011, impairment expense of HUF 802 million was recognized on goodwill of Rotary, due to decreased profitability outlook of the related activities. Discounted cash flow was calculated using a pre-tax discount rate of 10.76% (2011: 10.76%).

I&C Energo

Upon disposal of I&C Energo a.s., the related goodwill of HUF 1,123 million was derecognised from the consolidated financial statements.

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Intangible assets with indefinite useful life

In addition to goodwill, MOL Group has acquired the INA brand in 2009 which has an indefinite useful life, since practically the entire population in Croatia knows it and is perceived as a market leader with an extensive network of filling station. The Group does not intend to terminate this brand in the foreseeable future. The carrying amount of the INA brand was HUF 13,279 million as of 31 December 2012. Since the brand is an integral part of the Croatian filling station network, it has been included in the carrying value of the group of cash generating units to which the corresponding goodwill has been allocated and has been tested for impairment accordingly (see above).

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5 Property, plant and equipment, net

	Land and buildings	Machinery and equipment	Other machinery and equipment	Construction in progress	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
At 1 January, 2011					
Gross book value	2,276,114	1,569,842	122,670	497,667	4,466,293
Accumulated depreciation and impairment	(757,800)	(940,242)	(82,126)	(340)	(1,780,508)
Net book value	1,518,314	629,600	40,544	497,327	2,685,785
Year ended 31 December, 2011					
- additions and capitalizations	214,211	247,100	8,319	197,575	667,205
- depreciation for the year	(158,881)	(115,604)	(10,389)	-	(284,874)
- impairment	(6,946)	(964)	(7,124)	(511)	(15,545)
- reversal of impairment	9,035	281	227	13	9,556
- disposals	(1,166)	(65)	(20)	(54)	(1,305)
- exchange adjustment	129,733	61,766	2,704	19,235	213,438
- transfer and capitalizations	4,988	183	520	(455,034)	(449,343)
Closing net book value	1,709,288	822,297	34,781	258,551	2,824,917
At 31 December, 2011					
Gross book value	2,660,147	1,923,766	122,728	259,257	4,965,898
Accumulated depreciation and impairment	(950,859)	(1,101,469)	(87,947)	(706)	(2,140,981)
Net book value	1,709,288	822,297	34,781	258,551	2,824,917
Year ended 31 December, 2012					
- additions and capitalizations	88,622	119,155	7,194	194,343	409,314
- acquisition of subsidiaries	16,294	943	-	-	17,237
- depreciation for the year	(146,096)	(117,315)	(10,047)	-	(273,458)
- impairment	(7,788)	(6,641)	(424)	(2,909)	(17,762)
- reversal of impairment	3,197	368	86	22	3,673
- disposals	(1,064)	(216)	(75)	(245)	(1,600)
- disposal of subsidiaries	(513)	(304)	(38)	(15)	(870)
- exchange adjustment	(76,397)	(45,201)	(2,044)	(6,716)	(130,358)
- transfer and capitalizations	577	(1,314)	(268)	(218,833)	(219,838)
Closing net book value	1,586,120	771,772	29,165	224,198	2,611,255
At 31 December, 2012					
Gross book value	2,642,378	1,935,175	119,564	225,542	4,922,659
Accumulated depreciation and impairment	(1,056,258)	(1,163,403)	(90,399)	(1,344)	(2,311,404)
Net book value	1,586,120	771,772	29,165	224,198	2,611,255

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When capital projects are completed the carrying value is transferred out of construction in progress and treated as an addition in the respective asset category.

Changes in estimates

In 2012 based on the requirements of IAS 16 the Group has performed an annual revision of useful lives of property, plant and equipment and intangibles, having HUF 638 million positive effect on the consolidated profits.

Impairment, net of reversal

Impairment test of non-current assets in Syria

Changes in revenue recognition in Syria (see Note 2.4 on critical judgements) are considered as an impairment indicator, therefore the Group performed an impairment test on its Syrian non-current assets (including exploration and evaluation assets, see Note 4), qualifying as a cash generating unit. Such impairment calculation requires an estimate of the recoverable amount of the Syrian cash generating unit, that is, the higher of fair value less costs to sell and value in use. Value in use has been determined on the basis of discounted estimated future net cash flows. The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the amount and timing of cash inflows and outflows, including crude oil and natural gas prices (considering the price formulae set out in the respective Production Sharing Agreement), operating expenses and future annual production volumes. While such cash flows reflect the management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the political, security and economic conditions in Syria. Asset-specific discount rates were derived from the USD-based weighted average cost of capital for the Group and are adjusted for project-specific risks, as applicable. Discount rate applied was 17.5%. Based on these calculations the management did not record any impairment since carrying amount of non-current assets in Syria are recoverable based on the net present value of discounted future cash flows, and the management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of these assets to materially exceed its recoverable amount. The book value of total Group assets in Syria as at 31 December 2012 was HUF 160,319 million (31 December 2011: HUF 179,511 million). The 2P reserves of the Group in Syria was 35.84 MMboe as at 31 December 2012, which did not change after the force majeure announcement.

As per current assumptions, no impairment is expected even if force majeure (with no payment) continues in 2013 and 2014. NPV is expected to decrease below book value if force majeure lasts further than second quarter of 2015.

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

Other impairment expenses

Impairment expense of HUF 1,121 million and reversal of impairment expense of HUF 22 million were recorded with respect to the revision of field abandonment provision of maturing and suspended oil and gas producing fields in 2012 and 2011, respectively. Impairment expense of HUF 1,089 million was recognised related to Hungarian oil and gas producing fields in 2012. Impairment expense of HUF 2,488 million (2011: reversal of impairment expense of HUF 856 million) was recorded with respect to filling stations and retail sites in addition to HUF 2,909 million charge to in progress construction works. An impairment expense of HUF 6,611 million related to assets of INA Group's Sisak and Rijeka refineries (2011: nil) was recognised. Additional impairment expenses of HUF 377 million and of HUF 668 million were recorded for certain gas

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transmission assets of FGSZ Földgázszállító Zrt. in 2012 and 2011, respectively. Impairment expense of HUF 6,058 million was recorded with respect to used propane-butane gas cylinders of Proplin in 2011. Other individually non-material reversal of impairment of HUF 506 million and impairment loss of HUF 141 million have been recognized in 2012 and 2011, respectively.

Leased assets

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

	2012 HUF million	2011 HUF million
Cost	9,017	8,256
Accumulated depreciation	(3,669)	(3,816)
Net book value	5,348	4,440

Borrowing Costs

Property, plant and equipment include borrowing costs incurred in connection with the construction of certain assets. Additions to the gross book value of property, plant and equipment include borrowing costs of HUF 1,085 million and HUF 18,058 million in 2012 and 2011, respectively. In 2012 and 2011 the applicable capitalisation rates (including the impact of foreign exchange differences) were 2.9% and 7.5%, respectively. The decrease in the amount of capitalized borrowing cost and in the applicable capitalization rate as well reflects the fact that no borrowing cost was capitalised by MOL Plc. in 2012 due to the foreign exchange gain on borrowings.

Government Grants

Property, plant and equipment include assets with a value of HUF 12,059 million financed from government grants (See Note 25). The total amount reflects mainly the assets of FGSZ, which were partly financed via a European Union grant for the construction of the Hungarian-Romanian and the Hungarian-Croatian natural gas interconnector and transformation of nodes, and the assets of SLOVNAFT a.s. which were financed by the grant received from Slovakian government in order to serve State Authorities in case of state emergencies.

Pledged Assets

Assets with an aggregate net book value of HUF 118,180 million have been pledged by the Group of which HUF 9,962 million as collateral for loans utilized by TVK-Erőmű Kft. and Tisza WTP Kft. as of 31 December 2012, HUF 107,098 million at IES S.p.A. and HUF 1,120 million at Rossi Biofuel Zrt. As of 31 December 2011 the net book value of pledged assets was HUF 126,096 million.

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50 MOL Plc. and subsidiaries

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6 Subsidiaries and jointly controlled entities

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2012	Ownership 2011
<u>Integrated subsidiaries</u>				
INA-Industrija nafte d.d.	Croatia	Integrated oil and gas company	49%	49%
<u>Upstream</u>				
Adriagas S.r.l.	Italy	Pipeline project company	49%	49%
BHM OIL-Invest Ltd.	Cyprus	Exploration investment management	100%	100%
Surgut Trading Ltd.	Russia	Trade of crude oil	50%	50%
BMN Investment Ltd.	Cyprus / India	Exploration and production activity	100%	100%
CEGE Közép-európai Geotermikus Energia Termelő Zrt. (joint venture)	Hungary	Geothermal energy production	50%	50%
Croscos Naftni Servisi d.o.o.	Croatia	Oilfield services	49%	49%
CorteCros d.o.o.	Croatia	Production of anticorrosion products	29%	29%
Croscos B.V.	Netherlands	Oilfield services	49%	49%
Nordic Shipping Ltd.	Marshall Islands	Platform ownership	49%	49%
Croscos International d.o.o. (Slovenia)	Slovenia	Oilfield services	49%	49%
Croscos International d.o.o. (Tuzla)	Bosnia and Herzegovina	Oilfield services	49%	49%
Croscos International Ltd.	United Kingdom	Oilfield services	49%	49%
Geotechnika International LLC	United Arab Emirates	Oilfield services, drilling wells	c)	24%
Croscos S.A. DE C.V	Mexico	Maintaining services	49%	49%
Mideast Integrated Drilling & Well Services Company LLC	Oman	Integrated drilling and completion services	24%	24%
Rotary Zrt.	Hungary	Oilfield services	49%	49%
Sea Horse Shipping Inc.	Marshall Islands	Platform ownership	49%	49%
Geoinform Kft.	Hungary	Hydrocarbon exploration	100%	100%
GES Kft.	Hungary	Geophysical surveying and data processing	100%	100%
Geophysical Services Middle-East LLC	Oman	Geophysical surveying and data processing	70%	70%
Hawasina GmbH	Switzerland / Oman	Exploration and production activity	100%	100%
INA Naftaplín International Exploration and Production Ltd.	United Kingdom	Exploration and production activity	49%	49%
Kalegran Ltd.	Cyprus / Iraq	Exploration investment management / Exploration and production activity	100%	100%
Ménrót Kft.	Hungary	Exploration investment management	100%	h)
Karpinvest Kft.	Hungary	Exploration investment management	100%	d)
KS EP Investment B.V. (joint venture)	Netherlands	Exploration and production activity	49%	g)
MOL Caspian Oil and Gas Ltd.	Cyprus / Kazakhstan	Exploration investment management	100%	100%
Ural Group Ltd. (joint venture)	British Virgin Island	Exploration and production activity	28%	28%
Ural Oil Group Ltd. (joint venture)	Kazakhstan	Exploration and production activity	28%	28%
MOL Central Asia Oil and Gas Co. B.V.	Netherlands / Syria / Kazakhstan	Exploration and production activity	100%	100%
MOL Oman Ltd. (former Lamorak Enterprises Ltd.)	Cyprus / Oman	Exploration and production activity	100%	100%
MOL Pakistan Oil and Gas Co. B.V.	Netherlands / Pakistan	Exploration and production activity	100%	100%
MOL-RUSS Ooo.	Russia	Management services	100%	100%
MOL Yemen Oil and Gas (Cyprus) Ltd.	Cyprus / Yemen	Exploration and production activity	100%	100%
Panfora Oil and Gas S.r.l.	Romania	Exploration and production activity	100%	100%
Platounko Investments Ltd.	Cyprus	Exploration financing	100%	100%
Pronodar Ltd.	Cyprus / Cameroon	Exploration and production activity	100%	100%
Pyrogol Ltd.	Cyprus	Exploration and production activity	100%	100%
RUSI Services Ltd.	Cyprus	Exploration financing	100%	100%
Theathola Ltd.	Cyprus	Exploration investment management	100%	100%
Greentrade Ltd.	Cyprus	Exploration investment management	100%	100%
Matjushinskaya Vertical LLC	Russia	Exploration and production activity	100%	100%
MOL CIS Oil and Gas Ltd.	Cyprus	Exploration investment management	100%	100%
ZMB Ltd. (joint venture)	Russia	Exploration and production activity	50%	50%
SHM Seven Investments Ltd.	Cyprus	Exploration investment management	100%	100%
MOL Western Siberia LLC	Russia	Exploration and production activity	100%	100%
USI Ltd.	Cyprus	Exploration investment management	100%	100%
BaiTex LLC	Russia	Exploration and production activity	100%	100%
UBA Services Ltd.	Cyprus / Russia	Exploration investment management	100%	100%

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Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2012	Ownership 2011
<u>Gas Midstream</u>				
FGSZ Földgázszállító Zrt.	Hungary	Natural gas transmission	100%	100%
MMBF Földgáztároló Zrt.	Hungary	Strategic natural gas storage	72%	72%
Prírodní plin d.o.o.	Croatia	Natural gas trading	49%	49%
<u>Downstream</u>				
Bohemia Realty Company s.r.o.	Czech Republic	Retail trade	100%	b)
CM European Power International B.V. (joint venture)	Netherlands	Power plant investment management	50%	50%
CM European Power International s.r.o. (joint venture)	Slovakia	Power plant investment management	50%	50%
CM European Power Slovakia s.r.o.	Slovakia	Operation of thermo-power plant	50%, a)	50%, a)
MOL-CEZ European Power Hungary Kft. (joint venture)	Hungary	Steam and hot water supply, electricity production	50%	50%
Energopetrol d.d.	Bosnia and Herzegovina	Retail trade	50%	50%
FPC Ltd.	United Kingdom	Trading of oil products	c)	49%
Holdina (Guernsey) Ltd.	United Kingdom	Trading of oil products	49%	49%
Inter Ina (Guernsey) Ltd.	United Kingdom	Trading of oil products	49%	49%
Holdina (Cyprus) Ltd.	Cyprus	Intermediate holding company	49%	49%
Holdina d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	49%
IES SpA	Italy	Refinery and marketing of oil products	100%	100%
Greengas S.r.l.	Italy	Hydrogen plant operation	49%, a)	49%, a)
Nelsa S.r.l.	Italy	Marketing of oil products	74%	74%
Panta Distribuzione S.r.l.	Italy	Marketing of oil products	100%	100%
INA d.o.o.	Serbia	Trading of oil products	49%	49%
INA BH d.d.	Bosnia and Herzegovina	Trading of oil products	49%	49%
INA BL d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	49%
INA Crna Gora d.o.o.	Montenegro	Trading of oil products	49%	49%
INA Hungary Kft. (under liquidation)	Hungary	Trading of oil products	49%	49%
INA Kosovo d.o.o.	Kosovo	Trading of oil products	49%	49%
INA-Osijek – Petrol d.d.	Croatia	Trading of oil products	48%	38%
Interina d.o.o. Ljubljana	Slovenia	Trading of oil products	49%	49%
Interina d.o.o. Skopje (under liquidation)	Macedonia	Trading of oil products	49%	49%
Inter Ina Ltd. (under liquidation)	United Kingdom	Trading of oil products	c)	49%
Intermol d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
Maziva Zagreb d.o.o.	Croatia	Lubricants production and trading	49%	49%
MOL Austria GmbH	Austria	Wholesale trade of lubricants and oil products	100%	100%
Roth Heizöle GmbH	Austria	Trading of oil products	100%	100%
Rumpold Festbrennstoffe GmbH	Austria	Trading of solid fuels and other products	100%	100%
MOL Commodity Trading Kft.	Hungary	Financial services	100%	100%
MCT Slovakia s.r.o.	Slovakia	Financial services	100%	100%
MOL Germany GmbH (former MK Mineralkontor GmbH)	Germany	Trade of oil products	100%	100%
MOL-LUB Kft.	Hungary	Production and trade of lubricants	100%	100%
MOL-LUB Russ. LLC	Russia	Production and trade of lubricants	100%	100%
MOL Romania PP S.r.l.	Romania	Retail and wholesale trade of fuels and lubricants	100%	100%
MOL Slovenija d.o.o.	Slovenia	Retail trade of fuels and lubricants	100%	100%
Moltrans Kft.	Hungary	Transportation services	100%	100%
MOLTRADE-Mineralimpex Zrt.	Hungary	Importing and exporting energetical products	100%	100%
Slovnaft Ceska Republika s.r.o.	Czech Republic	Wholesale and retail	100%	100%
MOL Ukraine LLC (former TVK Ukrajna t.o.v.)	Ukraine	Wholesale and retail trade	100%	95%
MULTIPONT Program Zrt.	Hungary	Marketing agent activity	81%	81%
Pap Oil Cerpaci Stanice s.r.o.	Czech Republic	Retail trade	100%	b)
Petrol d.d.	Croatia	Trading of oil products	41%	41%
Polybit d.o.o. (under liquidation)	Croatia	Production and trading	49%	49%
Rossi Biofuel Zrt. (joint venture)	Hungary	Biofuel component production	25%	25%

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Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2012	Ownership 2011
SLOVNAFT a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	98%	98%
Apollo Rafinéria s.r.o.	Slovakia	Wholesale and retail trade	98%	98%
Meroco a.s. (joint venture)	Slovakia	Production of bio-diesel component (FAME)	e)	25%
MOL Slovensko spol s.r.o.	Slovakia	Wholesale and retail trade	98%	98%
Slovnaft Polska S.A.	Poland	Wholesale and retail trade	98%	98%
Slovnaft Trans a.s.	Slovakia	Transportation services	98%	98%
SWS s.r.o.	Slovakia	Transport support services	50%	50%
Zväz pre skladovanie zásob a.s.	Slovakia	Wholesale and retail trade, warehousing	98%	98%
Slovnaft VÚRUP a.s.	Slovakia	Research & development	98%	98%
Slovnaft Petrochemicals s.r.o.	Slovakia	Petrochemical production and trading	98%	98%
Terméktároló Zrt.	Hungary	Oil product storage	74%	74%
Tifon d.o.o.	Croatia	Retail trade of fuels and lubricants	100%	100%
TVK Plc.	Hungary	Petrochemical production and trading	95%	95%
Tisza-WTP Kft.	Hungary	Feed water and raw water supply	0%, a)	0%, a)
TVK-Erőmű Kft.	Hungary	Electricity production and distribution	25% a)	25% a)
TVK France S.a.r.l.	France	Wholesale and retail trade	95%	95%
TVK Polska Sp.Zoo. (under liquidation)	Poland	Wholesale and retail trade	95%	95%
TVK UK Ltd. (under liquidation)	United Kindgom	Wholesale and retail trade	95%	95%
TVK Italia S.r.l.	Italy	Wholesale and retail trade	100%	100%
<u>Corporate and other</u>				
Balatongáz Kft. (closed)	Hungary	Gas-utility development and management	f)	77%
EMS Management Services Ltd.	Cyprus	Management services	100%	100%
FER Tűzoltóság és Szolgáltató Kft.	Hungary	Fire service, ambulance service	92%	92%
MOL Vagyonkezelő Kft. (former Hermész Tanácsadó Kft.)	Hungary	Consultancy	100%	100%
Hostin d.o.o.	Croatia	Tourism	49%	49%
I&C Energo a.s.	Czech Republic	Power plant engineering	c)	100%
ITR d.o.o.	Croatia	Car rental	49%	49%
Magnolia Finance Ltd.	Jersey	Financial services	0%, a)	0%, a)
MOL Group Finance S.A.	Luxemburg	Financial services	100%	d)
MOL Reinsurance Ltd.	Cyprus	Captive insurance	100%	100%
Petrolszolg Kft.	Hungary	Maintenance services	100%	100%
Sinaco d.o.o.	Croatia	Security	49%	49%
Slovnaft Montáže a opravy a.s.	Slovakia	Repairs and maintenance	98%	98%
STSI integrirani tehnički servisi d.o.o.	Croatia	Technical services	49%	49%
Top Računovodstvo Servisi d.o.o.	Croatia	Accounting services	49%	49%
TVK Ingatlankezelő Kft.	Hungary	Real estate management	95%	95%

a) Consolidated as required by SIC-12 Consolidation - Special Purpose Entities

b) Acquired in 2012

c) Divested in 2012

d) Established in 2012

e) Consolidated as an associated company from 2012

f) Balatongáz Kft. was closed as a result of a liquidation process finalized in 2012

g) Acquired in 2012 and recognized as an asset acquisition

h) Fully consolidated from 2012

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

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7 Business combinations, transactions with non-controlling interests

Acquisitions in 2011

INA Group

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

Roth Group

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

Acquisition in 2012

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

Determination of the fair value of the acquired filling stations has not yet been fully completed; therefore the fair value of Property, plant and equipment of HUF 17,237 million is provisional pending the final valuation of these assets. The carrying amounts and provisional fair values of the assets and liabilities are the following:

	Provisional fair values
	HUF million
Intangible assets	22
Property, plant and equipment	17.237
Inventories	972
Trade receivables	1.969
Other current assets	390
Deferred tax assets	12
Prepaid taxes	76
Cash and cash equivalents	1.342
Provisions	(1)
Other non-current liabilities	(164)
Deferred tax liabilities	(1.605)
Trade and other payables	(4.140)
Provisional fair value of net assets of Pap Oil	16.110
Goodwill arising on acquisition	6.711
Total consideration	22.821

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The revenue included in the consolidated income statement since 1 October 2012 contributed by the two companies was HUF 7,314 million. BRC and Pap Oil also contributed profit of HUF 59 million over the same period. Had the two companies been consolidated from 1 January 2012, the consolidated income statement of the Group would have included revenue of HUF 33.592 million and loss of HUF 624 million.

8 Disposals

Disposals in 2011

No major disposal took place in 2011.

Disposals in 2012

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

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

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9 Joint ventures

The Group's share of the assets, liabilities, revenue and expenses of the joint ventures

The Group's share of the assets, liabilities, revenue and expenses of ZMB and all the other joint ventures (see Note 6), which are included in the consolidated financial statements, are as follows at 31 December 2012 and 2011 and for the years then ended:

	2012			2011		
	ZMB HUF million	Other HUF million	Total HUF million	ZMB HUF million	Other HUF million	Total HUF million
Current assets	5,722	14,078	19,800	6,815	14,307	21,122
Non-current assets	12,619	29,692	42,311	15,535	18,781	34,316
	18,341	43,770	62,111	22,350	33,088	55,438
Current liabilities	2,593	3,014	5,607	3,008	5,395	8,403
Non-current liabilities	2,417	3,522	5,939	2,388	5,003	7,391
	5,010	6,536	11,546	5,396	10,398	15,794
Net assets	13,331	37,234	50,565	16,954	22,690	39,644
Net sales	47,150	13,044	60,194	51,290	24,910	76,200
Cost of sales	(10,057)	(13,403)	(23,460)	(9,744)	(23,553)	(33,297)
Other expenses	(30,920)	(989)	(31,909)	(31,357)	(672)	(32,029)
Financial (expense) / income, net	(67)	284	217	(451)	(66)	(517)
Profit before income tax	6,106	(1,064)	5,042	9,738	619	10,357
Income tax expense	(1,496)	(93)	(1,589)	(2,795)	(366)	(3,161)
Net profit / (loss)	4,610	(1,157)	3,453	6,943	253	7,196

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

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10 Investments in associated companies

Company name	Country	Range of activity	Ownership		Net book value of investment	Net book value of investment
			2012	2011	2012	2011
					HUF million	HUF million
Pearl Petroleum Ltd.	Iraq	Exploration of gas	10%	10%	91,982	86,513
MOL Energiakereskedő Zrt. (MET)	Hungary	Natural gas trading	40%	50%	21,428	13,273
Mazzola & Bignardi S.r.l.	Italy	Retail trade	50%	50%	1,516	1,620
Mazzola & Bignardi Commerciale S.r.l.	Italy	Marketing of oil products	40%	40%	1,075	1,080
Meroco a.s.	Slovakia	Production of bio-diesel component (FAME)	25%	a)	980	a)
Messer Slovnaft s.r.o	Slovakia	Production of technical gases	49%	49%	717	997
Batec S.r.l.	Italy	Bitumen production	50%	50%	544	712
Other associated companies					649	602
Total					118,891	104,797

a) Consolidated as a joint venture before 2012

Pearl Petroleum Company Limited

On 15 May 2009 MOL signed an agreement to acquire 10% stake in Pearl Petroleum Company Limited (Pearl) from Crescent Petroleum and Dana Gas PJSC. Pearl holds all of the companies' legal rights in Khor Mor and Chemchemical gas-condensate fields in the Kurdistan Region of Iraq. Since the agreement between the shareholders grant MOL a significant influence on Pearl's operations, the company is treated as an associated company and is consolidated using the equity method accordingly.

The Group's interest (10%) as of 31 December 2012 in Pearl was as follows:

	2012	2011
	HUF million	HUF million
<i>Share of the associate's balance sheet:</i>		
Non-current assets	78,567	86,204
Current assets	24,789	16,461
Non-current liabilities	(10,834)	(15,488)
Current liabilities	(540)	(664)
Net assets	91,982	86,513
<i>Share of the associate's income statement:</i>		
Net sales	14,521	11,362
Profit from operations	12,698	9,926
Net income attributable to equity-holders	12,821	9,769
Carrying amount of the investment	91,982	86,513

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The financial data representing the Group's interest in Pearl above has been prepared in accordance with IFRS, using accounting policies which conform to those used by the Group for like transactions and events in similar circumstances.

MET

The Group's interest (40%; 2011: 50%) as of 31 December 2012 in MET was as follows:

	2012	2011
	HUF million	HUF million
<i>Share of the associate's balance sheet:</i>		
Non-current assets	159	148
Current assets	63,693	55,912
Non-current liabilities	119	420
Current liabilities	41,223	41,147
Net assets	22,510	14,493
<i>Share of the associate's income statement:</i>		
Net sales	223,613	168,351
Profit from operations	18,922	15,611
Net income attributable to equity-holders	16,659	10,374
Carrying amount of the investment	21,428	13,273

11 Available-for-sale investments

	Net book value of investment 2012	Net book value of investment 2011
	HUF million	HUF million
Quoted - Jadranski Naftovod d.d.	10,792	10,938
Nabucco Gas Pipeline International GmbH	5,147	4,220
Other ordinary shares – unquoted	4,632	5,491
Total	20,571	20,649

MOL Group's investment in Jadranski Naftovod d.d. (JANAF), operator of Adria pipeline represents 12% of JANAF's outstanding shares. The value of the equity share in JANAF was determined by reference to the market value of the shares as quoted on the Zagreb Stock Exchange as of 31 December 2012. Investments in other unquoted equity instruments of certain non-core entities are carried at cost less accumulated impairment losses, since determination of fair value is not practicable at this stage.

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

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12 Other non-current assets

	2012	2011
	HUF million	HUF million
Loans given (see note 34)	17,280	22,762
Advance payments for assets under construction	10,010	2,265
Prepaid mining royalty	5,327	6,759
Net receivable from currency risk hedging derivatives as cash- flow hedge (see Note 33 and 34)	2,434	2,955
Advance payments for intangible assets	2,404	495
Net receivable from currency risk hedging derivatives as fair value hedge (see Note 33 and 34)	183	214
Other	98	287
Total	37,736	35,737

Loans given primarily contain the HUF 10,834 million shareholder loan acquired with respect to Pearl Petroleum Company (see Note 10), the purpose of which is to finance the field exploration and development activities of the associate. The loan has a market-based interest rate of LIBOR + 2%. Mining royalty of HUF 20,000 million in 2005 was prepaid for fixing the level of mining royalty payable in the future and for the extension of exploration rights at certain Hungarian upstream concessions. The prepayment is amortized to the income statement beginning from January 2006 based on the expected production level of the fields until 2020. Amortization in 2012 and 2011 was HUF 1,432 million and HUF 1,739 million, respectively, and is expected to maintain a similar pattern in the forthcoming years.

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13 Inventories

	2012		2011	
	2012 At cost	Lower of cost or net realisable value	2011 At cost	Lower of cost or net realisable value
	HUF million	HUF million	HUF million	HUF million
Work in progress and finished goods	339,088	333,277	356,018	347,505
Other raw materials	55,494	50,418	55,138	47,817
Purchased crude oil	76,509	73,926	115,442	111,741
Other goods for resale	37,906	37,504	30,105	29,739
Purchased natural gas	16,014	12,602	11,393	8,432
Total	525,011	507,727	568,096	545,234

Impairment of HUF 4,247 million was recorded in 2012, mainly on raw materials (HUF 2,946 million), refinery products (HUF 940 million) and purchased natural gas (HUF 626 million) of INA Group. In 2011 HUF 4,587 million was recorded as impairment of inventories

It is required by law to maintain a certain level of obligatory stocks of crude oil and oil products by IES, the Italian subsidiary. The value of these stocks represents an amount of HUF 40,564 million and HUF 45,508 million at 31 December 2012 and 2011.

Due to the national legislation, Slovnaft Polska, a Polish subsidiary is required to maintain a certain level of obligatory stocks of liquid fuels. This level is determined from the volumes imported during the preceding calendar year and was an equivalent of HUF 26,296 million and HUF 17,359 million at 31 December 2012 and 2011, respectively.

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14 Trade receivables, net

	2012	2011
	HUF million	HUF million
Trade receivables	597,277	645,564
Provision for doubtful receivables	(26,597)	(24,715)
Total	570,680	620,849

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

Movements in the provision for doubtful receivables were as follows:

	2012	2011
	HUF million	HUF million
At 1 January	24,715	13,988
Additions	12,051	17,982
Reversal	(6,859)	(4,687)
Amounts written off	(631)	(6,027)
Currency differences	(2,679)	3,459
At 31 December	26,597	24,715

As at 31 December 2012 and 2011 the analysis of the recoverable amount of trade receivables that were past due is as follows:

	2012	2011
	HUF million	HUF million
Neither past due nor impaired	508,433	570,056
Past due but not impaired	62,247	50,793
Within 90 days	46,682	37,397
91 - 180 days	7,565	6,724
Over 180 days	8,000	6,672
Total	570,680	620,849

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

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15 Other current assets

	2012	2011
	HUF million	HUF million
Prepaid and recoverable taxes and duties (excluding income taxes)	65,076	70,979
Receivables from joint venture partners	41,297	11,436
Advances paid	13,779	7,134
Receivables from commodity hedging derivatives as cash flow hedge (see Note 33 and 34)	7,208	7,927
Prepaid expenses	5,989	5,021
Current portion of loans given	3,483	1,755
Receivables from closed derivative transactions	2,412	1,154
Interest receivable	2,096	1,398
Consideration receivable from disposal of investment	1,458	-
Margining receivables	1,326	1,810
Receivables from financial instruments at fair value through profit and loss (see note 34)	727	596
Security deposits	559	10
Other	10,802	15,914
Total	156,212	125,134

Analysis of loans given

	2012	2011
	HUF million	HUF million
Current portion of loans given	3,558	2,086
Provision for doubtful loans receivable	(75)	(331)
Total	3,483	1,755

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

	2012 HUF million	2011 HUF million
At 1 January	331	330
Additions	68	-
Reversal	(323)	-
Currency differences	(1)	1
	<hr/>	<hr/>
At 31 December	75	331
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16 Cash and cash equivalents

	2012 HUF million	2011 HUF million
Cash at bank – EUR	50,081	39,552
Cash at bank – USD	19,612	12,928
Cash at bank – HUF	14,121	4,732
Cash at bank - HRK	11,691	11,258
Cash at bank – RON	5,774	9,179
Cash at bank – CZK	4,583	7,664
Cash at bank – RUB	6,192	5,638
Cash at bank – PLN	736	2,814
Cash at bank – other currencies	6,326	17,679
Short-term bank deposits – USD	94,362	36,795
Short-term bank deposits – HUF	70,269	51,719
Short-term bank deposits – EUR	22,538	91,410
Short-term bank deposits – CZK	4,090	4,972
Short-term bank deposits – PLN	2,645	1,762
Short-term bank deposits – RON	-	5,765
Short-term bank deposits - RUB	-	1,345
Cash on hand – HUF	1,832	1,754
Cash on hand – other currencies	3,219	3,477
Cash equivalents	508	690
	<hr/>	<hr/>
Total	318,579	311,133
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The notes are an integral part of these consolidated financial statements.

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In case of cash at bank (current accounts) and short term bank deposits in different currencies the usual ranges of interest rates were the following:

	2012	2011
Current accounts		
EUR	0.01 - 0.42%	0.12% - 1.31%
USD	0.04 - 0.07%	0.01 - 0.05%
HUF	4.42% - 7.51%	4.33% - 5.71%
Short-term bank deposits		
EUR	0.01 % - 2.35 %	0.10 % - 4.00 %
USD	0.06 % - 2.30 %	0.01 % - 4.00 %
HUF	4.90 % - 8.00%	4.70 % - 7.53 %

17 Share capital

As of 31 December 2012, the issued share capital was HUF 104,519 million, consisting of 104,518,484 series "A", one series "B" and 578 series "C" shares. As of 31 December 2011, the issued share capital is HUF 104,519 million, consisting of 104,518,484 series "A", one series "B" and 578 series "C" shares. Outstanding share capital as of 31 December 2012 and 2011 is HUF 79,202 million and HUF 79,202 million, respectively.

Ordinary shares of the series "A" have a par value of HUF 1,000 and ordinary shares of the series "C" have a par value of HUF 1,001. Every "A" class share with a par value of HUF 1,000 each (i.e. one thousand forint) entitles the holder thereof to have one vote and every "C" class share with a par value of 1,001 each (i.e. one thousand one forint) entitles the holder to have one and one thousandth vote, with the following exceptions. Based on the Articles of Association, no shareholder or shareholder group may exercise more than 10% of the voting rights with the exception of organization(s) acting at the Company's request as depository or custodian for the Company's shares or securities representing the Company's shares.

Series "B" share is a voting preference share with a par value of HUF 1,000 that entitles the holder thereof to preferential rights as specified in the Articles of Association. The "B" series share is owned by MNV Zrt., exercising ownership rights on behalf of the Hungarian State. The "B" series share entitles its holder to one vote in accordance with its nominal value. The supporting vote of the holder of "B" series of share is required to adopt decisions in the following matters pursuant to Article 12.4. of the Articles of Association: decision on amending the articles regarding the B series share, the definition of voting rights and shareholder group, list of issues requiring supermajority at the general meeting as well as Article 12.4. itself; further, the "yes" vote of the holder of "B" series of share is required to adopt decisions on any proposal not supported by the Board of Directors in the following matters: election and dismissal of the members of the Board of Directors, the Supervisory Board and the auditors, decision of distribution of profit after taxation and amending of certain provisions of the Articles of Association.

Based on the authorization granted in the Articles of Association the Board of Directors is entitled to increase the share capital until April 23, 2014 in one or more instalments by not more than HUF 30 billion in any form and method provided by the Company Act.

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Treasury share transactions

Option agreements with ING Bank and UniCredit

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

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

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

On 30 November 2011 MOL and ING signed a share option agreement, under which MOL received an American call option and ING received a European put option regarding 5,220,000 MOL Series "A" Ordinary shares owned by ING. The maturity for both options is one year. The strike price for both call and put options is EUR 59.52 per share.

Based on the agreement between MOL and ING the options were exercised on 30 November 2012 with cash settlement method, strike price was EUR 57.93 per share.

Simultaneously, MOL and ING signed a share option agreement on 27 November 2012. As a result of the transactions, MOL received an American call option and ING received a European put option regarding 5,220,000 MOL Series "A" Ordinary shares owned by ING. The maturity for both options is one year. The strike price for both call and put options is EUR 63.09 per share.

MOL entered into a share sale and a share option agreement with UniCredit Bank A.G. („UniCredit”) on 8 February 2011. As a result of this transaction, UniCredit owns a total number of 2,914,692 MOL Series "A" Ordinary shares. Under the share option agreement MOL has an American call option and UniCredit a European put option in relation to such shares. Both options mature in one year, such maturity being subject to yearly extensions with one year, up to a maximum total tenor of three years. The strike price for both the call and the put options is EUR 85.8 per share which has been later amended to EUR 86.7.

The option rights under the share option agreement in relation to the 2,914,692 MOL series "A" Ordinary shares concluded between UniCredit and MOL on 8 February 2011 was settled in cash in respect of all the shares on 13 February 2012.

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

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

Strategic Alliance with CEZ

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On 20 December 2007 CEZ and MOL signed an agreement to create a joint venture. To strengthen the strategic alliance, CEZ purchased 7,677,285 pieces of "A" series MOL shares (7% stake) at HUF 30,000 which was financially closed and settled on 23 January 2008. MOL also purchased an American call option for the shares with a strike price of EUR 78.7 per share which can be exercised until 2014. The transaction became unconditional upon approval by the relevant competition offices on 18 June 2008. The call option has been recorded as a derivative financial asset, measured at its fair value, determined by applying the binomial valuation model.

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

Fair value of the option as of 31 December 2011 was HUF 16,864 million financial liability (see Note 22 and 34), determined by applying the binomial valuation model. Spot market price (HUF 17,469 per share), implied volatility (41%) and an expected dividend yield of 3.3% have been used as input to the model.

Share swap agreement with OTP

After the lending of 5,010,501 pieces of MOL shares to OTP has been terminated on 16 April 2009, MOL and OTP entered into a share – exchange and a share swap agreement. Under the agreements MOL transferred 5,010,501 "A" series MOL ordinary shares to OTP in return for 24,000,000 pieces OTP ordinary shares. The original expiration of the share-swap agreements was on 11 July 2012. During 2012 the expiration has been extended to 11 July 2017; until that date each party can initiate a cash or physical settlement of the deal.

Fair value of the share swap agreement amounted to HUF 346 million as at 31 December 2012 which has been recorded as derivative financial asset (see Note 22 and 34). As at 31 December 2011 the fair value of the swap was HUF 4,585 million which has been recorded as derivative liability (see Note 22 and 34).

Issuance of exchangeable capital securities

On 13 March 2006, MOL signed a share purchase agreement to sell 6,007,479 Series "A" Ordinary Shares of MOL held in treasury to Magnolia Finance Limited ("Magnolia"), incorporated in Jersey, which thereby acquired 5.58% influence in MOL.

Magnolia issued EUR 610 million of perpetual exchangeable capital securities (the "Capital Securities"), exchangeable into the Series "A" Ordinary Shares of MOL between March 20, 2011 and March 12, 2016 ("Exchange Period"), to international financial investors outside the United States, Canada, Jersey, Japan, Hungary and Poland. Capital Securities were sold at nominal value and with a fixed coupon payment of 4.00% per annum for the first ten years, based on an exchange rate of HUF 26,670 per share.

MOL, concurrently with the sale of ordinary shares, entered into a swap agreement with Magnolia that gave MOL a call option to buy back all or some of the Series "A" Ordinary Shares of MOL, in certain limited circumstances at a volume - weighted average price during a certain period before exercising the option right, and in case the Capital Securities holders did not or partially exercised their conversion right, upon expiration of the Exchange Period and quarterly afterwards for the Series "A"

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ordinary shares which have not been exchanged yet. In case Magnolia redeems the Capital Securities after 2016 and the market price of ordinary MOL shares is below EUR 101.54 per share, MOL will pay the difference.

MOL does not have any direct or indirect equity interest in or control rights over Magnolia, but consolidates Magnolia for IFRS purposes in line with the requirements of SIC 12 – Consolidation: Special Purpose Entities.

The issuance of Capital Securities by Magnolia resulted in an increase of equity attributable to non-controlling interest of HUF 121,164 million, net of transaction costs. Holders of the capital securities of Magnolia received a total coupon payment of HUF 7,021 million and HUF 6,921 million in 2012 and 2011, respectively. Coupon payments have been recorded directly against equity attributable to non-controlling interest.

The conversion option of the holders of Capital Securities has been recorded as Other non-current liability (see Note 21), the fair valuation of which is recognized in income statement. The fair value of the conversion option is determined on the basis of the fair value of the Capital Securities, using investment valuation methods (market values), and depends principally on the following factors:

- Quoted MOL share prices denominated in HUF
- HUF/EUR exchange rate
- Implied volatility of MOL share prices (calculated on EUR basis)
- Investor's dividend expectations on MOL shares
- EUR-based interest rate
- Subordinated credit spread

The fair value of this derivative financial liability upon inception has been HUF 37,453 million. The fair value of the conversion option as of 31 December 2012 and 2011 was HUF 2,761 million and HUF 14,532 million (see Note 21 and Note 34).

The fair valuation impact of the option was HUF 11,764 million and HUF 10,548 million gain in 2012 and 2011, respectively, recorded as financial income in the accompanying consolidated income statement.

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Changes in the number of ordinary, treasury and authorized shares

Series "A" and "B" shares	Number of shares issued	Number of treasury shares	Shares under repurchase obligation	Number of shares outstanding	Authorised number of shares
31 December 2010	104,518,485	(7,434,737)	(17,882,552)	79,201,196	134,519,063
Settlement of the option agreement with ING Bank N.V.	-	(5,220,000)	5,220,000	-	-
New option agreement with ING Bank N.V.	-	5,220,000	(5,220,000)	-	-
Option agreement with UniCredit Bank A.G.	-	2,914,692	(2,914,692)	-	-
Treasury shares call back from MFB Invest Zrt.	-	(1,273,271)	1,273,271	-	-
Settlement of the option agreement with ING Bank N.V.	-	(5,220,000)	5,220,000	-	-
New option agreement with ING Bank N.V.	-	5,220,000	(5,220,000)	-	-
31 December 2011	104,518,485	(5,793,316)	(19,523,973)	79,201,196	134,519,063
Settlement of the option agreement with UniCredit Bank A.G.	-	(2,914,692)	2,914,692	-	-
New option agreement with UniCredit Bank A.G.	-	3,561,053	(3,561,053)	-	-
Treasury shares call back from OTP Bank Plc.	-	(371,301)	371,301	-	-
Treasury shares lent to OTP Bank Plc.	-	371,301	(371,301)	-	-
Settlement of the option agreement with ING Bank N.V.	-	(5,220,000)	5,220,000	-	-
New option agreement with ING Bank N.V.	-	5,220,000	(5,220,000)	-	-
31 December 2012	104,518,485	(5,146,955)	(20,170,334)	79,201,196	134,519,063

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

18 Dividends

The shareholders at the Annual General Meeting in April 2012 approved to pay HUF 45,000 million dividend in respect of 2011. The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Plc. is HUF 1,469,767 million and HUF 1,456,854 million as of 31 December 2012 and 2011, respectively.

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19 Long-term debt

	Weighted average interest rate	Weighted average interest rate	Maturity	2012	2011
	2012	2011		2012	2011
	%	%		HUF million	HUF million
<i>Unsecured bonds in EUR</i>				445,262	475,007
Eurobond 1	3.96	3.96	2015	219,996	234,861
Eurobond 2	6.15	6.15	2017	225,266	240,146
<i>Unsecured bank loans in EUR</i>	1.69	2.79		207,979	233,316
825 MEUR syndicated			2013	14,565	-
200 MEUR EBRD			2017	41,613	53,337
1000 MEUR syndicated			2013	114,696	141,883
210 MEUR EBRD			2017	21,839	27,193
other unsecured loans in EUR			2013-2015	15,266	10,903
<i>Unsecured bank loans in USD</i>	2.31	1.74		144,912	282,920
825 MEUR syndicated			2013	-	87,014
150 MUSD EBRD			2021	13,764	-
150 MEUR EIB			2018	41,851	47,492
1000 MEUR club loan			2017	-	18,292
1000 MUSD syndicated			2013	54,514	91,272
210 MEUR EBRD			2017	29,746	38,795
other unsecured loans in USD			2015-2016	5,037	55
Unsecured bonds in USD	6.51	-	2019	110,464	-
Unsecured bonds in HUF	6.73	6.65	2014	11,542	16,574
Unsecured bank loans in HUF	9.78	-	2013	2,644	-
Unsecured bank loans in HRK	5.02	5.20	2019	1,521	3,330
Secured bank loans in EUR	1.80	2.30	2013 - 2018	11,922	19,971
Secured bank loans in HUF	-	8.88	-	-	82
Financial lease payable	6.93	8.18	2014 - 2027	4,488	3,388
Other	-	1.84	2015	4,101	11,466
Total				944,835	1,046,054
Current portion of long-term debt				262,048	183,905
Total long-term debt net of current portion				682,787	862,149

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	2012	2011
	HUF million	HUF million
Maturity one to five years	440,267	594,517
Maturity over five years	242,520	267,632
Total	682,787	862,149

Unsecured bonds in EUR

The EUR 750 million fixed rate bond was issued by MOL Plc. in 2005. The notes are due on 5th October 2015, pay an annual coupon of 3.875% and are in the denomination of EUR 50,000 each. In 2010 MOL has also issued EUR 750 million fixed rate Eurobond notes. The notes have a 7-year maturity, pay an annual coupon of 5.875% and were priced at 315 bps above mid-swap rates. Both notes are listed on the Luxembourg Stock Exchange.

Unsecured bonds in USD

In 2012 MOL Group Finance S.A. (100% subsidiary of MOL Plc.) issued USD 500 million fixed rate bond guaranteed by MOL Plc. The notes have a 7-year maturity, pay an annual coupon of 6.250% and are listed on the Luxembourg Stock Exchange.

Unsecured bank loans

Main elements of unsecured bank loans are the MOL EUR 825 million and the INA USD 1 billion syndicated multi-currency revolving loan facilities and the MOL EUR 500 million and MOL EUR 1,000 million revolving club credit facilities. Under the EUR 825 million syndicated facility of MOL, an amount of EUR 120 million expired in 2012 and the remaining EUR 705 million is maturing in July 2013, while under the USD 1 billion syndicated facility of INA, an amount of USD 252.5 million expired in 2012 and the remaining USD 747.5 million is maturing in April 2013. As the EUR 500 million loan agreement provided extension option, in September 2011 an amount of EUR 470 million was extended by one additional year until 10 September 2014. Similarly, as the EUR 1,000 million loan agreement provided extension option, in June 2012 an amount of EUR 561 million was extended by one additional year until 10 June 2017.

MOL Plc. signed an 8.5 years, USD 150 million loan agreement with the European Bank for Reconstruction and Development (EBRD) on 2 July 2012. The loan will be used to finance capital expenditures to replace three subscale old units with a new 220 kt/year capacity LDPE unit and upgrade the steam cracker at the site of Slovnaft Group. MOL Plc. has another loan agreement with EBRD, signed on 17 June 2009 with a tenor of 8 years, in order to finance the strategic and commercial gas storage project. INA also concluded a 7-year loan agreement with EBRD in the amount of EUR 210 million in September 2010 for refinery modernisation (this credit facility is co-financed by ICF Debt Pool and Cordiant Capital Fund).

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

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70 MOL Plc. and subsidiaries

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Unsecured bonds in HUF

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

Secured bank loans in EUR

Secured loans were obtained for specific capital expenditure projects and are secured by the assets financed from the loan.

Financial lease payable

The Group has finance leases or other agreements containing a financial lease element for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Minimum lease payments and present values of payments as of 31 December 2012 and 2011, respectively are as follows:

	2012	2012	2011	2011
	Minimum lease	Present value	Minimum lease	Present value
	payments	of	payments	of
	HUF million	HUF million	HUF million	HUF million
Maturity not later than 1 year	858	690	764	655
Maturity two to five years	3,227	2,453	2,680	2,090
Maturity over five years	1,631	1,345	814	643
Total minimum lease payments	5,716		4,258	
Less amounts representing financial charges	(1,228)		(870)	
Present values of financial lease liabilities	4,488	4,488	3,388	3,388

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20 Provisions for liabilities and charges

	Environ- mental HUF million	Redundancy HUF million	Long term employee benefits HUF million	Field aban- donment HUF million	Legal claims HUF million	Other HUF million	Total HUF million
Balance as of 31 December 2010	70,027	4,205	15,144	184,792	20,067	30,142	324,377
Acquisition / (sale) of subsidiaries	-	-	-	-	-	-	-
Additions and revision of previous estimates	591	4,245	2,879	6,112	(1,833)	1,786	13,780
Unwinding of the discount	2,675	-	817	10,116	-	-	13,608
Currency differences	6,131	321	860	9,595	964	717	18,588
Provision used during the year	(3,253)	(3,584)	(2,896)	(304)	(499)	(10,290)	(20,826)
Balance as of 31 December 2011	76,171	5,187	16,804	210,311	18,699	22,355	349,527
Acquisition / (sale) of subsidiaries	-	-	-	-	-	(1,341)	(1,341)
Additions and revision of previous estimates	2,388	3,690	951	(13,250)	911	10,720	5,410
Unwinding of the discount	2,545	-	713	10,152	-	-	13,410
Currency differences	(4,106)	(357)	(622)	(6,717)	(617)	(1,387)	(13,806)
Provision used during the year	(3,649)	(2,564)	(2,250)	(420)	(935)	(11,090)	(20,908)
Balance as of 31 December 2012	73,349	5,956	15,596	200,076	18,058	19,257	332,292
Current portion 2011	5,466	2,235	2,203	2,470	11,746	13,107	37,227
Non-current portion 2011	70,705	2,952	14,601	207,841	12,738	3,463	312,300
Current portion 2012	4,822	3,109	1,696	1,863	14,923	16,061	42,474
Non-current portion 2012	68,527	2,847	13,900	198,213	3,135	3,196	289,818

Environmental Provision

As of 31 December 2012 provision of HUF 73,349 million has been made for the estimated cost of remediation of past environmental damages, primarily soil and groundwater contamination and disposal of hazardous wastes, such as acid tar, in Hungary, Croatia, Slovakia and Italy. The provision is made on the basis of assessments prepared by MOL's internal environmental audit team. In 2006, an independent environmental auditor firm has reviewed MOL's internal assessment policies and control processes and validated those. The amount of the provision has been determined on the basis of existing technology at current prices by calculating risk-weighted cash flows discounted using estimated risk-free real interest rates. The amount reported as at 31 December 2012 also includes a contingent liability of HUF 18,611 million recognized upon acquiring INA Group, representing its present environmental obligations and a further HUF 14,715 million environmental contingent liability regarding the acquisition of IES (see Note 35).

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Provision for Redundancy

As part of a continuing efficiency improvement project, MOL Plc., SLOVNAFT a.s., INA d.d. and other Group members decided to further optimize workforce. As the management is committed to these changes and the restructuring plan was communicated in detail to parties involved, the Group recognized a provision for the net present value of future redundancy payments and related tax and contribution. The closing balance of provision for redundancy is HUF 5,956 million and HUF 5,187 million as of 31 December 2012 and 2011, respectively.

Provision for Field Abandonment Liabilities

As of 31 December 2012 provision of HUF 200,076 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 9% of these costs are expected to be incurred between 2013 and 2017 and the remaining 91% between 2018 and 2060. The amount of the provision has been determined on the basis of management's understanding of the respective legislation, calculated at current prices and discounted using estimated risk-free real interest rates. Activities related to field suspension, such as plugging and abandoning wells upon termination of production and remediation of the area are planned to be performed by hiring external resources. Based on the judgment of the management, there will be sufficient capacity available for these activities in the area. As required by IAS 16 – Property, Plant and Equipment, the qualifying portion of the provision has been capitalized as a component of the underlying fields.

Provision for Long-term Employee Benefits

As of 31 December 2012 the Group has recognized a provision of HUF 15,596 million to cover its estimated obligation regarding future retirement and jubilee benefits payable to current employees expected to retire from group entities. These entities operate benefit schemes that provide lump sum benefit to all employees at the time of their retirement. MOL employees are entitled to 3 times of their final monthly salary regardless of the period of service, while TVK and SLOVNAFT provide a maximum of 2 and 8 months of final salary respectively, depending on the length of service period. None of these plans have separately administered funds, therefore there are no plan assets. The amount of the provision has been determined using the projected unit credit method, based on financial and actuarial variables and assumptions that reflect relevant official statistical data and are in line with those incorporated in the business plan of the Group. Principal actuarial assumptions reflect an approximately 2% difference between the discount rate and the future salary increase.

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	2012	2011
	HUF million	HUF million
Present value of total defined benefit obligation at the beginning of the year	17,970	16,567
Past service cost not yet recognized at the beginning of the year	1,166	1,423
	<hr/>	<hr/>
Balance as of the beginning of the year	16,804	15,144
	<hr/>	<hr/>
Acquisitions / (disposals)	-	-
Past service cost	280	254
Current service cost	1,062	1,645
Interest costs	713	817
Provision used during the year	(2,250)	(2,896)
Net actuarial (gain)/loss	(391)	980
Exchange adjustment	(622)	860
	<hr/>	<hr/>
Balance as at year end	15,596	16,804
	<hr/>	<hr/>
Past service cost not yet recognized at year end	1,028	1,166
Present value of total defined benefit obligation at year end	16,624	17,970

The following table summarises the components of net benefit expense recognized in the income statement as personnel expenses regarding provision for long-term employee retirement benefits:

	2012	2011
	HUF million	HUF million
Current service cost	1,062	1,645
Net actuarial (gain)/loss	(391)	980
Past service cost	280	254
	<hr/>	<hr/>
Net benefit expense (See Note 26)	951	2,879
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The following table summarises the main financial and actuarial variables and assumptions based on which the amount of retirement benefits were determined:

	2012	2011
Discount rate in %	2.5-4.6	2.5-5.5
Average wage increase in %	0.5-2.8	0.5-3.9
Mortality index (male)	0.02-2.98	0.02-2.98
Mortality index (female)	0.01-1.25	0.01-1.25

Legal and Other Provisions

Legal and other provisions include provision for emission quotas and for cost of unutilised holiday and for other minor future payment obligations. As of 31 December 2012 provision of HUF 18,058 million has been made for estimated total costs of litigations. As of 2012 MOL Group has been granted 6,348,769 emission quotas by the Hungarian, Slovak and Italian authorities. The total use of emission quotas amounted to 5,264,522 in 2012. In 2009 MOL Group sold a major part of the quotas granted free of charge on the market and concurrently recognised a provision of HUF 13,513 million in 2010 for the shortage of emission quotas. In 2012 the amount of such provision decreased to HUF 4,033 million.

21 Other non-current liabilities

	2012 HUF million	2011 HUF million
Trade payable to exploration partners	29,294	6,275
Government grants received (see Note 5 and 25)	11,321	12,845
Received and deferred other subsidies	4,105	4,570
Deferred compensation for property plant and equipments	4,006	4,467
Conversion option of exchangeable capital securities issued by Magnolia Finance Ltd (see Note 17 and 34)	2,761	14,532
Liabilities to government for sold apartments	2,424	2,840
Deferred income for apartments sold	1,338	1,565
Payable from currency risk hedging derivatives as fair value hedge (see Note 34)	1,149	748
Long term advances	-	1,281
Other	1,248	1,597
Total	57,646	50,720

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22 Trade and other payables

	2012	2011
	HUF million	HUF million
Trade payables	454,671	514,867
Taxes, contributions payable (excluding corporate tax)	167,298	190,942
Transferred "A" shares with put and call options attached (see Note 17, 33 and 34)	166,188	171,140
Amounts due to employees	26,651	25,514
Advances from customers	16,450	16,986
Custom fees payable	9,666	12,676
Fee payable for strategic inventory storage	6,656	6,643
Payables from financial liabilities at fair value through profit and loss (see Note 34)	6,556	21,798
Margining liability	5,254	2,530
Discount payable to customers	5,166	7,165
Strategic capacity booking fee	7,084	3,881
Payables from commodity hedging derivatives as cash flow hedge (see Note 33 and 34)	4,070	5,457
Payables from closed derivative transactions	2,930	2,932
Penalty payable	2,638	2,809
Bank interest payable	2,494	4,396
Financial collateral and bail received	1,905	1,771
Liabilities to joint venture partners	2,717	2,617
Dividend payable	446	1,301
Other accrued incomes (short term)	332	363
Purchase price adjustments payable on prior year acquisitions	284	365
Government subsidies received and accrued (short term) (see Note 25)	738	-
Other subsidies received and accrued (short term)	254	-
Other	21,982	14,394
Total	912,430	1,010,547

Trade payables are non-interest bearing and are normally settled on 30-day terms. Taxes, contributions payable mainly include mining royalty, contributions to social security, value added tax and excise tax.

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23 Short-term debt

	2012	2011
	HUF million	HUF million
Secured bank loans in EUR	36,558	28,480
Unsecured bank loans in EUR	60,903	67,750
Unsecured bank loans in USD	28,206	34,979
Unsecured bank loans in PLN	10,683	2,296
Unsecured bank loans in other currencies	9,488	2,783
Total	145,838	136,288

24 Sales by product types

<i>Sales by product types</i>	2012	2011
	HUF million	HUF million
Sales of oil products	3,734,255	3,486,645
Sales of petrochemicals	751,653	809,750
Sales of natural gas and gas products	564,499	603,125
Sales revenue of services	271,303	250,537
Sales of crude oil	101,246	100,622
Sales of other products	99,360	92,555
Total	5,522,316	5,343,234

25 Other operating income

	2012	2011
	HUF million	HUF million
Exchange gains of trade receivables and payables	14,340	-
Penalties, late payment interest, compensation received	5,863	8,608
Gain on sales of intangibles, property, plant and equipment	2,174	6,286
Government grants released	802	409
Allowances and subsidies received	405	1,318
Other	6,441	6,630
Total	30,025	23,251

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Government grants

	2012	2011
	HUF million	HUF million
At 1 January	12,845	6,457
Government grants received (see Note 21 and 25)	336	6,300
Release of deferred grants (see table above)	(802)	(409)
Exchange adjustment	(320)	497
	<hr/>	<hr/>
At 31 December (see Note 21 and 22)	12,059	12,845
	<hr/>	<hr/>

26 Personnel expenses

	2012	2011
	HUF million	HUF million
Wages and salaries	183,302	180,863
Social security	46,636	45,389
Other personnel expenses	33,640	29,998
Long term employment benefits, (see Note 20)	951	2,879
Expense (reversal of expense) of share-based payments (See Note 39)	194	(3,202)
	<hr/>	<hr/>
Total	264,723	255,927
	<hr/>	<hr/>

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27 Other operating expenses

	2012	2011
	HUF million	HUF million
Mining royalties	143,891	151,933
Taxes and contributions	41,848	40,914
Rental costs	34,519	42,918
Crisis tax for Hungarian energy suppliers and retail activities	30,389	28,960
Other services	22,602	20,964
Contribution to strategic inventory storage	19,122	27,004
Provision for legal and other claims	9,032	272
Insurance	7,644	6,676
Advertising expenses	7,013	6,723
Revaluation of emission quotas	6,331	6,460
Provision for doubtful receivables	6,038	15,115
Consultancy fees	5,476	6,540
Cleaning costs	5,341	5,451
Site security costs	5,038	3,725
Bank charges	4,028	3,894
Penalties, late payment interest, compensation (net of provision utilized)	3,518	(1,445)
Net loss realized on disposal of subsidiaries	3,473	-
Outsourced bookkeeping services	3,406	3,366
Environmental provision made during the year	2,388	591
Environmental protection expenses, net	1,785	1,814
Environmental levy	859	675
Damages	199	167
Exchange loss of trade receivables and payables	-	10,529
Provision for greenhouse gas emission over quota allocated free of charge	(4,438)	(5,015)
Provision for field abandonment	(8,792)	(5,700)
Other	19,742	8,773
Total	370,452	381,304

Crisis tax of HUF 30,389 million (2011: 28,960 million) has been imposed on various domestic energy supplying members of the Group (including the parent company) and the Hungarian retail shop selling activities of MOL Plc. by the Hungarian state from 2010. The base of the tax charge is sales revenues of legal entities engaged in such activities. According to the relevant legislation, crisis tax is cancelled from 2013.

Provision for legal and other claims in 2012 include HUF 5,985 million penalty imposed on the Angolan operations of the Group by the local tax authorities.

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28 Financial (income) / expense

	2012	2011
	HUF million	HUF million
Fair valuation gain on conversion option (see Note 17)	11,764	10,548
Interest received	6,839	9,389
Net gain on derivative transactions	3,698	-
Dividends received	3,159	2,751
Foreign exchange gain on borrowings	-	55,495
Other financial income, net	1,292	1,965
Total financial income	26,752	80,148
Interest on borrowings	46,205	41,171
Interest on provisions	13,410	13,608
Other costs on borrowings	6,267	3,986
Other foreign exchange loss, net	2,958	-
Net loss on sales of investments	2,917	-
Foreign exchange loss on borrowings	1,863	-
Net loss on derivative transactions	-	74,579
Other financial expenses, net	219	1,656
Total financial expenses	73,839	135,000
Total financial expense, net	47,087	54,852

Net gain on derivative transactions in 2012 is mainly attributable to HUF 5,848 million gain on commodity price transactions, HUF 4,932 million gain on the fair valuation of the share swap agreement with OTP (for details see Note 17) and HUF 6,588 million loss on the fair valuation of the call option held by the Group on the MOL shares representing 7% of its share capital owned by CEZ (for details see Note 17). Net loss on derivative transactions in 2011 contain HUF 60,798 million loss on the fair valuation of the call option held by the Group on the MOL shares representing 7% of its share capital owned by CEZ (for details see Note 17).

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29 Components of other comprehensive income

	2012	2011
	HUF million	HUF million
Exchange differences on translating foreign operations including net investment hedge, net of tax		
Gains / (losses) arising during the year	(130,952)	209,259
Reclassification adjustments for gains and losses included in the income statement	(779)	-
Income tax effect	-	-
	<u>(131,731)</u>	<u>209,259</u>
Net investment hedge, net of tax		
Gains / (losses) arising during the year	43,420	(111,267)
Reclassification adjustments for gains and losses included in the income statement	-	-
Income tax effect	(4,085)	9,920
	<u>39,335</u>	<u>(101,347)</u>
Available-for-sale financial assets		
Gains / (losses) arising during the year	743	(3,968)
Reclassification adjustments for gains and losses included in the income statement	-	-
Income tax effect	(97)	746
	<u>646</u>	<u>(3,222)</u>
Cash-flow hedges		
Gains / (losses) arising during the year	1,517	1,309
Reclassification adjustments for gains and losses included in the income statement	12,902	-
Reclassification adjustments to initial cost of hedged inventories	(14,272)	-
Income tax effect	99	(149)
	<u>246</u>	<u>1,160</u>
Share of other comprehensive income for associates		
Gains / (losses) arising during the year	(10,071)	14,145
Reclassification adjustments for gains and losses included in the income statement	(275)	1,058
Income tax effect	19	(265)
	<u>(10,327)</u>	<u>14,938</u>

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30 Income taxes

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2012 and 2011 include the following components:

	2012	2011
	HUF million	HUF million
Current corporate income taxes	18,402	53,931
Local trade tax and innovation fee	14,987	12,878
Deferred corporate income taxes	16,462	(33,683)
Total income tax expense/(benefit)	49,851	33,126

The Group's current income taxes are determined on the basis of taxable statutory profit of the individual companies of the Group. The applicable corporate income tax rate on the taxable income of the companies of the Group operating in Hungary was 19% in 2012 and in 2011 also. A further surplus tax of 8% is applicable for domestic energy supplier entities in 2012 and 2011, which will increase to 31% from 1 January 2013. Slovakian and Croatian tax rates were 19% (2011: 19%) and 20% (2011: 20%), respectively. Tax rate in Slovakia will increase to 23% from 1 January 2013. Italian tax rate was increased following the crisis and government change (in 2011), total tax rate applicable for 2012 is 41.9%, being an aggregate of a corporate income tax of 27.5%, a temporarily increased surcharge tax on energy sector of 10.5% and local tax rate of 3.9% (in 2011 the total tax rate was 41.9%). Enacted changes in tax rates are considered when calculating deferred tax assets and liabilities.

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

There is no dividend withholding tax in Hungary on dividends paid to foreign tax resident legal entities. As regards dividend paid to private individuals, a 16% personal income tax liability arises also withheld at source.

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Income tax recognised in other comprehensive income

	2012	2011
	HUF million	HUF million
Deferred and current tax recognised in other comprehensive income:		
Net gain/ (loss) on hedge of a net investment and foreign exchange differences of loans given	(4,085)	9,920
Revaluations of available-for-sale financial assets	(97)	746
Revaluations of financial instruments treated as cash flow hedges	99	(149)
Revaluations of financial instruments of associated companies	2	21
	<u>(4,081)</u>	<u>10,538</u>
Reclassifications from equity to profit or loss:		
Relating to hedges of net investments	-	-
Relating to available-for-sale financial assets	-	-
Relating to cash flow hedges	-	-
Relating to associated companies	17	(286)
	<u>17</u>	<u>(286)</u>
Total income tax recognised in other comprehensive income	<u>(4,064)</u>	<u>10,252</u>

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The deferred tax balances as of 31 December 2012 and 2011 in the consolidated balance sheet consist of the following items:

	Balance sheet		Recognized in income statement	
	2012	2011	2012	2011
	HUF million	HUF million	HUF million	HUF million
<i>Breakdown of net deferred tax assets</i>				
Unrealized gains on intra-group transfers	19,682	15,139	5,454	(13,902)
Provisions	9,779	10,620	(733)	3,442
Depreciation, depletion and amortization	1,729	(494)	2,172	16,329
Differences in accounting for domestic oil and gas exploration and development	(18,848)	(8,808)	(10,039)	(4,187)
Capitalization of certain borrowing costs	(5,367)	(2,925)	(2,456)	1,749
Foreign exchange differences	11,273	8,136	3,137	(233)
Valuation of financial instruments	(1,782)	(1,131)	(650)	(610)
Capitalized periodic maintenance costs	(2,914)	(1,155)	(1,759)	(180)
Statutory tax losses carried forward	19,545	21,973	(2,255)	19,300
Receivables write off	(27)	216	(243)	(181)
Other	1,680	847	854	140
Deferred tax assets	34,750	42,418		
<i>Breakdown of net deferred tax liabilities</i>				
Fair valuation of assets on acquisitions	(106,535)	(120,212)	7,462	3,832
Depreciation, depletion and amortization	(64,634)	(57,447)	(8,754)	(26,999)
Provisions	10,493	8,432	1,773	169
Statutory losses carried forward	14,665	16,026	(1,438)	7,629
Elimination of inter-company transactions	16,750	17,377	(657)	17,471
Receivables write off	1,303	11,381	(8,362)	10,567
Capitalization of borrowing costs	(3,477)	(3,578)	59	(3,008)
Embedded derivatives	(462)	(561)	-	-
Foreign exchange differences	(62)	(66)	-	-
Inventory valuation difference	5,955	6,637	(151)	121
Valuation of financial instruments	4,789	4,745	312	2,026
Other	(2,773)	(2,557)	(188)	208
Deferred tax liabilities	(123,988)	(119,823)		
Net deferred tax asset / (liability)	(89,238)	(77,405)		
Deferred tax (expense) / income			(16,462)	33,683

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

	2012	2011
	HUF million	HUF million
Net deferred tax asset / (liability) at 1 January	(77,405)	(105,815)
Recognized in income statement	(16,462)	33,683
Recognized directly in fair valuation reserve	2	7,135
Sale of subsidiaries (see Note 8)	722	-
Acquisition of subsidiaries	(1,623)	-
Exchange difference	5,528	(12,408)
Net deferred tax asset / (liability) at 31 December	(89,238)	(77,405)

The unrealized gains on intra-group transfers contain primarily the results of the gas unbundling. Due to the fact that this gain increased the tax base of the assets, but has been eliminated in the consolidation, the increase in the future depreciation gives rise to a deferred tax asset.

Significant tax losses arose in 2011 at MOL Plc.. Additional tax losses arose at INA, at IES S.p.a. and at TVK Plc. and some of TVK's subsidiaries (between 2009 and 2012). Since the Group estimates that these companies will have taxable profits available in the future to offset with these tax losses, a deferred tax asset of HUF 34,210 million and HUF 37,999 million has been recognized as of 31 December 2012 and 2011, respectively.

No deferred tax assets have been recognized in respect of such losses elsewhere in the Group as they may not be used to offset taxable profits and they have arisen in subsidiaries that have been loss-making for some time. The amount of such tax losses incurred in 2012 and 2011 were HUF 15,531 million and HUF 6,155 million, respectively.

From the unused tax losses (for which deferred tax asset was recognised) at the end of the period, HUF 169,265 million has no expiry, while HUF 4,733 million can be utilized between 2013 and 2017.

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

	2012 HUF million	2011 HUF million
Profit before tax per consolidated income statement	206,016	218,396
Tax at the applicable tax rate (19%, 2011: 19%)	39,143	41,495
Tax holiday available	(3,722)	(1,903)
Surplus taxes and local trade tax	13,452	13,395
Differences not expected to reverse	(8,776)	(14,316)
Effect of different tax rates	(12,521)	(6,697)
Adjustment to the period of realisation	(33)	(683)
Losses of subsidiaries not recognized as an asset	15,531	6,155
Non-taxable income	(5,907)	1,447
Revaluation of deferred tax assets and liabilities	12,832	(5,067)
Impact of changes in Hungarian tax legislation	-	-
Other	(148)	(700)
Total income tax expense / (benefit) at the effective income tax rate of 24% (2011: 15%)	49,851	33,126

Differences not expected to reverse primarily include the tax impact of loss on treasury share transactions (see Note 17) which have been realized under Hungarian accounting standards and included in current year tax base. Under IFRS, however these have not and will never be recognized in the consolidated income statement.

31 Discontinued operations and disposal groups

The Group currently has no discontinued operation or any asset groups held for disposal.

32 Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated considering the dilutive effect of the convertible bonds and the potentially dilutive effect of the conversion option embedded in the Perpetual Exchangeable Capital Securities in the number of outstanding shares and by excluding the fair valuation difference of the conversion option from the net income attributable to equity holders of the parent.

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	Income (HUF million)	Weighted average number of shares	Earnings per share (HUF)
Basic Earnings Per Share 2011	153,925	87,032,441	1,769
Diluted Earnings Per Share 2011	143,377	93,039,920	1,541
Basic Earnings Per Share 2012	151,660	87,906,310	1,725
Diluted Earnings Per Share 2012	139,896	93,913,789	1,490

	2012 HUF million	2011 HUF million
Net profit attributable to ordinary shareholders for basic earnings per share	151,660	153,925
Fair value of conversion option	(11,764)	(10,548)
Net profit attributable to ordinary shareholders for diluted earnings per share	139,896	143,377

	2012	2011
Weighted average number of ordinary shares for basic earnings per share	87,906,310	87,032,441
Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities	6,007,479	6,007,479
Adjusted weighted average number of ordinary shares for diluted earnings per share	93,913,789	93,039,920

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33 Financial risk management objectives and policies

As financial risk management is a centralized function in MOL Group, it is possible to integrate and measure all risks at group level in a model using Value at Risk approach. A monthly Financial Risk Report is submitted to the senior management.

As a general approach, risk management considers the business as a well-balanced integrated portfolio. MOL actively manages its commodity exposures for the following purposes only:

- Corporate Level Objectives – maintenance of financial ratios and targeted financial results, protection against large cash transaction exposures etc. ,
- Business Unit Objectives – To reduce the exposure of a Business Unit's cash flow to market price fluctuations in case of changes from the normal course of business (e.g.: planned refinery shutdowns)

MOL follows two different strategies based on the level of Net Gearing. In the two scenarios, Risk Management focuses on the followings:

- In a High Gearing situation, the primary objective of risk management is to reduce the probability of breaching debt covenants, where a breach would seriously impair the company's ability to fund its operations.
- In Low Gearing status, the focus of risk management shall be directed more toward to the protection of shareholder value by maintaining discipline in CAPEX spending, ensuring risk-aware project selection.

The Group is currently in Low Gearing status.

In line with MOL's risk management policy, no speculative transactions are allowed. Any derivative transaction the company may enter is under ISDA (International Swaps and Derivatives Association) agreements.

MOL Commodity Trading Limited was established in 2009 with the purpose to centralize and manage MOL's needs in oil and oil products derivatives, to optimize the Group-level CO2 quota position and to manage the procurement of electricity. In order to improve control over the resulting market and credit risks, risk limits are applied and monitored on an on-going basis. Continuous stress-tests and scenario analyses provide additional cushion for the safety in the trading book.

Key Exposures

Group Risk Management identifies and measures the key risk drivers and quantifies their impact on the Group's operating results. MOL uses a bottom-up model for monitoring the key exposures. According to the model, the diesel crack spread, the dated Brent price and gasoline crack spread have the biggest contribution to the cash-flow volatility. The cash-flow volatility implied by the FX rates, the other refined and petrochemical products are also significant.

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Commodity Price Risk Management

MOL Group as an integrated oil and gas company is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks stem from long crude oil position to the extent of its Group level production, long refinery margin position to the extent of the refined product volumes and long petrochemical margin position.

MOL can enter into hedging transactions for the above mentioned Corporate Level Objectives and Business Unit Objectives purposes only.

In 2012 MOL concluded short term commodity swap transactions. These transactions are mainly dealt for inventory hedging purposes in order to mitigate the effects of the potential price movements during the non-business-as-usual refinery activities (e.g. maintenance periods), and they are also related to crude oil procurement and other trading possibilities. As of 31 December 2012 the fair value of open commodity derivative transactions designated as fair value hedge was a net receivable of HUF 59 million (see Note 34). The fair value of accompanying firm commitments as hedged items under commodity derivative transaction designated as fair value hedges was a net payable of HUF 59 million (see Note 34).

At the end of 2012 MOL concluded swap deals on a significant volume of crude oil purchases and ultra low sulfur diesel sales forecasted for the next two years with the economic purpose of capturing a favourable crack spread on this product. As of 31 December 2012 the fair value of open transactions designated as cash flow hedge was a receivable of HUF 7,208 million with respect to diesel swap (see Note 15) and a payable of HUF 4,070 million with respect to crude swap (see Note 22), with a corresponding adjustment of the fair valuation reserve in other comprehensive income. Deals will be settled subsequent to each month in the next two years.

As of 31 December 2012 and 2011 the fair value of open commodity derivative transactions not designated as hedges were a net receivable of HUF 236 million and HUF 337 million (see Note 34), respectively.

Foreign Currency Risk Management

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

When MOL is in high gearing status, the Group follows the basic economic currency risk management principle that the currency mix of the debt portfolio should reflect the net operating cash flow position of the Group ('natural hedge').

The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of 31 December 2012 and 2011, there were no open cross currency transactions.

The Group has two long-term international gas transit agreements (expiring in 2017 and 2019) under which consideration is calculated in SDR. The contractual provisions prescribing price calculation in SDR have been identified as a SDR/USD swap, being an embedded derivative under IAS 39, as the Group considers USD price setting to be closely related to the underlying contract. This derivative has been separated from the underlying contract and designated as a cash flow hedge to the underlying gas transit contract. The fair value of the embedded SDR derivative is a net receivable of HUF 2,434 million (HUF 1,972 million net of deferred tax) as of 31 December 2012 (see Note 12). The corresponding figure as of 31 December 2011

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was HUF 2,955 million net receivable (HUF 2,394 million net of deferred tax). The decrease in the fair value of this instrument has been recognized in other comprehensive income.

INA has concluded certain long-term contracts on gas and crude- oil storage and transport which contain embedded derivatives as defined by IAS 39. These derivatives has been separated from the underlying contracts and designated as fair value hedge to the underlying gas and crude oil contracts. The fair value of the embedded derivatives is a net receivable of HUF 269 million as of 31 December 2012 (see Note 34). The corresponding figure as of 31 December 2011 was HUF 288 million net receivable.

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

As of 31 December 2012 the fair value of open foreign exchange forward transactions was a net payable of HUF 19 million (see note 34). As of 31 December 2011 there were no open foreign exchange forward transactions.

Hedge of net investments in foreign operations

Certain facilities of the Group's long-term debt (USD 1,145 million and EUR 2,115 million) has been designated as hedging instruments in a net investment hedge of foreign operations denominated in USD and EUR. These borrowings are used to hedge the Group's exposure to the spot USD and EUR foreign exchange retranslation risk of these investments. Gains of HUF 43,420 million incurred on retranslating these borrowings are recorded in other comprehensive income to offset corresponding gains on translating the hedged net investments in foreign operations.

Interest rate risk management

As an energy company, MOL has limited interest rate exposure. The ratio of fix/floating interest debt is determined by the Board of Directors on the basis of the suggestion of Group Risk Management from time to time, based on international best practice.

As result of the 750M EUR Bond transaction in 2005, 750M EUR Bond transaction in 2010, HUF 16 billion Hungarian retail bond transaction also in 2010-2011 and the 500M USD Bond transaction in 2012, the fixed portion of the total debt increased substantially. As of 31 December 2012 and 2011, 45.1% and 36.3% of the Group's debt was at fixed rates respectively.

The Group may use interest rate swaps to manage the relative level of its exposure to cash flow interest rate risk associated with floating interest-bearing borrowings.

As of 31 December 2012 and 2011, there was no open interest rate swap transaction.

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Sensitivity analysis for key exposures

In line with the international benchmark, Group Risk Management prepares sensitivity analysis. According to the Financial Risk Management Model, the key sensitivities are the following:

Effect on profit from operations	2012 HUF billion	2011 HUF billion
Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin)		
Downstream	+ 11.5 / - 11.5	+ 9.6 / - 9.6
Upstream	+ 20.1 / - 20.0	+ 17.8 / - 17.5
Gas Midstream	+ 1.5 / - 1.5	+ 1.1 / - 1.0
Crack spread (change by +/- 10 USD/t)		
Downstream	+ 42.3 / - 42.3	+ 40.5 / - 40.5
Upstream	+ 1.2 / - 1.2	+ 1.8 / - 2.1
Integrated petrochemical margin (change by +/- 10 EUR/t)		
Downstream	+ 2.6 / - 2.6	+ 3.2 / - 3.2
Brent - Ural Spread (+/- 1 USD/bbl)		
Downstream	+ 19.3 / - 19.3	+ 18.4 / - 18.4
Upstream	- 0.7 / + 0.7	- 0.7 / + 0.7
Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads)		
Downstream	+ 9.4 / - 9.4	- 0.9 / + 0.9
Upstream	+ 19.0 / - 19.0	+ 22.3 / - 22.3
Gas Midstream	- 1.2 / + 1.2	- 1.9 / + 1.9
Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin)		
Upstream	+ 0.2 / - 0.2	-
Downstream	+ 13.0 / - 13.0	+ 13.5 / - 13.5
Gas Midstream	+ 0.4 / - 0.4	+ 0.6 / - 0.6

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Other Exposures

Credit risk

The Group provides a variety of customers with products and services, none of whom, based on volume and creditworthiness, present significant credit risk.

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

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

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

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

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

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

Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to cover the liquidity risk in accordance with its financing strategy. The amount of undrawn major committed credit facilities as of 31 December 2012 consists of the following:

	HUF million
Long - term loan facilities available (general corporate purpose)	360,882
Short - term facilities available	318,269
Total loan facilities available	679,151

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Further enhancing the maturity profile of the Group, MOL Plc. has extended EUR 561 million amount by 1 additional year until 10 June 2017 under the EUR 1 billion revolving credit facility agreement signed on 10 June 2011 originally with 5 years tenor.

To further diversify the funding portfolio of the Group, MOL Group Finance S.A. (100% subsidiary of MOL Plc.) established a USD 1,000 million Euro Medium Term Note Programme guaranteed by MOL on 12 September 2012. Under the programme, USD 500 million bond was issued on 26 September 2012 with 7 years tenor and 6.250% coupon.

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 and 2011 based on contractual undiscounted payments.

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31 December 2012	On demand HUF million	Less than 1 month HUF million	1 to 12 months HUF million	1 to 5 years HUF million	Over 5 years HUF million	Total HUF million
Interest-bearing loans and borrowings:						
Obligations under financial leases	-	52	806	3,227	1,631	5,716
Floating rate long-term bank loans	-	4,749	216,740	145,376	5,431	372,296
Floating-rate other long-term loans	-	14	8,100	134	-	8,248
Floating-rate short-term bank loans	-	40,902	101,544	-	-	142,446
Floating-rate other short-term loans	-	-	-	-	-	-
Fixed rate bonds	-	-	22,071	516,976	-	539,047
Other	-	-	-	-	-	-
Non-interest bearing long-term liabilities	-	-	38	1,720	3,194	4,952
Transferred "A" shares with put and call options attached (see Note 17, 22 and 34)	-	-	166,188	-	-	166,188
Maximum exposure under financial guarantees (see Note 35)	6,574	-	-	-	-	6,574
Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions)	26,119	269,371	271,151	-	-	566,641
Total	32,693	315,088	786,638	667,433	10,256	1,812,108
31 December 2011	On demand HUF million	Less than 1 month HUF million	1 to 12 months HUF million	1 to 5 years HUF million	Over 5 years HUF million	Total HUF million
Interest-bearing loans and borrowings:						
Obligations under financial leases	-	41	723	2,680	814	4,258
Floating rate long-term bank loans	-	66,881	111,564	350,886	38,685	568,016
Floating-rate other long-term loans	-	17	358	6,616	-	6,991
Floating-rate short-term bank loans	-	26,335	109,133	-	-	135,468
Floating-rate other short-term loans	-	-	4,923	-	-	4,923
Fixed rate bonds	-	-	28,724	327,851	247,057	603,632
Other	-	-	-	-	-	-
Non-interest bearing long-term liabilities	-	22	237	4,130	5,012	9,401
Transferred "A" shares with put and call options attached	-	-	175,302	-	-	175,302
Maximum exposure under financial guarantees	11,409	-	-	-	-	11,409
Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions)	76,261	304,283	252,691	-	-	633,235
Total	87,670	397,579	683,655	692,163	291,568	2,152,635

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Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Treasury share transactions (see Note 17) are also used for such purposes. No changes were made in the objectives, policies or processes during the years end 31 December 2012 and 31 December 2011.

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

	2012 HUF million	2011 HUF million
Long-term debt, net of current portion	682,787	862,149
Current portion of long-term debt	262,048	183,905
Short-term debt	145,838	136,288
Less: Cash and cash equivalents and securities	347,781	311,133
Net debt	742,892	871,209
Equity attributable to equity holders of the parent	1,699,754	1,651,902
Non-controlling interest	547,383	591,203
Total equity	2,247,137	2,243,105
Capital and net debt	2,990,029	3,114,314
<i>Gearing ratio (%)</i>	24.8%	28.0%

34 Financial instruments

Financial instruments in the balance sheet include investments, other non-current assets, trade receivables, other current assets, securities, cash and cash equivalents, short-term and long-term debt, other long-term liabilities, trade and other payables. Derivatives are presented as other non-current assets, other non-current liabilities, other current assets and trade and other payables. Fair value of fixed rate bond which is carried at amortized cost is based on market prices.

Securities include EUR-denominated government bonds with an original maturity of 2015, having an inflation-adjusted coupon of 5.1%. Management intends not to hold this instrument beyond twelve months, hence it has been classified as current asset. Market for this instrument was not deemed to be active as of 31 December 2012, however, it has been acquired on the last day of the financial year, consequently its fair value equals to its carrying amount.

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

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	2012 HUF million	2011 HUF million
Cash flow hedges		
Net receivable from currency risk hedging derivatives as cash-flow hedge (see Note 12)	2,434	2,955
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,208	7,927
Total cash flow hedges	9,642	10,882
Financial instruments at fair value through profit or loss		
Derivatives designated as hedges		
Receivable from currency risk hedging derivatives as fair-value hedge	269	288
Fair value of firm commitments as hedged item under commodity price transactions (see Note 33)	-	185
Net receivables from commodity price transactions designated as fair value hedge (see Note 33)	59	-
Derivatives not designated as hedges		
Fair value of OTP-MOL share swap (see Note 17)	346	-
Net receivables from commodity price transactions (see Note 33)	236	337
Receivables from foreign exchange forward transactions (see Note 33)	-	-
Securities	29,202	-
Total financial instruments at fair value through profit or loss	30,112	810
Financial instruments at fair value through profit or loss, net of current portion (see Note 12)	183	214
Current portion of financial instruments at fair value through profit or loss (see Note 15)	727	596
Securities	29,202	-
Loans and receivables		
Loans given, net of current portion (see Note 12)	17,280	22,762
Current portion of loans given (see Note 15)	3,483	1,755
Total loans and receivables	20,763	24,517
Available for sale investments (see Note 11)		
Quoted equity shares – Jadranski Naftovod d.d.	10,792	10,938
Unquoted equity shares	9,779	9,711
Total available for sale investments	20,571	20,649
Total financial assets	81,088	56,858
Total non-current	40,468	46,580
Total current	40,620	10,278

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96 MOL Plc. and subsidiaries

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	2012 HUF million	2011 HUF million
Cash flow hedges		
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	4,070	5,457
Total cash flow hedges	4,070	5,457
Financial liabilities at fair value through profit or loss		
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	2,761	14,532
Derivatives designated as hedges		
Fair value of firm commitments as hedged item under commodity price transactions (see Note 33)	59	-
Net payables from commodity price transactions designated as fair value hedge (see Note 33)	-	185
Payables from currency risk hedging derivatives as fair value hedge	1,534	912
Derivatives not designated as hedges		
Fair value of the option on MOL shares transferred to CEZ (see Note 17)	6,093	16,864
Fair value of MOL-OTP share swap (see Note 17)	-	4,585
Payables from foreign exchange forward transactions (see Note 33)	19	-
Total financial liabilities at fair value through profit or loss	10,466	37,078
Financial liabilities at fair value through profit or loss, net of current portion (see note 21)	3,910	15,280
Current portion of financial liabilities at fair value through profit or loss (see note 22)	6,556	21,798
Financial liabilities at amortized cost		
Non-current interest bearing loans and borrowings	940,733	1,041,182
Current interest bearing loans and borrowings	145,839	136,288
Transferred "A" shares with put and call options attached (see Note 17 and 22)	166,188	171,140
Non-interest bearing long-term liabilities	4,101	4,872
Total financial liabilities at amortized cost	1,256,861	1,353,482
Total financial liabilities	1,271,397	1,396,017
Total non-current	948,744	1,061,334
Total current	322,653	334,683

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

	Carrying amount		Fair value	
	2012	2011	2012	2011
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Net receivable from currency risk hedging derivatives (see Note 12)	2,434	2,955	2,434	2,955
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,208	7,927	7,208	7,927
Available-for-sale investments (see Note 11)	20,571	20,649	20,571	20,649
Securities	29,202	-	29,202	-
Loans given (see Note 12 and 15)	20,763	24,517	20,763	24,517
Trade receivables (see Note 14)	570,680	620,849	570,680	620,849
Receivable from currency risk hedging derivatives as fair-value hedge (see Note 33)	269	288	269	288
Fair value of firm commitments as hedged item under commodity price transactions (see Note 33)	-	185	-	185
Net receivables from commodity price transactions designated as fair value hedge (see Note 33)	59	-	59	-
Net receivables from commodity price transactions (see Note 33)	236	337	236	337
Fair value of MOL-OTP share swap (see Note 17)	346	-	346	-
Other current assets (excluding derivatives, Loans given and prepaid and recoverable taxes, see Note 15)	79,718	43,877	79,718	43,877
Cash and cash equivalents (see Note 16)	318,579	311,133	318,579	311,133
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under financial leases	4,488	3,388	4,488	3,388
Floating rate long-term bank loans	368,977	539,619	368,977	539,619
Floating rate other long-term loans	-	6,594	-	6,594
Floating rate short-term bank loans	145,614	136,049	145,614	136,049
Floating-rate other short-term loans	225	239	225	239
Fixed rate bonds	567,268	491,581	580,114	408,504
Non-interest bearing long-term liabilities	4,101	4,872	4,101	4,872
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	4,070	5,457	4,070	5,457
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	2,761	14,532	2,761	14,532
Transferred "A" shares with put and call options attached (see Note 17 and Note 22)	166,188	171,140	166,188	171,140
Fair value of the option on MOL shares transferred to CEZ (see Note 17)	6,093	16,864	6,093	16,864
Fair value of MOL-OTP share swap (see Note 17)	-	4,585	-	4,585
Payables from currency risk hedging derivatives as fair value hedge (see Note 33)	1,534	912	1,534	912
Fair value of firm commitments as hedged item under commodity price transactions (see Note 33)	59	-	59	-
Net payables from commodity price transactions designated as fair value hedge (see Note 33)	-	185	-	185
Payables from foreign exchange forward transactions (see Note 33)	19	-	19	-
Trade and other payables (excluding derivatives, Transferred "A" shares with put and call options attached and taxes and contributions, see Note 22)	542,274	595,201	542,274	595,201

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

- Level 1: quoted prices in active markets for identical assets and liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The financial assets and liabilities measured by the Group at fair value as at 31 December 2012 are categorised as follows:

	31 Dec 2012	Level 1	Level 2	Level 3
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Securities	29,202	-	29,202	-
Available for sale investment in JANAF d.d. (see Note 11)	10,792	10,792	-	-
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,208	-	7,208	-
Net receivable from currency risk hedging derivatives as cash-flow hedge (see Note 12)	2,434	-	2,434	-
Fair value of MOL-OTP share swap (see Note 17)	346	-	346	-
Receivables from currency risk hedging derivatives (see Note 33)	269	-	269	-
Net receivables from commodity price transactions (see Note 33)	236	-	236	-
Net receivables from commodity price transactions designated as fair value hedge (see Note 33)	59	-	59	-
Financial liabilities				
Fair value of the option on MOL shares transferred to CEZ (see Note 17)	6,093	-	6,093	-
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	4,070	-	4,070	-
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	2,761	-	2,761	-
Payables from currency risk hedging derivatives as fair value hedge (see Note 33)	1,534	-	1,534	-
Fair value of firm commitments as hedged item under commodity price transactions (see Note 33)	59	-	59	-
Payables from foreign exchange forward transactions (see Note 33)	19	-	19	-

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	31 Dec 2011	Level 1	Level 2	Level 3
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Available for sale investment in JANAF d.d. (see Note 11)	10,938	10,938	-	-
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,927	-	7,927	-
Net receivable from currency risk hedging derivatives as cash-flow hedge (see Note 12)	2,955	-	2,955	-
Net receivables from commodity price transactions (see Note 33)	337	-	337	-
Receivables from currency risk hedging derivatives (see Note 33)	288	-	288	-
Fair value of firm commitments as hedged item under commodity price transactions (see Note 33)	185	-	185	-
Financial liabilities				
Fair value of the option on MOL shares transferred to CEZ (see Note 17)	16,864	-	16,864	-
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	14,532	-	14,532	-
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	5,457	-	5,457	-
Fair value of MOL-OTP share swap (see Note 17)	4,585	-	4,585	-
Payable from currency risk hedging derivatives as fair value hedge (see Note 33)	912	-	912	-
Net payables from commodity price transactions designated as fair value hedge (see Note 33)	185	-	185	-

35 Commitments and contingent liabilities

Guarantees

The total value of guarantees undertaken to parties outside the Group is HUF 6,574 million.

Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2012 is HUF 107.1 billion, from which significant amounts relate to the construction of the new petrochemical plants of Slovnaft and TVK (HUF 63.2 billion and HUF 23.3 billion, respectively). In addition to the above, HUF 13.5 billion relates to capital and contractual commitments of INA, and HUF 5.7 billion relates to MOL Plc.

Gas Purchases Obligation, Take or Pay Contract

MOL Group has concluded a long-term gas purchase contract with MET in order to ensure the continuous natural gas supply of the Group's plants. According to the agreement, contracted volumes have been set for each year for the period ending in 2015 but the volumes for the actual period are subject to annual renegotiation with the supplier. The major part of the

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renegotiated yearly contracted volumes are under take-or-pay commitment (140 mcm as of 31 December 2012). Starting from 1 January, 2011 Prirodni plin d.o.o. concluded a new import contract with ENI Italy for procurement of app 2,250 million cubic meters of natural gas until 31 December 2013. As of 1 January 2013 future obligations amount to approximately HUF 69 billion until the contract expiry. Along with this long term contract, INA signed another contract with MET and Geoplin d.o.o. regarding natural gas import until 1 October 2013. As of 1 January 2013 future obligations amount to approximately HUF 24 billion until the contract expiry.

Operating leases

Operating lease liabilities are as follows:

	2012	2011
	HUF million	HUF million
Due not later than 1 year	5,393	6,509
Due two to five years	8,722	7,534
Due over five years	55	150
Total	14,170	14,193

Out of the outstanding operating lease liabilities as of 31 December 2012 HUF 5,516 million were contracted by SLOVNAFT, a.s., HUF 2,958 million were contracted by INA and HUF 2,996 million were contracted by MOL Plc.

Authority procedures, litigation

CREDITOR procedures

CREDITOR GAMA s.r.o. („CREDITOR GAMA”) has submitted a compensation claim against MOL Plc. („MOL”) which was served to MOL by Bratislava I. Court on 12 January 2011. In its pleading CREDITOR GAMA claims compensation in connection with the acquisition of SLOVNAFT a.s. shares by MOL in the amount of cca. SKK 380 million (EUR 12.6 million) plus delay interest 14.75% p.a from 28 November 2007. CREDITOR GAMA alleges that the buying offer of MOL for the SLOVNAFT a.s. shares was in breach of the Slovak Bonds and Investment Services Act, because the lawful price per share should have been higher. MOL refuses the claim of CREDITOR GAMA with special regard to the fact that the buying offer was approved by the Slovak financial authority (Úrad pre financny trh). The first hearing was held on 20 September 2011 on which the court ordered taking of evidences without setting the date of the next hearing.

In its claim submitted to the Bratislava I. Court the claimant CREDITOR BETA s.r.o. („CREDITOR BETA”) alleges that the buying offer of MOL in connection with the acquisition of SLOVNAFT a.s. shares was not approved by the Slovak financial authority (Úrad pre financny trh) and therefore it was not able to receive consideration for its shares for 213 days. It claims for compensation for damages suffered in connection with this delay (cca. EUR 3 million plus delay interest 10.48% p.a from 28 June 2007). The court of first instance accepted the claimant's arguments and awarded the claim. MOL filed an appeal against this judgment. The court of second instance set aside the appealed judgment and referred the case back to the court of first instance. The court of first instance ordered for appointing an expert. The expert delivered its opinion to the court. MOL

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provided for a counter opinion which delivered to the court together with its statement; MOL considers the conclusions of the expert opinion provided by the court as incorrect. The court has set the date of the next hearing for April 11, 2013.

Paraffin cartel infringement

The European Commission started an investigation in April 2005, based upon the alleged cartel activity of paraffin producers and traders in Europe. The investigation affected some 10 major paraffin producers and traders throughout Europe. The decision was adopted in October 2008 and stated that the companies harmonized their commercial activities on the European (European Economic Area) paraffin market and participated in a continuous cartel infringement. In case of MOL the amount of fine was set in EUR 23.7 million which was paid by MOL in early 2009.

In relation to the above described EU Commission decision the former paraffin customers may have the right to claim private damages from the paraffin cartel participants, i.e. from MOL, too.

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

Proceedings with respect to SLOVNAFT a.s.

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

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

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

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

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

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

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

On the hearing held on March 22, 2012 by the Regional Court of Bratislava decision of the Antimonopoly office from 2010, as well as decision of the Council of the Antimonopoly office adopted in 2011 has been quashed. The case was shifted back to the Office for adopting a new decision on merit of the case. The Office appealed the judgment of the Regional Court of Bratislava on May 9, 2012. The case is at the Supreme Court of Slovak Republic. The possible outcome of the appeal proceeding cannot be quantified.

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

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

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

MOL Romania s.r.l. has got the decision of the Romanian Competition Council. They have filed with the Bucharest Court of Appeal applications for the annulment of the decision. This procedure is on-going.

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

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Court proceedings at INA Group:

LJUBLJANSKA BANKA

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

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

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

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

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

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

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

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

The plaintiff has applied for a review.

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

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

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GWDF

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

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

At the last hearing, held on 8 February 2011, after the parties repeated their standpoints, the court decided to request from the German Republic and the Republic of Cyprus by diplomatic ways the text of the law relevant for making decisions in this case. The status of INA d.d. has not changed even after the hearing held on 8 February 2011, delivery of the governing law shall for sure be lasting for a certain time, and only at the hearings to be determined following the acquisition of the governing law it will be clear in which direction the proceedings will be continued. Upon providing the text of the governing law, and after the hearing has been held, it will be possible to give a more precise estimation of the status of defendants in this dispute. The proofs derived up to now have not essentially changed the position of the parties in relation to their status at the beginning of the proceedings and it is assessed that the position of INA d.d. in dispute is about equal to the position of the plaintiffs, that is to say that at the moment the parties have equal chances for success in dispute.

EDISON INTERNATIONAL S.p.A

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

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

The plaintiff initiated the procedure on 29 June 2011, when INA d.d. received the Notice of Arbitration. INA d.d. filed a Response to the stated Notice on 19 July 2011, and also submitted a Counterclaim. The Arbitration Panel was formed on 23 September 2011, and an organizational teleconference was held on 17 November 2011. The Arbitration Panel adopted the Agreement between the parties and the arbitrator, Special Procedural Rules and Schedule by the means of the Procedural solution no. 1 of 6 December 2011.

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

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Following the constitution of an arbitral tribunal to hear the claim, Edison filed its Statement of Claim on 20 February 2012. On 25 May 2012, INA submitted its Statement of Defence and Counterclaim. Further, written submissions were exchanged and hearing was held in December 2012 in Vienna. Further to previously mentioned hearing, in January 2013 additional round of written submissions has been conducted. It can be expected that the arbitral tribunal shall pass its decision in the next few months; however there is no firmly set deadline for the issuance of the award.

Concessions

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

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

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

On August 29, 2012, INA filed the Note of urgency before the Administrative Court, in which it requested prompt reaction in solving three administrative lawsuits.

General

None of the litigations described above have any impact on the accompanying consolidated financial statements except as explicitly noted. MOL Group entities are parties to a number of civil actions arising in the ordinary course of business. Currently, no further litigation exists that could have a material adverse effect on the financial condition, assets, results or business of the Group.

The value of litigation where members of the MOL Group act as defendant is HUF 51,728 million for which HUF 18,058 million provision has been made.

Environmental liabilities

MOL's operations are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work. MOL is currently responsible for significant remediation of past environmental damage relating to its operations. Accordingly, MOL has established a provision of HUF 73,349 million for the estimated cost as at 31 December 2012 for probable and quantifiable costs of rectifying past environmental damage (see Note 20). Although the management believes that these provisions are sufficient to satisfy such requirements to the extent that the related costs are reasonably estimable, future regulatory developments or differences between known environmental conditions and actual conditions could cause a revaluation of these estimates.

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In addition, some of the Group's premises may be affected by contamination where the cost of rectification is currently not quantifiable or legal requirement to do so is not evident. The main case where such contingent liabilities may exist is the Tiszaújváros site, including both the facilities of TVK and MOL's Tisza refinery, where the Group has identified potentially significant underground water and surface soil contamination. In accordance with the resolutions of the regional environmental authorities combined for TVK and MOL's Tisza Refinery, the Group is required to complete a detailed investigation and submit the results and technical specifications to the authorities. Based on these results the authorities are expected to specify a future environmental risk management plan and to bring a resolution requiring TVK and MOL to jointly perform this plan in order to manage the underground water contamination. The amount of obligation originating from this plan cannot be estimated currently, but it is not expected to exceed HUF 4 billion.

Furthermore, the technology applied in oil and gas exploration and development activities by the Group's Hungarian predecessor before 1976 (being the year when the act on environmental protection and hazardous waste has become effective) may give rise to future remediation of drilling mud produced. This waste material has been treated and disposed of in line with environmental regulations ruling at that time, however, subsequent changes in legal definitions may result in further re-location and remediation requirements. The existence of such obligation, and consequently the potential expenditure associated with it is dependent on the extent, volume and composition of drilling mud left behind at the numerous production sites, which cannot be estimated currently, but is not expected to exceed HUF 3-5 billion.

Further to more detailed site investigations to be conducted in the future and the advancement of national legislation or authority practice, additional contingent liabilities may arise at the industrial park around Mantova refinery and the Croatian refineries, depots and retail sites which have been acquired in recent business combinations. As at 31 December, 2012, on Group level the aggregate amount of contingent liabilities recorded on the balance sheet as environmental liabilities was HUF 33.3 billion (HUF 34.7 billion at 31 December, 2011).

36 Events after the reporting period

Exercise of call option and share option agreement with Unicredit

Option rights under the share option agreement regarding 3,561,053 MOL Series "A" Ordinary shares concluded between UniCredit Bank AG and MOL on 7 February 2012 (see Note 17), were cash settled in respect of all the shares on 13 February 2013.

MOL and UniCredit concluded a share purchase agreement in respect of 519,443 shares and share option agreements in respect of 4,080,496 Shares. As a result of these transactions, MOL received an American call option and UniCredit received a European put option regarding 4,080,496 shares on 13 February 2013. The maturity of both options is one year, such maturity being subject to yearly extensions with one year, up to a total tenor of three years. The strike price of both call and put option is EUR 61.27 per share.

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37 Notes to the consolidated statements of cash-flows

Cash and cash equivalents comprise the following at 31 December

	2012	2011
	HUF million	HUF million
Cash and cash equivalents according to Balance Sheet	318,579	311,133
Cash and cash equivalents as part of Disposal Group	-	-
Total Cash and cash equivalents	318,579	311,133

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

	2012	2011
	HUF million	HUF million
Cash consideration	(22,884)	(25,314)
Cash at bank or on hand acquired	1,342	-
Net cash outflow on acquisition of subsidiaries, joint ventures and non-controlling interests	(21,542)	(25,314)

Issuance of long-term debt

	2012	2011
	HUF million	HUF million
Increase in long-term debts	220,465	206,845
Non cash-flow element: unrealised exchange gains / (losses)	46,976	(15,623)
Total issuance of long-term debt	267,441	191,222

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38 Related party transactions

Transactions with associated companies in the normal course of business

	2012	2011
	HUF million	HUF million
Trade and other receivables due from related parties	14,473	20,083
Trade and other payables due to related parties	11,209	8,518
Net sales to related parties	28,624	29,178

The Group purchased and sold goods and services with related parties during the ordinary course of business in 2012 and 2011. All of these transactions were conducted under market prices and conditions.

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

Directors' total remuneration approximated HUF 130 million and HUF 117 million in 2012 and 2011, respectively. In addition, the directors participate in a long-term incentive scheme details of which are given below. Total remuneration of members of the Supervisory Board approximated HUF 92 million in 2012 and HUF 83 million in 2011.

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 for this payment. Directors who are not Hungarian citizens and do not have permanent address in Hungary are provided with EUR 1,500 on each Board meeting (maximum 15 times a year) when travelling to Hungary.

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

	2012	2011
	Number of shares	Number of shares
Board of Directors	229,443	239,574
Senior Management (except executive Board members)	119,508	119,508
Supervisory Board	54,588	63,300
Total	403,539	422,382

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Transactions with the Officers and Management of the Company

Mr. Sándor Csányi, deputy chairman of the Board of Directors is also the Chairman-CEO of OTP Bank Plc. MOL Plc. and some of its subsidiaries have contractual relationship with the members of OTP Group, including having bank accounts and deposits, using credit card and brokerage services and obtaining loan financing. No transactions out of the usual conduct of business have been concluded with OTP in 2012 or 2011. All of these transactions are on an arm's-length basis.

Mr. Martin Roman, member of the Board of Directors of the Company, is the Chairman of the Supervisory Board of ČEZ, a.s. MOL and CEZ have established a JV which operates the boiler park at the Danube Refinery and the thermo-power plant at the Bratislava refinery and through which the preparatory work of planned construction of CCGTs at the refineries of the Group in Bratislava and Százhalombatta is carried out. In addition to the cooperation presented above, in 2012 CEZ entered in the following business transactions with members of MOL Group:

- I&C Energo a.s. provided various investments, service works and delivery of material to CEZ in the value of HUF 7,666 million (in 2011 HUF 12,326 million);
- Slovnaft Česká Republika, a.s. delivered oil and lubricants to CEZ in the value of HUF 99 million (in 2011 HUF 101 million).

Mr. Miklós Dobák, a member of the Board of Directors of the Company is an international partner in consulting company IFUA Horváth & Partners Kft. The company provided consulting services to the Group in 2012 and 2011 in the value of HUF 10 million and HUF 8 million, respectively.

Mr. Slavomír Hatina, member of the Supervisory Board has an indirect interest of a Slovakian company Granitol a.s. through Slovintegra a.s. The Group has sold polyethylene to this company in 2012 and 2011 amounted to HUF 4,772 million and HUF 4,789 million respectively, carried out on usual commercial terms and market prices. Additionally, Mr. Hatina has an indirect interest of a Slovakian company Real–H.M. s.r.o. through BIATEC Group a.s. The Group has sold goods to this company in amount of HUF 2 million and HUF 8 million carried out on usual commercial terms and market prices during 2012 and 2011, respectively.

Mr. Oszkár Világi, member of the Board of Directors of the Company and Slovnaft's Chief Executive Officer is a partner in legal firm Ruzicka Csekcs s.r.o. The company provided legal services to the Group in the value of HUF 177 million and HUF 56 million in 2012 and 2011, respectively.

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Key management compensation

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

	2012	2011
	HUF million	HUF million
Salaries and other short-term employee benefits	1,312	1,298
Termination benefits	-	497
Share-based payments	24	994
Total	1,336	2,789

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

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

39 Share-based payment plans

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

	2012	2011
	HUF million	HUF million
Expense arising from equity-settled share-based payment transactions	305	-
Expense / (reversal of expense) arising from cash-settled share-based payment transactions	(111)	(3,202)
Total expense / (reversal of expense) arising from share-based payment transactions	194	(3,202)

The share-based payments are described below.

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

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Share Option Incentive Schemes for management

The incentive system based on stock options launched in 2006 ensures the interest of the management of the MOL Group in the long-term increase of MOL stock price.

The incentive stock option is a material incentive disbursed in cash, calculated based on call options concerning MOL shares, with annual recurrence, with the following characteristics.

- covers a 5-year period starting annually, where periods split into:
 - a 3-year waiting period and a 2-year redemption period in case of managers staying in the previous system for 2009,
 - a 2-year waiting period and a 3-year redemption period in case of managers choosing the new system already for 2009, and it is valid for all of the entitled managers from 2010.
- its rate is defined by the quantity of units specified by MOL job category
- the value of the units is set annually (in each year since the initiation of the scheme, 1 unit equals to 100 MOL shares).

According to the new system it is not possible to redeem the share option until the end of the second year (waiting period); the redemption period lasts from 1 January of the 3rd year until 31 December of the 5th year.

The incentive is paid in the redemption period according to the declaration of redemption. The paid amount of the incentive is determined as the product of the defined number and price increase (difference between the redemption price and the initial price) of shares.

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Details of the share option rights granted during the year were as follows:

	Number of shares in conversion option units 2012 share	Weighted average exercise price 2012 HUF/share	Number of shares in conversion option units 2011 share	Weighted average exercise price 2011 HUF/share
Outstanding at the beginning of the year	604,999	18,431	740,269	17,465
Granted during the year	145,894	17,120	160,143	20,119
Forfeited during the year	(69,458)	20,600	(28,590)	19,522
Exercised during the year	(75,062)	14,636	(199,850)	15,140
Expired during the year	(129,349)	30,337	(66,973)	21,146
Outstanding at the end of the year	477,024	15,083	604,999	18,431
Exercisable at the end of the year	194,487	15,545	260,062	24,076

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 2012 expenses recorded in preceding years has been reversed in a value of HUF 111 million (HUF 3,202 million reversal in 2011). Liabilities in respect of share-based payment plans amounted to HUF 2,062 million as at 31 December 2012 (31 December 2011: HUF 2,174 million), recorded in Other non-current liabilities and Other current liabilities.

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

	2012	2011
Weighted average exercise price (HUF / share)	15,083	18,431
Share price as of 31 December (HUF / share)	17,749	17,470
Expected volatility based on historical data	44.18%	46.42%
Expected dividend yield	2.61%	1.23%
Estimated maturity (years)	2.77	2.59
Risk free interest rate	0.15%	0.51%

Profit sharing incentive

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

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

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

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No payment is expected with respect to 2012 based on the profit-sharing incentive system.

Share Incentive scheme for the members of the Board of Directors

According to resolution of the 2012 Annual General Meeting of the parent company, in case of the members of Board of Directors, the former profit sharing incentive programme had been replaced by a new, share-settled incentive scheme exclusively for the members of the Board of Directors ensuring their interest in the long-term increase of MOL share price. The members of the Board of Directors become entitled to defined annual amount of MOL shares based on the number of days spent in the position. 100 shares per month are granted to each director, the Chairman of the Board is entitled to an additional amount of 25 shares per month. If an executive director is in charge as a Chairman of the Board then this additional amount of shares should be granted to the non-executive Deputy Chairman. The new incentive system ensures the interest of the Board of Directors in the long-term increase of the MOL share price as 2/3 of the shares vested in the year are under transferring restriction for one year.

According to IFRS 2, the incentive qualifies as an equity-settled share based scheme; therefore the fair value of the benefit should be expensed during the one year vesting period with a corresponding increase in the equity. The fair value of the benefit has been determined with reference to the average quoted price of MOL shares at the date of grant which is in this case the date of the Annual General Meeting (26 April 2012). In respect of the share scheme programme, HUF 305 million has been recorded as an expense with the corresponding increase in the equity.

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

	2012	2011
Number of shares vested	13,500	-
Share price at the date of grant (HUF / share)	17,765	-

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

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF 2012 RESULTS

In 2012, MOL Group generated a clean CCS-based EBITDA of HUF 573bn, down by only 7%, despite the fact that whereas Syrian production contributed HUF 75bn to results in 2011, there was no contribution in 2012. Key drivers of Divisional performances were (1) lack of any Syrian contribution in 2012 partly offset by higher average realised price in Upstream, (2) a better crack spread environment and efficiency improvement efforts in Downstream, (3) increased gas trading losses in Croatia in Gas Midstream. Group EBITDA, excluding special items, fell by 9% YoY partly driven by lower inventories and FX gains in Downstream. The Group generated HUF 454bn operating cash flow, a 22% increase YoY, hence our net gearing dropped to 25% from 28% compared to year-end 2011.

- ▶ **Upstream:** EBITDA before special items fell by 14% YoY to HUF 417bn in 2012. Benefits from a 4% YoY increase in the average realised price and a stronger USD (by 12% and 9% against the HUF and HRK, respectively) were more than offset by the following negative factors. Firstly, the Group has not received any revenues from Syria since October 2011; excluding the Syrian contribution of HUF 75 bn in 2011, EBITDA before special items slightly increased in 2012. Secondly, production excluding the Syrian contribution fell 9% YoY to 115 mboepd, driven by the natural depletion of mature CEE and Russian fields as well as the encroachment of water in Croatian offshore fields. Thirdly, EBITDA was adversely affected by the new residential gas price regulation in Hungary.
- ▶ **Downstream:** The clean CCS-based EBITDA of Refining & Marketing amounted to HUF 168bn, the highest since 2008 and more than twice that of 2011. Our performance benefited from a favourable crack spread environment, especially for gasoline, a stronger US dollar, the Group's improving product slate moving towards white products and the Group's efficiency improvement efforts in the New Downstream Program which delivered USD 150mn in savings compared with the prior period. At the same time, the Brent-Urals differential tightened YoY, demand for motor fuels and petrochemicals products fell further in our core regions and maintenance activities were more intensive than a year ago. Downstream EBITDA, including inventory and FX effects, rose to HUF 169bn, up 42% YoY, despite a HUF 20bn fall in Petrochemicals results.
- ▶ **Gas Midstream:** EBITDA, excluding special items, decreased by 32% YoY to HUF 58bn in 2012. Prirodni Plin in Croatia, INA's gas trading arm had a negative impact on the Division's results with a HUF 38bn operating loss due to rising import prices and a regulated price cap for certain customer groups.
- ▶ **Net financial expenses** were HUF 47bn in 2012, representing mainly net interest expenses. In 2012, a HUF 43bn foreign exchange gain on bank loans, designated as net investment hedging instruments, was accounted for as translation reserve, within equity.
- ▶ **CAPEX spending** increased by 5% to HUF 289bn in 2012. Investments focused on the Kurdistan Region of Iraq, the CEE region and Russia in Upstream and maintenance-related expenditure in Downstream. It also comprises the acquisition costs of new exploration licences in Kazakhstan and Oman and of the Pap Oil retail network in the Czech Republic.
- ▶ **Operating cash flow** increased by 22% YoY and amounted to HUF 454bn, partly driven by a lower working capital outflow of HUF 35bn versus HUF 182bn in 2011. Operating cash flow before changes in working capital decreased by 9% to HUF 551bn mainly due to lack of cash inflow from Syria.
- ▶ **Net debt** decreased to HUF 743bn in 2012 from HUF 871bn in 2011, driven by the stronger Hungarian forint and MOL Group cash flow generation. The net gearing ratio stood at 24.8% as of 31st December 2012, versus 28.0% at the end of 2011.

Key financial data by business segment

Net sales revenues	2012 (HUF mn)	2011 (HUF mn)	2012 (USD mn) ⁵	2011 (USD mn) ⁵
Upstream	779,080	795,305	3,456	3,959
Downstream	4,811,224	4,564,311	21,345	22,719
Gas Midstream	462,924	430,184	2,054	2,141
Corporate and other	158,535	164,998	703	821
Total	6,211,763	5,954,798	27,558	29,640
Net external sales revenues ¹	2012 (HUF mn)	2011 (HUF mn)	2012 (USD mn) ⁵	2011 (USD mn) ⁵
Upstream	270,104	358,800	1,198	1,786
Downstream	4,793,031	4,547,765	21,264	22,637
Gas Midstream	422,590	397,715	1,875	1,979
Corporate and other	36,591	38,954	162	194
Total	5,522,316	5,343,234	24,449	26,596
EBITDA	2012 (HUF mn)	2011 (HUF mn)	2012 (USD mn) ⁵	2011 (USD mn) ⁵
Upstream	402,381	475,893	1,786	2,369
Downstream	140,019	85,789	621	427
Gas Midstream	58,072	81,844	258	407
Corporate and other	(41,480)	(26,772)	(184)	(133)
Inter-segment transfers ²	(19,005)	(13,732)	(84)	(68)
Total	539,987	603,022	2,397	3,002
EBITDA excl. special items ³	2012 (HUF mn)	2011 (HUF mn)	2012 (USD mn) ⁵	2011 (USD mn) ⁵
Upstream	417,421	483,624	1,852	2,407
Downstream	168,948	118,670	750	591
<i>Clean CCS-based R&M EBITDA^{3,4}</i>	167,625	81,535	744	406
Gas Midstream	58,367	85,992	259	428
Corporate and other	(38,523)	(29,462)	(171)	(147)
Inter-segment transfers ²	(19,005)	(13,732)	(84)	(68)
Total	587,208	645,092	2,606	3,211
<i>Clean CCS-based EBITDA^{3,4}</i>	573,308	615,092	2,545	3,063
Operating profits	2012 (HUF mn)	2011 (HUF mn)	2012 (USD mn) ⁵	2011 (USD mn) ⁵
Upstream	255,748	321,639	1,135	1,601
Downstream	2,315	(74,230)	10	(369)
Gas Midstream	35,760	61,905	159	308
Corporate and other	(56,517)	(44,510)	(251)	(222)
Inter-segment transfers ²	(16,885)	(11,622)	(75)	(58)
Total	220,421	253,182	978	1,260
Operating profits excl. special items ³	2012 (HUF mn)	2011 (HUF mn)	2012 (USD mn) ⁵	2011 (USD mn) ⁵
Upstream	281,704	330,140	1,250	1,643
Downstream	37,855	(463)	168	(2)
Gas Midstream	36,055	66,053	160	329
Corporate and other	(53,560)	(47,200)	(238)	(235)
Inter-segment transfers ²	(16,885)	(11,622)	(75)	(58)
Total	285,169	336,908	1,265	1,677

Notes and special items listed in Appendix I and II.

OUTLOOK ON THE STRATEGIC HORIZON

MOL was able to counterbalance the lack of Syrian revenues by showing its strength and diversified profile

In 2012, in line with previous years' trends, around half of MOL Group's earnings came from outside Hungary. We expect this tendency to continue in the coming years. The Upstream Division's contribution has grown significantly over the last few years and delivered roughly $\frac{2}{3}$ of Group EBITDA in 2012. However, our main success was that we were able to counterbalance the lack of Syrian revenues in the P&L to a significant extent which clearly shows the strength and diversified profile of our Group.

We are going to derisk our 1.6 Bboe resource potential, including 725 MMboe from Kurdistan

In Upstream, the major task over the coming years will be to derisk our current 1.6 Bboe recoverable resource potential. The main focus will be on the Kurdistan Region of Iraq where we have already achieved three discoveries. As a result of our intensive exploration and appraisal programs, carried out together with our partners, we expect reserve bookings from Shaikan and Akri-Bijeel blocks in 2013 and 2014, respectively. Moreover, the fast track development program in the Shaikan field will deliver the first visible barrels from the region which may not only stabilise Group-level production but support unit profitability as well.

Beyond that, derisking our new core country Kazakhstan and mitigating a natural CEE production decline will be our main focus

Beyond that, there will be more and more emphasis on our new core country, Kazakhstan, where we further increased our presence in 2012. We have acknowledged recoverable resource potential of 135 MMboe which is planned to be derisked in 2013 and 2014. Barrels from Kazakhstan should be one of the main pillars of our midterm production growth. In the CEE, our mission has remained unchanged; our aim is to mitigate the natural decline rate of below 5% by maximising recovery rates and continuing exploration of remaining CEE upside.

In Upstream, 170-180 mboepd production is targeted by 2017-2020

Due to previous years' exploration successes, our hydrocarbon resource potential could well be a solid basis to reach our strategic target of a 100% reserve replacement ratio in 3 years, on average. We expect Group-level production to achieve 170-180 mboepd by 2017-2020 with relatively stable unit profitability.

Our New Downstream Program is to deliver USD 500-550mn in efficiency improvements by 2014, compared to the 2011 base year

In our Downstream business, the main focus remained on efficiency improvements, especially considering that a very challenging environment is also expected for the coming years. The New Downstream Program was launched in 2012 and is now in full swing. USD 150mn in efficiency improvements were delivered in 2012 compared to the 2011 base year. The goal for 2013 is to achieve a further USD 250mn in improvements while the ultimate goal is to deliver USD 500-550mn in cost savings and revenue increases compared to the base period. As part of the program, the entire value chain is being reviewed. However, the main focus on key cost elements aimed at significant operating cost reduction. Beyond that, management continues to evaluate all possible options for profitable operations of small, less efficient assets.

More emphasis on Retail and Logistics due to a changed market situation

Another key area for focus is how to cope with the difficult situation of shrinking demand. In such a difficult business environment, the importance of the captive market concept has increased all the more. This is especially true in the gasoline market. Here we aim to expand our retail network in the region further and rationalise and then increase our Retail portfolio. The focus is on areas which provide captive markets, good profitability and growth opportunities. Finally, we are committed to continuing the refinery modernisation program in Rijeka, Croatia. Final investment decision is expected after the basic design of the unit is completed.

CAPEX should be financed from operating cash-flow in a flexible way; USD 1.5 bn in 2013

In principle, all our organic CAPEX spending should be fully covered by operating cash flow. While in 2013 our organic CAPEX program requires USD 1.5bn in the mid-term, we are maintaining our up to USD 2 bn per annum guideline. More than 50% is allocated to Upstream, 28% to Downstream, 3% to Gas and the remainder serves as a contingency fund. On the other hand, MOL continuously monitors both growth opportunities and the external environment so as to be able to react in a flexible way in CAPEX spending.

M&A: Active portfolio management has priority in Upstream

As far as our M&A activities are concerned, we are open to adding new elements to our Upstream portfolio just as we did in Russia, Oman, Kazakhstan and Egypt in 2012. We prefer entering projects in their early, exploration phases, where most of the value is created. It should be noted, however, that in all cases, balance between cash-in and cash-out cycles should be approximately balanced so as to be active in farm-outs as well to optimise our financing and risk profile. In Downstream, in line with the above-mentioned captive market strategy, we are further extending our Retail network.

UPSTREAM OVERVIEW

Highlights

- EBITDA, excluding special items, reached HUF 417bn, below 2011 results due to lack of a Syrian contribution, worth HUF 75bn in 2011.
- The Group's total SPE 2P reserves stood at 647 MMboe as of 31st December 2012.
- Current best estimates of unrisks recoverable resource potential is 1.6 Bboe (on a working interest basis) from 11 countries, which will be derisks in the coming years (725 MMboe in the Kurdistan Region of Iraq, 135 MMboe in Kazakhstan).
- In 2013, we are expecting around 110 mboepd hydrocarbon production, without any Syrian contribution.
- As a result of successful Kurdistan activities, the first barrels from the region will contribute to production in 2013.
- More emphasis will be given to active portfolio management.
- 2013 accomplishments will provide a solid basis for reaching our strategic target of 170 – 180 mboepd production.

Overview of 2012

Upstream remained the main driver of EBITDA in 2012

EBITDA, excluding special items, decreased compared to the base period. The main reason behind the drop was the lack of Syrian revenues since October 2011. INA ceased operations, declaring 'force majeure' on February 26th, 2012. Beyond that, Group performance was negatively affected by lower production, mainly in the CEE region, which was partially offset by the positive effects of:

- higher crude oil sales to the Sisak refinery in current period since:

- there were no sales during Q3 2011 due to a fire at the refinery
- at the beginning of 2012, stocks accumulated during the previous year's refinery shutdown were sold
- increased average realized hydrocarbon price
- favourable changes in FX rates

Excluding the Syrian contribution (HUF 75bn) in 2011, EBITDA, excluding special items, slightly increased in 2012.

EBITDA deteriorated by HUF 15bn in special items, the majority of which related to an additional payment for the Angolan concessions and a provision for project abandonment in Iran. (See Appendix I.)

Daily production levels decreased mostly due to the Syrian 'force majeure' pullout...

Average daily hydrocarbon production decreased compared with 2011, mostly due to the Syrian 'force majeure' since volumes were recognised only up to the date of the 'force majeure' announcement on 26th February 2012. **Average daily hydrocarbon production, excluding the Syrian contribution, was 115 mboepd**, a 9% decrease compared to the same period in 2011. One of the main reasons behind this drop was a natural decline, water cuts at the Adriatic offshore gas and further decreases in Croatian condensate production due to abandoned C2+ production. In addition, CAPEX delays in the Russian ZMB field and a natural decline in Hungarian oil production both had negative impacts on production.

... depletion of mature CEE and Russian fields & water cut on Croatian offshore fields

The average realized price increased, mainly in line with higher gas prices in international operations.

Hydrocarbon Production (mboepd)	FY 2011	FY 2012	Ch. %
Crude oil production	46.4	42.8	(8)
Hungary	12.4	12.2	(1)
Croatia	9.1	8.8	(3)
Russia	18.7	17.5	(6)
Syria	2.8	0.1	(96)
Other International	3.4	4.2	23
Natural gas production	85.6	66.7	(22)
Hungary	31.6	29.0	(8)
Croatia	35.7	30.7	(14)
ow. Croatia offshore	21.8	15.8	(28)
Syria	13.5	2.3	(83)
Other International	4.8	4.7	(3)
Condensate	15.4	9.0	(42)
Hungary	4.8	5.1	5
Croatia	6.0	2.5	(57)
Syria	4.0	0.7	(82)
Other International	0.7	0.7	0
Average daily hydrocarbon production	147.4	118.5	(20)

Main reasons behind production changes:

- **Hungarian hydrocarbon production decreased** as a consequence of natural depletion. In 2012, the company fully completed an oil production optimisation project in Algyó to further increase oil recovery. Intensive field development was carried out in the southern part of Békés county, putting new gas wells into production which partly compensated for decreasing production.
- **In 2012, total Croatian production decreased** by 8.8 mboepd or 17% versus prior year. The major part came from offshore gas (-6.0 mboepd or 28 %) as a result of natural decline, water cut and decreased INA

share due to the start of recording decommissioning costs, maintenance work on the Aiza Laura Contract Area (INAgip) and the postponed start-up of the Izabela field (EdINA) which therefore could not compensate for the natural decline. Onshore condensate production also decreased due to natural decline and changed presentation methodology i.e. exclusion of C2+ from condensate starting from 2012 related to a modified production process due to discontinued ethane production and showing NGL within onshore gas production. A slight decrease was also experienced in onshore oil, due to natural decline.

- **Russia:**
 - i.) In the Zapadno-Malobalik (ZMB) field,** MOL Group's share of production amounted to 7.9 mboepd in 2012. The Central Processing Station was upgraded, while water injection pipelines were built or re-constructed. In accordance with government regulations, associated gas utilisation exceeded 95% at the end of the year.
 - ii.) In the Matjushkinsky Block** production increased to 4.2 mboepd, a 26% rise compared to 2011. This was mainly a consequence of development activities in the Severo-Ledovoye and Kwartovoye fields. The drilling program continued in the Severo-Ledovoye field and 16 wells were completed in 2012. A drilling program started in the Kwartovoye field in April 2012; 9 producing wells were drilled by the end of 2012 in total. Among other field development activities, the construction of an oil transmission pipeline 40km long was finished in the Severo-Ledovoye field,
 - iii.)** Production reached 5.5 mboepd in the **Baitugan field**, an increase of 14% compared to 2011. In 2012, 34 oil producing wells were drilled in total and 2 producing wells were converted to water injection wells. Installation of water injection centres at the Central Processing Facility was completed in 2012.
- In **Syria** the Company encountered significant obstacles in the collection of receivables from its Syrian partner for its share of hydrocarbon production in Q4 2011; there was no significant payment after October 2011. On 26th February, 2012, INA delivered the 'force majeure' notice to the General Petroleum Company of Syria in relation to the Production Sharing Agreement for the Hayan Block signed in 1998 and the Production Sharing Agreement for the Aphia Block signed in 2004. Thus after 26th February, 2012, no further production was accounted for. Neither INA nor MOL Group expects to receive any revenues or to realise their production share in Syria until the termination of the 'force majeure'. INA still maintains its economic interest and the 'force majeure' does not mean that the project is terminated.
- In Q4 2012, in **Pakistan's Tal Block**, we started drilling a new development well (Manzalai-10) and the tie-in of Manzalai-9 to a Central Processing Facility was finished. Augmentation of the Makori Early Production Facility was finished in December and the Makori East-2 well also started to produce gas and condensate in the same month. Makori Gas Processing Facility construction started in 2012 and hand-over is expected to take place by the end of 2013. In the Karak Block, test production from the Halini-1 well has been ongoing since January. The plan is to increase the production rate through new facilities from March 2013.

Expenditures

Upstream expenditures, excluding special items, increased by HUF 22bn to HUF 501bn compared with 2011. Royalties paid on Upstream production, including export duties connected to Russian sales, amounted to HUF 163bn, a decrease of 3% due to lower production and the impact of lower regulated gas prices. This was partly offset by unfavourable changes in the USD/HUF exchange rate. In addition, expenditures grew further due to higher energy, material, purchased product and exploration costs. **Unit OPEX, excluding DD&A, amounted to USD 7.3/boe in 2012.**

Exploration activities in 2012

Outstanding exploration drilling success maintained, reaching 64% in 2012

Our intensive exploration activities delivered successes in the Kurdistan Region of Iraq, Kazakhstan, Pakistan and in the CEE region .

During 2012, 25 exploration wells were tested out of which 16 were successful. 13 additional wells were under or waiting for testing, while 5 wells were under drilling at the end of the period. **As in previous years, we maintained our outstanding exploration drilling success rate which reached 64% in 2012.**

Status of exploration and appraisal wells:

Exploration and appraisal wells	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Progress	Comment / Test result
KURDISTAN REGION OF IRAQ						
Bijell-3 (Agra-1)					tested	Drilling started on 17 January 2012, final depth reached was 4,980m in August. Testing was finished and well was classified as unsuccessful in December 2012.
Bakrman-1					under testing	Bakrman-1 well was spud on 7th of May 2012, final depth reached in December was 3,930m. The Second Open Hole test of Bakrman exploration well resulted 2,616 bbl oil (32-35°API) and 5.86 MMscfd (1,070 boepd) gas inflows.
Gulak-1					under testing	Gulak-1 well was spud on 15 July 2012, final depth reached was 3,640m in November 2012. The test program was finished. Due to the limited volume of oil shows resulted by the DST #4, the well will be suspended.
Bijell-7 (Sharf una-1)					under drilling	Well was spud on 19th of December 2012. B-7 depths was 353m at the end of the December.
Shaikan-4					tested	Five out of the seven tests produced hydrocarbon inflow: Triassic Kurra Chine formation from interval 3,010-3,030m yielded condensate 5,086 bcpd and gas 7,151 mscfd. Jurassic Sargelu formation from zones 1,370-1,390 and 1,450-1,460m had inflow oil 4,580 bpd and 1,050 mscfd gas).
Shaikan-5					tested	Drilling started on 28 October 2011, drilling finished in June 2012 at 3,745m. Well test was finished and the well has been completed as a Jurassic producer with 3,420 boepd heavy oil inflow.
Shaikan-6					tested	Drilling started in December 2011, final depth reached was 3,545m in May 2012. Suspended, pending further evaluation.
PAKISTAN						
Makori East-2					tested	Drilling started on 5 July 2011, finished on 15 March 2012. Well test was finished by end May 2012. The well proved to be a gas and oil producer from multiple reservoirs. It was tied to Makori EPF and started producing on 20 December, 2012. Production at 48/64" choke 23.5 mmcf/d gas and 5,045 bblpd condensate, FWHP 3,949 psi.
Mami Khel-2					tested	Drilling started in 11 June and finished by end of August 2012. The well proved to be a gas and condensate producer from multiple reservoirs. Completion of the well was finished by the end October 2012. Tie-in works to CPF are in progress. Production at 48/64" choke 39.3 mmcf/d gas and 1,854 bblpd condensate, FWHP 3,379 psi.
Maramzai-2					tested	Drilling started in 28 June and the rig was released after successful testing and completion on 15 December 2012. Tie-in works to CPF are in progress. Production at 48/64" choke 38.4 mmcf/d gas and 1,500 bblpd condensate, FWHP 3,259 psi.
Manzalai-10					under drilling	Drilling started in 2 November 2012, with planned T.D.:3,938m. Well test is expected in Q1 2013.
RUSSIA						
Surgut Ay skaya 1					waiting for test	Test continues with hydrofracturing of Jurassic layer and with test production as well.
Surgut Atay skaya 2					waiting for test	Test continues with hydrofracturing of Jurassic layer and with test production as well.
Prikoltogorskaya e-127					waiting for test	Drilling started on 08.04.2012. Target depth reached on 24 of June (3,365m). The well was conserved on 3 September and currently it is on waiting status. Continuation of testing with hydrofracturing will be performed in the winter season of 2013.
Kedrovskoye-105					under testing	Drilling started on 17.05.2012. Target depth reached on 20 of September was 2,899m (planned: 2,960m). The well test still ongoing at the end of 2012 due to the discovery of a new interval, acquisition of new geological information and the insolvency of a drilling subcontractor

Exploration and appraisal wells	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Progress	Comment / Test result
KAZAKHSTAN						
Rhozkovsky U-21					waiting for test	Well test expected in H1 2013.
Rhozkovsky U-22					waiting for test	Well test expected in H1 2013.
Rhozkovsky U-23					tested	Testing started in August 2012 and finished in December 2012. Test result of the well on the 11 mm choke – Tournasian reservoir: gas (239.611 m3/day) and condensate (351 m3/day) and Bobrikovsky reservoir: gas (124.562 m3/day and light oil (301 m3/day). Total: ~2,193 boepd gas, 3,912 boepd condensate.
Rhozkovsky U-26					under drilling	The well was spudded in October 20, 2012; the planned TD is 5,200 m. Current depth at end December was 3,680m. Well test is expected in Q1 2013.
SK-1					under drilling	Drilling of SK-1 well started on 21st September and MOL acquired 49% share in the North Karpovsky block on 15 November 2012. Actual depth at end of December was 3,742m, well test is expected in Q2 2013.
OMAN						
Hawasina-1					under drilling	Drilling started on 4 December 2012 with planned T.D.: 4,100m . Depth was 159m at the end of 2012. Well test is expected in Q3 2012.
HUNGARY						
Komádi-Ny-2					tested	Discovery. Test result: 276 boepd oil and 38 boepd gas via 6mm choke
Nagy körös-D-3					tested	Discovery. Test result: 202 boepd gas via 8mm choke
Nagy szénás-ÉK-1					tested	Dry with gas show
Vizvár-S-2					tested	Discovery. Test result: 246 boepd oil via 6 mm choke and 391 boepd gas via 8mm choke
Tiszi-2					tested	Discovery. Test result: 382 boepd gas via 8mm choke
Tápióság-1					tested	Dry
Gutorfölsé-1					tested	Discovery. Test result: 484 boepd gas via 9.5mm choke
Rádi-1					tested	Discovery. Test result: 336 boepd gas via 7.5 mm choke
Bak-D-1					tested	Dry
Bak-DNy-1					tested	Dry
Zaláta-K-1					tested	Dry with gas shows
Belezná-K-2					tested	Discovery. Probably not commercial quantity. Test result: 37 boepd gas via 6mm choke
Nagykátá-Ny-1					under testing	Well test completed 9, January 2013. Discovery. Test result: 1,206 boepd oil via 6mm choke
Csévharaszt-2					under testing	Well test completed 10, January 2013. Dry.
Beru-4 / unconventional					under testing	Drilled, fracturing program completed, under testing, long pilot production test. Gas production rate has stabilized at the level of 16,000 m3/d (84 boepd). In 2012 total gas production: 7.3m m3, condensate production: 678m3. In 2012 total CH production was 0.06 Mmboe from the well.
Beru-6 / unconventional					waiting for test	Drilling completed, conventional test completed, waiting for hydraulic fracturing
SYRIA						
Mudawara 3					waiting for test	Well drilled in Q4 2010, test postponed due to force majeure.
CROATIA						
Hrastilnica-3					tested	Drilled in Q1 2012. Tested in Q3 2012. Test data showed daily oil production of approximately 1,450 bbl (Qo=cca 400m3/day).
Đeletovci-1 Zapad					tested	Start of drilling at the end of Q1 2012 (March). Drilling finished in Q2 2012 (at the end of April). Tested in Q3. Tests showed daily oil production of approximately 600 bbl. (Totally obtained: Qo= 391.7 m3; Qw= 3.74 m3 in 108.5 hours of testing.)
Antunovac-1					unsuccessful	Drilled in Q4 2012 (from October to December). There were no hydrocarbon shows while drilling - not tested, unsuccessful.
EGYPT						
Rawda SE-1					unsuccessful	Drilled in Q2. Not tested. Unsuccessful. There were no hydrocarbon shows while drilling and the well was plugged and abandoned.
Sidra-2					tested	Drilled and completed in Q3. Tested in Q3. Oil producer well from Lower Abu Roash "G" Member. Test results: 1,245 BOPD for 24 hr; WC 1.2%; API 39.5.
drilling	test	drilling and test in the same period				

Key exploration results were as follows:

- **In the Kurdistan Region of Iraq:**
 - After finalising drilling in 2012 in the Akri-Bijeel Block, our second discovery was announced at the beginning of 2013 when medium density crude was found in the Bakrman-1 exploration well. The Gulak-1 exploration well's test program was completed but, due to the limited volume of oil shows, the well will be suspended. Surface facility construction and commissioning of the Bijell Extended Well Test on the Bijell Appraisal is ongoing. The appraisal program of the Bijell-1

discovery started with the Bijell-3 appraisal well, which was the riskiest from a geological point of view. There was no measurable oil flow thus it is proposed to abandon the well. Our extensive appraisal program continued and the Bijell-7 appraisal well was spud.

- In the Shaikan Block, appraisal and the early development program were executed, the appraisal activity finishing when the Shaikan-6 well test was completed. To reach the ultimate goal of significantly increased production, assembly work on the first Shaikan production facility commenced.

- **In Kazakhstan**

- In the Fedorovskoye Block, testing of the U-23 appraisal well was finished successfully; the well produced gas and condensate from additional reservoirs. The drilling of the U-26 appraisal well started in October.

- The agreement to acquire a 49% share in the North Karpovskiy block, located in the vicinity of Fedorovskoye, was completed in November. Drilling of the first exploration well, SK-1, commenced in Q3 2012 and was ongoing at year end.

- **In Pakistan** testing of the Mami Khel-2 and Maramzai-2 wells was successfully finished; the wells were completed as gas and condensate producers and were tied in to the early production facility. Within the scope of development work a new production well was started and another well was tied in to the central processing facility.

- **In the CEE**, the main result of our exploration activities was the aggregated 5 000 boepd discovery during 2012 from two Croatian and seven Hungarian wells.

Licences acquired in 2012

After MOL was awarded an exploration concession in 2011 in the Oman 66 block, an exploration and production sharing agreement was concluded with the Omani Government in September 2012. As a result, MOL can now start implementing the exploration program at the block by acquiring seismic data to define drillable prospects.

In Russia, the Yerilkinskiy block was acquired by BaiTex LLC, a 100% subsidiary of MOL Group, at auction in July, 2012. The Yerilkinskiy block is located close to the Baitugan producing oilfield. Strong operating synergies will accrue since main surface facilities already installed at Baitugan are ready to serve future Yerilkinskiy production. As a first step, our future exploration commitments include acquisition of seismic data.

MOL was already expanding its exploration and production activities to build a broader portfolio in the CEE when the Romanian Ex-6 Block was awarded to a consortium in which we participate. Exploration activities will start with 3D seismic acquisition. In January 2013, MOL increased its stake in the Ex-6 Block to 100%.

647 MMboe SPE 2P booked reserves

MOL Group's 2012 annual production reduced SPE proved plus probable figures to 647 MMboe by year-end.

SPE 2P reserves, MMboe	FY 2012
Hungary	159.0
Croatia	221.6
Russia	176.2
Syria	35.8
Kazakhstan	36.7
Other	17.7
Total	647.0

Changes in the upstream regulatory environment

Upstream: Changes in the mining royalty framework in Hungary with regard to regulated volumes of natural gas

The Mining Act, which regulates the mining royalty regime in Hungary, introduced changes from 01.01.2011 and 01.08.2012 as royalty regime compensation in connection with regulated gas prices for eligible customers in Hungary from December 2010. These changes apply only to volumes available from fields put into production before 1998 and sold at regulated prices.

MOL paid 33% of its crude oil and natural gas revenues as a mining royalty to the Hungarian State based on crude oil and natural gas produced in Hungary in 2012. In 2012, the average rate of mining royalty payable on non-inert natural gas produced from fields put into production after 1998 and for crude oil production was 18%, excluding volumes from enhanced oil recovery which represented 18% of oil production and which are subject to a zero royalty rate in Hungary.

Changes in export duty regulations in Russia...

The extraction tax and export duty in Russia is dependent upon average Urals blend listed prices (Rotterdam and Mediterranean markets) and the Russian Rouble/US Dollar exchange rate and are calculated by formulae set out in tax legislation. The tax authorities inform the public of the extraction tax rate through official announcements on a monthly basis. The extraction tax rate as of 31st December, 2012 was USD 22.3/bbl with an annual average extraction tax rate of 20.5%, based on the annual average Urals blend price in 2012. The export duty rate as of 31st December 2012 was USD 55.5/bbl with an annual average export duty rate of 50.9%, based on the annual average Urals blend price in 2012. Favourable regulatory change took place in the area of export duty, with effect from October, 2011. The percentage above the highest threshold was reduced from 65% to 60%. The Mineral Extraction Tax rate increased by 6.4 % compared to the previous year, which was RUB 419 per ton for 2011 versus RUB 446 per ton for 2012.

...no further changes in royalty regulations in Croatia

The Croatian royalty rate in Q1 2011 amounted to 3.6% but the regulation was changed with effect from April 2011 with the royalty rate being increased to 5.0%. In 2012, no further amendments occurred.

Upstream outlook

Upstream: on the way of monetizing company maker stories

MOL's upstream portfolio consists of a well-balanced mixture of exploration assets with the capability of securing mid-term growth and fields generating strong operating cash flows. Building on this firm asset base, combined with relevant industry know-how, MOL Group wishes to focus on the following areas:

- De-risking of 1.6 Bboe recoverable resource potential in the coming years with the main focus on the Kurdistan Region of Iraq (725 Mmboe) and Kazakhstan (135 Mmboe).
- Production in the Kurdistan Region of Iraq remains the key source of growth long term. It has already manifested itself in 3 discoveries which will already ensure early production in 2013.
- Active portfolio management will secure renewal of the existing asset base with an early harvest on a secured upside.

First visible barrels in the Kurdistan Region of Iraq

Our work program in the Kurdistan Region of Iraq aims at securing the first barrels from the region and reserve booking in 2013 & 2014.

On the basis of our second discovery, we will continue working further in the Akri-Bijeel Block. Our program consists of surface facility development

for early production, completing the Bakrman-1 well test, continuation of the Bijell appraisal program by drilling 5 wells and 3D seismic acquisition. In Shaikan, targeted increased production will take place with surface facility construction. Subsequent to Shaikan Production Facility-1, Shaikan Production Facility-2 is expected to be commissioned by mid-2013. As a result the combined production capacity will be 40,000 boepd.

**Further production growth potential ...
...in the mid-term in Kazakhstan**

There is further value in Kazakhstan's Fedorovsky Block, where appraisal and development activities are underway. The start of production is currently scheduled for 2015. The Group is focusing on drilling 3 and testing 5 appraisal wells.

In the North-Karpovsky block - which shows similarities to neighbouring Fedorovsky - 120 Mmboe recoverable resource potential will be tested for the first time in 2013 by testing SK-1 & -2 wells until the first half of 2014.

...in the long-term in Russia

In Russia we maintain our long-term growth forecast. However, we have adjusted our exploration strategy by focusing more on higher potential mid-term projects which will result in a later than previously expected ramp-up in production, but we are still targeting 40 mboepd peak production. As a result, more emphasis will be placed on exploration activities in the Matjushkinsky block. In Baitugan, production increases are expected as 40 producing and injection wells are drilled.

Pakistan: improving production, increasing profitability through a more favourable oil-to-gas ratio

In Pakistan's Tal Block, field development is scheduled through commissioning additional surface facilities which will trigger new abilities to handle increasing oil and gas production. The Makori GPF hand-over date is expected by 2013 year-end. Profitability will be increased as production shifts to a more favourable oil-to-gas ratio. In the Karak block, seismic acquisition over the Halini discovery and its vicinity is targeted for upside exploration potential. As a result of our efforts in Pakistan, reserve booking is anticipated in 2013.

CEE: maximising the recovery rate

In the CEE region, as in previous years, we will maximise recovery rates and mitigate decline rates. In Croatia, we are pursuing the implementation of EOR projects and drilling several development wells in existing oil & gas fields, while continuing with our on-shore drilling campaign. Off-shore, 2 wells will be drilled for the first time in several years. In Hungary, the drilling of 8 new conventional exploratory wells, completion of several new field developments including efficiency improvement projects and the start-up of low caloric gas fields will be progressed. Romanian E&P Division exploration activities will start with 3D seismic measurements.

Sizeable production growth is expected in mid-term

The accomplishments of 2013 described above will contribute to the Group's strategic aim of reaching 170–180 mboepd production from the current level of 110 mboepd by 2017–2020 with stable unit profitability. At the same time the long-term reserve replacement rate is targeted to reach an average of 100% in the next few years, similar to past achievements.

DOWNSTREAM OVERVIEW

Highlights

Despite the still challenging external environment...

- MOL Group more than doubled its CCS Refining & Marketing EBITDA
- Our two largest refineries performed relatively well, which highlights the strength of our complex assets
- With the clear aim of remaining in Europe's top quartile in operational efficiency and profitability we launched our New Downstream Program targeting USD 500-550mn in efficiency improvements by 2014
- ...delivery is on track: USD 150mn was already saved in 2012
- MOL will optimise its assets at MOL Group Level through selective organic growth projects and reshaping of less efficient assets

Overview of 2012

The European oil industry environment remained challenging...

In 2012, the downstream macroeconomic environment was driven by high crude prices, lower light-heavy differential, variable refinery margins, depressed petrochemicals spreads, low demand levels and increasing energy and operational costs.

... despite some temporary positive signs in 2012

Refinery margins were temporarily increased by one-off factors such as low inventories and tight oil product markets in mid-2012. In the last quarter of 2012, however, large plants returned to full capacity leading to a record decline in global margins as they hit 2011 lows. The reason for this is the persistent capacity overhang in the global system. Integrated petrochemicals margins were poisoned as well, by a correspondingly oversupplied environment.

	FY 2011	FY 2012	Ch. %
Brent dated (USD/bbl)	111.3	111.7	0
Brent Ural spread (USD/bbl)	1.67	1.09	(35)
Crack spread – premium unleaded (USD/t)	143	192	34
Crack spread – gasoil 10ppm (USD/t)	117	135	15
Crack spread – naphtha (USD/t)	64	65	2
Crack spread – fuel oil 3.5 (USD/t)	(238)	(220)	8
Crack spread – premium unleaded (USD/bbl)	6.9	12.8	86
Crack spread – gasoil 10ppm (USD/bbl)	17.4	19.9	14
Crack spread – naphtha (USD/bbl)	(9.6)	(9.5)	1
Crack spread – fuel oil 3.5 (USD/bbl)	(15.9)	(13.0)	18
Integrated petrochemicals margin (EUR/t)	279	262	(6)

Almost 30% of the New Downstream Program target was already achieved in 2012...

To meet the challenges of the environment, a **MOL Group-level Downstream Program** was launched to improve profitability through the whole value chain and to reach USD 500-550mn EBITDA growth by 2014 on a like-for-like basis, compared with 2011. In 2012, the program delivered USD 150mn in savings, with like-for-like comparison, which is fully in line, or even slightly above, our expectations. The most profitable initiatives affected different key elements in our value chain:

- Energy management: a ca. USD 20mn cost decrease was the result of energy efficiency and optimisation measures and additional profit improvement was achieved by renegotiated gas, electricity and steam contracts.
- Hydrocarbon loss reduction: loss-decreasing actions were implemented in our 5 refineries, logistics and retail network. The total effect of these efforts was worth more than USD 10mn in 2012.
- Refining and Petrochemicals margin revenues: portfolio revision and optimisation of monomer, polymer and fuel sales delivered a revenue increase of USD 50mn.

However, the positive effects of efficiency improvements were partly offset by the above-mentioned negative effects of the business environment.

Improving Downstream performance, supported by the R & M Division..

In 2012, Downstream EBITDA, excluding special items, amounted to HUF 169 bn, representing a more than 40% improvement compared with the previous year with a much higher contribution from the Refining & Marketing Division on one hand, but deteriorated by Petrochemicals Division losses on the other. Despite a higher level of maintenance activities in the actual year the **Refining & Marketing Division's clean CCS-based EBITDA doubled compared with the base period**, supported by the following:

- Key positive effects were
 - (1) higher average crack spreads of motor fuels, especially gasoline
 - (2) internal efficiency improvements as part of the New Downstream Program - roughly a positive effect of USD 150mn
 - (3) an improved product slate
 - (4) a weaker HUF versus the USD.
- Negative effects moderated the improvement, due to
 - (1) a tightening light-heavy crude oil differential – a negative effect of ca. HUF 20bn
 - (2) a significant drop in regional product demand due to weak economic conditions and high fuel prices
 - (3) rising energy prices, (a negative effect of ca. HUF 20bn)
 - (4) a higher level of maintenance activities
 - (5) unplanned shutdowns in the year at the Danube and Bratislava refineries decreased throughput and sales volumes.

CCS-based R&M EBITDA ^{3,4}	FY 2011	FY 2012	Ch. %
MOL Group	81.5	167.6	106
MOL excl. INA	135.3	187.0	38
INA	(53.8)	(19.4)	64
CCS-based R&M operating profits ^{3,4}	FY 2011	FY 2012	Ch. %
MOL Group	(19.9)	54.8	n.a.
MOL excl. INA	51.6	101.9	97
INA	(71.5)	(47.1)	34

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

Excluding INA's contribution, 'clean' CCS-based EBITDA increased significantly by 38%. While crack spreads improved, depressed regional demand and a longer shutdown period resulted in 1 Mt lower sales year-on-year. INA's clean CCS-based EBITDA improved significantly in 2012 but the figure was still in the red. Enhanced feedstock selection as well as smoother operations and higher VGO processing in the new Rijeka HCK unit improved product yield, resulting in 6% higher white product output. On-demand operations at the Sisak refinery also supported these results. On the other hand, higher volumes and the price of energy purchased had a dampening effect on profits.

Refinery processing (kt)	FY 2011	FY 2012	Ch. %
Own produced crude oil	1,027	1,117	9
Imported crude oil	17,168	15,597	(9)
Condensates	276	275	0
Other feedstock	3,331	3,248	(2)
Total refinery throughput	21,802	20,237	(7)
Purchased and sold products	1,193	955	(20)

...while Petrochemicals went further into the red

The Petrochemicals segment's contribution deteriorated dramatically in 2012, reaching a HUF 30bn operating loss, excluding special items. Besides further decreased petrochemicals margins - by 6% to 262 EUR/t - high energy prices, lower demand for polymer products and the general turnaround were the main reasons for this weak performance.

Total sales volumes decreased...

External refined and petrochemicals product sales by product (kt)	FY 2011	FY 2012	Ch. %
Total refined products	19,011	17,781	(6)
o/w Motor gasoline	4,211	4,036	(4)
o/w Diesel	9,392	9,065	(3)
o/w Fuel oil	740	332	(55)
o/w Bitumen	1,275	1,015	(20)
o/w Retail segment sales	3,507	3,375	(4)
o/w Motor gasoline	1,183	1,099	(7)
o/w Gas and heating oils	2,231	2,186	(2)
Total Petrochemicals product sales	1,504	1,229	(18)
o/w Olefin products	341	318	(7)
o/w Polymer products	1,163	911	(22)
Total refined and Petrochemicals product sales	20,515	19,010	(7)

The consumption of motor fuels in the CEE region decreased further due to the worsening economic outlook which negatively affected diesel consumption and high price levels which negatively impacted gasoline consumption in particular.

Changes in regional motor fuel demand FY 2012 vs. FY 2011 in %	Market*			MOL Group sales**		
	Gasoline	Diesel	Motor fuels	Gasoline	Diesel	Motor fuels
Hungary	(8.0)	(6.1)	(6.7)	(7.7)	(7.3)	(7.4)
Slovakia	(0.9)	(3.6)	(2.9)	(2.4)	1.0	(0.0)
Croatia	(7.2)	(5.5)	(6.0)	(2.0)	4.7	2.6
Other	(4.9)	(4.2)	(4.4)	(8.5)	(0.9)	(3.0)
CEE 10 countries	(5.2)	(4.4)	(4.6)	(6.6)	(2.0)	(3.4)

* Company estimates

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

...but Group's motor fuel sales performed better than the market average

Total refined product and petrochemicals sales decreased by 7% year-on-year partly due to depressed market demand. However the Group's motor fuel sales performed better than the market average driven by increasing sales in Croatia as a result of continuous efforts in wholesale. Our diesel sales only eroded mildly across the CEE region. The latter also reflected our yield improvement efforts: beside almost flattish diesel sales, sales of loss-making black products decreased considerably, by 20% yoy.

Decreasing retail sales in line with lower market demand

Total retail sales volumes, including LPG and lubricants volumes, decreased by 4% in line with lower market demand.

Total retail sales (kt)	FY 2011	FY 2012	YoY %
Hungary	804	767	(5)
Slovakia	452	424	(6)
Croatia	1,226	1,134	(8)
Romania	451	469	4
Other	574	581	1
Total retail sales	3,507	3,375	(4)

In Hungary, Slovakia and Croatia, retail fuel sales decreased as a result of the economic slowdown and increasing retail fuel prices, however our market share was maintained in other key countries.

In Romania, retail fuel sales increased in line with our network development growth and intensive marketing activities and thus achieved 12% market share.

Retail: successful implementation of strategy continued...

Starting on 1st October, 2012, Pap Oil became part of MOL Group with 125 filling stations in the Czech Republic. In INA, we continued the retail business efficiency improvement program.

Downstream outlook

The New Downstream Program: most of the benefit is due by 2013

As a response to the challenging Downstream business environment, in 2012, MOL initiated its comprehensive, Group-level efficiency program, the New Downstream Program, targeting USD 500-550mn EBITDA improvement by 2014 on a like-for-like basis compared with 2011. In Downstream, the spotlight will be on the continuation of the program and the successful achievement of its ambitious target. Most of the total benefit, USD 400mn, compared with the base period, should be achieved by the end of 2013.

Efficiency improvement through cost management - 70% of the benefits...

The primary focus of the program is on cost reduction, which will represent 70% of the benefits. Actions targeting key cost elements, such as energy, maintenance, organisational costs and hydrocarbon losses will deliver more than 50% of the total benefits.

Energy costs are expected to reduce significantly by 2014 through more efficient energy consumption and distribution, increased flexibility, diversification of energy sources and achieving more favourable supply conditions and prices.

Maintenance costs have been revised throughout our value chain aiming at decreasing Complex Maintenance Spending (CMS) by 20% by 2014.

Further optimisation of existing assets, advanced hydrocarbon loss management, review of our business processes and streamlining of our organisation are also among the key cost reduction measures.

...and increases in revenues of 30%

In our main growth markets, Serbia and Romania, we are extending our wholesale, retail and logistics presence in parallel. New initiatives were launched to increase sales of LPG, lubricants, fuel cards and implement the local market supply concept for further profit maximisation.

Revision of our petrochemicals product portfolio resulted in new concepts in monomer and polymer sales. By making use of our production flexibility and marketing opportunities, we are aiming to achieve significant revenue growth for these product lines.

Selective investments to strengthen captive markets

Beside small and mid-scale projects in the New Downstream Program, MOL Group Downstream is committed to strategic investments in the region. Two projects were launched in 2012 by the Petrochemicals Division: a new butadiene extraction unit in Tiszaújváros with the strategic aim of improving olefin co-product value from 2015 onwards and the installation of a new LDPE unit by the end of 2015 in Bratislava, replacing three old, subscale units thus creating further benefits from Refining-Petrochemicals integration.

We are also committed to further improving our retail network in the CEE region, with special focus on Romania, Serbia and the Czech Republic, to provide greater captive markets for our refineries. Secure sales are especially important in the oversupplied gasoline market, while higher margin contribution can improve Divisional profitability.

Improve Croatian Downstream

Flexible operation of assets and short-term efficiency measures are aimed at improving Croatian downstream profitability. By implementing modernisation and efficiency improvement measures in the Logistics, Refining, Lubricants and Retail Divisions, INA is now a significant contributor to the MOL Group's New Downstream Program.

In the mid-term, a residue upgrade project is planned in the Rijeka refinery to increase the proportion of white product yield. A final investment decision is expected after basic design completion.

GAS MIDSTREAM SEGMENT OVERVIEW

The Division's results decreased in full year 2012, since positive contributions from FGSZ and MMBF, on the back of increased international transit and commercial storage activities, were more than offset by increasing losses at our Croatian trading company, Prirodni Plin.

FGSZ Ltd.

FGSZ received an ITO licence - among the first in 2012

In line with EU Directive 2009/73/EC, natural gas suppliers must operate independently of both holding companies and subsidiaries. FGSZ took the necessary measures to continue its system operations and gas transmission activities within the framework of the new legal model. FGSZ was therefore among the first companies to receive an Independent Transmission Operator (ITO) licence in 2012.

A stable operating profit contribution

Operating profits for FGSZ in 2012 were in line with higher revenues which were able to compensate for increased expenditure.

Domestic transmission revenues increased by 8% after the end of tariff freezing

Revenues from domestic transmission totalled HUF 79.8bn, 8% higher than the base period, mainly due to surplus daily and monthly capacity bookings and lower base figures as a result of tariff freezing which had no effect in 2012.

Slightly higher transit revenues due to the favourable FX effects

Revenue from natural gas transit showed a 9% increase compared with the base period, mainly due to southward (Serbian and Bosnian) transit transmission. While volumes decreased by 6%, favourable changes in foreign exchange rates over-compensated for this negative effect.

Higher gas prices and higher depreciation increased operating costs

Operating costs were higher by 13% than the base period mainly due to increased natural gas consumption by the transmission system, increased natural gas prices and increased depreciation as a result of tangible assets capitalised in the previous year.

Changes in the regulatory environment

Changes in regulated gas transmission tariffs

A dual tariff system was introduced on 4th December, 2010. In compliance with this system, tariffs for 2012 were calculated on an asset-based return of 4.5% with regard to consumers entitled to universal service, while for customers purchasing gas in the competitive marketplace, the calculation continued to be on asset-based returns of 8.78%.

Taking into account the rate of consumers entitled to universal service, which rate is used by the Hungarian Energy Office to calculate transmission tariffs. The weighted average revenue of the natural gas transmission system was therefore approximately 6.5% in 2012. The unfavourable effect of the change in the number of consumers entitled to universal service in the second half of 2012 was compensated for by higher revenues and cost reductions.

Starting from 1st January 2013, the asset-based return was decreased to 2.28% from 4.5% for consumers entitled to universal service, while for customers purchasing gas in the competitive marketplace, the calculation remained unchanged. This implied a weighted average natural gas transmission system revenue of approximately 5.5%, for the time being.

MMBF Ltd.

Strategic and commercial gas storage

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

Net profits of MMBF Ltd. amounted to HUF 9.6bn in 2012. The company accounted for capacity booking fees on its 1.2 bcm strategic gas storage and on its 700 mcm commercial gas storage volumes. In addition to storage activities, MMBF sold the oil and condensate production of the Szóreg-1 field at a profit.

Changes in the regulatory environment

In 2012, the strategic gas reserve volume was below the contracted 1,200 Mm³, according to the relevant ministerial decree statutory maximum but this had no effect on the contracted capacity and business situation of the company. At the end of 2012, the regulatory background of the strategic gas reserve was modified.

The major changes in the regulation were as follows:

- The strategic gas stock may now only be stored in gas storage sites which are majority state-owned from 1st July, 2013.
- Strategic gas storage activities can now only be executed by a strategic gas storage licensee.
- The Minister responsible will regulate stock levels and the location of the strategic stock storage site.

MMBF meets all such requirements. This means that there is no regulatory obstacle to continuing its strategic gas storage activities in 2013 and, moreover, from 1st January 2012, storage fees were announced by the Hungarian Energy Office, not by the Minister. This decision by the HEO makes regulated storage fees compulsory with regard to commercial gas storage. MMBF re-aligned its long-term contracts to meet the new criteria, which had no negative effect on revenues.

MMBF Ltd., the company conducting strategic storage, has all the technical conditions and authorizations required for strategic and commercial storage activities and the company has valid long-term contracts with its gas storage partners. There was no negative change in the technical or financial situation of the Company.

Prirodni Plin d.o.o.

Loss-making Croatian gas trading...

Prirodni Plin, INA's gas trading company, reported a HUF 38.4bn loss in 2012 as a consequence of increased natural gas import prices, capped gas prices to eligible customers until September 2012 and the fixed maximum price level for household customers.

Changes in the regulatory environment

Regulatory changes in gas trading in Croatia (Prirodni Plin)

The maximum level of natural gas pricing for eligible customers, i.e. HRK 2.13/m³, was in effect until 30th June. As of 1st July, 2012, this was increased to 2.75 HRK/m³. This regulation was in effect until 30th September. The regulated gas price for households was raised to HRK 2.2/m³ from the previous level (HRK 1.7/m³) as of May 1st, 2012.

Power – Joint Venture with CEZ

The Hungarian CCGT project is subject to a final investment decision while the Slovak CCGT project was suspended...

In 2012, site levelling and engineering was carried out at Százhalombatta as the first phase of the Hungarian CCGT project. As part of the joint venture between MOL Group and CEZ, this unit obtained all the permits necessary to start construction and the main contract was signed in October, 2011. The final investment decision by MOL and CEZ on the construction phase is subject to developments in the global and regional macro environment.

Based on a decision by the JV partners, the Slovakian CCGT project was suspended.

CAPITAL EXPENDITURE PROGRAM

Capital expenditures	2011 (HUF bn)	2012 (HUF bn)
Upstream	111.8	138.0
Downstream	110.7	132.4
Gas Midstream	18.3	9.9
Corporate	33.4	9.3
Intersegment	0.6	(0.8)
Total	274.8	288.8

A disciplined, selective investment policy

Total CAPEX increased by 5% in 2012. Investments focused on the Kurdistan Region of Iraq, the CEE region and Russia in Upstream and maintenance-related spending in Downstream. Inorganic CAPEX included the acquisition costs of new exploration licences in Kazakhstan, Oman and the Pap Oil retail network in the Czech Republic.

Upstream CAPEX

FY 2012 (HUF bn)	Hungary	Russia	The Kurdistan Region of Iraq	Croatia	Pakistan	Other	Total (HUF bn)	
Exploration	10.3	3.6	26.8	6.3	2.9	2.6 Oman 2.0 Kaz 0.8 Other	55.3	40%
Development	11.0	25.2	6.0	11.9	1.5	2.0 Egypt 0.7 Angola 0.4 Other	58.7	43%
Upgrade maintenance. service companies & other	3.5			7.0		13.5: Acquisitions	24.0	17%
Total	24.8	28.8	32.8	25.2	4.4	22.0	138.0	100%

Increasing Upstream CAPEX - more focus on the Kurdistan Region of Iraq, Croatia and Kazakhstan

Upstream CAPEX increased by 23% y-o-y to HUF 138bn, primarily as a result of increased expenditure in the Kurdistan Region of Iraq, Croatia and Kazakhstan. Due to the political situation, investments in Syria were suspended.

Downstream CAPEX

CAPEX (in bn HUF)	FY 2011	FY 2012	YoY %	Main projects in 2012
R&M CAPEX and investments. excluding retail	63.3	56.8	(10)	<ul style="list-style-type: none"> Maintenance projects PAP Oil acquisition: 125 sites; 22 new sites above Pap Oil
Retail CAPEX and investments	21.9	45.4	107	<ul style="list-style-type: none"> 183 filling stations modernisation
Petrochemicals CAPEX	7.2	19.8	175	<ul style="list-style-type: none"> General turnaround. maintenance New LDPE units in Slovnaft
Power and other	18.3	10.4	(43)	<ul style="list-style-type: none"> Finalisation of the Thermal Power Plant in Bratislava
Total	110.7	132.4	20	

Increased Downstream CAPEX...

Organic Downstream CAPEX was flat, year-on-year, mainly driven by general turnarounds in key refineries and other maintenance projects, as well as finalisation of Thermal Power Plant investment in the Bratislava refinery. Further CAPEX relates to acquisition of the Pap Oil retail network in the Czech Republic (125 filling stations).

Gas Midstream CAPEX

HUF bn	FY 2011	FY 2012	Ch. %	Main projects in 2012
FGSZ	16.4	9.2	(44)	• Reconstruction projects
MMBF	1.1	0.7	(36)	• Replenishment of cushion gas
Other	0.8	0.0	(100)	
Total	18.3	9.9	(46)	

Gas Midstream CAPEX halved

Total Gas Midstream Division CAPEX halved in 2012 after completion of cross-border pipelines and capacity-increasing projects of previous years.

Corporate & Other Divisional CAPEX decreased due to the INA share purchase in 2011

Capital expenditures of Corporate and Other segment totalled HUF 9.3bn in 2012 versus HUF 33.4bn in 2011.

FINANCING OVERVIEW

MOL further improved its strong financial position

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

MOL's key target for 2012, to maintain its strong liquidity position, was successfully achieved as a result of the Group's improved financial results.

Sufficient external financing

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

Enhancing the maturity profile

MOL Plc. has extended EUR 561mn by 1 additional year, up to 10th June, 2017, out of its EUR 1bn revolving credit facility agreement, signed on 10th June, 2011, originally with 5 years' tenor. To further diversify the Group's funding portfolio, MOL Group Finance S.A. (a 100% subsidiary of MOL Plc.) established a USD 1bn Euro Medium-Term Note Program guaranteed by MOL on 12th September, 2012. Under the program, a senior unsecured bond was issued in the amount of USD 500mn on 26th September, 2012, with 7 years' tenor and a 6.250% fixed coupon. MOL Plc. signed an 8.5 year USD 150mn loan agreement with the European Bank for Reconstruction & Development (EBRD) on 2nd July, 2012, to finance capital expenditures on a new LDPE unit and the upgrade of a steam cracker at the Slovnaft site.

5-year low gearing ratio

Indebtedness	2011	2012
Simplified Net debt/EBITDA	1.44	1.38
Net gearing	28.0%	24.8%

70% EURO-denominated debt

Proportion and amount of total debt denominated in the following currencies						
31 Dec 2011 (bn own currency)	31 Dec 2011 (bn HUF)	Portion %	Currency	31 Dec 2012 (bn own currency)	31 Dec 2012 (bn HUF)	Portion %
1.18	283	27.1	USD	1.16	255	27.0
2.34	728	69.6	EUR	2.29	665	70.4
n.a.	35	3.3	Other*	n.a.	25	2.6
n.a.	1,046	100	Total	n.a.	945	100

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

NOTES TO THE PROFIT & LOSS STATEMENT

Sales, Operating Expenses and Operating Profits

Increases in sales revenues

Despite the lack of Syrian contribution, Group net sales revenues increased by 3% to HUF 5,552.3bn. Other operating income increased by 29% to HUF 30.0bn mainly due to the foreign exchange gain realised on trade receivables and payables (HUF 14.3bn).

Decreases in operating expenses

Other operating expenses decreased by HUF 10.9bn to HUF 370.5bn in 2012, mainly as the combined effect of a decrease in mining royalty expenses (HUF 8.0bn) and foreign exchange loss on trade receivables and payables (HUF 10.5bn) in the comparative period.

Non-recurring items in total operating expenses

The temporary crisis tax imposed on the energy sector increased Other operating expenses by HUF 30.4bn and HUF 29.0bn in 2012 and 2011, respectively. Depreciation expenses in 2012 included a HUF 6.6bn impairment recorded with respect to the refining assets of the Sisak and Rijeka refinery and HUF 6.6bn relating to the unsuccessful Bijell-3 well in Kurdistan. A further HUF 4.3bn impairment was recorded with respect to INA's Ferdinandovac field. An additional expense of HUF 10.1bn reflects the penalty payment and provision at the Group's Angolan operations, imposed by the local tax authority. The Group also recorded a provision in the amount of HUF 7.7bn as a conservative estimate for contract termination expenses with respect to the Moghan-2 block in Iran. The effect of these non-recurring expenses was partly offset by a gain on the year-end revision of the Hungarian field abandonment provision (HUF 7.4bn).

Financial results

Lower net financial expenses in 2012

A net financial expense of HUF 47.1bn was recorded in 2012, compared with HUF 54.9bn in 2011. Interest payable was HUF 46.2bn in 2012 versus HUF 41.2bn in 2011, mainly reflecting coupons paid on bonds, while interest received amounted to HUF 6.8bn in 2012 against HUF 9.4bn in 2011. In 2012, a foreign exchange loss of HUF 1.9bn vs. a HUF 55.5bn gain in 2011, was booked on borrowings, since foreign exchange gains of HUF 43.4bn on borrowings designated as net investment hedging instruments were recognized directly in Other comprehensive income. A fair valuation gain on the conversion option embedded in the capital security issued by Magnolia Finance Ltd. was HUF 11.8bn versus the unrealized gain of HUF 10.5bn in FY 2011.

Income from associates

Income from associates amounted to HUF 32.7bn in FY 2012 mainly as the result of the a contribution from MET Zrt., (HUF 16.7bn) and MOL's 10% share from of the operations of the Pearl Petroleum Company (HUF 12.8bn).

Profit before taxation

As a result of the above-mentioned items, the Group's profit before taxation in 2012 was HUF 206.0bn, compared to HUF 218.4bn in 2011.

Taxation

Income tax expenses increased by HUF 16.7bn from the comparative period to HUF 49.9bn in FY 2012, mainly due to the revaluation of deferred tax assets and liabilities resulting in higher deferred tax expenses. Revaluation resulted from the extension and increase of the Robin Hood tax in Hungary from 8% to 31%. This increase implies an effective Robin Hood tax rate of around 22% as it is calculated pro-rata on revenues from energy supply. In addition, the Slovakian corporate income tax rate was also increased, from 19% to 23%. Both taxes are applicable from 1st January 2013. Deferred tax expenses were partly compensated by a decrease in current income tax expenses corresponding to lower profitability compared to 2011.

Higher income tax expenses due to revaluation of deferred tax assets

CASH FLOW

Consolidated Cash flow	2011 restated (HUF mn)	2012 (HUF mn)
Net cash provided by operating activities	372,950	453,844
of which: movements in working capital	(181,968)	(34,660)
Net cash used in investing activities	(198,709)	(297,176)
Net cash provided by/(used in) financing activities	(188,903)	(149,726)
Net increase/(decrease) in cash and cash equivalents	(14,662)	6,942

Operating cash flow increased by 22%

Operating cash inflow in 2012 amounted to HUF 453.8bn, compared with HUF 373.0bn in 2011. Operating cash flow, before movements in working capital, decreased by 9% to HUF 551.6bn, mainly due to the lack of cash inflow from Syria in 2012. Income taxes paid amounted to HUF 63.1bn.

Net cash used in investment activities increased to HUF 297.2bn in 2012 due to increased CAPEX in the CEE region, Russia and the Kurdistan Region of Iraq by the Upstream Division, as well as the acquisition of the Pap Oil retail network in the Czech Republic and higher maintenance-related spending by the Downstream Division.

Net financing cash outflow was HUF 149.7bn, primarily as a result of the repayment of long-term debt, partially financed by the USD 500mn fixed rate bond issued in September, 2012, representing the Group's strong liquidity position and the dividend payment.

SUSTAINABILITY

Improvement of resource efficiency and reduction of emissions

We pay particular attention to improving our CO₂ intensity whilst maintaining competitiveness in a carbon-constrained world. Energy efficiency programs throughout MOL Group delivered improvements in CO₂ intensity per unit of production in the different Business Units. As part of our energy efficiency measures in the New Downstream Program, MOL Group aims to reach energy savings and optimisation worth USD 120mn by 2014. To achieve this ambitious target, we already achieved significant results in 2012 since our major energy efficiency improvement projects resulted in savings worth more than USD 18mn while related CO₂ savings totalled more than 85,000 tons. The Retail Division contributes to these efforts through the eco-conscious design of its filling stations. In Upstream operations in Russia and Pakistan, the aim is to reduce the volume of flared associated gas while in Europe our focus is on operational energy efficiency and enhanced oil recovery using CO₂ injection.

In the field of environmental protection, air emission abatement is an important area of focus for us. Since the industry is considered to be the largest source of emissions of volatile organic compounds (VOCs), MOL Group has taken serious steps towards limiting these types of emission. In 2012, MOL Group continued its LDAR (leak detection and repair) Program to reduce VOC emissions. This program has produced important results for several years at our Slovnaft and IES refineries and in 2012 it was extended to our Hungarian operations. As a result, measured VOC emissions decreased by 8% compared with 2011.

Meeting our work safety target

MOL Group closed a successful year from the lost time injury frequency point of view and we fulfilled the 1.0 LTIF target (INA and its subsidiaries excluded). This performance was significantly better than the CONCAWE (downstream benchmark) average, but it does not reach the OGP (upstream benchmark) average. Despite this positive LTIF result, we are not satisfied with our achievements: 1 employee fatality at INA Group and 3 contractor fatalities highlighted that we should make further efforts to prevent any harm related to our operations.

Process safety remained a priority and we therefore extended the implementation of our management system to further operations. In the refining sector, a new process safety performance indicator was introduced in 2012 to monitor the number and seriousness of process safety incidents.

Focus on ethics and compliance

Ethics continues to be a cornerstone of our non-financial performance. Our Code of Ethics is now available in 11 languages and from 2012 onwards we have 24 ethics officers and managers are obliged to train their colleagues on the code of ethics, personally.

As part of its commitment to ethics, MOL Group is dedicated to fair market behaviour; its activities in the marketplace must be conducted in accordance with the norms of fair competition and the spirit and letter of applicable competition laws. In 2012, the Compliance Team focused on effective risk assessment through market analyses. The Team highlighted the need to ensure regulatory compliance through training sessions. In 2012, in MOL Group, more than 270 employees participated in compliance presentations and more than 380 employees passed through e-learning training and an exam.

Hiring talented young people and experienced professionals

To support the on-going internationalisation of MOL Group, the International Mobility Management team was restructured and a new International Assignment platform was established. Key pillars of the new platform are the home-based employment payroll and home tax equalisation methodology, the new, simplified approval matrix and the international assignment plan based on compensation using balance sheet methodology. These pillars all serve the goal of ensuring fair and standard compensation for employees assigned away from home, based on up-to-date market data in terms of compensation elements.

A total of 76 international assignees from 16 countries started or continued to work in MOL Group HQ in 2012 and 239 international assignees were employed Group-wide.

MOL Group continued its Freshhh and Growww programs to attract and hire talented young people. In 2012, almost 2,000 students from over 250 universities in 60 countries participated in the Group's international oil and gas industry competition called Freshhh. At the same time we received over 7,000 applications - including 2,059 applications to MOL Plc., 3,851 to INA, 765 to Sloznaft, 268 to TVK and about 50 to Pakistan, Russia and Iraq - for the 298 open vacancies in our Growww graduate program world-wide.

INTEGRATED RISK MANAGEMENT

MOL's integrated risk management is one of the best, according to SAM

The aim of MOL Group Risk Management is to deal with the challenges of the external environment to support the stable and sustainable financial position of MOL. It is vitally important to have effective and comprehensive risk management as a prerequisite of good corporate governance. MOL Group has developed its risk management function as an integral part of its corporate governance structure. This was repeatedly confirmed by SAM Research AG in its 2012 benchmarking report for the Dow Jones Sustainability Index when it ranked MOL's risk management as one of the best in class with a 94% performance rating, well above the sector's average. This underlines MOL's well-defined responsibility for risk and crisis management and our well-defined risk response strategy.

Enterprise Risk Management

Incorporation of the broadest variety of risks into one long-term, comprehensive and dynamic system is managed by Enterprise Risk Management (ERM) at MOL Group level for all Divisions. ERM integrates financial and operational risks along with a wide range of strategic and compliance risks. The ERM process identifies the most significant risks to the successful performance of the company and calls for decisions to be made regarding which risks should be retained and which should be mitigated and how.

The main risk drivers of the Group are commodity price risk, foreign exchange risk, regulatory risk, country risk, drilling risk, equipment breakdown, market demand uncertainties and reputational risk. In general, these risks are aggregated, measured and mitigated at Group level. Some of them are managed centrally while others are dealt with by the Divisions, overseen by nominated risk owners.

Main risk management tools:

- **Financial Risk Management**

To ensure the profitability and the financial stability of the Group, Financial Risk Management as part of ERM is in place to handle short-term, market-related risks. Commodity price, FX and interest rate risks are assessed using a complex model based on the Value-at-Risk model and are managed – if necessary - using risk mitigation tools such as swaps, forwards and options.

- **Insurance Management**

Transfer of excess operational risks is the responsibility of Insurance Management. Purchase of insurance is an important risk mitigation tool used to cover the most relevant operational and liability exposures. The major insurance types are: Property Damage, Business Interruption, Liability and Control of Well Insurance. Due to the peculiarities of the insurance business, major tasks in this area are carried out in a yearly cycle e.g. the annual renewal of most insurance programs.

- **Business Continuity Management**

Business Continuity Management is the process of preparing for unexpected disruptions that have low probability but high impact. Emergency Response Plans, Crisis Management procedures. Disaster Recovery and other risk control programs are crucially important to such a business as ours where operational risk exposure is significant as a consequence of the chemical and physical processes underlying most of our operations.

APPENDIX

APPENDIX I

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

	FY 2012	FY 2011 restated
MOL GROUP		
Total impact of special items on operating profit	64,748	83,726
Total impact of special items on EBITDA	47,221	42,070
UPSTREAM	25,956	8,501
Crisis tax imposed by the Hungarian state on the domestic energy sector	2,544	2,599
Provision for redundancy at INA	300	711
Impairment on receivables	1,830	4,421
Impairment on Croscos Group's Libyan exploration equipment		
Impairment / (reversal of impairment) on certain upstream assets in INA Group		770
Recognition of expenses and provision for penalty in Angola	10,061	
Provision for contract termination in Iran	7,673	
Revision of Hungarian field abandonment provision	(7,368)	
Write-off of the unsuccessful Bijell-3 well	6,607	
Impairment of the Ferdinandovac field	4,309	
DOWNSTREAM	35,540	73,767
Impairment related to the treatment of gas bottles at Proplin which needed to be harmonized with the current situation		6,058
Crisis tax imposed by the Hungarian state on the domestic energy sector	27,055	25,549
Provision for redundancy at INA	445	1,688
Impairment on goodwill of IES		34,828
Provision for Romanian Competition Council fine		5,644
Impairment on receivables		
Provision made for redundancy relating to New DS Program	1,429	
Impairment on INA's refinery assets	6,611	
GAS MIDSTREAM	295	4,148
Crisis tax imposed by the Hungarian state on the domestic energy sector	295	252
Impairment on receivables		3,896
CORPORATE and OTHER	2,957	(2,690)
Crisis tax imposed by the Hungarian state on the domestic energy sector	496	560
Recognition and release of provision made for tax penalty at INA		(4,053)
Provision for redundancy at INA	2,461	803

APPENDIX II

Notes

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

² This line shows the effect on operating profits of the change in the amount of unrealised profit in respect of intersegment transfers. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third-party sale takes place but only in a subsequent quarter. For segmental reporting purposes, the transferor segment records a profit immediately at point of transfer. However, at the Company level, profits are only reported when a related third-party sale has taken place. In previous years, this unrealised profit effect was not shown separately, but was included in the reported segmental result of the receiving segment. Unrealised profits arise principally in respect of transfers from Upstream to Gas Midstream.

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

⁴ Estimated Current Cost of Supply-based EBITDA and operating profit/(loss) excluding special items. FX gain or loss on debtors and creditors and impairment on inventories in Refining & Marketing

⁵ In converting HUF financial data into USD, the following average NBH rates were used: for FY 2011: 200.9 HUF/USD, for FY 2012: 225.4 HUF/USD.

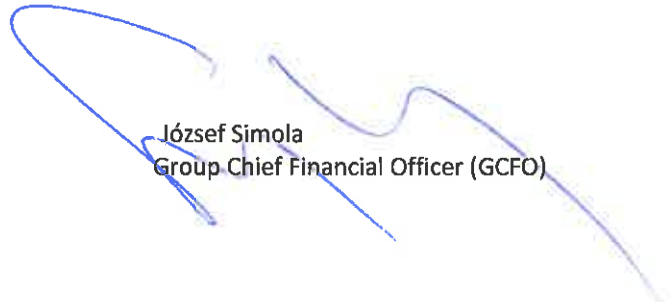
Statement of responsibility

Undersigned, authorized representatives of MOL Hungarian Oil and Gas Public Limited Company (MOL Plc.) the issuer of MOL ordinary shares, hereby declare that MOL Plc. takes full responsibility for the announced Annual Report of MOL Group for the year ended on 31 December 2012, which has been prepared to the best of our knowledge in accordance with International Financial Reporting Standards as endorsed by the European union, and give a true and fair view of the assets, liabilities, financial position, and profit of MOL Plc. and its subsidiaries and presents a fair review of the position, development and performance of MOL Plc. and its subsidiaries together with a description of principal risks and uncertainties.

Budapest, 25 April 2012



József Molnár
Group Chief Executive Officer (GCEO)



József Simola
Group Chief Financial Officer (GCFO)