MOL Hungarian Oil and Gas Public Limited Company

Consolidated Annual Report

31 December 2016

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MOL HUNGARIAN OIL AND GAS PLC.

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

31 December 2016

Budapest, 13 March 2017

Zsolt HERNÁDI
Chairman of the Board of Directors
Chief Executive Officer

József SIMOLA
Group Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

Introduction

General information

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

The shares of the Company are listed on the Budapest and the Warsaw Stock Exchange. Depositary Receipts (DRs) are listed on the Luxembourg Stock Exchange and are traded on London's International Order Book and Over The Counter (OTC) market in the USA.

Authorization and Statement of Compliance

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

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

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of MOL Hungarian Oil and Gas Plc.

Opinion

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

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

Basis for opinion

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

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

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

Key audit matters

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

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

Oil and natural gas reserve estimation process

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

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

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

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

Revenue recognition

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

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

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

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

Asset impairments

Movements in oil and gas prices can have a significant effect on the carrying value of the Group's assets including upstream offshore and onshore, refining, retail and service related long lived assets as well as goodwill. A significant and rapid drop in prices will also quickly impact the Group's operations and cash flows. We assessed the principal risk arising in relation to the consolidated financial statements to be associated with the carrying value of the above

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

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listed assets, many of which are supported by an assessment of future cash flows. As asset impairments are complex and judgmental area with significant potential impact on the valuation of assets, we consider asset impairments a key audit matter.	impairment indicators exist. The assessment took into consideration current industry and Group expectations for the key inputs to impairment models. In respect of performed impairment tests, we used external data in assessing and corroborating the assumptions used in impairment testing, the most significant being future market oil prices, reserves and resources volumes and discount rates. We involved our experts in the evaluation of discount rates. We also performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and procedures to assess the completeness of the impairment charges. We assessed the adequacy of the Group's disclosures in respect of valuation of intangible assets and tangible fixed assets. The disclosures about intangible assets and tangible fixed assets are included in Note 9 to the consolidated financial statements.
<u>Trading operations</u>	
Unauthorized trading activity (which covers physical and paper trading of products and product related derivatives) gives rise to an inherent risk of fraud in revenue or profit recognition as there is an incentive to mismarking of the Group's trading positions to minimize trading losses or maximize trading profits or understate profits or move profits to subsequent periods when bonus ceilings have already been reached, to maximize individual bonuses across financial years. This risk together with the potential significant effect on the revenue or profit of the Group led us to identify the risk of unauthorized trading operation as a key audit matter.	Our audit procedures included testing of the design of internal controls implemented in the process and testing of the design and operating effectiveness of the controls implemented by the Group to avoid unauthorized trading activity. We selected the sample of third parties to whom we have sent the confirmation letters to confirm the year-end balances of open transactions. We tested fair value of a sample of derivatives using contract and external market prices with the involvement of our valuation experts. We performed test of the completeness of the trading transactions and amounts recorded in the consolidated financial statements through performing procedures to detect unrecorded liabilities as well as procedures related to the recognition of sales, purchases, trade receivables and trade payables.

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

Other information

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

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

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

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

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

In our opinion, the consolidated business report of MOL Hungarian Oil and Gas Plc. for 2016 corresponds to the disclosures in the 2016 consolidated financial statements of MOL Hungarian Oil and Gas Plc. and has been prepared in accordance with the Hungarian Accounting Law. The Statement on corporate governance properly describes the main features of the Group's internal control and risk management systems in relation to the consolidated financial reporting process and the information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law.

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the EU IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Budapest, 13 March 2017

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Registered auditor
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016 HUF million	2015 restated HUF million
Profit before tax		**272,543**	**(307,895)**
Adjustments to reconcile profit before tax to net cash provided by operating activities			
Depreciation, depletion, amortisation and allowances/impairments	4	315,483	860,609
Increase / (decrease) in provisions	16	(27,272)	5,251
Net (gain) / loss on asset disposal and divestments		659	(2,684)
Net interest expense / (income)	5	40,790	42,000
Other finance expense / (income)	5	8,963	50,626
Share of net profit of associates and joint venture	6	(14,390)	(1,962)
Other non-cash item		13,908	(5,982)
Income taxes paid	7	(63,415)	(24,381)
Operating cash flow before changes in working capital		**547,269**	**615,582**
Total change in working capital o/w:		*(27,884)*	*(28,779)*
(Increase) / decrease in inventories	14	(41,706)	4,980
(Increase) / decrease in trade and other receivables	23	(47,040)	82,737
Increase / (decrease) in trade and other payables		78,389	(72,481)
(Increase)/decrease in other assets and liabilities	15, 18	(17,527)	(44,015)
Net cash provided by / (used in) operating activities		**519,385**	**586,803**
Capital expenditures	2	(289,438)	(370,002)
Proceeds from disposal of fixed assets		4,623	3,462
Acquisition of businesses (net of cash)	10	(29,935)	(59,247)
Proceeds from disposal of businesses (net of cash)	11	(3,562)	(551)
Increase / decrease in other financial assets		(423)	195,344
Interest received and other financial income	5	3,962	9,098
Dividends received	5	7,805	8,643
Net cash (used in) / provided by investing activities		**(306,968)**	**(213,253)**
Issuance of long-term notes		233,348	-
Repayment of long-term notes		-	(234,908)
Proceeds from loans and borrowings received		1,056,074	1,816,777
Repayments of loans and borrowings		(1,088,709)	(1,930,939)
Interest paid and other financial costs	5	(61,255)	(30,557)
Dividends paid to shareholders	25	(47,802)	(42,166)
Dividends paid to non-controlling interest		(2,550)	(16,613)
Transactions with non-controlling interest		(214,987)	(6,282)
Net cash (used in) / provided by financing activities		**(125,881)**	**(444,688)**
Currency translation differences relating to cash and cash equivalents		(1,446)	(76)
Increase/(decrease) in cash and cash equivalents		**85,090**	**(71,214)**
Cash and cash equivalents at the beginning of the period		131,838	203,052
Cash and cash equivalents at the end of the period		216,928	131,838

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

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

1. Accounting information, policies and significant estimates

a) Basis of preparation

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

The consolidated financial statements are prepared on a going concern basis under the historical cost convention. For the purposes of the application of the Historical Cost Convention, the consolidated financial statements treat the Company as having come into existence as of 1 October 1991, at the carrying values of assets and liabilities determined at that date, subject to the IFRS adjustments.

b) Principles of consolidation

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

Control is evidenced when the Group is exposed, or has rights, to variable returns from its involvement with a company, and has the ability to affect those returns through its power over the company. Power over an entity means having existing rights to direct its relevant activities. The relevant activities of a company are those activities which significantly affects its returns.

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

An arrangement is under joint control when the decisions about its relevant activities require the unanimous consent of the parties sharing the control of the arrangements.

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

If the Company has rights to the net assets of the arrangement then the arrangement is qualified as a joint venture. The Group's investments in joint ventures are accounted for using the equity method of accounting.

c) Mandatory accounting policy change

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

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

d) Issued but not yet effective International Financial Reporting Standards

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

e) Summary of significant accounting policies

Presentation currency

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

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

Foreign Currency Transactions

Foreign currency transaction are recorded initially at the rate of exchange at the date of the transaction. Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognised or in previous financial statements are reported in profit or loss in the

period. Monetary items, goodwill and fair value adjustments arising on the acquisition of a foreign operation denominated in foreign currencies are retranslated at exchange rate ruling at the balance sheet date.

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

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

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

f) Significant accounting estimates and judgements

Critical judgements in applying the accounting policies

In the process of applying the accounting policies, management has made certain judgements that have significant effect on the amounts recognized in the financial statements (apart from those involving estimates, which are dealt with below). These are detailed in the respective notes.

Sources of estimate uncertainty

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

RESULTS FOR THE YEAR

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

2. Segmental information

Accounting policies

From business perspective the Group is organised into three major operating business units: Upstream, Downstream, Gas Midstream.

The business units are the basis upon which the Group reports its segment information to the management who is responsible for allocating business resources and assessing performance of the operating segments.

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

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

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

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

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

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

a) Assets by geographic areas

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

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

3. Total operating income

Accounting policies

Net sales

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of sales taxes and discounts when delivery of goods or rendering of the service has taken place and transfer of risks and rewards has been completed. Having assessed the probability of receiving economic benefits from sales activities in Group's operations in Kurdistan the management decided to recognise revenue on a cash basis on sales in Kurdistan Region of Iraq.

Sales taxes

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

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

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

Other operating income

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

a) Sales by product lines

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

b) Sales by geographical area

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

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

c) Other operating income

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

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

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

4. Total operating expenses

Accounting policies

Total operating expense

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

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

Personnel expenses

Decrease in personnel expenses is the result of efficiency improvement programs and renewed collective agreements.

Other personnel expenses contains fringe benefits, reimbursement of expenses and severance payments.

Share-based payments

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

Equity-settled transactions

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

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

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

Cash-settled transactions

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

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

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

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

Share Option Incentive Schemes for management

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

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

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

The incentive is paid in the exercising period according to the declaration of exercising. The payout/earning is the difference between the exercise price and Strike Price for one Share Option, multiplied by the number of Share Options the manager is entitled to.

As managerial remuneration package, the managers, who are entitled to long-term incentives are eligible for a one-time payout annually, in case the Annual General Meeting of MOL Plc. decides on dividend payment in the given year. Payment of one manager is the value equal to the dividend payment per share multiplied by the Share Option unit numbers the manager is entitled to.

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

As required by IFRS 2, this share-based compensation is accounted for as cash-settled payments, expensing the fair value of the benefit as determined at vesting date during the vesting period. In 2016 expenses amount to HUF 2,509 million (2015: HUF 780 million). Liabilities in respect of share-based payment plans amount to HUF 2,992 million as at 31 December 2016 (31 December 2015: HUF 885 million), recorded in Other non-current liabilities and Other current liabilities.

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

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

Performance Share Plan for management

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

- Programme starts each year on a rolling scheme with a three-year vesting period. Payments are due after the third year.
- Target is the development of MOL's share price compared to relevant and acknowledged regional and industry specific indicators (the CETOP20 and Dow Jones Emerging Market Titans Oil & Gas 30 Index).

- Basis of the evaluation is the average difference in MOL's year-on-year (12 months) share price performance in comparison to the benchmark indices during three years.
- Payout rates are defined based on the over / underperformance of MOL share price.
- The rate of incentive is influenced by the individual short-term performance.

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

Share Incentive scheme for the members of the Board of Directors

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

According to IFRS 2, the incentive qualifies as an equity-settled share-based scheme; therefore the fair value of the benefit should be expensed during the one year vesting period with a corresponding increase in the equity. The fair value of the benefit has been determined with reference to the average quoted price of MOL shares at the date of grant, which is the first trading day of the year. In 2016 with respect of the share scheme program, HUF 460 million (2015: HUF 188 million) is recorded as an expense, parallel with the corresponding increase in the equity.

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

5. Finance result

Voluntary change in accounting policies

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

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

6. Joint ventures and associates

Accounting policies

Statement of financial position

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An arrangement is under joint control when the decisions about its relevant activities require the unanimous consent of the parties sharing the control of the arrangements. Joint arrangements can be joint operation and joint venture. The type of the arrangement should be determined by considering the rights and obligations of the parties arising from the arrangement in the normal course of business. Joint ventures are joint arrangements in which the parties that share control have rights to the net assets of the arrangement.

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

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

Statement of profit or loss

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

Voluntary change in accounting policies

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

Mandatory change in accounting policies

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

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

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

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

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

MK Oil and Gas B.V.

Through a 100% owned holding company (MH Oil and Gas B.V.), MOL Group has 51% ownership in MK Oil and Gas B.V. being the sole owner of Baitex LLC, where the activities are carried out through a concession agreement on Baitugan and Yerilkinksy blocks.

As a result of revision of fact and circumstances of shareholding and corporate governing structure a joint control exists over MK Oil and Gas B.V. as the relevant activities of the company require unanimous consent of the parties sharing the control of the operation giving the parties right to the net assets of the arrangement.

JSR MOL Synthetic Rubber Zrt.

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

CM European Power International B.V.

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

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

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

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

Pearl Petroleum Company Limited

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

MET Holding AG. (MET)

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

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

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

Ural Group Limited

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

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

7. Taxation

Accounting policies

Income tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is recognised in other comprehensive income or directly in equity.

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

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

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

Critical accounting estimates and judgements

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

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

a) Analysis of taxation charge for the year

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

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

b) Current income taxes

The Group's current income taxes are determined on the basis of taxable statutory profit of the individual companies of the Group.

Industry income taxes include tax on energy supply activities in Hungary with an effective tax rate of 21% on taxable statutory profit of MOL Plc.

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

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

Change in tax rates

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

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

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

c) Deferred tax assets and liabilities

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

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

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

As of 31 December 2016 deferred tax assets of HUF 125,055 million includes deferred tax impact of tax losses carried forward of HUF 20,330 million and HUF 24,236 million at MOL Plc. and INA Group, respectively. Further amount of HUF 16,889 million relates to timing differences of provisions net of intragroup transactions at MOL Plc. Based on business plan prepared, management considers to be probable that there will be sufficient future taxable profits to realise the recognized deferred tax assets prior to the expiration of any tax losses under the applicable tax law. As of 31 December 2016 deferred tax liabilities of HUF 47,766 million consists of temporary differences on intangible and tangible assets at FGSZ Zrt (HUF 16,338 million), MOL Petrochemicals (HUF 4,311 million) and Slovnaft a.s. (HUF 33,928 million). In case of Slovnaft a.s. deferred tax assets and liabilities are offset, decreasing the deferred tax liability by HUF 20,276 million arising mainly from differences in provisions and tax losses from prior periods.

Analysis of movements during the year in the net deferred tax asset:

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

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

d) Reconciliation of taxation rate

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

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

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

e) Income tax recognized in other comprehensive income

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

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

f) Unrecognised deferred tax assets

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

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

8. Components of other comprehensive income

	2016 HUF million	2015 restated HUF million
Exchange differences on translating foreign operations, net of tax		
Gains / (losses) arising during the year	(25,580)	46,988
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	11,610	(27,794)
Income tax effect	-	-
	(13,970)	19,194
Net investment hedge, net of tax		
Gains / (losses) arising during the year	(6,052)	(14,807)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	891	1,694
	(5,161)	(13,113)
Available-for-sale financial assets		
Gains / (losses) arising during the year	4,181	4,851
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	(491)	(970)
	3,690	3,881
Cash flow hedges		
Gains / (losses) arising during the year	(325)	(6,693)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	(9,221)	(21,046)
Reclassification adjustments to initial cost of hedged inventories	10,343	24,460
Income tax effect	(8)	143
	789	(3,136)
Equity recorded for actuarial gain/loss on provision for retirement benefit obligation		
Gains / (losses) arising during the year	794	1,624
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	45	(376)
	839	1,248
Share of other comprehensive income for associates		
Gains / (losses) arising during the year	7,849	5,667
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	-	-
	7,849	5,667

NON-FINANCIAL ASSETS AND LIABILITIES

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

9. Property, plants and equipment and intangible assets

a) Property, plants and equipment

Accounting policies

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, such as borrowing costs. Estimated field abandonment and site restoration costs are capitalized upon initial recognition or, if decision on field abandonment is made subsequently, at the time of the decision. Expenditures incurred after the property, plant and equipment have been put into operation are charged to statement of profit or loss in the period in which the costs are incurred, except for periodic maintenance costs which are capitalized as a separate component of the related assets.

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

	Land and buildings HUF million	Machinery and equipment HUF million	Other machinery and equipment HUF million	Construction in progress HUF million	Total HUF million
At 1 Jan 2015 restated					
Gross book value	2,860,640	2,149,005	173,488	467,208	5,650,341
Accumulated depreciation and impairment	(1,481,444)	(1,526,354)	(139,444)	(11,241)	(3,158,483)
Net book value	1,379,196	622,651	34,044	455,967	2,491,858
Year ended 31 December 2015					
Additions and capitalizations	144,683	222,728	11,765	(111,164)	268,012
Acquisition of subsidiaries	27,410	5,337	575	90	33,412
Depreciation for the year	(163,405)	(159,393)	(9,221)		(332,019)
Impairment	(102,652)	(169,010)	(517)	(83,007)	(355,186)
Reversal of impairment	3,348	1,107	178	14	4,647
Disposals	(1,358)	(630)	(103)	(44)	(2,135)
Disposal of subsidiaries		(3)	(54)	(10)	(67)
Exchange adjustment	7,747	23,720	163	936	32,566
Transfers and other movements	5,631	23,612	(471)	34,511	63,283
Closing net book value	1,300,600	570,119	36,359	297,293	2,204,371
At 31 Dec 2015 restated					
Gross book value	3,079,941	2,324,814	169,969	382,334	5,957,058
Accumulated depreciation and impairment	(1,779,341)	(1,754,695)	(133,610)	(85,041)	(3,752,687)
Net book value	1,300,600	570,119	36,359	297,293	2,204,371
Year ended 31 Dec 2016					
Additions and capitalizations	122,742	173,707	10,669	(45,225)	261,893
Acquisition of subsidiaries	21,968	619	490	203	23,280
Depreciation for the year	(151,762)	(107,826)	(10,119)	-	(269,707)
Impairment	(5,253)	(8,900)	(188)	(6,021)	(20,362)
Reversal of impairment	966	323	32	3	1,324
Disposals	(2,368)	(1,614)	(554)	(1,033)	(5,569)
Disposal of subsidiaries	(2,219)	(9,068)	(23)	(1,899)	(13,209)
Exchange adjustment	(2,366)	(3,471)	509	(7,115)	(12,443)
Transfers and other movements	25,358	164	(160)	(1,521)	23,841
Closing net book value	1,307,666	614,053	37,015	234,685	2,193,419
At 31 Dec 2016					
Gross book value	3,226,680	2,350,377	174,155	314,202	6,065,414
Accumulated depreciation and impairment	(1,919,014)	(1,736,324)	(137,140)	(79,517)	(3,871,995)
Net book value	1,307,666	614,053	37,015	234,685	2,193,419

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

Asset acquisitions in 2016

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

Asset acquisitions in 2015

North Sea asset acquisition from Ithaca Petroleum Limited

The Group extended its portfolio in Norway by acquiring of Ithaca Petroleum Norge from Ithaca Petroleum Limited in 2015. It consists of additional off-shore assets in 14 licenses. The deal was treated as asset acquisition and an addition of HUF 14,390 million was recognised as Property, plant and equipment and Intangibles.

Leased assets

Accounting polices

If fulfilment of an arrangement depends on the use of a specific asset or conveys the right to use the asset, it is deemed to contain a lease element and is recorded accordingly.

Finance leases are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Initial direct costs incurred are added to or deducted from the fair value. Lease payments are apportioned between the finance charges and reduction of the lease liability. Finance charges are charged directly against finance expense.

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

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

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

Borrowing costs

Accounting policies

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

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

Government grants

Accounting policies

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset.

In 2016 property, plant and equipment includes assets with a value of HUF 11,182 million (2015: HUF 12,477 million) financed from government grants. The total amount reflects mainly the assets of FGSZ Zrt. partly financed via a European Union grant for the construction of the Hungarian-Romanian and the Hungarian-Croatian natural gas interconnector and transformation of nodes, and the assets of Slovnaft a.s. financed by the grant received from Slovakian government in order to serve State Authorities in case of state emergencies.

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

b) Intangible assets

Accounting policies

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

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

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

Development costs are capitalized if the recognition criteria according to IAS 38 are fulfilled. Costs in development stage can be not amortized. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Emission rights

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

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

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

Goodwill

Accounting policies

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

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

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

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

Oil and natural gas exploration and development expenditures

Accounting policies

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

License and property acquisition costs

Costs of exploration and property rights are capitalized as intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Upon recognition of proved reserves ('proved reserves' or 'commercial reserves') and internal approval for development, the relevant expenditure is transferred to property, plant and equipment.

Exploration expenditure

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

Development expenditure

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

Critical accounting estimates and judgements

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

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

Exploration and evaluation assets

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

Within exploration and evaluation assets, exploration expense incurred in 2016 is HUF 4,202 million (2015 restated: HUF 7,130 million), which were not eligible for capitalization. Consistent with the successful effort method of accounting they were charged to various operating cost captions of the consolidated statement of profit or loss as incurred.

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

Write-offs of dry holes

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

g) Depreciation, depletion and amortization

Accounting policies

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

- Software: 3 – 5 years
- Buildings: 10 – 50 years
- Refineries and chemicals manufacturing plants: 4 –12 years
- Gas and oil storage and transmission equipment: 7 – 50 years
- Petrol service stations: 5 – 30 years
- Telecommunication and automatisation equipment: 3 – 10 years

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Amortisation is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method.

The useful life and depreciation methods are reviewed at least annually.

Critical accounting estimates and judgements

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

Mandatory accounting policy change

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

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

h) Impairment of assets

Accounting policies

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

cash-generating unit. Intangible assets with indefinite useful life are not depreciated, instead impairment test is performed at each financial year-end.

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

Critical accounting estimates and judgements

Impairment of non-current assets, including goodwill

The impairment calculation requires an estimate of the recoverable amount of the cash generating units. Value in use is usually determined on the basis of discounted estimated future net cash flows. In determination of cash flows the most significant variables are discount rates, terminal values, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the cash inflows and outflows, including commodity prices, operating expenses, future production profiles and the global and regional supply-demand equilibrium for crude oil, natural gas and refined products.

Impairments

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

Impairment test of Upstream assets

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

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

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

*Containing the intersegment impact

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

*Containing the intersegment impact

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

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

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

Impairment of goodwill

Accounting policies

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

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

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

Downstream

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

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

Corporate and other

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

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

10. Business combinations, transactions with non-controlling interests

Accounting policies

The acquisition method of accounting is used for acquired businesses by measuring assets and liabilities at their fair values upon acquisition, the date of which is determined with reference to the settlement date. For each business combination the Group decides whether non-controlling interest is stated either at fair value or at the non-controlling interests' proportionate share of the acquiree's fair values of net assets. The income and expenses of companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

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

Subsequently the carrying amount of non-controlling interests is the initially recognised amount of those interests adjusted with the non-controlling interests' share of changes in equity after the acquisition.

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

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

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

As at 1 August 2016 MOL Plc. became the sole shareholder of ENI Hungaria Zrt., a company managing 173 service stations in Hungary (including dealer owned sites) as well as wholesale activities in the country. As a result of the acquisition MOL's retail network grows to over 500 service stations in Hungary. This step will strengthen MOL Group's market position through increase of market share and expected synergies and the intention of becoming a regional leader in selling fuel and non-fuel goods in Central Eastern Europe.

Regarding the acquired filling stations the initial accounting of the business combinations is provisional as at 31 December 2016, as the valuation has not been finalised.

	Carrying amount HUF million	Provisional fair value adjustment HUF million	Provisional fair value on acquisition HUF million
Non-current assets	**23,418**	**2,321**	**25,739**
Intangible assets	303	293	596
Property, plant and equipment	22,885	1,772	24,657
Investment	192	-	192
Deferred tax asset	38	256	294
Current assets	**11,026**	**(231)**	**10,795**
Inventories	2,696	-	2,696
Trade and other receivables	3,981	(231)	3,750
Other current assets	515	-	515
Cash and cash equivalents	3,834	-	3,834
Non-current liabilities	**(277)**	**(963)**	**(1,240)**
Provisions	(277)	(752)	(1,029)
Deferred tax liability	-	(211)	(211)
Current liabilities	**(7,928)**	**-**	**(7,928)**
Trade payables	(5,192)	-	(5,192)
Taxes and contributions	(1,677)	-	(1,677)
Other current liabilities	(1,059)	-	(1,059)
Net assets	**26,239**	**1,127**	**27,366**
Goodwill on acquisition			
Fair value of consideration transferred (FX at transaction date)			31,595
Less: fair value of identifiable net assets acquired			(27,366)
Provisional goodwill			**4,229**
Net cash outflow on acquisition of subsidiaries			
Consideration paid in cash (FX at payment date)			31,057
Less: cash and cash equivalent balances acquired			(3,834)
Net cash outflow			**27,223**

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

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

Acquisition related costs were immaterial.

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

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

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

11. Disposals

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

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

	Matjushkinskaya Vertical LLC HUF million	Greengas S.r.l. HUF million
Non-current assets	19,002	177
Current assets	288	7,360
Total assets	**19,290**	**7,537**
Non-current liabilities	(3,007)	-
Current liabilities	(786)	(2,086)
Total liabilities	**(3,793)**	**(2,086)**
Non-controlling interest	-	2,780
Net assets sold	**15,497**	**2,671**
Cash consideration received	**443**	**1,684**
Recycling of cumulative foreign exchange loss	(11,820)	(348)
Net gain / (loss) on disposal	**(3,234)**	**(639)**
Analysis of cash inflow on sales		
Cash consideration received	443	1,684
Net cash disposed of during the sale	(8)	(5,697)
Net cash inflow	**435**	**(4,013)**

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

12. Material non-controlling interest

INA-Industrija nafte d.d.

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

Proportion of equity interest held by non-controlling interests:

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

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

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

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

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

Magnolia Finance Ltd.

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

	Proportion of non-controlling interest	
Name	31 Dec 2016	31 Dec 2015
Magnolia Finance Limited	0%	100%

	2016 HUF million	2015 HUF million
Opening value of equity attributable to non-controlling interests	31,757	42,249
Coupon and dividend payments	(1,896)	(10,492)
Acquisition of non-controlling interests	(29,861)	-
Closing value of equity attributable to non-controlling interests	**-**	**31,757**

13. Other non-current assets

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

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

14. Inventories

Accounting policies

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

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

Impairment of HUF 6,027 million has been recorded in 2016 (2015: HUF 14,830 million), mainly on raw materials and goods for resale.

In 2016 impairment was accounted for pipeline inventory in Kurdistan Region of Iraq (HUF 3,344 million).

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

15. Other current assets

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

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

16. Provisions

Accounting policies

Provision is made for the best estimate of the expenditure required to settle the present obligation (legal or constructive) as a result of past event where it is considered to be probable that a liability exists and a reliable estimate can be made of the outcome. Long-term obligation is discounted to the present value. Where discounting is used, the carrying amount of the provisions increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognized as interest expense. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

Provision for Redundancy

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

Provision for Environmental Expenditures

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

Provision for Field abandonment

The Group records a provision upon initial recognition for the present value of the estimated future cost of abandonment of oil and gas production facilities following the termination of production. At the time the obligation arises, it is provided for in full by recognizing the present value of future field abandonment and restoration expenses as a liability. An equivalent amount is capitalized as part of the carrying amount of long-lived assets. The estimate is based upon current legislative requirements, technology and price levels. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the facility or item of plant (on a straight-line basis in

Downstream, and using the unit-of production method in Upstream). Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding property, plant and equipment.

Provision for Retirement Benefits

The cost of providing benefits under the Group's defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as other comprehensive income immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognized as an expense immediately.

Net interest expense is calculated on the basis of the net defined benefit obligation and disclosed as part of the financial result. Differences between the return on plan assets and interest income on plan assets included in the net interest expense is recognized in other comprehensive income.

Emission rights

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

Voluntary change in accounting policies

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

Critical accounting estimates and judgements

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

Scope, quantification and timing of environmental and field abandonment provision

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

Actuarial estimates applied for calculation of retirement benefit obligations

The cost of defined benefit plans is determined using actuarial valuations, which involves making assumptions about discount rates, future salary increases and mortality or fluctuation rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Outcome of certain litigations

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

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

Environmental Provision

As of 31 December 2016 provision of HUF 78,993 million has been made for the estimated cost of remediation of past environmental damages, primarily soil and groundwater contamination and disposal of hazardous wastes, such as acid tar, in Hungary, Croatia, Slovakia and Italy. The provision is made on the basis of assessments prepared by MOL's internal environmental expert team. The amount of the provision has been determined on the basis of existing technology at current prices by calculating risk-weighted cash flows discounted using estimated risk-free real interest rates. The amount reported as at 31 December 2016 also includes a contingent liability of HUF 23,676 million recognized upon acquiring INA Group, representing its present environmental obligations and a further HUF 15,712 million environmental contingent liability regarding the acquisition of IES (see Note 26).

Provision for Redundancy

As part of continuing efficiency improvement projects, MOL Plc., Slovnaft, a.s., INA d.d., IES SpA and other Group members decided to further optimize workforce. As the management is committed to these changes and the restructuring plan was communicated in detail to parties involved, the Group recognised a provision for the net present value of future redundancy payments and related tax and contribution. Relating to the restructuring of activities in Mantova, a provision for redundancy of HUF 9,145 million was recognised at IES in 2013 out of which HUF 579 million remained as of 31 December 2016. In 2015, a provision of HUF 9,804 million was made for redundancy program at INA out of which HUF 793 million still remained as of 31 December 2016. The closing balance of provision for redundancy is HUF 2,938 million as of 31 December 2016 (31 December 2015: HUF 16,063 million)

Provision for Field abandonment

As of 31 December 2016 provision of HUF 274,471 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 6% of these costs are expected to be incurred between 2017 and 2021 and the remaining 94% between 2022 and 2068. The amount of the provision has been determined on the basis of management's understanding of the respective legislation, calculated at current prices and discounted using estimated risk-free real interest rates. Activities related to field suspension, such as plugging and abandoning wells upon termination of production and remediation of the area are planned to be performed by hiring external resources. Based on the judgement of the management, there will be sufficient capacity available for these activities in the area. As required by IAS 16 – Property, Plant and Equipment, the qualifying portion of the provision has been capitalized as a component of the underlying fields.

Provision for Long-term Employee Benefits

As of 31 December 2016 the Group has recognised a provision of HUF 19,947 million to cover its estimated obligation regarding future retirement and jubilee benefits payable to current employees expected to retire from group entities. These entities operate benefit schemes that provide lump sum benefit to all employees at the time of their retirement. MOL employees are entitled to 3 times of their final monthly salary regardless of the period of service, while MOL Petrochemicals Zrt. and Slovnaft, a.s. provide a maximum of 2 and 7 months of final salary respectively, depending on the length of service period. In addition to the above mentioned benefits, in Hungary the retiring employees are entitled to the absence fee for their notice period – which lasts for 1-3 months depending on the length of the past service – which is determined by the Hungarian Labour Code. None of these plans have separately administered funds; therefore there are no plan assets. The amount of the provision has been determined using the projected unit credit method, based on financial and actuarial variables and assumptions that reflect relevant official statistical data which are in line with those incorporated in the business plan of the Group. Principal actuarial assumptions reflect an approximately 2% difference between the discount rate and the future salary increase.

	2016 HUF million	2015 HUF million
Present value of total long-term employee benefit obligation at the beginning of the year	**21,666**	**23,184**
Acquisitions / (disposals)	9	(72)
Past service cost	496	(666)
Current service cost	1,910	3,800
Interest costs	444	676
Provision used during the year	(2,571)	(3,776)
Net actuarial (gain)/loss	(2,009)	(1,614)
from which:		
Retirement benefit (See Note 8)	(794)	(1,624)
Jubilee benefit	(1,215)	10
Exchange adjustment	2	134
Present value of total long-term employee benefit obligation at year end	**19,947**	**21,666**

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

	2016 HUF million	2015 HUF million
Current service cost	1,910	3,800
Net actuarial (gain)/loss	(1,215)	10
Past service cost	496	(666)
Balance as at year end	**1,191**	**3,144**

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

	2016	2015
Discount rate in %	1.7 - 3.0	2.0 - 3.7
Average wage increase in %	0.0 - 2.0	0.0 - 2.0
Mortality index (male)	0.05 - 3.57	0.05 - 3.57
Mortality index (female)	0.02 - 1.53	0.02 - 1.53

Actuarial (gains) and losses comprises of the following items:

	Retirement benefits		Jubilee benefits	
	2016 HUF million	2015 HUF million	2016 HUF million	2015 HUF million
Actuarial (gains) / losses arising from changes in demographic assumptions	(867)	(849)	(605)	(520)
Actuarial (gains) / losses arising from changes in financial assumptions	786	86	(345)	(60)
Actuarial (gains) / losses arising from experience adjustments	(713)	(861)	(265)	590
Total actuarial (gains) / losses	**(794)**	**(1,624)**	**(1,215)**	**10**

Legal and Other Provisions

Legal and other provisions include provision for emission quotas, legal claims and for other future payment obligations.

As of 31 December 2016 provision of HUF 25,497 million (31 December 2015: HUF 25,194 million) has been made for estimated total future losses from litigations.

As of 31 December 2016 the Group has recognized a provision of HUF 4,329 million for the shortage of emission quotas (31 December 2015: 7,001 million). In 2016, MOL Group has been granted 4,293,688 (2015: 4,427,304) emission quotas by the Hungarian, Croatian and Slovakian authorities. The total emissions during 2016 amounted to equivalent of 6,374,298 tons of emission quotas (2015: 6,380,111 tons).

17. Other non-current liabilities

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Government grants received (see Note 9)	10,553	11,808
Deferred compensation for property, plant and equipment	4,319	4,902
Received and deferred other subsidies	3,301	3,642
Liabilities to government for sold apartments	1,592	1,832
Deferred income for apartments sold	1,292	1,321
Other	1,601	1,059
Total	22,658	24,564

18. Other current liabilities

Trade payables are non-interest bearing and are normally settled on 30-day terms.

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Taxes, contributions payable (excluding corporate tax)	141,919	150,180
Amounts due to employees	35,723	33,003
Custom fees payable	9,867	10,463
Advances from customers	7,607	8,897
Other accrued incomes	4,806	4,985
Fee payable for strategic inventory storage	3,794	4,243
Fair value of firm commitments as hedged item under commodity price transactions	3,299	9,991
Strategic capacity booking fee	1,466	-
Government subsidies received and accrued (see Note 9)	629	669
Other	3,514	1,982
Total	212,624	224,413

Taxes, contributions payable mainly include mining royalty, contributions to social security, value added tax and excise tax.

19. Assets and liabilities held for sale

Accounting policies

Non-current assets and disposal groups are classified as held for sale if their carrying amounts are to be realized by sale rather than through continued use. This is the case when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale, and actions required to complete the plan of sale should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Immediately before the initial classification of the asset as held for sale, impairment test shall be carried out. Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets are no longer depreciated or amortised once classified as held for sale.

In 2016 divestiture process for Zagreb 1 platform in Croatia has started resulting in classification as held for sale in the value of HUF 282 million. Immediately prior to classifying the platform as held for sale, impairment test was performed, which triggered impairment of HUF 5,937 million. . These assets classified as held for sale are reported in the Corporate and other segment.

In 2016 the group decided to commit itself to sale of retail network assets of IES S.p.A. and actively seek market for the related assets therefore classified the assets as held for sale at fair value less cost to sell at HUF 2,800 million after recording impairment of HUF 5,982 million. These assets classified as held for sale are reported in the Downstream segment.

Management expects that both sales transactions will be closed within the following twelve months.

Assets and liabilities held for sale	31 Dec 2016 HUF million	31 Dec 2015 HUF million
Assets		
Property, plant and equipment	3,082	-
Assets classified as held for sale	3,082	-
Liabilities		
Liabilities related to assets classified as held for sale	-	-

There were no assets or liabilities classified as held for sale as at 31 December 2015.

FINANCIAL INSTRUMENTS, CAPITAL AND FINANCIAL RISK MANAGEMENT

This section explains policies and procedures applied to manage the Group's capital structure and the financial risks the group is exposed to. This section also describes the financial instruments applied to fulfill these procedures. Hedge accounting related policies and financial instruments disclosures are also provided in this section.

Accounting policies

Initial recognition

Financial instruments are recognized initially at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss).

Subsequent measurement

Subsequent measurement depends on the classification of the given financial instrument. The Group's financial assets are classified at the time of initial recognition depending on their nature and purpose.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading (including derivatives, other than those designated as effective hedging instrument) and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognized in the statement of profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognized as other comprehensive income in the fair valuation reserve.

Fair value measurement

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

Derecognition of Financial Instruments

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

Hedging

For the purpose of hedge accounting, hedges are classified as either:

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be effective (80-125%) in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

Fair value hedges

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

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

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

Cash flow hedges

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

Amounts taken to other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects the statement of profit or loss. Where the hedged item is the cost of a non-financial asset or liability, the amounts previously taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

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

Hedges of a net investment

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

Impairment of Financial Assets

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

Assets carried at amortised cost

Amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses) discounted at the financial asset's effective interest rate at the date of impairment. The amount of the loss is recognized in the statement of profit or loss.

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

Available-for-sale financial investments

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

Critical accounting estimates and judgements

For determination of fair value, management applies estimates of the future trend of key drivers of such values, including, but not limited to yield curves, foreign exchange and risk-free interest rates, and in case of the conversion option volatility of MOL share prices and dividend yield.

Management judgements are required in assessing the recoverability of loans and receivables and determining whether a provision against those is required. Factors considered include the credit rating of the counterparty, the amount and timing of anticipated future payments and any possible actions that can be taken to mitigate the risk of non-payment.

20. Financial risk management policies

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

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

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

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

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

The Group is currently in Low Gearing status. As of 31 December 2016 the Net Debt / EBITDA is at 0.97 level (2015: 0.74) while the Net Gearing is 25.2% (2015: 20.7%).

The derivative transaction the company may enter is under ISDA (International Swaps and Derivatives Association) agreements and Hungarian law governed Dealing Master Agreement in the Hungarian Market. MOL Commodity Trading Limited was established with the purpose to centralize and manage the Group's needs on oil and oil product derivatives, to optimize the Group-level CO2 quota position and to manage the procurement of electricity. In order to control market and credit risks, risk limits (VaR limits, counterparty limits, total commitment limit) are applied and monitored on a daily basis.

a) Key exposures

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

Commodity price risk

MOL Group as an integrated oil and gas company is exposed to commodity price risk on demand and supply side as well. The main commodity risks stem from our integrated business model with downstream processing more crude than our equity crude oil production. In Upstream we are long on crude oil and in Downstream we have a long position on fuels and petrochemical margin. Investors buying oil companies' share are generally willing to take the risk of oil business so commodity price risk should not be fully eliminated from the cash flow. When necessary, commodity hedging is considered to eliminate risks other than 'business as usual' risks or general market price volatility.

In 2016 MOL Group concluded short and mid-term commodity swap and option transactions. These transactions are mainly dealt for inventory hedging purposes in order to mitigate the effects of the potential price movements during the non-business-as-usual refinery activities (e.g. turnarounds/ shutdowns), and to gain from the favorable forward curve structure. They are also related to crude oil procurement and other trading possibilities.

Foreign currency risk

Business operation is economically driven mainly by USD. The overall operating cash flow exposure of the Group is net long USD, EUR, RON, and net short HUF, HRK, RUB from economic point of view. According to MOL's current FX risk management policy the long FX exposures of the operating cash flow are decreased by the short financing cash flow exposures

When the Group is in low gearing status, it follows the basic economic currency risk management principle that the currency mix of the debt portfolio should reflect the net operating cash flow position of the Group ('natural hedge'). The Group also uses foreign exchange derivatives to hedge the foreign exchange exposures.

The Group decided to hedge the exposure to variability in cash flows that is attributable to the foreign exchange risk associated with one of the issued debt (Eurobond 2), and also hedge the foreign exchange risk arising on the USD denominated net investments in foreign operations, with EUR/USD foreign exchange forwards.

Certain facilities of the Group's long-term debt has been designated as hedging instruments in a net investment hedge of foreign operations denominated in USD and EUR. These borrowings are used to hedge the Group's exposure to the spot USD and EUR foreign exchange retranslation risk of these investments.

The Group designated forward contracts (notional of USD 357 million) as well to hedge the foreign exchange risk arising on the USD denominated net investments in foreign operations.

In March 2016 the perpetual convertible Magnolia (€610mn) was terminated. MOL Group issued a new EUR 750m 7y bond which further increased the EUR denominated portion of debt portfolio up to 71%. Considering the increasing gap between the cost of EUR and USD financing and the refinancing risk that MOL runs increase of USD portion is not intended.

The Group has two long-term international gas transit agreements (expiring in 2017 and 2023) under which consideration is calculated in SDR. The contractual provisions prescribing price calculation in SDR have been identified as a SDR/USD swap, being an embedded derivative, as the Group considers SDR price setting to be closely related to the underlying originally USD denominated contract. This derivative has been separated from the underlying contract and designated as a cash flow hedge to the underlying gas transit contract.

INA d.d. has certain long-term contract on gas and crude- oil storage and transport which contain embedded derivatives. These derivatives has been separated from the underlying contracts and designated as fair value hedge to the underlying gas and crude oil contracts.

Interest rate risk

As an energy company, MOL has limited interest rate exposure. The ratio of fix/floating interest debt is monitored by Group Risk Management and regularly reported to the Board of Directors.

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

Credit risk

The Group provides products and services to a diversified customer portfolio - both from business segment and geographical point of view – with a large number of customers representing acceptable credit risk profile.

Group level policies and procedures are in place to set the framework and principles on customer credit management and collection of receivables process in MOL Group companies to minimize credit risk deriving from delayed payment or non-payment of customers, to track these risks on a continuous basis and to provide financial support to sales process in accordance with MOL Group's sales strategy and ability to bear risk.

Creditworthiness of customers with deferred payment term is thoroughly assessed and regularly reviewed and appropriate credit risk mitigation tools are applied. Credit insurance, bank guarantee, letter of credit, cash deposit and lien are the most preferred types of security to cover clean customer credit risk as according to the Group policy customer credit limits should be covered by payment securities where applicable.

Individual customer credit limits are calculated taking into account the securities provided by the customer and based on external and/or internal assessment of customers. Information on existing and potential customers is gathered from well-known and reliable Credit Agencies. Internal assessment shall be done on the basis of information (demographics, external information, financials) obtained. Customer credit limits are reviewed at least once a year.

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

Liquidity risk

The Group aims to manage liquidity risk by covering liquidity needs from bank deposits, other cash equivalents and from adequate amount of committed credit facilities. Besides, on operational level various cash pools throughout the group help to optimise liquidity surplus and need on a daily basis.

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

The amount of undrawn major committed credit facilities	2016 HUF million
Long-term loan facilities available (general corporate purpose)	911,616
Short-term facilities available	109,146
Total loan facilities available	**1,020,762**

Maturity profile of financial liabilities based on contractual undiscounted payments 2016	Due within 1 month HUF million	Due between 1 and 12 months HUF million	Due between 1 and 5 years HUF million	Due after 5 years HUF million	Total HUF million
Borrowings	92,409	382,751	250,536	248,065	**973,761**
Transferred "A" shares with put&call options	70,652	91,089	-	-	**161,741**
Trade and other payables	342,968	157,705	255	9	**500,937**
Other financial liabilities	1,700	3,409	8,095	1,294	**14,498**
Non-derivative financial instruments	**507,729**	**634,954**	**258,886**	**249,368**	**1,650,937**
Total exposure under financial guarantees	60	-	-	-	**60**
Derivatives	19,405	16,366	329	3,048	**39,148**

Maturity profile of financial liabilities based on contractual undiscounted payments 2015 restated	Due within 1 month HUF million	Due between 1 and 12 months HUF million	Due between 1 and 5 years HUF million	Due after 5 years HUF million	Total HUF million
Borrowings	123,945	93,946	492,026	11,730	**721,647**
Transferred "A" shares with put&call options	-	166,351	-	-	**166,351**
Trade and other payables	334,161	164,957	2,672	9	**501,799**
Other financial liabilities	1,318	2,410	5,195	-	**8,923**
Non-derivative financial instruments	**459,424**	**427,664**	**499,893**	**11,739**	**1,398,720**
Total exposure under financial guarantees	91	-	-	-	**91**
Derivatives	885	14,564	14,773	-	**30,222**

b) Sensitivity analysis

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

Effect on Clean CCS-based* (Current Cost of Supply) profit / (loss) from operation	2016 HUF billion	2015 restated HUF billion
Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin)		
Upstream	+39.8 / -39.3	+31.2 / -30.4
Downstream	-20.7 / +20.7	-26.0 / +26.0
Gas Midstream	+0.9 / -0.9	+1.2 / -1.2
Exchange rates (change by +/- 15 HUF/USD; with fixed crack spreads)		
Upstream	+1.9 / -1.9	+2.5 / -2.5
Downstream	+12.5 / -12.5	+17.8 / -17.8
Gas Midstream	+1.3 / -1.3	+1.5 / -1.5
Exchange rates (change by +/- 15 HUF/EUR; with fixed crack spreads / petrochemical margin)		
Upstream	+1.6 / -1.6	+1.0 / -1.0
Downstream	+23.6 / -23.6	+26.2 / -26.2
Refinery margin (change by +/- 1 USD/bbl)		
Downstream	+32.9 / -32.9	+31.7 / -31.7
Integrated petrochemical margin (change by +/- 100 EUR/t)		
Downstream	+30.4 / -30.4	+31.3 / -31.3

*Clean CCS-based profit / (loss) from operation (EBIT) and its calculation methodology is not regulated by IFRS. Please see the reconciliation

21. Reconciliation of financial instruments

2016 Carrying amount of financial instruments		Fair value through profit or loss FVTPL HUF million	Derivatives used for hedging hedge acc. HUF million	Loans and receivables and liabilities at amort cost amortised cost HUF million	Available-for-sale FVTOCI HUF million	Total carrying amount HUF million
Financial assets						
Other non-current financial assets	Equity instruments	-	-	-	31,857	31,857
	Loans given	-	-	5,312	-	5,312
	Deposit	-	-	304	-	304
	Other	-	-	26,177	2	26,179
Total non-current financial assets		-	-	31,793	31,859	63,652
Trade and other receivables		-	-	476,531	-	476,531
Cash and cash equivalents		-	-	216,928	-	216,928
Debt securities		1,543	-	-	52,367	53,910
Other current financial assets	Commodity derivatives	9,762	3,481	-	-	13,243
	Loans given	-	-	2,146	-	2,146
	Deposit	-	-	6,871	-	6,871
	Foreign exchange derivatives	8	-	-	-	8
	Other derivatives	1	-	-	-	1
	Other	-	-	4,560	-	4,560
Total current financial assets		11,314	3,481	707,036	52,367	774,198
Total financial assets		11,314	3,481	738,829	84,226	837,850
Financial liabilities						
Borrowings (Long-term debt)		-	-	436,922	-	436,922
Other non-current financial liabilities	Foreign exchange derivatives	-	3,048	-	-	3,048
	Other	-	-	3,112	-	3,112
Total non-current financial liabilities		-	3,048	440,034	n/a.	443,082
Trade and other payables		-	-	493,389	-	493,389
Borrowings (short-term debt)		-	-	440,372	-	440,372
Other current financial liabilities	Transferred "A" shares with put&call options	-	-	160,907	-	160,907
	Commodity derivatives	13,927	5,867	-	-	19,794
	Foreign exchange derivatives	524	11,068	-	-	11,592
	Other derivatives	4,714	-	-	-	4,714
	Other	-	-	5,049	-	5,049
Total current financial liabilities		19,165	16,935	1,099,717	n/a.	1,135,817
Total financial liabilities		19,165	19,983	1,539,751	n/a.	1,578,899

* FVTPL: Fair value through profit or loss; hedge acc: under hedge accounting; FVTOCI: Fair value through other comprehensive income

2015 restated Carrying amount of financial instruments		Fair value through profit or loss FVTPL HUF million	Derivatives used for hedging hedge acc. HUF million	Loans and receivables and liabilities at amort cost amortised cost HUF million	Available-for-sale FVTOCI HUF million	Total carrying amount HUF million
Financial assets						
Other non-current financial assets	Equity instruments	-	-	-	28,103	**28,103**
	Loans given	-	-	11,540	-	**11,540**
	Other	-	-	15,917	-	**15,917**
Total non-current financial assets		**-**	**-**	**27,457**	**28,103**	**55,560**
Trade and other receivables		-	-	410,967	-	**410,967**
Cash and cash equivalents		-	-	131,838	-	**131,838**
Debt securities		62,205	-	-	942	**63,147**
Other current financial assets	Commodity derivatives	14,367	10,800	-	-	**25,167**
	Loans given	-	-	1,336	-	**1,336**
	Foreign exchange derivatives	334	-	-	-	**334**
	Other derivatives	92		-	-	**92**
	Other	-	-	1,030	-	**1,030**
Total current financial assets		**76,998**	**10,800**	**545,171**	**942**	**633,911**
Total financial assets		**76,998**	**10,800**	**572,628**	**29,045**	**689,471**
Financial liabilities						
Borrowings (Long-term debt)		-	-	461,681	-	**461,681**
Other non-current financial liabilities	Foreign exchange derivatives	7	3,212	-	-	**3,219**
	Other	-	-	2,850	-	**2,850**
Total non-current financial liabilities		**7**	**3,212**	**464,531**	**n/a.**	**467,750**
Trade and other payables		-	-	432,680	-	**432,680**
Borrowings (short-term debt)		-	-	206,814	-	**206,814**
Other current financial liabilities	Transferred "A" shares with put&call options	-	-	164,526	-	**164,526**
	Commodity derivatives	11,186	4,052	-	-	**15,238**
	Foreign exchange derivatives		6,736	-	-	**6,736**
	Other derivatives	5,029		-	-	**5,029**
	Other	-	-	3,956	-	**3,956**
Total current financial liabilities		**16,215**	**10,788**	**807,976**	**n/a.**	**834,979**
Total financial liabilities		**16,222**	**14,000**	**1,272,507**	**n/a.**	**1,302,729**

* FVTPL: Fair value through profit or loss; hedge acc: under hedge accounting; FVTOCI: Fair value through other comprehensive income

The Group does not have held-to-maturity financial instruments and does not have any instrument that the Group designated upon initial recognition as at fair value through profit or loss in order to reduce a measurement or recognition inconsistency.

The fair values of financial instruments measured at amortised cost approximate their carrying amounts except for the issued bonds. The fair value of the issued bonds is HUF 651,676 million, while their carrying amount is HUF 626,648 million as of 2016 year-end (fair value was HUF 413,147 million, carrying amount was HUF 388,644 million as of 2015 year-end).

Impairment only accounted for on trade receivables, remaining financial instruments includes immaterial credit risk.

The carrying amount of hedging instruments designated in hedge accounting programs are the followings.

Carrying amounts of hedging instrument			2016 HUF million	2015 HUF million
Fair value hedge	Assets	Commodity derivatives	3,299	9,991
	Liabilities	Foreign exchange derivatives	3	13
		Commodity derivatives	5,743	2,636
Cash flow hedge	Assets	Commodity derivatives	182	809
	Liabilities	Foreign exchange derivatives	3,048	3,212
		Commodity derivatives	124	1,416
Net investment hedge	Liabilities	Borrowings	518,400	299,403
		Foreign exchange derivatives*	11,065	6,723

*EUR/USD foreign exchange derivatives are also designated in cash flow hedge of one of the issued debt. Please see further details in Note 20 a).

22. Fair value hierarchy

Fair value hierarchy	2016 Level 1 Unadjusted quoted prices in active markets HUF million	2016 Level 2 Valuation techniques based on observable market input HUF million	2016 Total fair value HUF million	2015 Level 1 Unadjusted quoted prices in active markets HUF million	2015 Level 2 Valuation techniques based on observable market input HUF million	2015 Total fair value HUF million
Financial assets						
Equity instruments	25,909	5,948	31,857	21,835	6,268	28,103
Debt securities	53,910	2	53,912	-	63,147	63,147
Commodity derivatives	-	13,243	13,243	-	25,167	25,167
Foreign exchange derivatives	-	8	8	-	334	334
Other derivatives	-	1	1	-	92	92
Total financial assets	79,819	19,202	99,021	21,835	95,008	116,843
Financial liabilities						
Commodity derivatives	-	19,794	19,794	-	15,238	15,238
Foreign exchange derivatives	-	14,640	14,640	-	9,955	9,955
Other derivatives	-	4,714	4,714	-	5,029	5,029
Total financial liabilities	-	39,148	39,148	-	30,222	30,222

This table contains only the financial instruments measured at fair value. Investment in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are held at cost and therefore not included in the fair value hierarchy table.

In 2016 (neither in 2015) the Group does not have any instruments with fair value categorized as Level 3 (valuation techniques based on unobservable market input).

23. Trade and other receivables

Accounting policies

Trade and other receivables are amounts due from customers for goods sold and services performed in the normal course of business, as well as other receivables such as margining receivables. Trade and other receivables are initially recognised at fair value less transaction costs and subsequently measured at amortised cost less any provision for doubtful debts. A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired receivables are derecognized when they are assessed as uncollectible.

If collection of trade receivables is expected within the normal business cycle which is one year or less, they are classified as current assets. In other cases, they are presented as non-current assets.

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Trade receivables	417,133	378,749
Other receivables	59,398	32,218
Total	476,531	410,967

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Trade receivables	464,139	424,367
Allowance for doubtful receivables	(47,006)	(45,618)
Total	417,133	378,749

Movements in the allowance for doubtful receivables	2016 HUF million	2015 restated HUF million
At 1 January	45,618	38,667
Additions	11,453	13,696
Reversal	(9,999)	(8,077)
Amounts written off	(433)	791
Foreign exchange differences	367	541
At 31 December	47,006	45,618

Ageing analysis of trade receivables	31 Dec 2016 Gross book value HUF million	31 Dec 2016 Net book value HUF million	31 Dec 2015 restated Gross book value HUF million	31 Dec 2015 restated Net book value HUF million
Not past due	380,729	380,280	333,393	333,215
Past due	83,410	36,853	90,974	45,534
Within 90 days	24,366	23,609	26,993	23,920
91 - 180 days	4,328	1,779	5,451	2,418
Over 180 days	54,716	11,465	58,530	19,196
Total	464,139	417,133	424,367	378,749

24. Cash and cash equivalents

Accounting policies

Cash includes cash on hand and cash at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

Voluntary change in accounting policies

The Group has decided to add clarification to the term "insignificant risk of change in value" not being limited to three-month period. It has no impact on prior period balance.

	31 Dec 2016 HUF million	31 Dec 2015 restated HUF million
Short-term bank deposits	111,505	57,240
Demand deposit	98,190	69,175
Cash on hand	7,233	5,423
Total	216,928	131,838

25. Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Treasury share transactions are also used for such purposes.

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

c) Borrowings

Accounting policies

All loans and borrowings are initially recognized at the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

	2016 HUF million	2015 restated HUF million
Short-term debt		
Eurobond 2 | 5.875% €750 million due 2017	242,660	9,601
Eurobond 3 | 2.625% €750 million due 2023	4,362	-
USD bond | 6.250 % $500 million due 2019	2,425	2,364
Bank loans	181,172	189,180
Financial lease liabilities	619	460
Other	9,134	5,209
Total short-term debt	**440,372**	**206,814**
Long-term debt		
Eurobond 2 | 5.875% €750 million due 2017	-	234,110
Eurobond 3 | 2.625% €750 million due 2023	230,632	-
USD bond | 6.250 % $500 million due 2019	146,569	142,569
Bank loans	57,676	70,682
Financial lease liabilities	1,970	2,645
Other	75	11,675
Total long-term debt	**436,922**	**461,681**
Gross debt (long-term and short-term)	**877,294**	**668,495**
Cash and cash equivalents	216,928	131,838
Current debt securities	53,910	63,147
Net Debt	**606,456**	**473,510**
Total equity	**1,801,626**	**1,816,568**
Capital and net debt	**2,408,082**	**2,290,078**
Gearing ratio (%)	**25.2%**	**20.7%**
EBITDA	623,388	643,378
Net Debt / EBITDA	**0.97**	**0.74**

The analysis of the gross debt of the Group by currencies is the following.

Gross debt by currency	2016 HUF million	2015 restated HUF million
EUR	623,187	392,521
USD	231,973	253,462
HUF	16,229	16,567
HRK	5,905	5,884
Other	-	61
Gross debt	**877,294**	**668,495**

The following issued bonds were outstanding as of the current year-end

	Ccy	Amount Issued (orig ccy, millions)	Coupon	Type	Cpn Freq	Issue date	Maturity	Issuer
Eurobond 2	EUR	750	5.875	Fixed	Annual	20.04.2010	20.04.2017	MOL Plc.
Eurobond 3	EUR	750	2.625	Fixed	Annual	28.04.2016	28.04.2023	MOL Plc.
USD bond	USD	500	6.25	Fixed	Semi annual	26.09.2012	26.09.2019	MOL Group Finance SA

The reconciliation between the total of future minimum finance lease payments and their present value is the following:

Finance leases	31 Dec 2016 Minimum lease payments HUF million	31 Dec 2016 Lease liability HUF million	31 Dec 2015 restated Minimum lease payments HUF million	31 Dec 2015 restated Lease liability HUF million
Due within one year	723	625	728	588
Due later than one year but not later than five years	990	646	1,476	1,044
Due later than five years	1,629	1,318	1,880	1,473
Total	**3,342**	**2,589**	**4,084**	**3,105**
Future finance charges	(753)	n/a	(979)	n/a
Lease liability	**2,589**	**2,589**	**3,105**	**3,105**

d) Equity

Accounting policies

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

Translation reserves

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

Fair valuation reserves

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

Equity component of debt and difference in buy-back prices

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

Treasury Shares

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

Voluntary change in accounting policies

The Group has re-assessed its accounting policy for treasury share transactions in order to consistently distinguish share premium and retained earnings impact of treasury share transactions. Repurchase and resale of treasury transactions affect retained earnings instead of having impact on share premium. Amount of HUF 549,535 million has been reclassified from share premium to retained earnings.

Share capital

There was change in the number of issued shares due to capital reduction in 2016. As of 31 December 2016, the issued share capital was HUF 102,428 million, consisting of 102,428,103 series "A", one series "B" and 578 series "C" shares. Outstanding share capital as of 31 December 2016 and 2015 is HUF 79,260 million and HUF 79,241 million, respectively.

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

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

Based on the authorization granted in the Article 17.D of the Articles of Association the Board of Directors is entitled to increase the share capital until 23 April 2019 in one or more instalments by not more than HUF 30 billion in any form and method provided by the Civil Code.

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

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
01 Jan 2015	104,518,485	(2,842,147)	(22,448,142)	79,228,196	134,519,063
Share distribution for the members of the Board of Directors	-	12,067	-	12,067	-
New share purchase agreement with Unicredit Bank A.G.	-	1,300,000	(1,300,000)	-	-
31 Dec 2015	104,518,485	(1,530,080)	(23,748,142)	79,240,263	134,519,063
Share repurchase transaction with Magnolia Finance Limited	-	(6,006,495)	6,007,479	984	-
Share distribution for the members of the Board of Directors	-	18,600	-	18,600	-
Cancellation of Treasury share	(2,090,381)	2,090,381	-	-	(2,090,381)
Settlement of share option agreement with CA CIB	-	(2,129,666)	2,129,666	-	-
Settlement of share option agreement with ING Bank N.V.	-	(356,899)	356,899	-	-
31 Dec 2016	102,428,104	(7,914,159)	(15,254,098)	79,259,847	132,428,682

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

MOL Plc. sold 6,007,479 pieces of series "A" ordinary shares to Magnolia Finance Limited ('Magnolia'), incorporated in Jersey in 2006. Magnolia issued EUR 610 million of perpetual exchangeable capital securities, exchangeable for Series "A" Ordinary Shares of MOL between 2011 and 2016. Concurrently with the sale of ordinary shares, MOL Plc. entered into a swap agreement with Magnolia that gave MOL Plc. a call option for all or some of the shares. The call option was exercised under the swap agreement between MOL Plc. and Magnolia which was announced on 4th February 2016 and was physically settled regarding 6,006,495 pieces of MOL series "A" ordinary shares on the 21st of March 2016. The purchase price was EUR 45.9905 per one share. Simultaneously Magnolia redeemed the perpetual exchangeable capital securities. Although MOL Plc. did not have any direct or indirect equity interest in or control rights over Magnolia, Magnolia was consolidated for IFRS purposes in line with the requirements of IFRS 10 – Consolidated Financial Statements.

Dividend

The shareholders at the Annual General Meeting in April 2016 approved to pay HUF 55,000 million dividend in respect of 2015, which equals to HUF 567 dividend per share. The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Plc. is HUF 1,170,422 million as of 31 December 2016 (31 December 2015: HUF 1,256,239 million).

Treasury share put and call option transactions

MOL Plc. has some option agreements concluded with financial institutions in respect of 10,243,597 pieces of series "A" shares as of 31 December 2016. Under the agreements MOL Plc. holds American call options and the financial institutions hold European put options in respect of the shares. The expiry of both the put and call options are identical and are one year from the date of the agreement.

Counterparty	Underlying pieces of MOL ordinary shares	Strike price per share	Expiry
ING Bank N.V.	4,863,101	EUR 60.22309	24-Nov-2017
UniCredit Bank AG	5,380,496	EUR 42.2198	10-Jan-2017

The options arising out of the share option agreement concluded between MOL Plc. and UniCredit Bank AG on 19 January 2016, regarding 5,380,496 MOL Series "A" Ordinary shares, are physically settled in respect of 1,721,416 options and cash settled in respect of 3,659,080 options on 12 January 2017. Simultaneously MOL Plc. and UniCredit Bank AG concluded a new share option agreements regarding 3,659,080 MOL Series "A" Ordinary shares. The maturity date of the options is 14 November 2017, such maturity being subject to yearly extensions, up to a maximum of two extensions of one year each. The transaction qualifies as 2017 transaction and does not affect the 2016 figures.

Share swap agreement with OTP

After the lending of 5,010,501 pieces of MOL Plc. shares to OTP Bank Plc. ('OTP') has been terminated on 16 April 2009, MOL Plc. ('MOL') and OTP entered into a share-exchange and a share swap agreement. Under the agreements, initially MOL transferred 5,010,501 "A" series MOL ordinary shares to OTP in return for 24,000,000 pieces OTP ordinary shares. The agreement contains settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. The original expiration of the share-swap agreements was on 11 July 2012. During 2012 the expiration has been extended to 11 July 2017. Until that date each party can initiate a cash or physical settlement of the deal.

OTHER FINANCIAL INFORMATION

This section includes additional financial information that are either required by the relevant accounting standards or management considers these to be material information for shareholders.

26. Commitments and contingent liabilities

Accounting policies

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

a) Guarantees

The total value of guarantees undertaken to parties outside the Group is HUF 103 million and it was HUF 91 million on 31 December 2015.

b) Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2016 is HUF 83,368 million from which HUF 49,142 million relates to associated company and HUF 19,280 million related to Hungarian operation. Other significant amounts relate to the construction of the new petrochemical plants in Slovakia and Hungary (HUF 11,475 million and HUF 2,417 million, respectively).

c) Operating leases

Operating lease commitments	31 Dec 2016 HUF million	31 Dec 2015 HUF million
Due within one year	6,384	5,605
Due later than one year but not later than five years	84,079	84,211
Due later than five years	752	2,964
Total	91,215	92,780

Out of the outstanding operating lease liabilities as of 31 December 2016 HUF 72,248 million is mainly related to lease of Floating Production and Offloading vessel that will be used at North Sea. Remaining part relates to operation in Slovakia (HUF 11,270 million), Croatia (HUF 3,793 million) Hungary (HUF 2,340 million).

d) Authority procedures, litigation

General

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

The value of litigation where members of the MOL Group act as defendant is HUF 37,693 million for which HUF 25,497 million provision has been made.

CREDITOR procedures (MOL Plc.)

CREDITOR GAMA s.r.o. has submitted a compensation claim against MOL Plc. in connection with the acquisition of Slovnaft a.s. shares by MOL in the amount of cca. SKK 380 million (EUR 12.6 million) plus delay interest 14.75% p.a from 28 November 2007. The claim was dismissed by the court on first instance. The claimant has filed an appeal.

CREDITOR BETA s.r.o. alleges that the buying offer of MOL in connection with the acquisition of Slovnaft a.s. shares was not approved by the Slovak financial authority (Úrad pre 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 procedure continues with the question of amount, while MOL has filed an appeal against the interim decision on the legal basis with the appellate court.

Paraffin cartel infringement (MOL Plc.)

The European Commission started an investigation in April 2005 based upon the alleged cartel activity of paraffin producers and traders in Europe. The decision adopted stated that the companies harmonized their commercial activities on the European paraffin market and participated in a continuous cartel infringement. In case of MOL the amount of fine was set in EUR 23.7 million which was paid by MOL in early 2009. Several former paraffin customers claimed their private damages before an English (2010) and a Dutch (2012) court. The cartelists have decided to make a settlement offer. In 2013 MOL procured payment of the settlement sum. The English procedure is closed. The Dutch procedure is still on-going.

ICSID arbitration (MOL Plc. vs. Croatia)

The MOL's request for arbitration was filed with the International Centre for Settlement of Investment Disputes („ICSID") on 26 November 2013 against the Government of the Republic of Croatia (the "GoC") mainly due to the huge losses INA-INDUSTRIJA NAFTE, d.d. ("INA") has suffered in the gas business as a consequence of the breach of the agreements of 2009 by the GoC.

UNCITRAL arbitration (Croatia vs. MOL Plc.)

On 17 January 2014, the Government of Croatia (the "GoC") commenced this arbitration by alleging that the MOL had bribed Croatia's former Prime Minister Mr. Ivo Sanader to gain management control over INA through amending the Shareholders Agreement and signing other agreements relating to INA's operations. The GoC requests that the Tribunal issue a binding declaration nullifying the First Amendment to the Shareholders Agreement and the Gas Master Agreement and order that MOL pays damages caused by its conduct. MOL filed its Response in which it denied all claims put forward by the GoC and requested that the Tribunal dismiss all Claimant's claims.

On 27 December 2016 MOL informed the capital markets of the UNCITRAL arbitration award received on 24 December 2016 in the case launched by the Republic of Croatia against MOL in January 2014.

The Tribunal decided that: "In this Arbitration between the Claimant, the Republic of Croatia, and the Respondent, MOL Hungarian Oil and Gas Plc., for the reasons appearing above and rejecting all submissions and contentions to the contrary, the Arbitral Tribunal FINDS, DECLARES, RULES, ORDERS and AWARDS that Croatia's claims based on bribery, corporate governance and MOL's alleged breaches of the 2003 Shareholders Agreement are all dismissed."

With regards to bribery the Tribunal found that: "Having considered most carefully all of Croatia's evidence and submissions on the bribery issue, which has been presented in a most painstaking and comprehensive way, the Tribunal has come to the confident conclusion that Croatia has failed to establish MOL did in fact bribe Dr Sanader. Accordingly, Croatia's case that the FASHA and GMA be rendered null and void due to the alleged bribery fails."

Although an international arbitral award is final, binding and enforceable from the moment of its notification to the parties, Croatia challenged the decision in front of the Swiss Federal Supreme Court in a so-called setting-aside proceeding.

Hungarian Horizon Energy Ltd – MOL arbitration

HHE initiated under INCITRAL rules arbitration proceedings against MOL before the Arbitral Tribunal seated in London, for the breach of the Joint Operating Agreement (and related agreements). The total amount of the various monetary claims exceed USD 42 million.. Hearings will be held in the week of 24 July. Final award is not awaited by the end of 2017/early 2018.

CEOC - MOL arbitration

MOL has received three notices of arbitration from CEOC Ltd. in relation to three Field Re-development Framework Agreements on 7 May 2015. CEOC submitted its detailed Statement of Claim in late November 2015 claiming USD ~47million which was increased to USD ~58 million in 2016. The Parties submitted their statements by the end of July 2016. The governing law of the dispute is Hungarian, while the arbitration goes under UNCITRAL rules, placed in Vienna. The court hearings were held in Vienna on 24-31 October 2016. Parties submitted their post hearing briefs by 3 March 2017. Final decision is awaited around Q2 2017.

SALBATRING ENERGIJA, Međunarodna trgovina, d.o.o. (INA Group)

SALBATRING ENERGIJA, Međunarodna trgovina, d.o.o. ("SALBATRING") initiated the arbitration procedure. INA received Salbatring's full Statement of Claim on 20 June 2015 by which Salbatring is claiming the amount of USD 27,950,385 plus the interest and costs. Arbitration is still ongoing the hearing was scheduled for October 2017.

CONCESSIONS (INA Group)

On 29 July 2011 the Ministry of Economy, Labour and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA of the license to explore hydrocarbons in exploration areas "Sava", "Drava" and "North-West Croatia". On 29 August 2011, INA filed three administrative lawsuits against the Ministry's Decisions. The Administrative Court annulled the Ministry's Decisions. On 10 November 2014, and on 20 February 2015 the Ministry adopted new Decisions in which it again deprived INA of the license to explore hydrocarbons in exploration areas "Sava" and "North-West Croatia" and "Drava", with the same explanations. INA filed lawsuits against new Ministry Decisions regarding exploration areas "Sava", "Drava" and "NW Croatia" and requested the Court to order a temporary measure. During April, 2015, the Administrative Court passed Resolution in which it rejected INA's request for temporary measure. INA filed its Appeal, but in June 2015, High Administrative court rejected such INA's Appeal.

In November 2016 the Administrative Court reached a decision and rejected INA's claim in the case regarding exploration area "Drava". INA has filed an appeal against that decision in December 2016. The Administrative court did not reach decisions regarding INA's lawsuits regarding exploration areas "Sava" and "North-West Croatia".

e) Environmental liabilities

MOL's operations are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work. MOL is currently responsible for significant remediation of past environmental damage relating to its operations. Accordingly, MOL has established a provision of HUF 65,726 million for the estimated cost as at 31 December 2016 for probable and quantifiable costs of rectifying past environmental damage (see Note 16). Although the management believes that these provisions are sufficient to satisfy such requirements to the extent that the related costs are reasonably estimable, future regulatory developments or differences between known environmental conditions and actual conditions could cause a revaluation of these estimates.

In addition, some of the Group's premises may be affected by contamination where the cost of rectification is currently not quantifiable or legal requirement to do so is not evident. The main case where such contingent liabilities may exist is the Tiszaújváros site, including both the facilities of MOL Petrochemicals and MOL's Tisza refinery, where the Group has identified potentially significant underground water and surface soil contamination. In accordance with the resolutions of the regional environmental authorities combined for MOL Petrochemicals and MOL's Tisza refinery, the Group is required to complete a detailed investigation and submit the results and technical specifications to the authorities. Based on these results the authorities

are expected to specify a future environmental risk management plan and to bring a resolution requiring MOL Petrochemicals and MOL to jointly perform this plan in order to manage the underground water contamination. The total amount of liabilities originating from this plan cannot be estimated currently, but it is not expected to exceed HUF 4 billion.

Furthermore, the technology applied in oil and gas exploration and development activities by the Group's Hungarian predecessor before 1976 (being the year when the act on environmental protection and hazardous waste has become effective) may give rise to future remediation of drilling mud produced in cases where the wells are deeper than 1,800 m. This waste material has been treated and disposed of in line with environmental regulations ruling at that time, however, subsequent changes in legal definitions may result in further re-location and remediation requirements. The existence of such obligation, and consequently the potential expenditure associated with it is dependent on the extent, volume and composition of drilling mud left behind at the numerous production sites, which cannot be estimated currently, but is not expected to exceed HUF 4-6 billion.

Further to more detailed site investigations to be conducted in the future and the advancement of national legislation or authority practice, additional contingent liabilities may arise at the industrial park around Mantova refinery and the Croatian refineries, depots and retail sites which have been acquired in recent business combinations. As at 31 December 2016, on Group level the aggregate amount of environmental liabilities recorded on the statement of financial position was HUF 40.1 billion (31 December 2015: HUF 38.4 billion)

f) Contingent assets

On 23 December 2016 the Final Award has been rendered related to the legal case between the Republic of Croatia and MOL Plc. where the company was defendant. The Tribunal ordered Croatia, the losing party, to bear all costs of arbitration, as well as MOL's legal fees, administrative fees and other costs. The total amount has been demanded from the Republic of Croatia. Croatia has filed its appeal against the decision at the Federal Supreme Court of Switzerland.

27. Notes to the consolidated statements of cash flows

Accounting policies

Bank overdrafts repayable on demand are included as component of cash and cash equivalent in case where the use of short-term overdrafts forms an integral part of the entity's cash management practices.

Cash and cash equivalents comprise the following at 31 December	2016 HUF million	2015 restated HUF million
Cash and cash equivalents according to Balance Sheet	216,928	131,838
Cash and cash equivalents as part of Disposal Group	-	-
Total Cash and cash equivalents	216,928	131,838

Analysis of net cash outflow on acquisition of subsidiaries, joint operations as business combinations	2016 HUF million	2015 restated HUF million
Cash consideration	31,057	(50,194)
Cash at bank or on hand acquired	(3,835)	3,122
Net cash outflow on acquisition of subsidiaries, joint operations	27,222	(47,072)

Analysis of net cash flow related to sale of subsidiaries, joint operations as business combinations	2016 HUF million	2015 restated HUF million
Cash consideration	2,152	-
Cash at bank or on hand disposed	(5,715)	-
Net cash flow related to sale of subsidiaries, joint operations (cash out)	(3,563)	-

Net cash outflow on acquisition of subsidiaries as asset-deals	2016 HUF million	2015 restated HUF million
Cash consideration	-	(30,244)
Total	-	(30,244)

Analysis of cash flow related to joint ventures and associates	2016 HUF million	2015 restated HUF million
Cash consideration of acquisition and capital increase	(3,599)	(14,084)
Cash consideration of sale and capital decrease	887	734
Total	(2,712)	(13,350)

Analysis of other non-cash items	2016 HUF million	2015 restated HUF million
Write-off of inventories, net	6,027	14,830
Write-off of receivables, net	2,587	10,078
Release of translation reserves	46	(27,794)
Other non-highlighted items	5,249	(3,095)
Total	13,909	(5,981)

28. Earnings per share

Accounting policies

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

The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share taking into consideration all dilutive potential ordinary shares that were outstanding during the period:

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

Both in 2016 and 2015, the diluted earnings per share equals with the basic earnings per share as there is no dilutive effect on the earnings.

	Income HUF million	Weighted average number of shares	Earnings per share HUF million
Basic Earnings Per Share 2015	(268,575)	91,813,076	(2,925)
Diluted Earnings Per Share 2015	(268,575)	91,813,076	(2,925)
Basic Earnings Per Share 2016	261,601	91,083,241	2,872
Diluted Earnings Per Share 2016	261,601	91,083,241	2,872

	2016 HUF million	2015 restated HUF million
Net profit attributable to ordinary shareholders	263,497	(260,999)
Coupon payment to holders of capital securities of Magnolia (-)	(1,896)	(7,576)
Net profit attributable to ordinary shareholders for basic earnings per share	**261,601**	**(268,575)**
Coupon payment to holders of capital securities of Magnolia (+)	-	-
Fair value of conversion option	-	-
Net profit attributable to ordinary shareholders for diluted earnings per share	**261,601**	**(268,575)**

	2016	2015 restated
Weighted average number of ordinary shares for basic earnings per share	91,083,241	91,813,076
Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities	-	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	91,083,241	91,813,076

29. Related party transactions

a) Transactions with associated companies and joint ventures in the normal course of business

	2016 HUF million	2015 restated HUF million
Trade and other receivables due from related parties	4,465	8,545
Trade payables due to related parties	12,871	14,042
Net sales to related parties	26,144	24,506

The Group purchased and sold goods and services with associated companies and joint ventures during the ordinary course of business in 2016 and 2015. All of these transactions were conducted under market prices and conditions.

Capital and contractual commitments related to Ural Group Limited (which is associated company related to Fedorovskyfield) is HUF 49,142 million.

INA d.d. concluded a Gas Purchases Obligation, Take or Pay Contract - flexible natural gas sales agreement with MET International A.G. (which is associated company) effective from 1 November 2015 till 1 April 2017. On December 31, 2016 the value of future liabilities until the termination of the contract are HRK 30.3 million without VAT (cca. Net HUF 1,246 million).

b) Remuneration of the members of the Board of Directors

Directors' total remuneration approximated HUF 130 million in 2016 (2015: HUF 125 million). In addition, the directors participate in a long-term incentive scheme details of which are given below.

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

- Executive and non-executive directors 25,000 EUR/year
- Committee chairmen 31,250 EUR /year

In case the position of the Chairman is not occupied by a non-executive director, it is the non-executive vice Chairman who is entitled to this payment. Directors who are not Hungarian citizens and do not have permanent address in Hungary are provided with EUR 1,500 on each Board meeting (maximum 15 times a year) when travelling to Hungary.

c) Number of shares held by the members of the Board of Directors and Executive Board and the Management

	2016 Number of shares	2015 Number of shares
Board of Directors	260,334	243,894
Executive Board (except Board of Directors members)	115,508	119,508
Senior Management (except Board of Directors and Executive Board members)	10,843	11,843
Total	386,685	375,245

d) Transactions with Management, officers and other related parties

In October 2016 MOL has purchased one share for EUR 1,000 in DAC ARÉNA, a.s. from E.H.C.S. a.s. which is an entity controlled by a member of Board of Directors of MOL Group. After the share purchase MOL Group increased its ownership in DAC ARÉNA a.s. to 22.5% through a 2 million EUR capital increase in November 2016.

In 2016 entities controlled by the members of key management personnel purchased fuel from MOL Group in the total value of HUF 1,841 million. MOL Group purchased PR, media and other services from companies controlled by key management personnel in the total value of HUF 56 million.

MOL Group provided subsidies through sponsorship for sport organisations controlled by key management personnel in the total value of HUF 250 million.

Entities controlled by key management personnel possess 215,000 shares.

e) Key management compensation

The amounts disclosed contains the compensation of managers who qualify as a key management member of MOL Group.

	2016 HUF million	2015 HUF million
Salaries and wages	853	864
Other short-term benefits	687	866
Share-based payments	896	187
Total	2,436	1,917

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

No loans have been granted to key management personnel.

30. Events after the reporting period

On 31 January 2017 MOL Group has acquired 51% shareholding of OT Industries Vagyonkezelő (OVK) for HUF 45 million. OVK has six fully owned operating subsidiaries. There is neither revenue nor profit or loss figures available for 2016 financial year. The transaction qualifies as 2017 transaction and does not affect the 2016 figures. The initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue.

31. Appendices

a) Appendix I.: Issued but not yet effective International Financial Reporting Standards and Amendments

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

Based on preliminary assessment the group believes that the adoption of the following standards will not have significant impact on its consolidated results and financial position:

- IFRS 2 Share-based Payment - Amendments to clarify the classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018, this amendment has not been approved by EU yet).
- IFRS 4 Insurance contracts - Amendments regarding the interaction of IFRS 4 and IFRS 9 (effective for annual periods beginning on or after 1 January 2018, this standard has not been approved by EU yet)
- IFRS 10 Consolidated Financial Statements - Amendment regarding the sale or contribution of assets between an investor and its associate or joint venture (effective date is not defined, this amendment has not been approved by EU yet)
- IFRS 10 Consolidated Financial Statements - Amendment regarding the application of the consolidation exception (effective for annual periods beginning on or after 1 January 2017)
- IFRS 12 Disclosure of Interests in Other Entities - Amendment regarding the application of the consolidation exception (effective for annual periods beginning on or after 1 January 2017, this amendment has not been approved by EU yet)
- IFRS 14 Regulatory Deferral Accounts (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016, this standard will not be endorsed for use in the EU)
- IAS 7 Statement of cash flows - Amendment resulting from the disclosure initiative (effective for annual periods beginning on or after 1 January 2017, this amendment has not been approved by EU yet)
- IAS 12 Income taxes - Amendments regarding the recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017, this amendment has not been approved by EU yet)
- IAS 28 Investments in Associates and Joint Ventures - Amendment regarding the sale or contribution of assets between an investor and its associate or joint venture (effective date is not defined, this amendment has not been approved by EU yet)
- IAS 28 Investments in Associates and Joint Ventures - Amendment regarding the application of the consolidation exception (effective for annual periods beginning on or after 1 January 2017)
- Amendments resulting from Annual Improvements 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2018)

The Group is currently considering the implications of the following standard which is expected to have an impact on the Group's consolidated results and financial position:

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 covers the classification, measurement and derecognition of financial instruments, new impairment methodology and a new hedge accounting model. IFRS 9 is intended to replace IAS 39 Financial instruments: recognition and measurement. Effective for annual periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 will replace IAS 18 Revenue and IAS 11 Construction contracts. Effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018.

IFRS 16 Leases

In the case of the lessee, the new standard provides a single accounting model, and require recognition of assets and liabilities for all leases. Exceptions are leases contracted for less than 1 year, and leases with low value underlying assets. This removes the present classification as either finance or operative leases for lessee. Lessors continue to classify leases as operating or finance similarly to IAS 17 Leases. IFRS 16 Leases replaces IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27. Effective for annual periods beginning on or after 1 January 2019, this standard has not been approved by EU yet.

b) Appendix II.: Subsidiaries

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2016	Ownership 2015
Integrated subsidiaries				
INA-Industrija nafte d.d.	Croatia	Integrated oil and gas company	49%	49%
Upstream				
Adriagas S.r.l.	Italy	Pipeline project company	49%	49%
CEGE Közép-európai Geotermikus Energia Termelő Zrt.	Hungary	Geothermal energy production	100%	100%
CEGE Geothermikus Koncessziós Kft.	Hungary	Geothermal energy production	100%	100%
CROPLIN, d.o.o.	Croatia	Natural gas trading	49%	49%
Csanád Szénhidrogén Koncessziós Kft. [2]	Hungary	Exploration and production activity	100%	-
EMSZ Első Magyar Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
Hawasina GmbH [6]	Switzerland / Oman	Exploration and production activity	-	100%
INA Naftaplin International Exploration and Production Ltd.	United Kingdom	Exploration and production activity	49%	49%
Kalegran B.V.	Netherlands	Exploration financing	100%	100%
Kalegran Ltd.	Cyprus / Iraq	Exploration and production activity	100%	100%
KMSZ Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
Ménrót Kft.	Hungary	Exploration investment management	100%	100%
Karpinvest Kft.	Hungary	Exploration investment management	100%	100%
MH Oil and Gas BV.	Netherlands	Exploration investment management	100%	100%
MNS Oil and Gas B.V.	Netherlands	Exploration financing	100%	100%
MOL ENERGY UK Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOLGROWEST (I) Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOLGROWEST (II) Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOL OPERATIONS UK Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOL UK FACILITIES Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOL Cameroon B.V.	Netherlands	Exploration financing	100%	100%
MOL Central Asia Oil and Gas Co. B.V.	Netherlands / Syria / Kazakhstan	Exploration and production activity	100%	100%
MOL (FED) Kazakhstan B. V.	Netherlands	Exploration financing	100%	100%
MOL (FED) Kazakhstan B.V. Rep. Office	Kazakhstan	Exploration financing	100%	100%
MOL (FED) Kazakhstan B.V. BO	Kazakhstan	Exploration investment management	100%	100%
MOL (MV) Russia B.V.	Netherlands	Exploration financing	100%	100%
MOL Matjushkinskaya B.V.	Netherlands	Exploration financing	100%	100%
Matjushkinskaya Vertical LLC [7]	Russia	Exploration and production activity	-	100%
MOL Nordsjön B.V.	Netherlands	Exploration financing	100%	100%
MOL Norge AS	Norway	Exploration activity	100%	100%
MOL Pakistan Oil and Gas Co. B.V.	Netherlands / Pakistan	Exploration and production activity	100%	100%
MOL-RUSS Ooo.	Russia	Management services	100%	100%
MOL West Oman B. V.	Netherlands	Exploration financing	100%	100%
Panfora Oil and Gas S.r.l.	Romania	Exploration and production activity	100%	100%
Platounko Investments Ltd.	Cyprus	Exploration financing	100%	100%
Tápió Szénhidrogén Koncessziós Kft. [2]	Hungary	Exploration and production activity	100%	-
Theatola Ltd.	Cyprus	Exploration investment management	100%	100%
Greentrade Ltd.	Cyprus	Exploration investment management	100%	100%
USI Ltd.	Cyprus	Exploration investment management	100%	100%
Gas-Midstream				
FGSZ Földgázszállító Zrt.	Hungary	Natural gas transmission	100%	100%
Downstream				
Dunai Gőzfejlesztő Kft. [5]	Hungary	Steam and hot water supply	-	100%
Energopetrol d.d.	Bosnia and Herzegovina	Retail trade	33%	50%
Holdina d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	49%
IES S.p.A.	Italy	Refinery and marketing of oil products	100%	100%
Greengas S.r.l. [7]	Italy	Hydrogen plant operation	-	49%
Nelsa S.r.l.	Italy	Trading of oil products	74%	74%
IES Power & Gas S.r.l.	Italy	Energy services	70%	70%
Panta Distribuzione S.r.l.	Italy	Trading of oil products	100%	100%
INA d.o.o.	Serbia	Trading of oil products	49%	49%
INA BH d.d.	Bosnia and Herzegovina	Trading of oil products	49%	49%
INA BL d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	49%
INA Crna Gora d.o.o.	Montenegro	Trading of oil products	49%	49%
INA Kosovo d.o.o.	Kosovo	Trading of oil products	49%	49%
INA Maloprodajni servisi d.o.o.	Croatia	Trade agency in the domestic and foreign market	49%	49%
INA Maziva Ltd.	Croatia	Lubricants production and trading	49%	49%
INA Slovenija d.o.o. (formerly: Interina d.o.o. Ljubljana)	Slovenia	Trading of oil products	49%	49%
Leodium Investment Kft.	Hungary	Financial services	100%	100%
MOL Austria GmbH	Austria	Wholesale trade of lubricants and oil products	100%	100%
Roth Heizöle GmbH	Austria	Trading of oil products	100%	100%
MOL Commodity Trading Kft.	Hungary	Financial services	100%	100%
MCT Slovakia s.r.o.	Slovakia	Financial services	100%	100%
MOL E-mobilitás Kft. [2]	Hungary	Investment management	100%	-
MOL E-Üzemanyag Kereskedelmi és Szolgáltató Kft. [2]	Hungary	Electrical traffic solutions	100%	-

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2016	Ownership 2015
MOL Germany GmbH	Germany	Trading of oil products	100%	100%
MOL-LUB Kft.	Hungary	Production and trade of lubricants	100%	100%
MOL-LUB Russ LLC	Russia	Production and trade of lubricants	100%	100%
MOL Retail Holding Kft.	Hungary	Real estate management	100%	100%
MOL Kiskereskedelmi Ingatlan Kft.	Hungary	Real estate management	100%	100%
MOL Romania PP s.r.l.	Romania	Retail and wholesale trade of fuels and lubricants	100%	100%
MOL CEE Investments B.V. (formerly: MOL Romania DS Investment B.V.)	Netherlands	Investment management	100%	100%
MOL Retail Comert s.r.l.	Romania	Retail trade	100%	100%
MOL Serbia d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
MOL Slovenia Downstream Investment B.V.	Netherlands	Investment management	100%	100%
MOL naftna družba, trgovsko podjetje d.o.o. [2]	Slovenia	Retail trade	100%	-
MOL Slovenia d.o.o.	Slovenia	Retail trade of fuels and lubricants	100%	100%
MOL Solar Investment Kft. [2]	Hungary	Investment management	100%	-
MOL Solar Operator Kft. [2]	Hungary	Power production	100%	-
MOL South-East Europe Holding Kft. [2]	Hungary	Investment management	100%	-
MOL Kiskereskedelem Zrt. [2]	Hungary	Retail and Wholesale	100%	-
Moltrans Kft.	Hungary	Transportation services	100%	100%
MOLTRADE-Mineralimpex Zrt.	Hungary	Importing and exporting of energetical products	100%	100%
MOL CZ Downstream Investment B.V.	Netherlands	Investment management	100%	100%
MOL Čerpací stanice s.r.o. [3]	Czech Republic	Retail trade	-	100%
Pap Oil s.r.o. [3]	Czech Republic	Retail trade	-	100%
MOL Česká republika s.r.o.	Czech Republic	Wholesale and retail trade	100%	100%
MOL Retail Česká s.r.o. [3]	Czech Republic	Retail trade	-	100%
MOL Ukraine LLC	Ukraine	Wholesale and retail trade	100%	100%
MULTIPONT Program Zrt.	Hungary	Marketing agent activity	100%	83%
Petrol d.d.	Croatia	Trading of oil products	49%	49%
SLOVNAFT a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	99%	99%
CM European Power Slovakia s.r.o.	Slovakia	Operation of thermo-power plant	99%	50%
Slovnaft Polska S.A.	Poland	Wholesale and retail trade	99%	99%
Slovnaft Retail s.r.o. [4]	Slovakia	Retail trade	-	99%
Slovnaft Trans a.s.	Slovakia	Transportation services	99%	99%
SWS s.r.o.	Slovakia	Transport support services	51%	51%
VÚRUP a.s.	Slovakia	Research and development	99%	99%
Zväz pre skladovanie zásob a.s.	Slovakia	Wholesale and retail trade, warehousing	99%	99%
Terméktároló Zrt.	Hungary	Oil product storage	74%	74%
Tifon d.o.o.	Croatia	Retail trade of fuels and lubricants	100%	100%
MOL Petrolkémia Zrt.	Hungary	Petrochemical production and trading	100%	100%
Tisza-WTP Kft. [1]	Hungary	Feed water and raw water supply	0%	0%
TVK-Erőmű Kft.	Hungary	Electricity production and distribution	100%	100%
Corporate and other				
Crosco Naftni Servisi d.o.o.	Croatia	Oilfield services	49%	49%
CorteCros d.o.o. [7]	Croatia	Production of anticorrosion products	-	29%
Crosco B.V.	Netherlands	Oilfield services	49%	49%
Nordic Shipping Ltd.	Marshall Islands	Platform ownership	49%	49%
Crosco International d.o.o. (Slovenia)	Slovenia	Oilfield services	49%	49%
Crosco International d.o.o. (Tuzla)	Bosnia and Herzegovina	Oilfield services	49%	49%
Crosco International Ltd.	United Kingdom	Oilfield services	49%	49%
Crosco S.A. DE C.V	Mexico	Maintaining services	49%	49%
Rotary Zrt.	Hungary	Oilfield services	49%	49%
Sea Horse Shipping Inc.	Marshall Islands	Platform ownership	49%	49%
Geoinform Kft.	Hungary	Hydrocarbon exploration	100%	100%
Hostin d.o.o.	Croatia	Tourism	49%	49%
Magnolia Finance Ltd. [1]	Jersey	Financial services	0%	0%
MOL Aréna Kft. [2]	Hungary	Investment management	100%	-
MOL Cyprus Co. Ltd.	Cyprus	Captive insurance	100%	100%
MOL Group Finance S.A.	Luxemburg	Financial services	100%	100%
MOL Group International Services BV	Netherlands	Financial and accounting services	100%	100%
MOL Investment Kft.	Hungary	Financial services	100%	100%
MOL Magyarország Szolgáltató Központ	Hungary	Business services	100%	26%
MOL Csoportszintű Pénzügyi Szolgáltató Kft.	Hungary	Accounting services	100%	26%
MOL Magyarország HR Szolgáltató Kft.	Hungary	HR services	100%	26%
MOL Magyarország Informatikai Szolgáltató Kft.	Hungary	IT services	100%	26%
MOL Magyarország Pénzügyi Szolgáltató Kft.	Hungary	Accounting services	100%	26%
MOL Magyarország Társasági Szolgáltató Kft.	Hungary	Company services	100%	26%
MOL Reinsurance Co. Ltd.	Ireland	Captive insurance	100%	100%
MOL Vagyonkezelő Kft.	Hungary	Investment management	100%	100%
Petrolszolg Kft.	Hungary	Repairs and maintenance services	100%	100%
PLAVI TIM d.o.o.	Croatia	IT services	49%	49%
Slovnaft Montáže a opravy a.s.	Slovakia	Repairs and maintenance services	99%	99%
STSI integrirani tehnički servisi d.o.o.	Croatia	Repairs and maintenance services	49%	49%
Ticinum Kft.	Hungary	Asset management	100%	100%
Top Računovodstvo Servisi d.o.o.	Croatia	Accounting services	49%	49%
TVK Ingatlankezelő Kft.	Hungary	Real estate management	100%	100%

1) Consolidated as required by "IFRS 10 - Consolidated Financial Statements; 2) Fully consolidated from 2016 ; 3) Merged to MOL Česká republika s.r.o. in 2016; 4) Merged to Slovnaft a.s. in 2016; 5) Merged to Ménrót Kft. in 2016; 6) Liquidated in 2016; 7) Sold in 2016

c) Appendix III.: Clean CCS profit / (loss) from operation (Clean CCS EBIT)

Clean CCS-based profit / (loss) from operation and its calculation methodology is not regulated by IFRS. CCS stands for Current cost of supply. Clean CCS EBIT is the most closely watched earnings measure in the oil and gas industry as it best captures the underlying performance of a refining operation as it removes non-recurring special items, inventory holding gains and losses, impairment on raw materials and own-produced inventory and cargo hedge.

Inventory holding gain/loss

EBIT after excluding the inventory holding gain/loss reflects the actual cost of supplies of the analyzed period therefore it provides better portray on the underlying production and sales results and makes the results comparable to other companies in the industry.

Impairment on raw materials and own-produced inventory

Inventories must be measured at the lower of cost or net realisable value.

The cost of inventories must be reduced - i.e. impairment must be recognized on closing inventory of the period- if the cost is significantly higher than the expected sales price minus cost to sell.

In case of finished products, impairment should be recognized if the closing value of the inventory at the end of period is above the future sales price of the product minus cost to sell. In case of raw materials and semi-finished products that will be used further in production, it has to be examined whether, following their use in production; their value can be recovered in the selling price of the produced finished products. If their value is not fully recoverable impairment must be recognized to the recoverable level.

Cargo hedge

By cargo hedge transactions the exposure to crude oil price variance is being hedged by changing the actual pricing of cargo (to monthly average).

Since the CCS methodology is based on switching to period average crude oil prices, the CCS effect together with the effect of the cargo hedge transactions results leaded to unnecessary duplication, therefore the P&L effect of the cargo hedges is to be eliminated.

Non recurring special items

One-off items are single, significant (more than EUR 10 million P&L effect), non-recurring economic events which are not considered as part of the core operation of the segment therefore they do not reflect the actual performance of the given period.

Clean CCS profit / (loss) from operation reconciliation	2016 HUF million	2015 restated HUF million
Profit / (loss) from operation	307,905	(217,231)
Inventory holding gain/loss	(26,362)	78,738
Impairment on raw materials and own-produced inventory	(6,356)	1,338
- thereof affects raw materials	(633)	(723)
- thereof affects own-produced inventory	(5,722)	2,061
Cargo hedge	3,217	(7,562)
CCS profit / (loss) from operation	278,404	(144,717)
Hedge adjustments	4,957	4,295
Special items	22,968	480,814
Clean CCS profit / (loss) from operation	306,329	340,393

Special items	2016 HUF million	2015 HUF million
Profit / (loss) from operation excluding special items	330,873	263,584
Upstream		
Impairment in INA Group	-	(109,470)
Impairment in UK	-	(218,168)
Other impairment	-	(20,122)
MOL Plc. mining royalty penalty claw-back	-	35,227
Akri-Bijell block exit	-	(130,603)
Cameroon exit	-	(17,306)
Matjushkinskaya Vertical divestment	(3,234)	-
Kalegran inventory impairment	(3,344)	-
Total special items in Upstream	(6,578)	(460,442)
Downstream		
Provision for redundancy at INA	-	(9,203)
IES impairment (Asset Held for Sale IFRS5)	(5,982)	-
HCK (HydroCracker) impairment	(4,471)	-
Total special items in Downstream	(10,453)	(9,203)
Corporate and Other		
Akri-Bijell block exit	-	(1,538)
Impairment in INA Group	(5,937)	(9,632)
Total special items in Corporate and Other	(5,937)	(11,170)
Total impact of special items on profit / (loss) from operation	(22,968)	(480,815)
Profit / (loss) from operation	307,905	(217,231)

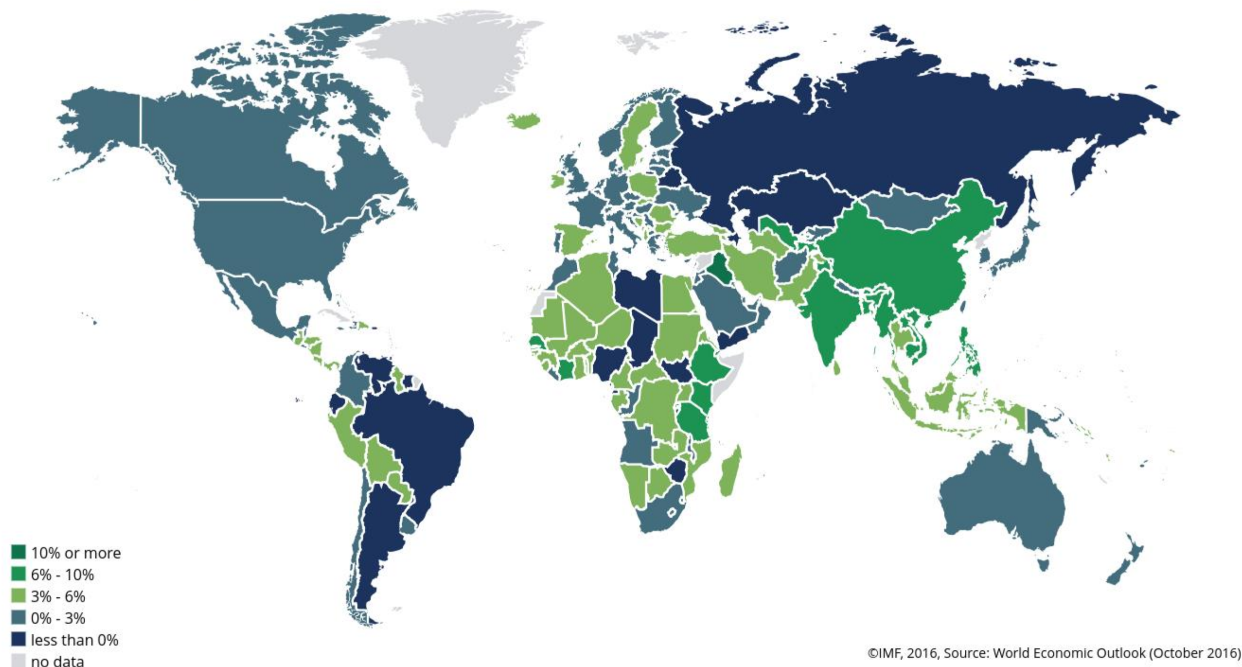
Management Discussion and Analysis of 2016 Business Operations

1 OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT

World Economy

Global output growth might have bottomed out in 2016, reaching a 3.1% rate, the weakest since the 2008-2009 crisis. Still, global growth remains uneven across countries.

Figure 1. Real GDP growth (annual percent change, 2016)



Source: IMF

Global growth continues to be supported mainly by the emerging and developing countries, in particular China and India. Although emerging market growth rates in general were faster than those of developed countries, they remain below the average of the past decade. Argentina and in particular Brazil and Venezuela were struggling through recession in 2016. On the other hand, Russia's recession has been shallower than expected even though the economy was still hit hard by low commodity prices and economic sanctions last year. In China, a soft-landing was engineered in 2016 despite elevated financial market tensions the year before. Pro-growth policy initiatives, in particular investment increasingly financed by public funds, helped to keep growth above 6% in 2016. However, growth is still on its projected trajectory of structural slowdown due to rising financial fragilities and slow progress in structural reforms.

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

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

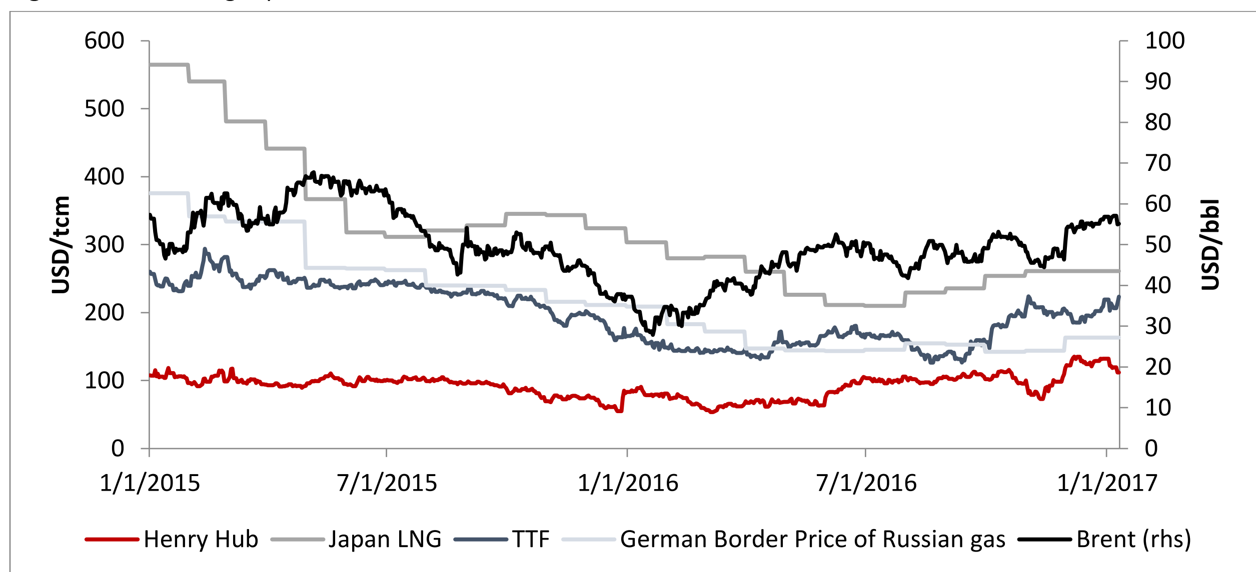
Global Energy markets & Upstream

Crude oil prices remained subdued in 2016, with Brent dated averaging USD 43.7/bbl, down from an average of USD 52.3/bbl in 2015 (-17% yoy). This was largely driven by a near term inventory overhang (OECD commercial inventories increased to 65 days of OECD average consumption in 2016 from the 55 days average of the 2011-15 period), which was only partly offset by a slightly narrowing supply-demand imbalance (~0.8 MMbpd, -50% yoy). In late 2016, Brent price rose to ~USD 50-55/bbl, partly due to the agreement among OPEC and several major non-OPEC producers (including Russia), to cut crude oil production starting from January 2017.

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

Global gas prices have fallen and converged on all three main regional markets. The difference between the U.S. Henry Hub price (setting the floor for prices) and the Japanese LNG (providing a cap on prices) – the European TTF price moving in-between – has decreased considerably from an average 414 USD/tcm for the period 2011-2015 to 162 USD/tcm in 2016. European TTF gas price averaged 163 USD/tcm in 2016 (- 30% yoy). The price decrease can be attributed to (i) lower oil price which decreased oil-indexed contracted LNG prices in Asia, (ii) oversupply due to greater availability (coming from Australia and the US) , and (iii) cooling demand from Asia Pacific. Still, a degree of segmentation between markets remains, because of the transportation costs and the effect of long-term contracts.

Figure 2. Brent and gas prices



Source: Bloomberg

Downstream

Although 2016 margins were weaker than the record highs of 2015, 2016 was still a good year compared to the 5-year historical average. A high level of product stocks weighed on the market and increased product trade flows, particularly from China, undermining crack spreads. However, the reduction was limited by lower than expected refinery capacity additions and strong increases in oil products demand, supported by sustained economic growth and low outright prices. 2016 gasoline crack spreads exceeded the 5-year average, as they continued to benefit from demand growth, especially in the Atlantic Basin with the additional benefit to the US and European refiners of increased exports to South America. European diesel crack spreads, however, fell below the 5-year average, pressured by higher imports from the US and Middle East.

In 2016 European petrochemical activities could not reach the extraordinary margins of 2015 either. Except for a short time period in May-June unplanned outages were below the previous year, assuring more stability in the intra-regional supply. Meanwhile the relative weakening of Chinese yuan versus the euro made Europe a more favourable export target of Middle Eastern and U.S. products. In parallel with the largely stagnating demand for

commodity polyolefins (mainly polyethylene and polypropylene) tightness of European markets phased out. Even though naphtha, which is more directly connected to the low crude oil prices, remained less disadvantaged against light steam cracking feedstocks, limiting the external – cheap ethane based – pressure on the European petrochemical industry, especially on polyolefin markets. These factors led to stay integrated margins and profitability far above the 5-years average.

Central and Eastern Europe

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

Hungary

Hungarian GDP growth declined in 2016 to 2.0%. The slowdown was due to a slower upturn in investment associated with the changeover to a new planning period for EU investment funding and moderate industrial production performance. Overall, domestic demand growth remained positive, as private consumption grew on the back of accelerating wage growth and growing employment. The unemployment rate dropped to a multi-year low and consumer confidence rose to an over ten-year high in December 2016. The contribution of net exports to GDP moderated in line with the slow expansion of exports in the weak external environment and the pickup in imports for domestic demand purposes.

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

Slovakia

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

The country’s passenger car fleet grew by 13% yoy supporting both gasoline - which increased by 3.7% - and diesel demand. The latter rose by 6.0% yoy gaining further support from larger diesel car penetration.

Croatia

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

Croatian gasoline demand declined by 1.6%, while diesel demand rose by 2.1% yoy. Penetration of diesel fueled cars into the passenger car sector continued to rise, eroding demand for gasoline.

Disclaimer: crude oil figures are based on EIA.

2 INTEGRATED CORPORATE RISK MANAGEMENT

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

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

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

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

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

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

The main risk drivers of the Group

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

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

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

   ii. **Foreign exchange (FX) risk**: Business operation is economically driven mainly by USD. The overall operating cash flow exposure of the Group is net long USD, EUR, RON, and net short HUF, HRK, RUB from economic point of view. According to MOL Group's current FX risk management policy the long FX exposures of the operating cash flow are decreased by the short financing cash flow exposures.

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

b) Operational risks include, but are not limited to:

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

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

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

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

   i. **Regulatory risk**: MOL Group has significant exposure to a wide range of laws, regulations, environmental and government policies that may change significantly over time. Due to the economic and also in some regions political crisis the risk of potential government actions increased as well as potential impact of such decisions.

ii. **Country risk**: The international portfolio requires proper management of country risk exposures, therefore possible political violence, compliance with local regulations or sanctions are monitored to enhance the diversification effect in the investment portfolio.
iii. **Reputation risk**: Reputation of energy industry players has been in the focus of media for the past years due to extreme negative events. MOL Group as a major market player in the region operates under special attention from a considerable number of stakeholders, and we are constantly seeking to meet our responsibilities towards them.

Main risk management tools

Enterprise Risk Management is a framework covering business units and functional units, which ensures incorporation of risks faced by the company into risk maps.

Risk assessment activity supports stable and efficient operation by identifying key risks that threaten the achievement of company objectives and require specific attention by top management through strengthened controls or execution of mitigation actions. The risk map is a heat map used to graphically present major risks on a matrix using probability and impact ratings, and is a result of detailed risk assessment processes. The risk maps integrate market and financial, operational and strategic risks, which are identified and reassessed regularly, providing updates to top management on evolution of risks and status of mitigation actions.

To ensure the profitability and the financial stability of the group, financial risk management is in place to handle short-term, market related risks. Sensitivity analysis and stress testing are performed regularly on market ad financial risks. Commodity price, FX and interest rate risks are measured by using a complex model based on Monte Carlo simulation, and are managed – if necessary - with hedging measures.

Transferring of the financial consequences of our operational risks is done by insurance management. Purchase of insurances represents an important risk mitigation tool used to cover the most relevant exposures and liabilities arising out of our operations. The major insurance types are: property damage, business interruption, liability and control of well insurance, set around a yearly cycle (i.e. annual renewal of most insurance programs). Insurance is managed through a joint program for the whole group to exploit considerable synergy effects.

Synergies

Valuable synergies can be extracted when risk is approached in a comprehensive way. The existence of an integrated risk management function enables MOL Group to exploit the synergies between the above detailed pillars of risk management. The input sources of modelling financial risks are applied in ERM as well. Similarly, the accumulated information on operational risks gained through managing insurances is also an important factor in the ERM development.

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

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

Decision-making support of capital allocation

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

3 FINANCIAL AND OPERATIONAL OVERVIEW OF 2016

3.1 SUMMARY OF 2016 RESULTS

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

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

- The Upstream segment's EBITDA, excluding special items reached HUF 190bn in 2016, only slightly lower than in 2015 despite a substantially weaker external environment with 17% lower Brent crude and 23% lower realized gas prices. Several positive developments boosted the segment's results: (1) production grew by 6% year-on-year on a like-for-like[7] basis, boosted by 7% higher CEE onshore production; (2) OPEX, including direct unit production cost (which average at USD 6.6/boe, down by USD 1.0/boe year-on-year) was reduced substantially, by nearly USD 90mn, as part of the New Upstream Program; (3) exploration expenses fell further.
- Downstream Clean CCS EBITDA fell 12% compared to 2015 and came in at HUF 408bn. Profitability was affected by (1) the lower complex refinery margins and the weaker integrated petrochemical margin, although both continued to stay above mid-cycle levels; (2) 8% lower production and 4% lower sales in petchem and deteriorating yields in refining, both due to the unplanned events during the year. These factors were mitigated by (1) the continued impressive growth in retail (+40% EBITDA) and (2) another USD ~130mn EBITDA uplift coming from the second year of the Next Downstream Program.
- Gas Midstream brought in full-year EBITDA of HUF 54.5bn in 2016, 9% lower year-on-year, primarily affected by lower capacity bookings in Q4 2016.
- Corporate and other segment delivered an EBITDA loss of HUF 39bn in 2016, widening slightly year-on-year, as the contribution of the oil services companies deteriorated further on the weaker oil prices.
- Net financial expenses declined significantly to HUF 50bn in 2016 compared to HUF 93bn in the previous year, primarily on much lower FX losses.
- CAPEX spending reached HUF 317bn (USD 1.12bn) in 2016, further down by 26% year-on-year on declining E&P spending. Out of this amount HUF 31bn (USD 111mn) was spent on inorganic investments, primarily on retail network expansion.
- Operating cash flow before working capital changes declined 11% year-on-year to HUF 547bn, in line with the fall in underlying EBITDA. Changes in net working capital were similar to last year's, thus net cash provided by operating activities also came in 11% lower year-on-year at HUF 519bn.
- Net debt increased to HUF 606bn in 2016 from HUF 474bn a year ago despite a substantial free cash flow generation during the year. The increase in debt was primarily the consequence of the Magnolia transaction, which added to debt. As a result, Net Debt/EBITDA also rose to 0.97 in 2016 and net gearing was up to 25% from 21%, yet the balance sheet remains safe and robust. In April 2016 MOL issued a EUR 750mn bond with 7 years maturity and the lowest coupon in MOL history, and in June concluded an EUR 615mn syndicated facility contributing to a financial headroom of EUR 3.8bn at year end.

MOL Group financial results

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

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

Key financial data by business segment

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

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

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

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

Operating profits excl. special items [3]	FY 2015 (restated) (HUF mn)	FY 2016 (HUF mn)	FY 2015 (restated) (USD mn)[5]	FY 2016 (USD mn)[5]
Upstream	(9,173)	43,617	(49)	155
Downstream	273,417	309,469	976	1,102
Gas Midstream	45,612	41,439	164	147
Corporate and other	(56,280)	(56,592)	(200)	(200)
Inter-segment transfers [2]	10,008	(7,060)	37	(25)
Total	**263,584**	**330,873**	**928**	**1,179**

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

3.2 OUTLOOK ON THE STRATEGIC HORIZON

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

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

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

In Downstream, MOL Group once again proved in 2016 that it has a high quality, integrated, highly cash generative platform, which was able to mostly offset the negative impact of a somewhat weaker external environment. The continued impressive growth in Retail (Consumer Services) along with further substantial bottom-up efficiency improvement delivered by the Next Downstream Program were the highlights of the year. Unplanned events affecting availability and through that volumes, yields and captured margins, and some delays with our growth projects served as a reminder that we have more to do and more upside to grab in the coming years.

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

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

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

3.3 UPSTREAM OVERVIEW

3.3.1 OVERVIEW OF 2016

Key achievements in 2016

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

Outlook for 2017-2019

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

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

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

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

3.3.2 UPSTREAM MAP

3.3.3 KEY ACHIEVEMENTS

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

THE CENTRAL EASTERN EUROPEAN REGION

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

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

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

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

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

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

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

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

In the field of Health, Safety and Environment (HSE), some promising strides have been made ensuring Upstream can deliver environmental benefits. The INA EOR project delivered CO_2 emission reduction and freshwater saving at the same time, since the formation water produced by the project was reused for well interventions. Upstream Division started to assess Hungarian projects to certify them as Upstream Emissions Reduction, in compliance with the Fuel Quality Directive of the European Union.

THE NORTH SEA

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

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

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

THE MIDDLE EAST, ASIA AND AFRICA

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

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

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

MOL Group continued its extensive exploration activity in the country in 2016 with several positive results. Three further exploration successes were achieved last year; Makori Deep-1 and Tolanj West-1 discoveries were made in the TAL Block and Halini Deep-1 discovery was made in the Karak Block. Large-scale seismic acquisition works were carried on in the country, in the Karak Block, in the Margala Block and in the Ghauri Block. As part of

exploration portfolio optimization Margala North was relinquished with effect from January 1, 2016, the regulatory approval is in progress.

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

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

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

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

THE CIS REGION

MOL Group has presence in the region for more than ten years. Baitugan field contribution to the international portfolio's production is essential. As a result of accelerated drilling program on the field, Baitugan delivered a 20% (year-on-year) ramp up in production during 2016. In the Fedorovsky block in Kazakhstan, field development program was started in partnership with KMG and FIOC.

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

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

As part of the active portfolio management MOL's Matyushinsky block in Russia was divested. The sale did not have a significant effect on the annual production of MOL in Russia, as the production intensification program on Baitugan field successfully offset the production shortfall as a result of the divestment. MOL Group remains committed to maintaining and potentially expanding Upstream activities in the country.

In the Fedorovsky block in **Kazakhstan**, drilling of U-25 well was completed. Tournasian layer was successfully tested for gas and condensate.

3.3.4 FINANCIAL OVERVIEW OF 2016

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

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

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

(-) Average realized hydrocarbon prices fell by 8 USD/boe to 33 USD/boe driven by a 23% drop in realized gas prices and a 15% decrease in realized crude prices.

(+) Total group production (incl. JVs and associates) increased further to 112 mboepd. Production grew by 6 mboepd or 6% year-on-year in 2016 on a like-for-like[7] basis.

(+) The successful implementation of the New Upstream Program contributed to a 1.0 USD/boe reduction of Group-level average direct production cost, excluding DD&A, which came in at 6.6

USD/boe. The New Upstream Program also focused on all controllable OPEX items on top of direct lifting costs, hence operating expenditures in Upstream, excluding DD&A, totalled HUF 207bn, representing a HUF 38bn decrease versus the previous year. Furthermore exploration expenses were lower by HUF 4bn, which was also driven by NUP initiatives.

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

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

** Excluding gas, production figures included from 2016*

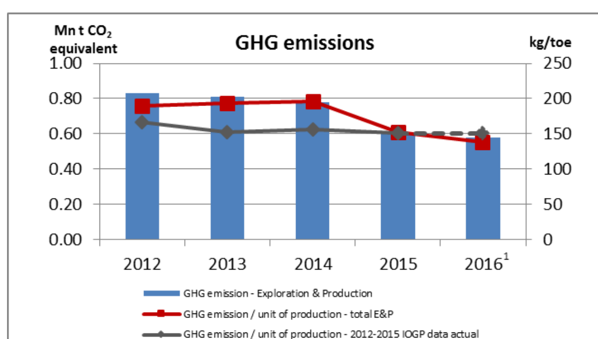
Total average daily hydrocarbon production (including JVs and associates) reached a ~112 mboepd in 2016. From 2016, MOL Group consolidates Baitex with the equity method and the corresponding production (~6 mboepd) is included among JVs and associates. Furthermore, from 2016 the liquids production of Pearl Petroleum (~2 mboepd) is also included in Group production as part of JVs and associates. Total group production grew in 2016 by 6% year-on-year, or by 6 mboepd on a like-for-like[7] basis. The achieved increase was fully driven by an uplift in oil and condensate volumes pushing the liquids to gas production ratio close to 50% on a portfolio level.

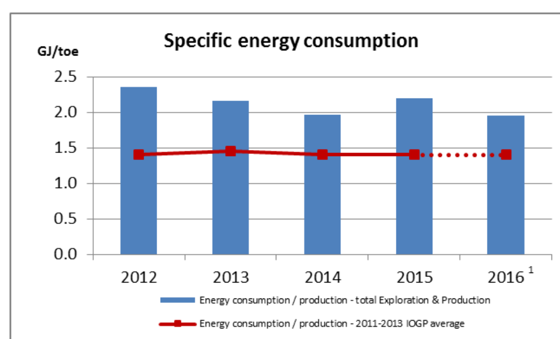
Changes in the Upstream regulatory environment

In **Hungary** the regulated gas price increased by 2.8 HUF/m3 in 2016 Q4.
In **Croatia** the regulated gas price was reduced from 1.59 HRK/m3 to 1.27 HRK/m3 with an effective date of 1st April, 2016.
In **Norway** corporate income tax rate was reduced to 24% (down by 1 percentage point) with a corresponding increase of the special petroleum tax (ST) rate to 54%. Hence, the marginal tax rate will remain at 78%. The new regulation is effective from January, 2017.
In the **UK** the supplementary charge tax has been reduced from 20% to 10%. The rate at which petroleum revenue tax is levied has been reduced from 50% to 0%. These reductions took effect from 1st January, 2016. These reductions do not have an immediate impact on the activities of MOL Group in the UK due to the significant tax loss pool.

3.3.5 UPSTREAM SUSTAINABILITY HIGHLIGHTS 2016

CLIMATE CHANGE





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

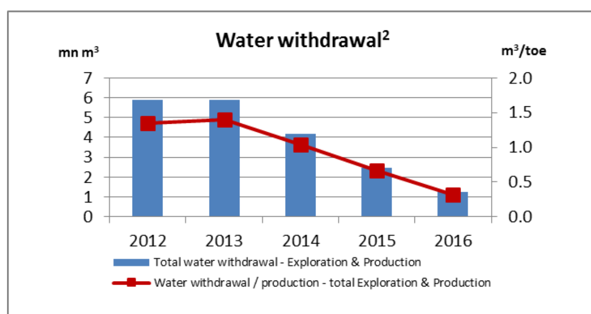
STRATEGIC GOAL:

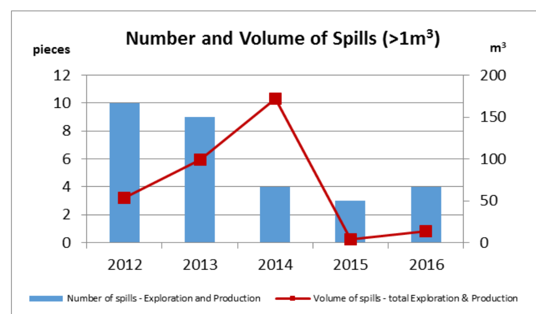
Reduce CO2 intensity of operations by 20% by the end of 2016 (in CO2/ tons of oil equivalent) compared to 2010 level

PERFORMANCE:

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

WATER AND SPILLS





[2]Excluding produced water

STRATEGIC GOALS:

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

PERFORMANCE:

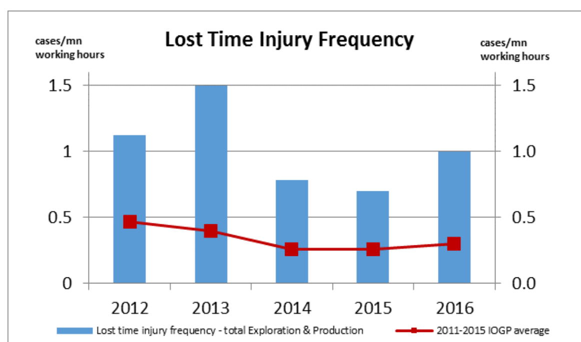
- Water withdrawal reduced significantly driven by the Hajdúszoboszló Cooling System Project was completed in 2015.
- In 2016 number and volume of spills slightly increased mainly due to pipeline corrosion.
- In order to mitigate minor spills pipeline integrity project was started in Baitex in 2016
-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

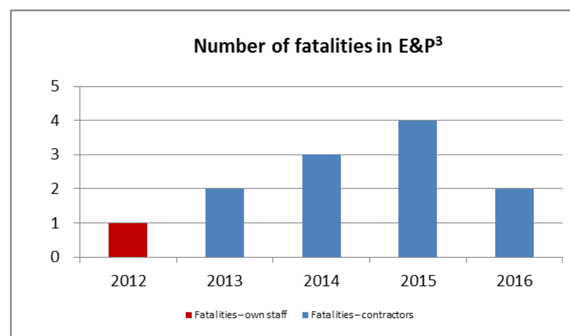
RESERVES AND R&D

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

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

HEALTH AND SAFETY





[3]Excluding third party fatalities (20 in 2016)

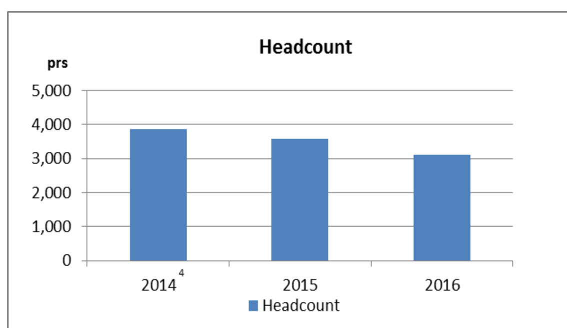
STRATEGIC GOAL:

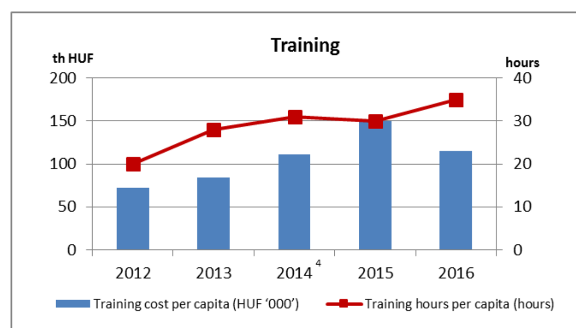
Implement programs aiming for zero incidents

PERFORMANCE:

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

HUMAN CAPITAL





[4]Crosco is excluded from 2014

STRATEGIC GOALS:

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

PERFORMANCE:

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

COMMUNITIES

	2012	2013	2014	2015	2016
Community investments in international E&P[5] (HUF mn) (Total MOL Group without INA Group)	191	354	205	601	279

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

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

3.4 DOWNSTREAM OVERVIEW

3.4.1 OVERVIEW OF 2016

2016 Highlights

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

Outlook

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

QUOTES:

"In 2016 we continued to improve Downstream efficiency and competitiveness which helped to achieve USD 1.45bn Clean CCS EBITDA despite a deteriorating macro environment. The strength of our integrated refining and petrochemicals asset base together with high market captivity is well reflected by the fact that Petchem and

Retail contributed nearly 60% to these results in 2016. I am also very pleased to report that a very clear vision of MOL Group Downstream was defined in the MOL Group 2030 strategy, with an ambition to sustain our regional leadership in core businesses, become a leading chemical group and be the customer's first choice. This also means that we shall continue to do what we are the best at - efficiently run our core assets, supply the market with high quality products while further extending our Petchem value chain and focusing on customer experience. We are also in the process of developing our corporate culture in order to prepare ourselves for the future and to be able to achieve what we set for ourselves in the MOL Group 2030 strategy. By improving our everyday work processes and cooperation, we will be more successful in increasing customer satisfaction while at the same time having more engaged employees." ***(Ferenc Horváth – Executive Vice President, Downstream)***

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

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

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

*"Our mission is to manage our people, assets and processes in order to achieve constant, efficient and safe operations and increase satisfaction of employees, customers and stakeholders."(****Howard Lamb – Group Logistics VP)***

Competitive advantage

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

MOL Group is operating complex, high quality assets with a total of 20.9 mtpa refining and 2.2 mtpa petrochemicals capacity. The high net cash margin-producing refineries in Hungary and Slovakia benefit from their geographical locations as well as their well-balanced product and customer portfolios. MOL Group Petrochemicals (MPC) bring distinct advantages to MOL Group's refineries whilst delivering high quality products to our customers. MPC is already present in the butadiene market and forward integration into derivatives is in progress, in line with the new long term strategy, MOL Group is aiming to further expand in chemicals and petrochemicals to become a regional leader.

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

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

3.4.2 DOWNSTREAM MAP

3.4.3 KEY ACHIEVEMENTS

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

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

An ambitious USD 500mn EBITDA improvement target was set for the program by the end of 2017, and after a successful first year of the program, 2016 was set out to further improve Downstream EBITDA based on the main pillars of the three-year program:

- Asset and Market Efficiency Improvements
- Strategic Growth Projects

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

crude cargo in Bratislava refinery. In the landlocked Danube refinery, seaborne crude sourcing reached 18% of total processed crude.

In spite of facing import pressure on domestic markets, Downstream actions helped to maintain competitiveness and achieved particular successes in logistics cost efficiency and supply development, while intensifying trading activities.

Overall, asset and efficiency improvement actions yielded around USD 120 mn improvement in 2016, including USD 20 mn brought in by some 45 new initiatives to the program coming from all sites in production, supply, sales and logistics areas. The performance was partially offset by unplanned events in some of the refinery and petchem units during the year.

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

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

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

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

The effort to increase reliability of assets continued throughout the year 2016 and collected also success especially in MOL Refining where the best Operational Availability in the last 6 years with 96.5% was achieved in Danube refinery. In order to support good performance, the best Production teams have been awarded with DS Production SVP Reliability Award, as a recognition for putting efforts to achieve an increased availability of production units.

Generally, availability was not on satisfactory level and substantial work on this area needs to continue. In Bratislava Refining and MOL Petrochemical Olefin plants reliability issues prevented us from capturing full market potential during 2016.

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

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

MPC Butadiene unit is up and running, and in 2017 the butadiene value chain will be extended with synthetic rubber at our Hungarian Petrochemical site. Performance test runs are being finalized at LDPE4 plant in Bratislava and good availability of our polymer units enabled utilization of favourable margins.

As part of the MOL 2030 strategic development projects, significant effort and support to decision making process was made on Refining and Petrochemical growth directions, propylene value chain – polyols. HSE culture has been continuously developing thanks to successful implementation of various HSE programs (BAB2, HSE day, HSE forums, HSE Leadership Engagement Program). In 2017 HSE Leadership Engagement program is going to continue, with the extension to contractors as well. Unconscious behaviour program pilot was launched with the aim of achieving improvement at slip/trip events and will also continue in 2017.

Optimising logistics network has been successfully continued according to the MOL Group Strategy. In respect to rail and barge operations we achieved RTC (Rail Tank Car) fleet modernization in the frame of a group level tender, established technical standards for all fleet types and reduced the average age of the fleet to below 17. MOL Group also reached milestones in the implementation of GPS-based RTC tracking and tracing system and with elaborated standardized group concept, and the project will go live in 2017. Along with the positive result, all logistics operations were performed without fatalities and serious events in 2016. Looking ahead, logistics is planning to focus on rail and barge strategies and action plans in line with the MOL Group strategy, while continue the work on standardization of processes and assets.

Market: Competitiveness built on diversification from fuel production and sales

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

During 2016 seaborne crude processing was successfully introduced to the Bratislava refining site, and simultaneously alternative (seaborne) crude oil processing at Danube site also increased slightly, while INA refineries saw a 9% throughput growth (76% of non-REB crudes). Majority of the crude intake will remain Ural, however the number of tested crudes in the complex refineries is increasing. MOL Group's target by 2020 is to have the possibility of choosing among 50 different crudes to be processed in Group's refineries.

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

A milestone in the efficiency project for inline blending has been reached and detailed design phase has been completed with the implementation expected in 2017. Implementation phase of the MILES (MOL Integrated Logistics Excellence System) project is planned for 2017, as well as the continuation of standardization and optimization of processes, technology and financial reporting.

MOL Group Retail delivered remarkable growth in 2016 with Clean CCS EBITDA rising by 39% YoY, and also succeeded to implement more than 350 reconstruction projects. The first ever complex customer research and customer segmentation for MOL Group was conducted in 2016, as MOL aims for gaining wider knowledge and getting closer to our customers with personalized future offers. The research ended with excellent results, showing that MOL, Slovnaft and INA are the leading brands in their respective markets (based on MWB worldwide brand power methodology). MOL Group's new long-term strategy sees Retail (Consumer Services) aiming for becoming the customer's first choice in fuel and convenience retailing and being a power brand in our core markets.

MOL regional Retail market coverage and customer base has been substantially expanded in recent years by several acquisitions, including the ENI networks in the Czech Republic, Slovakia, Romania, Hungary and Slovenia and the Lukoil retail network in the Czech Republic. In 2016, the integration of the acquired Hungarian and Slovenian networks was successfully completed and rebranding of the sites began, while the Czech and Slovakian sites were fully rebranded. As a result, MOL Group's leading position on the Hungarian and Slovakian market was further enhanced, MOL became the 2nd largest market player on the Romanian and Czech markets and 3rd market player on the Slovenian market.

People: continuously improving performance is key to a successful future

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

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

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

In line with MOL Group vision to become the leading brand in our core markets and with the aspiration outlined in the 2030 strategy "To be the customer's first choice", MOL Group developed a complex customer service

program aiming to build a sustainable competitive advantage around customer service level at the service stations. In 2016, MOL Group's unique HOST Program has been successfully initiated and piloted in Hungary and program roll-out will follow with the involvement of all retail relevant subsidiaries.

3.4.4 Operating Review of 2016

External environment

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

Normalising downstream environment

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

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

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

Regional demand

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

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

Annual performance

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

CCS-based DS EBITDA[3,4] (bn HUF)	FY 2015 restated	FY 2016	Ch. %
MOL Group	**461.5**	**408.3**	**(12)**
o/w Petrochemicals	160.3	144.3	(10)
o/w Retail	61.8	86.3	40
MOL excl. INA	**457.9**	**391.9**	**(14)**
INA	3.5	16.4	369

CCS-based DS operating profits [3,4] (bn HUF)	FY 2015 restated	FY 2016	Ch. %
MOL Group	**350.2**	**284.9**	**(19)**
MOL excl. INA	**367.1**	**290.7**	**(21)**
INA	(16.9)	**(5.8)**	**(66)**

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

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

(-) A favourable, yet fading external macro environment with a contracting complex refinery margin (from 7.3 USD/bbl to 6.3 USD/bbl) mainly affected by collapsing middle distillate crack-spreads and a shrinking integrated petrochemical margin (from 680 EUR/t to 613 EUR/t);

(-) planned and unplanned outages impacting the complex Downstream assets, triggering 4% lower sales volumes in petrochemicals.

The above factors were partly off-set by:

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

(+) progress made during the course of the implementation of the Next Downstream Program;

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

** FY 2015 excluding Austrian operation of 60 kt sales*

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

Significant improvement in retail performance

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

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

** FY 2015 excluding Austrian operation of 60 kt sales*

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

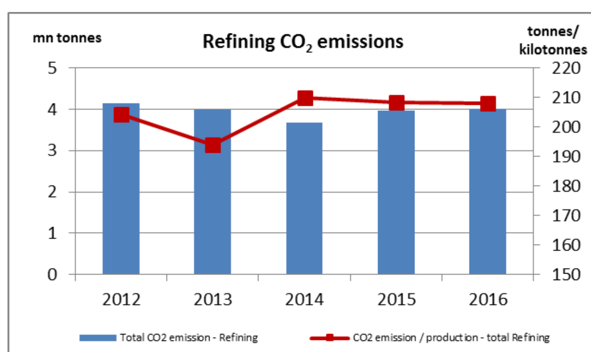
CAPEX

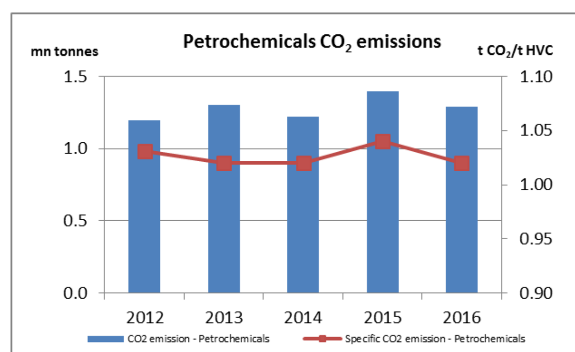
CAPEX by type (in HUF bn)	FY 2015	FY 2016	Ch. %
Total	**179.0**	**172.2**	**(4)**
Strategic projects	86.8	41.2	(53)
Normalized CAPEX	92.2	131.0	42

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

3.4.5 Downstream Sustainability Highlights 2016

Climate change





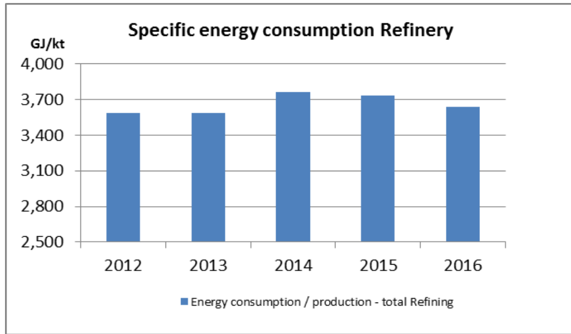
STRATEGIC GOAL:

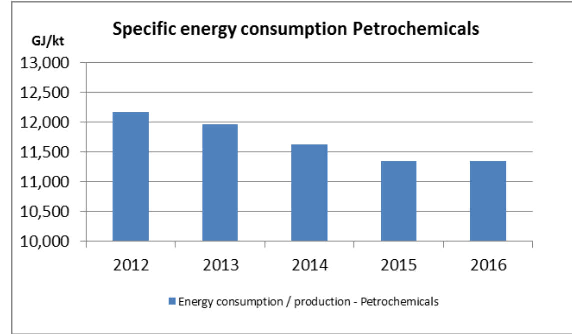
By 2020 decrease direct and indirect GHG emissions by 200 thousand tons of CO_2 equivalent through energy efficiency initiatives

PERFORMANCE:

- Refining and petrochemical operations are the primary sources of MOL Group's GHG emissions.
- CO2 intensity decreased in petrochemicals together with energy intensity.
- Next Downstream Program brought 91 thousand tons of energy and CO_2 emissions savings

ENERGY





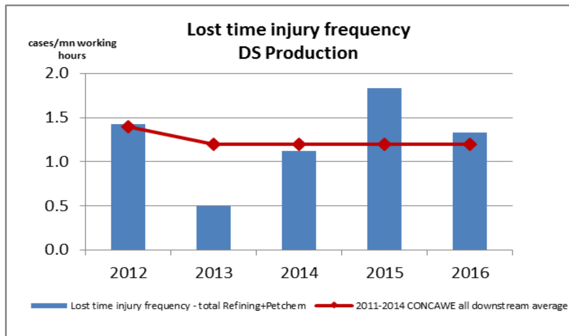
STRATEGIC GOAL:

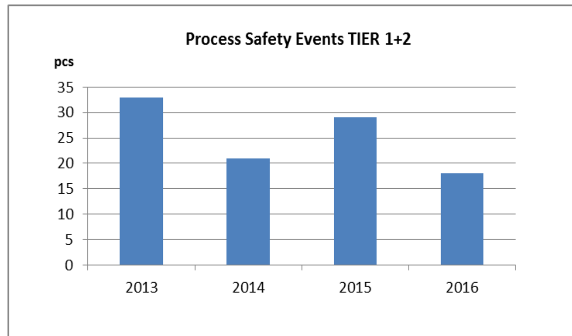
Decrease downstream production energy consumption by min. 5%

PERFORMANCE:

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

SAFETY AND HEALTH





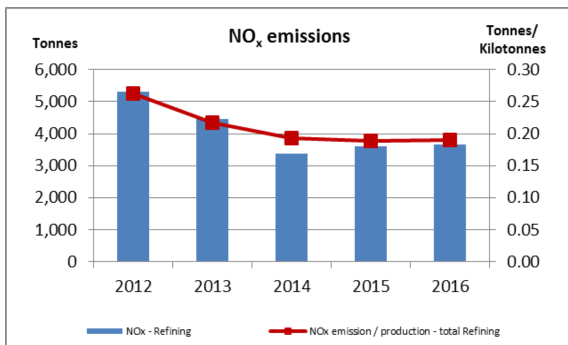
STRATEGIC GOAL:

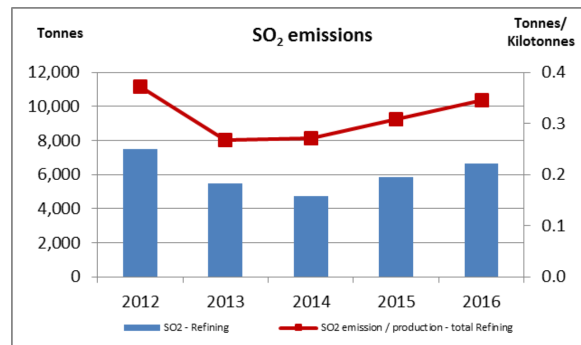
Zero lost-time injury frequency (LTIF) for both MOL employees and contractors by 2020.

PERFORMANCE:

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

AIR EMISSIONS





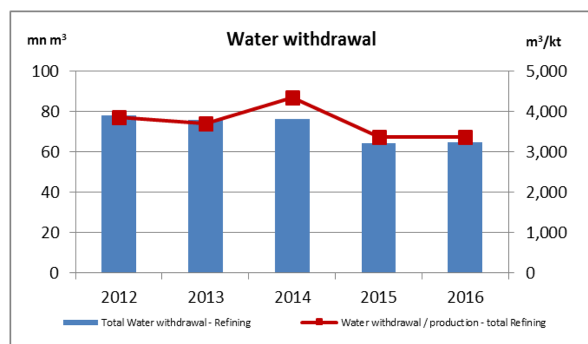
STRATEGIC GOAL:

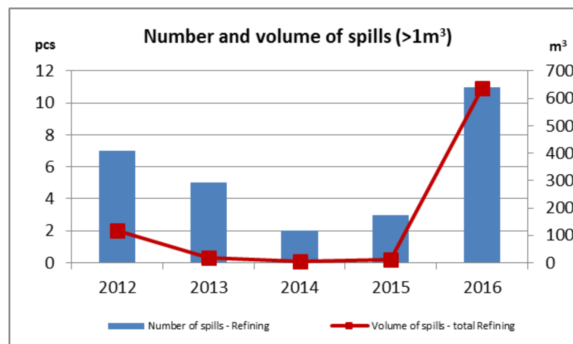
By 2020 decrease NO_X & SO_X emissions by 15%.

PERFORMANCE:

- Increase in SO_2 emissions is attributable to increased production in Slovakian and Croatian refineries, as well as, to higher sulphur content of alternative crude used in refining.
- Five-year air emission trends show significant improvements primarily as a result of legal compliance.

WATER AND SPILLS

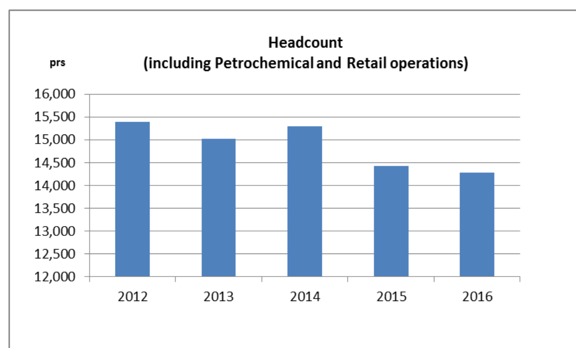


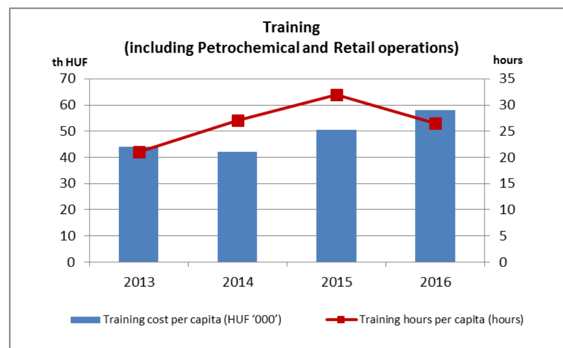


PERFORMANCE:

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

HUMAN CAPITAL





STRATEGIC GOAL:

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

PERFORMANCE:

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

3.4.6 OUTLOOK

Diversification from the production and sales of fossil-based motor fuels:

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

The demand outlook of chemical products is more encouraging, providing a good diversification opportunity away from the production and sales of fossil-based motor fuels. Therefore, an ambitious growth strategy will be

implemented in the petrochemical segment by 2030 by expanding further along the value chain and also by entering new market segments. In addition to the growth strategy, MOL Group [Petro]chemical's long-term target is to move away from the commodity segment and to enter semi-commodity and specialty products, organically and inorganically, independently or with partners. Our goal is to turn to higher value added products within the segments we are already present by utilising the regional growth potential and our competitive advantage of being integrated both across the value chain and geographically.

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

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

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

Further improving the reliability of our key assets and the yield of valuable products remain among top priorities: We will continue to increase gradually the crude intake from seaborne purchases in our Danube and Bratislava refineries. The number of tested crudes in the complex refineries will rise further and the decision on supply will be made based on economics of different available crude types. Higher fuel sales are planned for 2017 driven by the acquisitions and country concept actions targeting enhanced captive positions.

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

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

3.5 GAS MIDSTREAM OVERVIEW

3.5.1 OVERVIEW OF 2016

Highlights

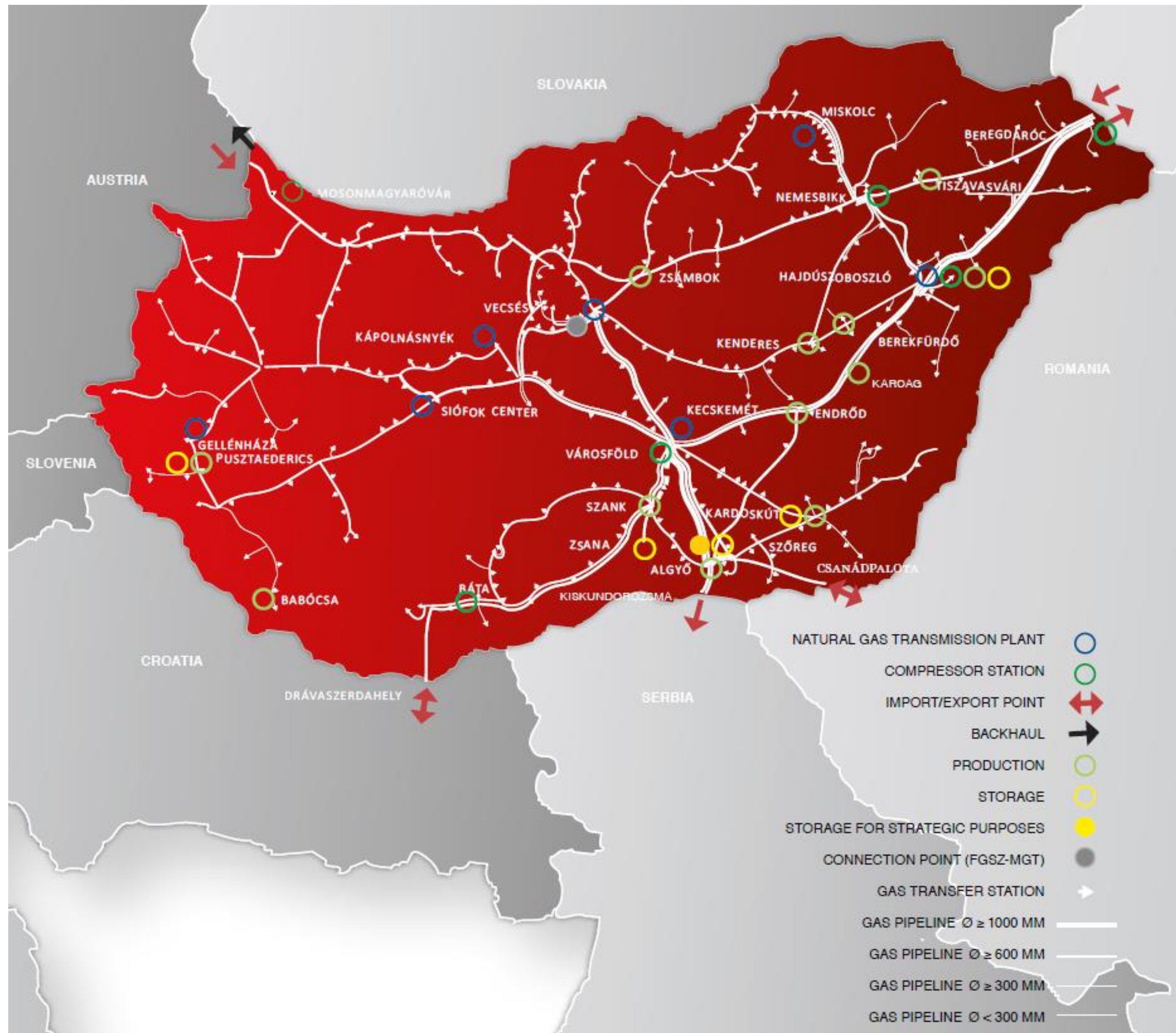
- 5,782 km long pipeline system
- 24 entry points, nearly 400 gas exit points
- 6 regional centers, 6 compressor stations
- High technical class control center in Siófok

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

The Regional Booking Platform (RBP) of FGSZ is an IT application developed in accordance with the EU network code governing the capacity allocation mechanisms used in natural gas transmission networks and with other relevant EU and Hungarian legislation[1]. The capacity allocation application enables the conduct of capacity allocation procedures not only at the cross-border and domestic pipeline nodes located on the network of FGSZ, but even at pipeline nodes independent from the cooperating domestic natural gas transmission network. The customer base of RBP is expanding continuously as a result of the previous years' consistent work; today – beyond FGSZ – seven further transmission system operators use it throughout the EU: Eustream (Slovakia), Transgaz (Romania), Plinacro (Croatia), MGT (Hungary), Bulgartransgaz (Bulgaria), DESFA (Greece) and Gas Connect Austria (Austria). Moreover, further TSOs are expected to join in 2017.

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

3.5.2 GAS MIDSTREAM MAP



3.5.3 OPERATING REVIEW OF 2016

Adverse regulatory changes partly off-set by focus on cost

The transmission fees applicable to FGSZ basically remained unchanged regarding their content and amount in 2016.

A further shift in the regulatory environment however resulted in a changed structure of domestic revenues, lower ratio of annual capacity bookings and higher ratio of short-term or seasonal capacity products from the 2015-2016 gas period.

Revenues from domestic transmission services decreased by 8%, while transit transmission revenues dropped by 9%. Lower domestic revenues are mainly due to lower capacity fee revenues, as a result of decreased annual capacity demands and higher level of discounts paid to system users (based on volumes sold to protected customers). Slightly higher volumes, driven by increased domestic and export demand partly compensated the above mentioned negative factors.

Operating costs were somewhat lower than in the base period. Gas consumption of the transmission system has increased but lower gas purchase prices helped us to partly compensate this impact. Cost of maintenance activities and others were slightly lower than in the prior year due to strict cost control.

Consequently the EBITDA of FGSZ in 2016 came in at HUF 55bn representing a HUF 5bn decrease compared to the base period.

3.5.4 OUTLOOK

New regulatory cycle effective as of 2017

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

European dimensions

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

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

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

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

3.6 CAPITAL EXPENDITURE PROGRAM

Capital expenditures (HUF bn)	**FY 2015 restated**	**FY 2016**
Upstream	223.8	122.1
of which inorganic:	33.2	0.0
Downstream	179.0	172.2
of which inorganic:	50.9	30.7
Gas Midstream	5.7	7.5
Corporate & intersegment	19.5	14.7
Total	**428.0**	**316.5**
of which inorganic:	84.1	30.7

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

3.6.1 UPSTREAM CAPEX

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

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

3.6.2 DOWNSTREAM CAPEX

CAPEX (HUF bn)	FY 2015 Restated	FY 2016	Ch. %	Main projects in FY 2016
R&M CAPEX and investments excluding retail	62.0	77.7	25	• MOL: Major contributors are DMHCK unit conversion and Turnaround in DR • SN: Major contributors are turnaround and catalyst projects • INA: Major contributors are mainly CMS and Catalyst projects, Port Bakar and RTC projects in Logistics; New DCU unit construction in Rijeka Refinery is in engineering phase, site preparation has already started
Retail CAPEX and investments	74.2	61.8	(17)	• Roll out of non-fuel concept has continued in 7 countries. By year-end 405 reconstruction projects were completed out of them 248 had Fresh Corner brand • Opening of new service stations (8 sites) in Romania, Serbia and Bosnia • ENI Slovakia and ENI Hungary network acquisition (17+173 stations) • Without acquisitions 2015 FY CAPEX is 23.3 bn HUF while 2016 FY CAPEX is 31.1 bn HUF (+32%)
Petrochemicals CAPEX	39.0	30.2	(23)	• Final phases of LDPE4 unit in SN Petrochemicals is the major contributor to the CAPEX spending in 2016, along with minor CAPEX projects in MPC
Power and other	3.8	2.5	(34)	
Total	**179.0**	**172.2**	**(4)**	

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

4 OUTLOOK ON THE INNOVATIVE BUSINESSES AND SERVICES DIVISION

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

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

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

connected to its existing integrated business model by leveraging upon its proven and efficient customer, people and asset portfolio.

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

Shift from purely selling fuel to selling kilometres and customer experience

Following the fulfilment of MOL's targets related to the retail sector, MOL implemented its Retail Plus concept with the primary focus on owning a state-of-the-art retail network, which successfully responds to obvious customer needs. On the basis of these experiments, the group intends to further increase and diversify its retail solutions to bring in new services within the framework. To facilitate these targets we established the Consumer Services organisation, which consists of Retail and Mobility units.

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

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

Activities and initiatives serving industrial customers

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

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

Dr. Oszkár Világi's quote:

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

APPENDIX I

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

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

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

APPENDIX II

Notes

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

[2] This line shows the effect on operating profits of the change in the amount of unrealised profit in respect of intersegment transfers. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third-party sale takes place but only in a subsequent quarter. For segmental reporting purposes, the transferor segment records a profit immediately at point of transfer. However, at the Company level, profits are only reported when a related third-party sale has taken place.

[3] Special items affecting operating profits and EBITDA are detailed in Appendix I.

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

[5] Figures have been calculated by converting the results of each month in the period on its actual monthly average HUF/USD MNB rate.

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

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

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 Consolidated Annual Report of MOL Plc. for the year ended on 31 December 2016, which has been prepared to the best of our knowledge in accordance with International Financial Reporting Standards, and give a true and fair view of the assets, liabilities, financial position, and profit of MOL Plc. and its consolidated entities and presents a fair review of the position, development and performance of MOL Plc. with a description of principal risks and uncertainties.

Budapest, 13 April 2017

József Molnár
Group Chief Executive Officer

József Simola
Group Chief Financial Officer