

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

Consolidated Annual Report

31 December 2019

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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 2019

Budapest, 12 March 2020

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. MOL Plc. and its subsidiaries (hereinafter referred to as the Group or MOL Group) is an integrated, international oil and gas company, active in over 40 countries with a dynamic international workforce of 26,000 people and a track record of more than 100 years in the industry with its legal predecessor. MOL's exploration and production activities are supported by more than 75 years' experience in the hydrocarbon field. There are production activities in 8 countries and exploration assets in 13 countries. MOL Group operates four refineries and two petrochemicals plants under integrated supply chain management in Hungary, Slovakia and Croatia, and owns a network of 1,900 service stations across 10 countries in Central & South Eastern Europe.

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 traded Over The Counter (OTC) market in the USA.

### Authorisation and Statement of Compliance

These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 12 March 2020.

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). IFRSs 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.

Report on the audit of the consolidated financial statements

### Opinion

We have audited the accompanying 2019 consolidated financial statements of MOL Hungarian Oil and Gas Plc. ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019 - showing an assets total of HUF 5,132,287 million and a profit for the year of HUF 228,381 million -, the related 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 2019 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") and have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for consolidated annual financial statements prepared in accordance with 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, including also Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014"). 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 applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other 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.

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 amounts as reported in the consolidated statement of financial position and consolidated statement of profit or loss.

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 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 selected the items with significant movements compared to the prior year and tested if the changes were made in the appropriate period and in compliance with the Group’s internal policies. We also validated these volumes against underlying information such as technical evaluations and

Reserve and Resources Committee decision papers. We also performed analytical procedures on movements in oil and natural gas reserves during the year and reviewed whether all significant changes were approved by the Reserves and Resources Committee.

We assessed the adequacy of the Group's disclosures in respect of oil and natural gas reserves.

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

#### Wholesale revenue recognition

MOL Group net revenue derives from different activities and we identified wholesale revenue as a significant revenue stream. Revenue is recognized when all the 5 step criteria of IFRS 15 - Revenue from Contracts with Customers are met.

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, typically related to the wholesale activity, we consider the estimation of discounts, incentives and rebates recognized based on sales made during the year to be a complex area and therefore we consider revenue recognition related to wholesale activity 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 in accordance and compliance with IFRS 15 - Revenue from Contracts with Customers. We tested the design and operational effectiveness of the Group's controls over calculation of discounts, incentives and rebates and correct timing and estimations related to revenue recognition. We tested a sample of the sales transactions close to the balance sheet date as well as credit notes issued after the balance sheet date to assess whether revenue was recognized 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 Total operating income to the consolidated financial statements.

## Asset impairments

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

As asset impairment is a complex and judgmental area with significant potential impact on the valuation of assets, we consider asset impairments a key audit matter.

We examined the methodology used by management to assess the carrying value of respective assets, to determine its compliance with EU IFRSs 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 assessed the assumptions used by the Group in determination of whether impairment indicators exist. The assessment took into consideration current industry and Group expectations for the key inputs to impairment models.

In respect of performed impairment tests, we used external data in assessing and corroborating the assumptions used in impairment testing, the most significant being future market oil prices, reserves and resources volumes and discount rates. We involved 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.d) Impairment of assets to the consolidated financial statements.



## Trading operations

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

Our audit procedures included testing of the design of internal controls implemented in the process and testing of the design and operating effectiveness of the controls implemented by the Group to avoid unauthorized trading activity. We selected a sample of third parties to whom we sent 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. We performed test of the completeness of the trading transactions and amounts recorded in the consolidated financial statements through performing procedures to detect unrecorded liabilities as well as procedures related to the recognition of sales, purchases, trade receivables and trade payables.

We assessed the appropriateness of disclosures made in relation of the result and details of trading transactions as detailed in Note 18 Financial risk and capital management and Note 19 Financial instruments to the consolidated financial statements in accordance with EU IFRSs.

## Other information

Other information consists of the 2019 consolidated business report of the Group and Introduction Chapter, the Management & Discussion & Analysis Chapter, the Corporate Governance Chapter, the Sustainability Information Chapter of the Annual Report and the Report on Payments to Governments of MOL Hungarian Oil and Gas Plc. Management is responsible for the other information, including 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 1) 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 and 2) the consolidated business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

Our opinion on the consolidated business report should include the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law and we are required to confirm also whether the information prescribed in Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law have been made available and whether the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 of the Hungarian Accounting Law.

In our opinion, the consolidated business report of the Group, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law for 2019 is consistent, in all material respects, with the 2019 consolidated financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Group further requirements with regard to its consolidated business report, we do not express opinion in this regard.

We also confirm that the Group have made available the information required according to Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law and that the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 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 other information, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

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 the preparation in accordance with the supplementary requirements of the Hungarian Accounting Law relevant for consolidated annual financial statements prepared in accordance with 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 and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 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 and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

#### Report on other legal and regulatory requirements

Reporting requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014:

#### Appointment and Approval of Auditor

We were appointed as the statutory auditor of MOL Hungarian Oil and Gas Plc. by the General Assembly of Shareholders of the Company on 11 April 2019. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 18 years.

#### Consistency with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on 12 March 2020.

## Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were provided by us to the Company and its controlled undertakings and we remained independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated business report and in the consolidated financial statements, no other services were provided by us to the Company and its controlled undertakings.

The engagement partner on the audit resulting in this independent auditor's report is Gergely Szabó.

Budapest, 12 March 2020

(The original Hungarian language version has been signed.)

Szabó Gergely  
Engagement Partner  
Ernst & Young Kft.  
1132 Budapest, Váci út 20.  
Registration No.: 001165

Szabó Gergely  
Registered auditor  
Chamber membership No.: 005676

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	2019 HUF million	2018 HUF million
Net sales		5,266,735	5,168,668
Other operating income		30,471	41,971
<b>Total operating income</b>	3	<b>5,297,206</b>	<b>5,210,639</b>
Raw materials and consumables used		4,111,960	4,044,821
Employee benefits expense		285,153	270,687
Depreciation, depletion, amortisation and impairment		391,010	411,338
Other operating expenses		299,574	256,125
Change in inventory of finished goods and work in progress		1,378	(55,805)
Work performed by the enterprise and capitalised		(85,928)	(69,403)
<b>Total operating expenses</b>	4	<b>5,003,147</b>	<b>4,857,763</b>
<b>Profit from operation</b>		<b>294,059</b>	<b>352,876</b>
Finance income		103,790	95,824
Finance expense		121,188	132,363
<b>Total finance expense, net</b>	5	<b>(17,398)</b>	<b>(36,539)</b>
Share of after-tax results of associates and joint ventures	6	(962)	15,014
<b>Profit before tax</b>		<b>275,699</b>	<b>331,351</b>
Income tax expense	7	47,318	25,673
<b>Profit for the year</b>		<b>228,381</b>	<b>305,678</b>
<b>Attributable to:</b>			
Owners of parent		223,214	301,197
Non-controlling interest		5,167	4,481
Basic earnings per share	25	317	432
Diluted earnings per share	25	314	432

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019 HUF million	2018 HUF million
<b>Profit for the year</b>		<b>228,381</b>	<b>305,678</b>
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translating foreign operations, net of tax	8	35,340	66,150
Net investment hedge, net of tax	8	(13,119)	(14,330)
Changes in fair value of debt instruments at fair value through other comprehensive income, net of tax	8	717	(247)
Changes in fair value of cash flow hedges, net of tax	8	1,482	601
Share of other comprehensive income of associates and joint ventures	8	7,650	3,625
<b>Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods</b>		<b>32,070</b>	<b>55,799</b>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Changes in fair value of equity instruments at fair value through other comprehensive income, net of tax	8	4,836	(6,120)
Remeasurement of post-employment benefit obligations	8	1,882	(786)
<b>Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>6,718</b>	<b>(6,906)</b>
<b>Other comprehensive income / (loss) for the year, net of tax</b>		<b>38,788</b>	<b>48,893</b>
<b>Total comprehensive income for the year</b>		<b>267,169</b>	<b>354,571</b>
<b>Attributable to:</b>			
Owners of parent		257,728	340,690
Non-controlling interest		9,441	13,881

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 Dec 2019 HUF million	31 Dec 2018 HUF million
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	2,685,969	2,274,271
Intangible assets	9	207,964	195,446
Investments in associates and joint ventures	6	206,077	198,449
Other non-current financial assets	19	137,691	122,463
Deferred tax asset	7	123,805	136,312
Other non-current assets	12	90,372	89,255
<b>Total non-current assets</b>		<b>3,451,878</b>	<b>3,016,196</b>
<b>CURRENT ASSETS</b>			
Inventories	13	517,060	492,727
Trade and other receivables	21	610,335	588,620
Securities	19	24,275	2,571
Other current financial assets	19	104,145	32,134
Income tax receivable	7	30,724	28,829
Cash and cash equivalents	22	326,108	383,511
Other current assets	14	67,477	66,815
Assets classified as held for sale		285	178
<b>Total current assets</b>		<b>1,680,409</b>	<b>1,595,385</b>
<b>Total assets</b>		<b>5,132,287</b>	<b>4,611,581</b>
<b>EQUITY</b>	<b>18</b>		
Share capital		79,408	79,298
Retained earnings and other reserves		1,848,763	1,613,960
Profit for the year attr. to owners of parent		223,214	301,197
<b>Equity attributable to owners of parent</b>		<b>2,151,385</b>	<b>1,994,455</b>
<b>Non-controlling interest</b>		<b>299,984</b>	<b>315,491</b>
<b>Total equity</b>		<b>2,451,369</b>	<b>2,309,946</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt	19	582,417	354,880
Other non-current financial liabilities	19	3,138	4,476
Non-current provisions	15	545,276	474,440
Deferred tax liabilities	7	59,952	51,403
Other non-current liabilities	16	26,624	23,498
<b>Total non-current liabilities</b>		<b>1,217,407</b>	<b>908,697</b>
<b>CURRENT LIABILITIES</b>			
Short-term debt	19	326,622	345,396
Trade and other payables	19	624,164	573,220
Other current financial liabilities	19	252,606	229,070
Current provisions	15	36,052	36,809
Income tax payable		6,929	601
Other current liabilities	17	217,138	207,842
<b>Total current liabilities</b>		<b>1,463,511</b>	<b>1,392,938</b>
<b>Total liabilities</b>		<b>2,680,918</b>	<b>2,301,635</b>
<b>Total equity and liabilities</b>		<b>5,132,287</b>	<b>4,611,581</b>



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HUF million	Share premium HUF million	Fair valuation reserve HUF million	Reserve of exchange differences on translation HUF million	Retained earnings with profit for the year attr. to owners of parent HUF million	Total reserves HUF million	Equity attr. to owners of parent HUF million	Non- controlling interests HUF million	Total equity HUF million
<b>Opening balance 1 Jan 2018</b>	<b>79,279</b>	<b>219,389</b>	<b>3,811</b>	<b>224,795</b>	<b>1,215,782</b>	<b>1,663,777</b>	<b>1,743,056</b>	<b>314,817</b>	<b>2,057,873</b>
Profit / (loss) for the year	-	-	-	-	301,197	301,197	301,197	4,481	305,678
Other comprehensive income / (loss) for the year	-	-	(2,019)	38,809	2,703	39,493	39,493	9,400	48,893
Total comprehensive income / (loss) for the year	-	-	(2,019)	38,809	303,900	340,690	340,690	13,881	354,571
Dividends	-	-	-	-	(86,249)	(86,249)	(86,249)	-	(86,249)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(19,264)	(19,264)
Equity recorded for share-based payments	19	-	-	-	2,996	2,996	3,015	-	3,015
Treasury share transactions	-	-	-	-	-	-	-	-	-
Acquisition / divestment of subsidiaries	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	(6,057)	(6,057)	(6,057)	6,057	-
<b>Closing balance 31 Dec 2018</b>	<b>79,298</b>	<b>219,389</b>	<b>1,792</b>	<b>263,604</b>	<b>1,430,372</b>	<b>1,915,157</b>	<b>1,994,455</b>	<b>315,491</b>	<b>2,309,946</b>
<b>Opening balance 1 January, 2019</b>	<b>79,298</b>	<b>219,389</b>	<b>1,792</b>	<b>263,604</b>	<b>1,430,372</b>	<b>1,915,157</b>	<b>1,994,455</b>	<b>315,491</b>	<b>2,309,946</b>
Profit / (loss) for the year	-	-	-	-	223,214	223,214	223,214	5,167	228,381
Other comprehensive income / (loss) for the year	-	-	4,562	26,119	3,833	34,514	34,514	4,274	38,788
Total comprehensive income / (loss) for the year	-	-	4,562	26,119	227,047	257,728	257,728	9,441	267,169
Dividends	-	-	-	-	(97,366)	(97,366)	(97,366)	-	(97,366)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(28,053)	(28,053)
Equity recorded for share-based payments	110	-	-	-	1,534	1,534	1,644	-	1,644
Treasury share transactions	-	-	-	-	-	-	-	-	-
Acquisition / divestment of subsidiaries	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	(5,076)	(5,076)	(5,076)	3,105	(1,971)
<b>Closing balance 31 Dec 2019</b>	<b>79,408</b>	<b>219,389</b>	<b>6,354</b>	<b>289,723</b>	<b>1,556,511</b>	<b>2,071,977</b>	<b>2,151,385</b>	<b>299,984</b>	<b>2,451,369</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2019 HUF million	2018 HUF million
<b>Profit before tax</b>		<b>275,699</b>	<b>331,351</b>
<i>Adjustments to reconcile profit before tax to net cash provided by operating activities</i>			
Depreciation, depletion, amortisation and impairment	4	391,015	411,523
Increase / (decrease) in provisions	15	5,409	6,694
Net (gain) / loss on asset disposal and divestments		(2,450)	(1,305)
Net interest expense / (income)	5	23,782	25,349
Other finance expense / (income)	5	(6,297)	11,174
Share of after-tax results of associates and joint ventures	6	962	(15,014)
Other items	24	43,311	(10,650)
Income taxes paid	7	(19,753)	(55,008)
<b>Cash flows from operations before changes in working capital</b>		<b>711,678</b>	<b>704,114</b>
<i>Change in working capital</i>		<i>(7,437)</i>	<i>(108,056)</i>
(Increase) / decrease in inventories	13	(17,891)	(67,477)
(Increase) / decrease in trade and other receivables	21	(188,556)	(169,518)
Increase / (decrease) in trade and other payables		137,353	77,596
(Increase) / decrease in other assets and liabilities	14, 17	61,657	51,343
<b>Cash flows from operations</b>		<b>704,241</b>	<b>596,058</b>
Capital expenditures	2	(596,380)	(380,410)
Proceeds from disposal of fixed assets		2,608	2,505
Acquisition of businesses (net of cash)	10	(47,684)	(8,921)
Proceeds from disposal of businesses (net of cash)		33	22,087
(Increase) / Decrease in other financial assets		(107,637)	37,589
Interest received and other finance income	5	9,075	7,341
Dividends received	5	18,159	18,940
<b>Cash flows used in investing activities</b>		<b>(721,826)</b>	<b>(300,869)</b>
Proceeds from issue of bonds, notes and debentures		28,400	-
Repayments of bonds, notes and debentures		(150,607)	-
Proceeds from borrowings		1,234,405	827,009
Repayments of borrowings		(1,009,499)	(810,640)
Interest paid and other finance expense	5	(22,978)	(23,278)
Dividends paid to owners of parent	18	(97,553)	(86,234)
Dividends paid to non-controlling interest		(28,372)	(19,032)
Transactions with non-controlling interest		(8,310)	-
<b>Cash flows used in financing activities</b>		<b>(54,514)</b>	<b>(112,175)</b>
Currency translation differences relating to cash and cash equivalents		12,013	1,877
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>(60,086)</b>	<b>184,891</b>
Cash and cash equivalents at the beginning of the year		383,511	202,041
Cash and cash equivalents at the end of the year		326,108	383,511
<b>Change in Cash and cash equivalents</b>		<b>(57,403)</b>	<b>181,470</b>
Change in Overdraft		(2,683)	3,421
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>(60,086)</b>	<b>184,891</b>

# 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 have 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

### Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and interpretations issued by IFRS Interpretations Committee as adopted by the EU and effective on 31 December 2019.

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.

### Principles of consolidation

The consolidated financial statements as of and for the twelve-month period ended 31 December 2019 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 interests 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.

In case of participation interest in joint operating agreements which do not establish joint control, the Group analyses the parties' rights to the assets and obligations for the liabilities relating to the arrangement and the parties' rights to the corresponding revenues and obligations for the corresponding expenses. Given that the joint arrangement is not structured through a separate vehicle, the Group therefore recognises the operations proportionately, based on its share in revenue, costs, assets, and liabilities relating to the joint operation.

### New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2019:

- ▶ IFRS 16 Leases
- ▶ IFRIC 23 Uncertainty over Income Tax Treatments
- ▶ Amendment to IFRS 9 Financial Instruments
- ▶ Amendment to IAS 19 Employee Benefits
- ▶ Amendment to IAS 28 Investments in Associates and Joint Ventures
- ▶ Annual improvements 2015-2017

The above-mentioned standards and amendments do not impact significantly the Group's consolidated results, financial position or disclosures except for IFRS 16 Leases. The impact of the adoption of IFRS 16 Leases and the new accounting policies are disclosed below.

## Changes in accounting policies

MOL Group has adopted IFRS 16 Leases retrospectively, but comparative information presented for 2018 reporting period has not been restated, as permitted under the specific transitional provisions in the standard.

### a) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises the right-of-use assets and lease liabilities for most leases.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as expense on a straight-line basis over the lease term.

The Group presents right-of-use assets from leases in 'Property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns. The recognised right-of-use assets relate to the following types of assets:

	Rights HUF million	Land and building and related rights HUF million	Machinery and equipment HUF million	Other machinery and equipment HUF million	Total HUF million
<b>At 31 Dec 2018</b>					
<b>Net book value of finance leases (IAS 17)</b>	<b>16</b>	<b>304</b>	<b>6,991</b>	<b>38,825</b>	<b>46,136</b>
<b>Period ended 31 Dec 2019</b>					
Additions and capitalisations due to new regulation (IFRS 16)	-	50,927	22,332	25,509	98,768
Depreciation for the period	(4)	(5,453)	(6,905)	(21,409)	(33,771)
Impairment, termination	-	(198)	(1,823)	(384)	(2,405)
<b>Closing net book value</b>	<b>12</b>	<b>45,580</b>	<b>20,595</b>	<b>42,541</b>	<b>108,728</b>

Following the adoption of IFRS 16, MOL Group has presented lease liabilities within loans and borrowings, please refer to Note 19.

The Group has classified:

- ▶ cash payments for the principal portion of lease payments as financing activities
- ▶ cash payments for the interest portion of lease payments as financing activities
- ▶ payments for leases of low value assets, short-term lease payments and variable lease payments not included in the measurement of lease liability within operating activities.

Interest expense on lease liabilities accounted for in the period is HUF 3,580 million.

Please refer to Note 4 for the expenses relating to short-term leases and leases of low-value assets and variable lease payments accounted for in the period.

## Significant accounting policies

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Lease liability is initially measured at the present value of the remaining lease payments, and subsequently increased by the interest cost (calculated by the lessee's incremental borrowing rate in the range from 0.1% to 7.5%) and decreased by the lease payments. Leased asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis over the lease term as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets mainly comprise those assets which value, when new, do not exceed USD 5,000.

## Transition

On adoption of IFRS 16, the MOL Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17 Leases. These lease liabilities were measured at the present value of the remaining lease payments, discounted with incremental borrowing rate as of 1 January 2019. The lease assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

MOL Group has used the following practical expedients permitted by the standard in applying IFRS 16 for the first time:

- ▶ reliance on previous assessments on whether contract is, or contains a lease
- ▶ the accounting for operating leases with a remaining lease term of less than 1 year as at 1 January 2019 as short-term leases
- ▶ the exclusion of initial direct costs from measuring of the right-of-use asset at the date of initial application, and
- ▶ the use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

### Significant accounting estimates and judgements

The Group has applied judgement to determine the lease term for some lease contracts that include renewal or termination options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and leased assets recognised.

### b) As a lessor

The accounting policies applicable to the Group as a lessor are not materially different from the previous rules.

MOL Group is not required to make any adjustments on transition to IFRS 16.

## Issued but not yet effective International Financial Reporting Standards

Issued but not yet effective International Financial Reporting Standards are disclosed in the Appendix I.

## Summary of significant accounting policies

### Functional and 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 transactions are recorded initially at the rate of exchange at the date of the transaction, except for advanced payments for non-monetary items for which the date of transaction is the date of initial recognition of the prepayment. 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.

Currency translation differences are recycled to profit or loss when disposal or partial disposal of the given foreign operation occurs.

When MOL Group loses control of a subsidiary that is or includes a foreign operation, this is a disposal that triggers reclassification of the entire amount of cumulative translation adjustment (CTA) to the statement of profit or loss. The principle of full reclassification also applies to the loss of joint control or significant influence over a jointly controlled entity or an associate (i.e. when application of equity method ceases).

On a partial disposal that does not involve loss of control of a subsidiary that includes a foreign operation, MOL Group re-attributes the proportionate share of the CTA to the non-controlling interests in that foreign operation.

Activity is considered to be abandoned when assets are written-off to zero, there is no intention to continue the activity, it is determined not to spend further CAPEX in the block, the closure of the business is decided, and only remaining activity is arranging the necessary administration either in house or with authorities. Gains and losses accumulated in the translation reserve are recycled to the statement of profit or loss when the foreign operation is disposed of except for exchange differences that have previously been attributed to non-controlling interests.

## **Significant accounting estimates and judgements**

In the process of applying the accounting policies, management has made certain judgements that have significant effect on the amounts recognised in the financial statements which are set out in detail in the respective notes.

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 set out in detail 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 2019 and 31 December 2018. 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, share of after-tax results of 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

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

2019	Upstream HUF million	Downstream HUF million	Consumer Services HUF million	Gas Midstream HUF million	Corporate and other HUF million	Inter- segment transfers HUF million	Total HUF million
<b>Net Revenue</b>							
External sales	194,110	3,233,679	1,701,801	91,335	45,810	-	5,266,735
Inter-segment transfers	296,713	1,418,248	6,749	3,754	265,883	(1,991,347)	-
<b>Total revenue</b>	<b>490,823</b>	<b>4,651,927</b>	<b>1,708,550</b>	<b>95,089</b>	<b>311,693</b>	<b>(1,991,347)</b>	<b>5,266,735</b>
Profit / (loss) from operation	136,947	80,812	102,465	40,252	(64,287)	(2,130)	294,059

2018	Upstream HUF million	Downstream HUF million	Consumer Services HUF million	Gas Midstream HUF million	Corporate and other HUF million	Inter- segment transfers HUF million	Total HUF million
<b>Net Revenue</b>							
External sales	216,484	3,230,133	1,591,320	91,268	39,463	-	5,168,668
Inter-segment transfers	328,654	1,365,760	5,956	4,401	214,612	(1,919,383)	-
<b>Total revenue</b>	<b>545,138</b>	<b>4,595,893</b>	<b>1,597,276</b>	<b>95,669</b>	<b>254,075</b>	<b>(1,919,383)</b>	<b>5,168,668</b>
Profit / (loss) from operation	144,341	160,583	87,563	36,616	(68,962)	(7,265)	352,876

2019	Upstream HUF million	Downstream HUF million	Consumer Services HUF million	Gas Midstream HUF million	Corporate and other HUF million	Inter- segment transfers HUF million	Total HUF million
<b>Other segment information</b>							
Capital expenditure:	89,634	452,951	62,889	13,784	35,735	-	654,993
Property, plant and equipment	61,805	405,627	61,010	13,137	24,852	-	566,431
Intangible assets	27,829	47,324	1,879	647	10,883	-	88,562
Depreciation, depletion, amortisation and impairment	172,200	143,820	34,848	13,989	27,131	(978)	391,010
From this: impairment losses recognised in statement of profit or loss (incl. dry-holes)	32,196	16,526	1,054	275	2,085	49	52,185
From this: reversal of impairment recognised in statement of profit or loss	8,699	277	1,190	-	45	-	10,211

	Upstream	Downstream	Consumer Services	Gas Midstream	Corporate and other	Inter-segment transfers	Total
2018	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
<b>Other segment information</b>							
Capital expenditure:	69,092	212,167	54,644	8,896	41,351	-	386,150
Property, plant and equipment	52,986	160,592	53,028	6,404	32,588	-	305,598
Intangible assets	16,106	51,575	1,616	2,492	8,763	-	80,552
Depreciation, depletion, amortisation and impairment	212,551	132,433	27,285	13,710	27,081	(1,722)	411,338
From this: impairment losses recognised in statement of profit or loss (incl. dry-holes)	41,972	25,697	604	509	6,078	(97)	74,763
From this: reversal of impairment recognised in statement of profit or loss	23,987	231	53	-	62	-	24,333

The operating profit of the segments includes the profit arising both from external sales and transfers to other business segments. Corporate and other segment provides maintenance, financing and other services to the business segments. The internal transfer prices applied 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 schedule are due to the additions of emission rights, and non-cash items such as capitalisation of field abandonment provisions, and assets received free of charge.

#### a) Assets by geographical areas

	Intangible assets (Note 9) HUF million	Property, plant and equipment (Note 9) HUF million	Investments in associates and joint ventures (Note 6) HUF million
<b>2019</b>			
Hungary	87,860	1,162,064	20,624
Croatia	56,912	623,809	7,109
Slovakia	7,084	531,554	3,378
Rest of EU	22,746	250,803	14,389
Rest of Europe	18,939	62,681	-
Rest of the World	14,423	55,058	160,577
<b>Total</b>	<b>207,964</b>	<b>2,685,969</b>	<b>206,077</b>

	Intangible assets (Note 9) HUF million	Property, plant and equipment (Note 9) HUF million	Investments in associates and joint ventures (Note 6) HUF million
<b>2018</b>			
Hungary	83,353	855,257	19,413
Croatia	55,994	587,748	-
Slovakia	7,001	470,788	3,305
Rest of EU	21,211	269,766	19,027
Rest of Europe	13,296	49,647	-
Rest of the World	14,591	41,065	156,704
<b>Total</b>	<b>195,446</b>	<b>2,274,271</b>	<b>198,449</b>

### 3. Total operating income

#### Accounting policies

##### Net sales

Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer, and when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of the revenue can be measured reliably. Sales are recognised when control of the goods or services are transferred to the customer.

##### Lease income

Lease income from operating lease is recognised on a straight-line basis over the lease term.



## 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 recognised on the same accounting policy basis as the net sales.

### a) Sales by product lines

	2019 HUF million	2018 HUF million
Sales of crude oil and oil products	3,865,045	3,719,252
Sales of petrochemical products	684,243	763,153
Sales of natural gas and gas products	266,494	285,089
Sales of other products	260,542	222,181
Sales of services	190,411	178,993
<b>Total</b>	<b>5,266,735</b>	<b>5,168,668</b>

### b) Sales by geographical area

	2019 HUF million	2018 HUF million
Hungary	1,354,752	1,317,443
Croatia	607,084	559,922
Slovakia	539,296	486,694
Italy	425,741	436,266
Czech Republic	401,800	436,345
Romania	332,022	342,418
Austria	286,263	288,557
Serbia	221,861	182,003
United Kingdom	195,133	178,807
Poland	163,537	182,640
Bosnia-Herzegovina	147,120	131,671
Germany	114,491	133,536
Slovenia	83,663	87,837
Switzerland	68,819	175,506
Rest of Central-Eastern Europe	49,322	39,860
Rest of Europe	107,935	104,430
Iraq	109,811	21,148
Rest of the World	58,085	63,585
<b>Total</b>	<b>5,266,735</b>	<b>5,168,668</b>

The Group has no single major customer the revenue from which would exceed 10% of the total net sales revenues in 2019 (neither in 2018).

### c) Other operating income

	2019 HUF million	2018 HUF million
Penalties, late payment interest, compensation received	7,942	9,023
Allowances and subsidies received	5,702	779
Gain on sales of intangibles, property, plant and equipment	2,828	-
Income from valuation of emission quotas	-	6,974
Gain of non-hedge commodity price transactions	-	1,121
Other	13,999	24,074
<b>Total</b>	<b>30,471</b>	<b>41,971</b>

## 4. Total operating expenses

### Accounting policies

#### Total operating expense

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

	2019 HUF million	2018 HUF million
<b>Raw materials and consumables used</b>	<b>4,111,960</b>	<b>4,044,821</b>
Crude oil purchased	1,796,663	2,059,626
Cost of goods purchased for resale	1,215,916	894,209
Non-hydrocarbon-based material	397,817	393,220
Value of material-type services used	259,127	240,880
Other raw materials	229,806	252,585
Purchased bio diesel component	92,769	86,423
Utility expenses	77,710	78,906
Value of inter-mediated services	42,152	38,972
<b>Employee benefits expense</b>	<b>285,153</b>	<b>270,687</b>
Wages and salaries	203,499	193,211
Social security	46,775	44,900
Other employee benefits expense	34,879	32,576
<b>Depreciation, depletion, amortisation and impairment</b>	<b>391,010</b>	<b>411,338</b>
<b>Other operating expenses</b>	<b>299,574</b>	<b>256,125</b>
Other	142,748	117,622
Mining royalties	47,632	51,816
Contribution in strategic inventory storage	35,561	34,065
Loss of non-hedge commodity price transactions	34,506	-
Taxes and contributions	22,678	18,833
Rental cost	13,621	33,789
Loss from valuation of emission quotas	2,828	-
<b>Change in inventory of finished goods and work in progress</b>	<b>1,378</b>	<b>(55,805)</b>
<b>Work performed by the enterprise and capitalised</b>	<b>(85,928)</b>	<b>(69,403)</b>
<b>Total operating expenses</b>	<b>5,003,147</b>	<b>4,857,763</b>

#### Employee benefit expenses

Other employee benefits expense 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

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 recognised, 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 recognised in the statement of profit or loss.

	2019 HUF million	2018 HUF million
Cash-settled share-based payment expense	(74)	212
Equity-settled share-based payment expense	1,764	3,150
<b>Total expense of share-based payment transactions</b>	<b>1,690</b>	<b>3,362</b>

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.

#### Cash-settled share-based payments

#### 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 realise profit from the difference between these prices. The incentive has the following characteristics:

- ▶ For incentive plans starting before 1 January 2017 it 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. For incentive plans starting on 1 January 2017 and later it covers a four-year period starting annually, where periods are split into a two-year vesting period and a two-year redeeming period. If unexercised, the Share Option lapses after 31 December of the redeeming period.
- ▶ The grants are defined centrally in line with MOL job category.
- ▶ The allocation is linked to individual short-term performance.

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

The payment of incentive is upon exercising of option by management. The payout / earning is the difference between the spot 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.

	2019		2018	
	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
<b>Outstanding at the beginning of the year</b>	<b>1,268,448</b>	<b>1,782</b>	<b>2,605,976</b>	<b>1,700</b>
Granted during the year	159,087	3,059	183,981	2,841
Forfeited during the year	(11,200)	2,352	(102,021)	2,693
Exercised during the year	(762,152)	1,679	(1,419,488)	1,703
Expired during the year	-	-	-	-
<b>Outstanding at the end of the year</b>	<b>654,183</b>	<b>2,203</b>	<b>1,268,448</b>	<b>1,782</b>
Exercisable at the end of the year	405,896	1,669	1,044,688	1,596

As required by IFRS 2 – Share-based payment, 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. Gains arising from the Share Option Plan programme amount to HUF 267 million in 2019 (2018: expense of HUF 539 million). Liabilities in respect of share-based payment plans amount to HUF 668 million as at 31 December 2019 (31 December 2018: HUF 1,988 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.

	2019	2018
Weighted average exercise price (HUF / share)	2,203	1,782
Share price as of 31 December (HUF / share)	2,940	3,078
Expected volatility based on historical data	18.87%	23.51%
Expected dividend yield	4.37%	2.91%
Estimated maturity (years)	1.59	1.76
Risk free interest rate	0.29%	0.92%

### Performance Share Plan for management

The Performance Share Plan is a three-year 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 CETOP and MSCI Emerging Markets Energy 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 for 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 programme amount to HUF 194 million in 2019 (2018: revenue of HUF 327 million). Liabilities in respect of the Performance Share Plan programme amount to HUF 48 million as at 31 December 2019 (31 December 2018: HUF 953 million) recorded in Other non-current liabilities and Other current liabilities.

### Equity-settled share-based payments

From 1 January 2017, the MOL Group established two new equity-settled share-based payment remuneration plans to supersede former cash-settled share-based payment programmes in Hungary: Absolute Share Value Based Remuneration Incentive and Relative Market Index Based Remuneration Incentive.

From 1 January 2018, the MOL Group established new equity-settled share-based payment remuneration plan: Short-term Share Ownership Incentive, as an alternative to current managerial short-term incentive plan in Hungary.

### Absolute Share Value Based Remuneration Incentive for management

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

- ▶ Covers a four-year period starting annually, where periods are split into a two-year vesting period (it is not possible to exercise Share Options) and a two-year redeeming period. If unexercised, the Share Option lapses after 31 December of the redeeming period.
- ▶ The grants are defined centrally in line with MOL job category.
- ▶ The allocation is linked to individual performance.
- ▶ Payout is either in form of providing of MOL shares or in cash payment based on MOL Group decision. For plans starting 1 January 2018 and later, payout is solely in form of shares.

Payment is upon exercising of option by management. The value of the incentive is the difference between the strike price and a selected spot price for each unit of the entitlement.

In case the Annual General Meeting of MOL Plc. decides on dividend payment after the grant date, the managers, who are entitled to long-term incentives are eligible for a compensation in share equivalent when redeeming the share entitlement. Payment to one manager is the value equal to the dividend payment per share multiplied by the share unit numbers the manager is entitled to. This is paid at redemption.

	2019		2018	
	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	4,686,391	2,741	2,541,400	2,352
Granted during the year	2,824,011	3,056	2,803,268	3,061
Forfeited during the year	(309,914)	2,948	(631,637)	2,611
Exercised during the year	(1,229,832)	2,352	(26,640)	2,352
Expired during the year	-	-	-	-
Outstanding at the end of the year	5,970,656	2,960	4,686,391	2,741
Exercisable at the end of the year	979,332	2,352	-	-

As required by IFRS 2 – Share-based payment, this share-based compensation is accounted for as equity-settled, expensing the fair value of the benefit as determined at grant date during the vesting period. In 2019 expenses amount to HUF 183 million (2018: HUF 1,261 million).

### Relative Market Index Based Remuneration Incentive for management

The Relative Market Index Based Remuneration Plan is a three-year 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 CETOP and MSCI Emerging Markets Energy 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 for 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.
- ▶ Payout is either in form of providing of MOL shares or in cash payment based on MOL Group decision. For plans starting 1 January 2018 and later, payout is solely in form of shares.

Expenses arising from the Relative Market Index Based Remuneration Plan amount to HUF 140 million in 2019 (2018: HUF 309 million).

#### Short-term Share Ownership Incentive for management

Short-term Share Ownership Plan is a one-year programme with the following characteristics:

- ▶ Programme starts each year on a rolling scheme with a one-year vesting period. Payments are due in a following year.
- ▶ The grants are defined based on participant's base salary, internal grade and related bonus rate.
- ▶ The rate of incentive is influenced by the individual short-term performance during vesting period.
- ▶ Payout is in form of providing of MOL shares.

Expenses arising from the Short-term Share Ownership Plan amount to HUF 1,271 million in 2019 (2018: HUF 1,024 million).

#### 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. 1,200 shares per month are granted to each director, the Chairman of the Board is entitled to an additional number of 400 shares per month. If not, a non-executive director is in charge as the Chairman of the Board, then this additional number 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 – Share-based payment, the incentive qualifies as an equity-settled share-based scheme; therefore, the fair value of the benefit should be expensed during the one-year investing 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 2019 with respect of the share scheme programme, HUF 555 million (2018: HUF 556 million) is recorded as an expense, parallel with the corresponding increase in the equity.

	2019	2018
Number of shares vested	148,800	148,800
Share price at the date of grant (HUF / share)	3,079	3,021

## 5. Finance result

### Accounting policies

Foreign exchange gains and losses are aggregated separately on a monthly basis for transactions similar in nature. Foreign exchange gains or losses of each transaction groups are aggregated and presented in the statement of profit or loss within finance income and expense.

Non-foreign exchange type items are presented based on their balances.

Finance result	2019 HUF million	2018 HUF million
Interest income	8,381	6,085
Dividend income	6,620	6,661
Foreign exchange gains	84,914	78,049
Other finance income	3,875	5,029
<b>Total finance income</b>	<b>103,790</b>	<b>95,824</b>
Interest expense	19,946	21,219
Unwinding of discount on provisions	12,217	10,215
Foreign exchange losses	82,759	95,737
Other finance expense	6,266	5,192
<b>Total finance expense</b>	<b>121,188</b>	<b>132,363</b>
<b>Net finance expense</b>	<b>17,398</b>	<b>36,539</b>

## 6. Investments in associates and joint ventures

### 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.

Impairment losses on associates and joint ventures for the period is recognised as a reduction on Share of after-tax results of associates and joint ventures line in the Statement of profit or loss.

				Ownership	Contribution to net income		Net book value of investments	
			2019		2019	2018	2019	2018
Company name	Country	Range of activity	%		HUF million	HUF million	HUF million	HUF million
Investment in joint ventures								
BaiTex LLC./ MK Oil and Gas B.V.	Russia / Netherlands	Exploration and production activity / Exploration investment management	51%		(8,181)	3,088	14,388	19,027
JSR MOL Synthetic Rubber Plc.	Hungary	Production of synthetic rubber	49%		(880)	(752)	13,274	11,968
Rossi Biofuel Plc.	Hungary	Biofuel component production	25%		1,179	1,128	4,630	4,402
ITK Holding Plc.	Hungary	Mobility and public transport service	74%		(324)	54	1,281	1,604
Dunai Vízmű Plc.	Hungary	Water production, supply	33%		3	-	1,403	1,400
Terra Mineralna Gnojiva d.o.o.	Croatia	Investment management	50%		479	-	7,109	-
Ma-Coding Ltd.	Hungary	IT services	50%		(2)	-	-	-
MOL-Aspect DNY- Magyarországi Közös Szénhidrogén Kutató és Termelő Ltd.	Hungary	Exploration and production activity	50%		(2)	-	-	-
New Milford Development Ltd	Hungary	Property management	50%		-	-	36	-
Investment in associated companies								
Pearl Petroleum Ltd.	Kurdistan region / Iraq	Exploration of gas	10%		8,675	9,037	143,864	138,717
Ural Group Limited	Kazakhstan	Exploration and production activity	28%		(2,151)	230	16,713	17,987
Meroco a.s.	Slovakia	Production of bio-diesel component (FAME)	25%		153	226	1,376	1,346
Messer Slovnaft s.r.o.	Slovakia	Production of technical gases	49%		97	80	801	757
DAC ARENA a.s.	Slovakia	Facility management	23%		(2)	(20)	1,202	1,202
IN-ER Erőmű Ltd.	Hungary	Power plant investment management	30%		(6)	-	-	39
MET Holding AG. (MET)	Switzerland	Natural gas trading	0%		-	1,943	-	-
Total					(962)	15,014	206,077	198,449

## Joint ventures

### MK Oil and Gas B.V.

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

### 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.

### Terra mineralna gnojiva d.o.o.

Through a 50% owned joint venture company, Terra mineralna gnojiva d.o.o., INA d.d. jointly has majority shareholder interests of and respective management rights over Petrokemija d.d., a mineral fertilizer producing company in Croatia.

	BaiTex Llc. / MK Oil and Gas B.V.		JSR MOL Synthetic Rubber Plc.	
	2019 HUF million	2018 HUF million	2019 HUF million	2018 HUF million
<b>The joint venture's statement of financial position:</b>				
Non-current assets	53,926	54,626	105,308	77,449
Current assets	1,594	1,801	4,033	15,481
Non-current liabilities	26,277	23,420	78,127	64,311
Current liabilities	6,819	5,795	4,125	4,194
<b>Net assets</b>	<b>22,424</b>	<b>27,212</b>	<b>27,089</b>	<b>24,425</b>
Proportion of the Group's ownership at year end	51%	51%	49%	49%
<b>Group's share of assets</b>	<b>11,436</b>	<b>13,878</b>	<b>13,274</b>	<b>11,968</b>
Fair value adjustment	2,952	5,149	-	-
Borrowing cost capitalisation	-	-	-	-
<b>Carrying amount of the investment</b>	<b>14,388</b>	<b>19,027</b>	<b>13,274</b>	<b>11,968</b>
<b>The joint venture's statement of profit or loss:</b>				
Net revenue	52,643	60,258	2	-
Profit / (loss) from operations	(7,698)	11,305	(1,765)	(1,602)
Net income attributable to equity holders	(9,615)	6,791	(1,797)	(1,535)
<b>Group's share of reported profit / (loss) for the year</b>	<b>(4,903)</b>	<b>3,463</b>	<b>(880)</b>	<b>(752)</b>
Fair value adjustment P&L impact	(3,019)	(916)	-	-
Borrowing cost capitalisation P&L impact	-	-	-	-
Inventory consolidation P&L impact	(259)	541	-	-
Interest difference	-	-	-	-
<b>Group's share of profit / (loss) for the year after consolidation</b>	<b>(8,181)</b>	<b>3,088</b>	<b>(880)</b>	<b>(752)</b>

## Associates

### Pearl Petroleum Company Limited

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

### Ural Group Limited

MOL Group has 27.5% of shareholding interest in Ural Group Limited 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. MOL Group has significant influence over the relevant activities of Ural Group Limited therefore the investment is classified as an associate.



	Pearl Petroleum Ltd.		Ural Group Limited	
	2019	2018	2019	2018
	HUF million	HUF million	HUF million	HUF million
<b>The associate's statement of financial position:</b>				
Non-current assets	609,539	557,536	76,181	73,455
Current assets	92,616	105,187	668	1,528
Non-current liabilities	49,942	12,128	10,388	4,882
Current liabilities	20,056	34,762	5,688	4,694
<b>Net assets</b>	<b>632,157</b>	<b>615,833</b>	<b>60,773</b>	<b>65,407</b>
Proportion of the Group's ownership at year end	10%	10%	27,5%	27,5%
<b>Group's share of assets</b>	<b>63,216</b>	<b>61,583</b>	<b>16,713</b>	<b>17,987</b>
Fair value adjustment	83,169	79,275	-	-
Accumulated impairment	-	1,642	-	-
Dividend received over impairment	(2,521)	(3,783)	-	-
<b>Carrying amount of the investment</b>	<b>143,864</b>	<b>138,717</b>	<b>16,713</b>	<b>17,987</b>
<b>The associate's statement of profit or loss:</b>				
Net revenue	126,800	98,732	-	-
Profit / (loss) from operations	85,372	72,952	(6,691)	735
Net income attributable to equity holders	86,747	73,951	(7,823)	837
<b>Group's share of reported profit / (loss) for the year</b>	<b>8,675</b>	<b>7,395</b>	<b>(2,151)</b>	<b>230</b>
Accumulated impairment	-	1,642	-	-
<b>Group's share of consolidated profit / (loss) for the year</b>	<b>8,675</b>	<b>9,037</b>	<b>(2,151)</b>	<b>230</b>

## 7. Income taxes

### 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.

### Significant accounting estimates and judgements

Corporate tax is required to be estimated in each tax jurisdiction in which MOL Group operates. The recognition of tax benefits requires management judgement. The actual tax liability may differ from the provision and adjustment in subsequent period could have a material effect on the Group's profit for the year.

The evaluation of deferred tax assets recoverability requires judgements 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 2019 and 31 December 2018 include the following components:

	2019 HUF million	2018 HUF million
Deferred taxes	24,177	(9,317)
Local trade tax and innovation fee	15,586	15,822
Current corporate income tax and industry taxes	7,555	19,168
<b>Total income tax expense</b>	<b>47,318</b>	<b>25,673</b>

## 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 taxes include tax on energy supply activities in Hungary with an effective tax rate of 18% (2018: 21%) on taxable statutory profit of MOL Plc. and oil and gas companies in Norway where tax rates consist of corporate income tax of 22% (2018: 23%) and special petroleum tax of 56% (2018: 55%) 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.

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 0-2% dependent on the regulation of local governments where the entities carry on business activities.

### Change in tax rates

The below listed changes were applicable from 2019:

- ▶ change in Luxembourg to 17% (2018: 18%)
- ▶ change in corporate income tax and special petroleum tax in Norway to 22% and to 56% respectively (2018: 23% and 55% respectively)

## c) Deferred tax assets and liabilities

The deferred tax balances as of 31 December 2019 and 31 December 2018 in the consolidated statement of financial position consist of the following items by categories:

	31 Dec 2019 HUF million	31 Dec 2018 HUF million
Statutory tax losses carried forward	84,733	100,538
Provisions	39,548	46,059
Elimination of intragroup transactions	7,985	7,708
Deferred tax impact on IFRS transition	6,352	15,479
Property, plant and equipment and intangible assets	(101,853)	(101,744)
Other temporary differences <sup>(1)</sup>	27,088	16,869
<b>Net deferred tax asset</b>	<b>63,853</b>	<b>84,909</b>
<i>of which:</i>		
Total deferred tax assets	123,805	136,312
Total deferred tax liabilities	(59,952)	(51,403)

(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 2019, deferred tax assets of HUF 123,805 million consist of deferred tax on tax losses carried forward of HUF 30,886 million at MOLGROWEST (I) Ltd., HUF 30,618 million at MOL Plc., HUF 12,363 million at MOL GROWEST (II) Ltd. and HUF 8,170 million at INA Group. Besides, amount of HUF 24,588 million at MOL Plc. relates to timing differences of provisions.

As of 31 December 2019, deferred tax liabilities of HUF 59,952 million include temporary differences on intangible and tangible assets at FGSZ Zrt. (HUF 17,251 million) and Slovnaft a.s. (HUF 41,889 million). In case of Slovnaft a.s. deferred tax assets and liabilities are offset, decreasing the deferred tax liability by HUF 14,437 million arising mainly from differences in provisions.

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

	2019 HUF million	2018 HUF million
Net deferred tax asset as at 1 January	84,909	70,565
Recognised in statement of profit or loss	(24,177)	9,317
Exchange difference	2,124	190
Recognised directly in equity (as other comprehensive income)	997	4,936
Acquisition of business	-	(99)
<b>Net deferred tax asset as at 31 December</b>	<b>63,853</b>	<b>84,909</b>

The amount recognised in statement of profit or loss as an expense is mainly driven by changes related to MOL Plc. (HUF 8,062 million expense), MOL Growest (I.) Ltd. (HUF 4,017 million expense), Slovnaft a.s. (HUF 3,089 million expense), MOL Norge AS (HUF 2,572 million expense) and INA d.d. (HUF 2,509 million expense).

The following changes in corporate income tax rates effective from 1 January 2020 are taken into account in deferred tax calculation:

- change in Pakistan to 29% (2019: 30%)

The following changes in corporate income tax rates effective from 1 January 2021 are taken into account in deferred tax calculation:

- change in the Netherlands to 21.7% (2020: 25%)

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

#### 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:

	2019 HUF million	2018 HUF million
<b>Profit before tax per consolidated statement of profit or loss</b>	<b>275,699</b>	<b>331,351</b>
Less: share of profit of joint ventures and associates	962	(15,014)
<b>Income before taxation and share of profit of joint ventures and associates</b>	<b>276,661</b>	<b>316,337</b>
Tax expense at the applicable tax rate (9%)	24,899	28,470
Differences in tax rates at subsidiaries	25,118	5,078
Other tax expenses (local trade tax, industry tax)	6,529	11,011
Permanent differences (tax value - IFRS value)	4,793	3,462
Losses not recognised as deferred tax asset	4,760	1,364
Effect of tax audits	268	43
Deferred tax impact of IFRS transition	-	(366)
Effect of change in tax rates on deferred taxes	(256)	(106)
Tax allowance available	(482)	(3,301)
Non-taxable income	(6,620)	(6,661)
Recognition of prior year tax losses carried forward	(11,691)	(13,321)
<b>Total income tax expense for the year</b>	<b>47,318</b>	<b>25,673</b>
<b>Effective tax rate</b>	<b>17%</b>	<b>8%</b>

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 recognised in other comprehensive income

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

	2019 HUF million	2018 HUF million
Net gain / (loss) on hedge of a net investment	2,335	3,463
Revaluations of equity instruments at fair value through other comprehensive income	(1,066)	1,341
Revaluations of financial instruments treated as cash flow hedges	(146)	(59)
Equity recorded for actuarial gain / (loss) on provision for retirement benefit obligation	(126)	191
<b>Total income tax recognised in other comprehensive income</b>	<b>997</b>	<b>4,936</b>

### f) Unrecognised deferred tax assets

HUF 110,087 million deferred tax assets have not been recognised in respect of tax losses out of the total. Further, HUF 49,552 million deferred tax asset also have not been recognised on temporary differences in the Group due to uncertainty of realisation. Out of tax losses on which no deferred tax assets recognised, HUF 88,409 million has no expiry, HUF 14,582 million has expiry within five years and HUF 7,096 million will expire after five years.

## 8. Components of other comprehensive income

	2019 HUF million	2018 HUF million
<b>Exchange differences on translating foreign operations, net of tax</b>		
Gains / (losses) arising during the year	35,340	63,626
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	2,524
Income tax effect	-	-
	<b>35,340</b>	<b>66,150</b>
<b>Net investment hedge, net of tax</b>		
Gains / (losses) arising during the year	(15,454)	(17,793)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	2,335	3,463
	<b>(13,119)</b>	<b>(14,330)</b>
<b>Changes in fair value of debt instruments at fair value through other comprehensive income, net of tax</b>		
Gains / (losses) arising during the year	717	(247)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	-	-
	<b>717</b>	<b>(247)</b>
<b>Changes in fair value of equity instruments at fair value through other comprehensive income, net of tax</b>		
Gains / (losses) arising during the year	5,902	(7,461)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	(1,066)	1,341
	<b>4,836</b>	<b>(6,120)</b>
<b>Changes in fair value of cash flow hedges, net of tax</b>		
Gains / (losses) arising during the year	1,628	642
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Reclassification adjustments to initial cost of hedged inventories	-	18
Income tax effect	(146)	(59)
	<b>1,482</b>	<b>601</b>
<b>Remeasurement of post-employment benefit obligations</b>		
Gains / (losses) arising during the year	2,008	(977)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	(126)	191
	<b>1,882</b>	<b>(786)</b>
<b>Share of other comprehensive income of associates and joint ventures</b>		
Gains / (losses) arising during the year	7,650	4,197
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	(572)
Income tax effect	-	-
	<b>7,650</b>	<b>3,625</b>

## 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, plant and equipment and intangible assets

#### a) Property, plant 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 capitalised 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 capitalised 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. Construction in progress is reviewed for impairment annually.

	Land and buildings HUF million	Machinery and equipment HUF million	Other machinery and equipment HUF million	Construction in progress HUF million	Total HUF million
<b>At 1 Jan 2018</b>					
Gross book value	3,354,726	2,479,511	199,530	265,511	6,299,278
Accumulated depreciation and impairment	(2,091,516)	(1,734,691)	(150,365)	(61,540)	(4,038,112)
<b>Net book value</b>	<b>1,263,210</b>	<b>744,820</b>	<b>49,165</b>	<b>203,971</b>	<b>2,261,166</b>
<b>Year ended 31 Dec 2018</b>					
Additions and capitalisations	82,685	98,334	32,460	86,815	300,294
Acquisition of subsidiaries	11,235	863	29	55	12,182
Depreciation for the year	(157,072)	(176,436)	(15,847)	-	(349,355)
Impairment	(21,152)	(1,530)	(226)	(27,819)	(50,727)
Reversal of impairment	2,245	21,726	69	-	24,040
Disposals	(775)	(191)	(2,758)	(52)	(3,776)
Disposal of subsidiaries	-	-	-	-	-
Exchange adjustment	36,786	16,484	867	6,065	60,202
Transfers and other movements	2,933	20,136	968	(3,792)	20,245
<b>Closing net book value</b>	<b>1,220,095</b>	<b>724,206</b>	<b>64,727</b>	<b>265,243</b>	<b>2,274,271</b>
<b>At 31 Dec 2018</b>					
Gross book value	3,797,493	2,740,754	232,810	319,117	7,090,174
Accumulated depreciation and impairment	(2,577,398)	(2,016,548)	(168,083)	(53,874)	(4,815,903)
<b>Net book value</b>	<b>1,220,095</b>	<b>724,206</b>	<b>64,727</b>	<b>265,243</b>	<b>2,274,271</b>
<b>Year ended 31 Dec 2019</b>					
Additions and capitalisations	184,247	187,352	60,286	214,283	646,168
Acquisition of subsidiaries	35,298	5,083	2,499	-	42,880
Depreciation for the year	(138,693)	(174,288)	(25,528)	-	(338,509)
Impairment	(20,099)	(10,003)	(455)	(5,242)	(35,799)
Reversal of impairment	1,189	627	226	8,129	10,171
Disposals	328	(120)	(3,330)	443	(2,679)
Disposal of subsidiaries	253	1,253	67	-	1,573
Exchange adjustment	26,149	21,810	407	2,000	50,366
Transfers and other movements	20,262	20,029	1,474	(4,238)	37,527
<b>Closing net book value</b>	<b>1,329,029</b>	<b>775,949</b>	<b>100,373</b>	<b>480,618</b>	<b>2,685,969</b>
<b>At 31 Dec 2019</b>					
Gross book value	4,139,271	3,162,725	291,024	493,095	8,086,115
Accumulated depreciation and impairment	(2,810,242)	(2,386,776)	(190,651)	(12,477)	(5,400,146)
<b>Net book value</b>	<b>1,329,029</b>	<b>775,949</b>	<b>100,373</b>	<b>480,618</b>	<b>2,685,969</b>

## Asset deals

In 2018, MOL Group acquired a depot in Serbia with the aim to secure long term presence for wholesale and retail business in Serbia.

In 2019, MOL Group continued the asset deal in Serbia through the acquisition of a license. In 2019, in order to expand its retail network, MOL Group acquired five petrol stations in Montenegro and purchased a network of five petrol stations in Hungary.

## Leased assets

### Accounting policies

The Group recognises the right-of-use assets and lease liabilities for most leases.

The Group measures the right-of-use asset at cost, less accumulated depreciation and any accumulated impairment losses. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined, otherwise the Group as lessee applies incremental borrowing rate. The lease liability is measured subsequently using the effective interest rate method.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as expense on a straight-line basis over the lease term.

The Group presents right-of-use assets from leases in 'Property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns.

Please refer to Note 1: Changes in accounting policies for details of leased assets.

## 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 capitalised 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 3,474 million in 2019 (2018: HUF 628 million). In 2019 the applicable capitalisation rate (including the impact of foreign exchange differences) has been 1.3% (2018: 1.6%).

## Government grants

### Accounting policies

Government grants are recognised 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 2019 property, plant and equipment includes assets with a value of HUF 13,171 million (2018: HUF 9,392 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, and another significant amount (HUF 3,917 million) relates to a government grant received for the construction of the new polyol plant in MOL Petrochemicals.

	2019 HUF million	2018 HUF million
At 1 January	9,392	10,562
Asset related government grants received	4,890	557
Release of deferred grants	(1,205)	(1,866)
Foreign exchange differences	94	139
At 31 December (see Note 16 and 17)	13,171	9,392

## Non-current assets pledged as security

There are no non-currents assets pledged as security for liabilities as of 31 December 2019 (31 December 2018: HUF 2,225 million).

## 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 recognised, less accumulated amortisation and accumulated impairment losses.

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

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

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
<b>At 1 Jan 2018</b>					
Gross book value	146,821	62,162	155,953	95,576	460,512
Accumulated amortisation and impairment	(99,923)	(45,322)	(81,823)	(51,993)	(279,061)
<b>Net book value</b>	<b>46,898</b>	<b>16,840</b>	<b>74,130</b>	<b>43,583</b>	<b>181,451</b>
<b>Year ended 31 Dec 2018</b>					
Additions	43,136	9,532	17,821	-	70,489
Acquisition of subsidiary	486	10	2,067	-	2,563
Amortisation for the year	(6,351)	(3,052)	(2,334)	-	(11,737)
Write-offs	(1,856)	(39)	(22,142)	-	(24,037)
Reversal of impairment	185	-	293	-	478
Disposals	(31,969)	(1)	-	-	(31,970)
Revaluation of emission quotas	6,976	-	-	-	6,976
Disposal of subsidiaries	-	-	-	-	-
Exchange adjustment	2,639	251	1,890	1,410	6,190
Transfers and other movements	7,071	(3,593)	(8,670)	235	(4,957)
<b>Closing net book value</b>	<b>67,215</b>	<b>19,948</b>	<b>63,055</b>	<b>45,228</b>	<b>195,446</b>
<b>At 31 Dec 2018</b>					
Gross book value	182,648	62,555	161,850	98,865	505,918
Accumulated amortisation and impairment	(115,433)	(42,607)	(98,795)	(53,637)	(310,472)
<b>Net book value</b>	<b>67,215</b>	<b>19,948</b>	<b>63,055</b>	<b>45,228</b>	<b>195,446</b>
<b>Year ended 31 Dec 2019</b>					
Additions	47,960	10,920	29,630	-	88,510
Acquisition of subsidiary	120	2	-	1,133	1,255
Amortisation for the year	(7,427)	(3,846)	(234)	-	(11,507)
Write-offs	(27)	(150)	(16,211)	978	(15,410)
Reversal of impairment	6	-	38	-	44
Disposals	(50,790)	(31)	(481)	-	(51,302)
Revaluation of emission quotas	(3,109)	-	-	-	(3,109)
Disposal of subsidiaries	-	-	-	-	-
Exchange adjustment	1,837	129	2,087	987	5,040
Transfers and other movements	5,894	(3,125)	(2,795)	(977)	(1,003)
<b>Closing net book value</b>	<b>61,679</b>	<b>23,847</b>	<b>75,089</b>	<b>47,349</b>	<b>207,964</b>
<b>At 31 Dec 2019</b>					
Gross book value	184,695	71,021	189,330	104,597	549,643
Accumulated amortisation and impairment	(123,016)	(47,174)	(114,241)	(57,248)	(341,679)
<b>Net book value</b>	<b>61,679</b>	<b>23,847</b>	<b>75,089</b>	<b>47,349</b>	<b>207,964</b>

## Goodwill

### Accounting policies

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

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

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



	31 Dec 2019 HUF million	31 Dec 2018 HUF million
<b>Goodwill (net book value)</b>		
<b>Consumer services</b>	<b>35,142</b>	<b>34,432</b>
Croatian retail network	16,526	16,139
Hungarian retail network	6,406	6,406
Czech retail network	7,674	7,355
Romanian retail network	4,536	4,532
<b>Downstream</b>	<b>10,017</b>	<b>8,659</b>
Austrian wholesale and logistic	8,411	8,182
German plastic compounder	1,129	-
MOL Petrochemicals	477	477
<b>Corporate</b>	<b>2,189</b>	<b>2,137</b>
Croatian oil field services	2,189	2,137
<b>Total goodwill</b>	<b>47,348</b>	<b>45,228</b>

## 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 capitalised as intangible assets and amortised 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 statement as incurred. Costs directly associated with an exploration well are capitalised 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 capitalised within property, plant and equipment.

### Significant accounting estimates and judgements

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

Management uses judgement when capitalised 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 expenses incurred in 2019 is HUF 7,468 million (2018: HUF 4,810 million), which were not eligible for capitalisation. Consistent with the Successful Efforts 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 costs are HUF 640 million in 2019 (2018: HUF 660 million).

**Write-offs of dry-holes**

	2019 HUF million	2018 HUF million
<b>Dry-holes</b>		
Norway	12,891	6,328
Hungary	1,116	5,372
Pakistan	1,563	-
Croatia	-	4,635
<b>Total</b>	<b>15,570</b>	<b>16,335</b>

**c) Depreciation, depletion and amortisation****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, except for given Upstream assets, 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 automatization equipment: 3 – 10 years

In Upstream segment 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.

**Significant 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 (e.g. 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 amortisation charges for the Group's oil and gas properties. The impact of changes in these estimations is handled prospectively by amortising 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.

**d) Impairment of assets****Accounting policies**

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised 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.

**Significant 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 2019, the following significant impairment losses and impairment reversals were recognised:

Impairments and write-offs (without dry-holes) - 2019*	Upstream HUF million	Downstream HUF million	Consumer services HUF million	Corporate and other HUF million	Midstream HUF million	Total HUF million
Hungary	5,297	1,883	465	1,947	275	9,867
Croatia	5,009	1,658	249	25	-	6,941
United Kingdom	(2,391)	-	-	-	-	(2,391)
Slovakia	-	97	130	117	-	344
Other	12	12,610	(980)	1	-	11,643
<b>Total</b>	<b>7,927</b>	<b>16,248</b>	<b>(136)</b>	<b>2,090</b>	<b>275</b>	<b>26,404</b>

\*Including the intersegment impact

Impairments and write-offs (without dry-holes) - 2018*	Upstream HUF million	Downstream HUF million	Consumer services HUF million	Corporate and other HUF million	Midstream HUF million	Total HUF million
Hungary	2,429	24,644	16	5,886	509	33,484
Croatia	20,138	55	340	20	-	20,553
United Kingdom	(20,574)	-	-	-	-	(20,574)
Slovakia	-	766	103	14	-	883
Other	(343)	-	92	-	-	(251)
<b>Total</b>	<b>1,650</b>	<b>25,465</b>	<b>551</b>	<b>5,920</b>	<b>509</b>	<b>34,095</b>

\*Including the intersegment impact

In 2019 and 2018 impairment was accounted in:

- ▶ Upstream segment for production fields and for assets under construction.
- ▶ Downstream segment mainly for unutilized refinery assets.
- ▶ Consumer services mainly for machineries and equipment in filling stations.
- ▶ Corporate and other segment for innovative businesses and IT equipment

In 2019 and in 2018 impairment reversal was accounted in the Upstream segment mainly for Catcher and Scolty&Crathes fields in the United Kingdom.

### 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 2019-2024 Exploration and Production segment pre-tax WACC premise were applied plus country risk premium of the related country. Based on the above, the WACC rates used for the impairment tests in 2019 were in the range from 7.3% to 17.3%.
- ▶ Oil and gas price assumptions used in the value in use models: approximately 60 USD/barrel for the years between 2020 and 2022 following gradually increasing price curve (to 78 USD/barrel for 2030).

In other segments no material judgmental based impairment, only impairment on specific assets has been accounted for in 2019 and 2018.

## e) 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 recognised. 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 (CGUs) 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.

#### **Consumer services and Downstream**

Pre-tax weighted average cost of capital (WACC) rates applied to discount the forecast cash flows reflecting risks specific to the segment and specific to the certain countries vary between 7.1% and 11.1% in Consumer services while 8.2% and 12.2% in Downstream 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 Consumer services segment approved by management for financial years 2020-2023 and extrapolates cash flows for the following years based on an estimated growth rates varying between 3% and 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 2019 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 and recorded directly in retained earnings.

### **Acquisitions**

#### **Acquisition of Magyar Gáz Tranzit Zrt.**

On 10 October 2019, FGSZ Zrt. has acquired 100% shareholding of Magyar Gáz Tranzit Zrt. As a result, FGSZ Zrt. took over the operation of the 92 km long natural gas transmission pipeline connecting Hungary to Slovakia thus, the entire, nearly 6,000 km long high-pressure natural gas transmission pipeline system of Hungary is now operated by FGSZ Zrt. This transaction creates operational synergies and greatly contributes to the security of the natural gas supply.

#### **Acquisition of Aurora Kunststoffe GmbH and its subsidiaries**

On 31 October 2019, MOL Group has acquired 100% shareholding of Aurora Kunststoffe GmbH, a German plastic compounder company. As a result of the acquisition, MOL Group is strengthening its position in recycled, sustainable compounding segment and in the automotive supplier industry. The acquisition contributes to MOL Group's Enter Tomorrow 2030 strategy aiming transition from traditional fuel-based business model in Downstream to higher value-added petrochemical product portfolio.

	Aurora Group	Magyar Gáz Tranzit Zrt.
	HUF million	HUF million
<b>Non-current assets</b>	<b>2,441</b>	<b>38,902</b>
Intangible assets	2	120
Property, plant and equipment	2,439	38,782
Investment	-	-
Other non-current asset	-	-
Deferred tax asset	-	-
<b>Current assets</b>	<b>8,252</b>	<b>9,817</b>
Inventories	6,318	10
Trade and other receivables	1,010	33
Other current assets	-	342
Cash and cash equivalents	924	9,432
<b>Non-current liabilities</b>	<b>-</b>	<b>-</b>
Non-current provisions	-	-
Long-term debt	-	-
Other non-current liability	-	-
Deferred tax liability	-	-
<b>Current liabilities</b>	<b>(1,840)</b>	<b>(3,403)</b>
Current provisions	(71)	(3,127)
Short-term debt	-	-
Trade payables	(182)	(276)
Taxes and contributions	(1,587)	-
Other current liabilities	-	-
<b>Net assets</b>	<b>8,853</b>	<b>45,316</b>
<b>MOL Group's share of net assets</b>	<b>8,853</b>	<b>45,316</b>
<b>Goodwill on acquisition</b>		
Fair value of consideration transferred	9,985	45,316
Contingent consideration	-	-
Less: fair value of identifiable net assets acquired	(8,853)	(45,316)
<b>Goodwill on acquisition</b>	<b>1,132</b>	<b>-</b>
<b>Net cash outflow on acquisition of subsidiaries</b>		
Consideration paid in cash	9,985	45,316
Less: cash and cash equivalent balances acquired	(924)	(9,432)
<b>Net cash outflow</b>	<b>9,061</b>	<b>35,884</b>

The initial accounting of the business combinations is provisional as at 31 December 2019, as the valuation has not been finalised.

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:

	Net revenue	Profit / (loss) for the period
	HUF million	HUF million
<b>Acquired subsidiary</b>		
Aurora Group	740	(160)
Magyar Gáz Tranzit Zrt.	60	(1,724)

## Ongoing acquisition

On 4 November 2019, MOL Group has signed an agreement with Chevron Global Ventures Ltd and Chevron BTC Pipeline Ltd to acquire their non-operated E&P interests in Azerbaijan, including a 9.57% stake in the Azeri-Chirag-Gunashli ("ACG") oil field, and an effective 8.9% stake in the Baku-Tbilisi-Ceyhan ("BTC") pipeline that transports the crude to the Mediterranean port of Ceyhan, for total consideration of USD 1.57bn (subject to adjustments at closing). Once completed, this transaction will make MOL Group the third largest field partner in ACG. The transaction is subject to government and regulatory approvals and is expected to close in first half of 2020.

## Change in ownership of subsidiaries – without change of control

MOL Group has increased its interest in Slovnaft a.s and OT Industries by acquiring shares from non-controlling interest. By these transactions MOL Group has become 100% owner of Slovnaft a.s on 18 December 2019 and 100% owner of OT Industries on 14 August 2019.

Change in ownership of subsidiaries - without change of control	HUF million
Cash consideration paid to non-controlling shareholders	(8,310)
Carrying value of related non-controlling interest	3,234
Difference recognised in retained earnings	(5,076)

## 11. 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 2019	31 Dec 2018
INA-Industrija nafte d.d.	51%	51%
	31 Dec 2019	31 Dec 2018
	HUF million	HUF million
Accumulated balances of material non-controlling interest	298,416	310,013
Profit / (Loss) allocated to material non-controlling interest	16,087	14,079

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

	2019	2018
	HUF million	HUF million
<b>Summarised statement of profit or loss</b>		
Total operating income	1,002,198	986,123
Total operating expenses	(982,672)	(962,495)
Finance income / (expense), net	(4,244)	(8,168)
<b>Profit / (loss) before income tax</b>	<b>15,282</b>	<b>15,460</b>
Income tax (expense) / income	(3,875)	(5,889)
<b>Profit / (loss) for the year</b>	<b>11,407</b>	<b>9,571</b>
<b>Total comprehensive income</b>	<b>31,593</b>	<b>27,651</b>
Attributable to non-controlling interests	16,087	14,079
Dividends paid to non-controlling interests	(27,684)	(18,332)

	2019	2018
	HUF million	HUF million
<b>Summarised statement of financial position</b>		
Current assets	232,147	227,295
Non-current assets	855,621	814,721
<b>Total assets</b>	<b>1,087,768</b>	<b>1,042,016</b>
Current liabilities	(274,857)	(230,356)
Non-current liabilities	(226,840)	(202,812)
<b>Total liabilities</b>	<b>(501,697)</b>	<b>(433,168)</b>
<b>Total equity</b>	<b>586,071</b>	<b>608,848</b>
Attributable to owners of parent	287,655	298,835
Attributable to non-controlling interest	298,416	310,013

	2019	2018
	HUF million	HUF million
<b>Summarised cash flow information</b>		
Cash flows from operations	120,165	122,331
Cash flows used in investing activities	(98,104)	(93,108)
Cash flows used in financing activities	(16,160)	(24,886)
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>5,901</b>	<b>4,337</b>

## 12. Other non-current assets

	31 Dec 2019 HUF million	31 Dec 2018 HUF million
Obligatory level of inventory required by state legislations	45,167	38,878
Advance payments for assets under construction	43,652	47,620
Advance payments for intangible assets	582	1,122
Prepaid fees of long-term rental fees	420	794
Prepaid mining royalty	215	529
Other	336	312
<b>Total</b>	<b>90,372</b>	<b>89,255</b>

## 13. 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 2019		31 Dec 2018	
	At cost HUF million	Lower of cost or net realisable value HUF million	At cost HUF million	Lower of cost or net realisable value HUF million
Work in progress and finished goods	312,935	302,705	321,565	301,565
Other raw materials	79,762	54,918	83,322	58,051
Purchased crude oil	116,754	105,882	103,028	93,456
Other goods for resale	52,804	51,060	42,698	39,655
Purchased natural gas	2,495	2,495	-	-
<b>Total</b>	<b>564,750</b>	<b>517,060</b>	<b>550,613</b>	<b>492,727</b>

Impairment of HUF 6,775 million has been recorded in 2019 (2018: HUF 19,635 million), mainly on raw materials and finished goods. In 2019, majority of the impairment was accounted for MOL Ceska (HUF 2,307 million).

## 14. Other current assets

	31 Dec 2019 HUF million	31 Dec 2018 HUF million
Prepaid and recoverable taxes and duties (excluding income taxes)	42,688	50,855
Prepaid expenses	12,559	8,025
Advance payments	10,462	7,029
Other	1,768	906
<b>Total</b>	<b>67,477</b>	<b>66,815</b>

Other item contains mainly revenue accruals and receivables regarding employees.

## 15. 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 recognised 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 Environmental expenditures

Environmental expenditures that relate to current or future economic benefits are expensed or capitalised as appropriate. Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable, and the amount recognised 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 recognising the present value of future field abandonment and restoration expenses as a liability. An equivalent amount is capitalised 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 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 programme is defined, adopted, announced or has started to be implemented.

### **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 recognised as other comprehensive income immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognised as an expense immediately.

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

### **Provision for Legal claims**

Provision is made for legal cases if the negative expected outcome of the legal case is more likely than not.

### **Provision for Emission quotas**

The Group recognises provision for the estimated CO<sub>2</sub> 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.

### **Significant 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 recognised 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	Field abandon- ment HUF million	Redun- dancy HUF million	Long-term employee benefits HUF million	Legal claims HUF million	Emission quotas and other HUF million	Total HUF million
<b>Balance as of 1 Jan 2018</b>	<b>81,601</b>	<b>312,624</b>	<b>2,778</b>	<b>21,078</b>	<b>23,140</b>	<b>33,219</b>	<b>474,440</b>
Acquisition / (sale) of subsidiaries	-	13,504	-	23	-	10	13,537
Additions and revision of previous estimates	2,707	(7,482)	837	3,341	3,111	22,732	25,246
Unwinding of the discount	2,004	7,630	-	547	24	10	10,215
Currency differences	2,942	6,288	71	399	764	1,647	12,111
Provision used during the year	(3,662)	(265)	(1,632)	(2,023)	(2,259)	(14,459)	(24,300)
<b>Balance as of 31 Dec 2018</b>	<b>85,592</b>	<b>332,299</b>	<b>2,054</b>	<b>23,365</b>	<b>24,780</b>	<b>43,159</b>	<b>511,249</b>
Acquisition / (sale) of subsidiaries	-	-	-	-	-	3,198	3,198
Additions and revision of previous estimates	12,249	39,412	3,273	280	154	13,367	68,735
Unwinding of the discount	2,117	9,183	-	668	-	249	12,217
Currency differences	1,816	10,551	136	324	630	460	13,917
Provision used during the year	(4,004)	(47)	(2,898)	(2,400)	(986)	(17,653)	(27,988)
<b>Balance as of 31 Dec 2019</b>	<b>97,770</b>	<b>391,398</b>	<b>2,565</b>	<b>22,237</b>	<b>24,578</b>	<b>42,780</b>	<b>581,328</b>
Current portion 31 Dec 2018	4,952	180	534	2,919	3,408	24,816	36,809
Non-current portion 31 Dec 2018	80,640	332,119	1,520	20,446	21,372	18,343	474,440
Current portion 31 Dec 2019	5,995	239	1,146	3,193	2,841	22,638	36,052
Non-current portion 31 Dec 2019	91,775	391,159	1,419	19,044	21,737	20,142	545,276

#### Provision for Environmental expenditures

As of 31 December 2019, provision of HUF 97,770 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 Group'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 2019 also includes a contingent liability of HUF 28,701 million recognised upon acquiring INA Group, representing its present environmental obligations and a further HUF 16,697 million environmental contingent liability regarding the acquisition of IES S.p.A. (see Note 23).

#### Provision for Field abandonment

As of 31 December 2019, provision of HUF 391,398 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 2020 and 2024 and the remaining 94% between 2025 and 2070. 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 capitalised as a component of the underlying fields.

#### Provision for Redundancy

As part of continuing efficiency improvement projects, MOL Plc., INA d.d., IES S.p.A. and other Group members decided to further optimise 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 S.p.A. in 2013 out of which HUF 479 million remained as of 31 December 2019. In 2015, a provision of HUF 9,804 million was made for redundancy programme at INA d.d. out of which HUF 718 million still remained as of 31 December 2019. The closing balance of provision for redundancy is HUF 2,565 million as of 31 December 2019 (31 December 2018: HUF 2,054 million).

#### Provision for Long-term employee benefits

As of 31 December 2019, the Group has recognised a provision of HUF 22,237 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 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.

	2019 HUF million	2018 HUF million
<b>Present value of total long-term employee benefit obligation at the beginning of the year</b>	<b>23,365</b>	<b>21,078</b>
Acquisitions / (disposals)	-	23
Past service cost	153	(39)
Current service cost	2,332	1,918
Interest costs	668	547
Provision used during the year	(2,400)	(2,023)
Net actuarial (gain) / loss	(2,205)	1,462
<i>from which:</i>		
Retirement benefit (See Note 8)	(2,008)	977
Jubilee benefit	(197)	485
Exchange adjustment	324	399
<b>Present value of total long-term employee benefit obligation at year end</b>	<b>22,237</b>	<b>23,365</b>

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

	2019 HUF million	2018 HUF million
Current service cost	2,332	1,918
Net actuarial (gain) / loss	(197)	485
Past service cost	153	(39)
<b>Balance as at year end</b>	<b>2,288</b>	<b>2,364</b>

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

	2019	2018
Discount rate in %	-0.5 - 3.6	1.1 - 4.8
Average wage increase in %	0.3 - 5.0	1.5 - 5.0
Mortality index (male)	0.03 - 7.16	0.04 - 3.57
Mortality index (female)	0.01 - 7.16	0.02 - 1.53

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

	Retirement benefits		Jubilee benefits	
	2019 HUF million	2018 HUF million	2019 HUF million	2018 HUF million
Actuarial (gains) / losses arising from changes in demographic assumptions	(2,476)	24	(304)	(3)
Actuarial (gains) / losses arising from changes in financial assumptions	1,434	1,133	402	290
Actuarial (gains) / losses arising from experience adjustments	(966)	(180)	(295)	198
<b>Total actuarial (gains) / losses</b>	<b>(2,008)</b>	<b>977</b>	<b>(197)</b>	<b>485</b>

#### Provision for legal claims

As of 31 December 2019, provision of HUF 24,578 million (31 December 2018: HUF 24,780 million) has been made for estimated total future losses from litigations.

#### Provision for emission quotas

As of 31 December 2019, the Group has recognised a provision of HUF 15,644 million for the shortage of emission quotas (31 December 2018: 16,359 million). In 2019, MOL Group has been granted 4,133,751 (2018: 4,193,199) emission quotas by the Hungarian, Croatian and Slovakian authorities. The total emissions during 2019 amounted to equivalent of 6,267,976 tons of emission quotas (2018: 6,747,040 tons).

## 16. Other non-current liabilities

	31 Dec 2019 HUF million	31 Dec 2018 HUF million
Government grants received (see Note 9)	12,208	8,305
Received and deferred other subsidies	6,813	6,796
Deferred compensation for property, plant and equipment	4,157	4,513
Deferred income for apartments sold	1,287	1,301
Liabilities to government for sold apartments	912	1,136
Other	1,247	1,447
<b>Total</b>	<b>26,624</b>	<b>23,498</b>

Other item contains mainly the liability of customer loyalty points and advances received from customers.

## 17. Other current liabilities

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

	31 Dec 2019 HUF million	31 Dec 2018 HUF million
Taxes, contributions payable (excluding corporate tax)	138,893	134,595
Amounts due to employees	39,055	40,188
Advances from customers	12,934	11,004
Custom fees payable	11,539	10,198
Other accrued incomes	5,648	3,564
Fee payable for strategic inventory storage	4,667	4,513
Government subsidies received and accrued (see Note 9)	963	1,087
Strategic capacity booking fee	-	265
Other	3,439	2,428
<b>Total</b>	<b>217,138</b>	<b>207,842</b>

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

# 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 fulfil these procedures. Hedge accounting related policies and financial instruments disclosures are also provided in this section.

## Accounting policies

### Initial recognition

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

### Financial assets - Classification

The Group's financial assets are classified at the time of initial recognition depending on their nature and purpose. To determine which measurement category a financial asset falls into, it should be first considered whether the financial asset is an investment in an equity instrument or a debt instrument. Equity instruments should be classified as fair value to profit or loss, however if the equity instrument is not held for trading, fair value through other comprehensive income option can be elected at initial recognition. If the financial asset is a debt instrument the following assessment should be considered in determining its classification.

#### Amortised cost

Financial instruments measured at amortised cost are those financial assets that is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### Fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those financial assets that is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### Fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets which are not classified in any of the two preceding categories or financial instruments designated upon initial recognition as at fair value through profit or loss.

### Financial liabilities – Classification

By default, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss or the entity has opted to measure a liability at fair value through profit or loss. A financial liability is required to be measured at fair value through profit or loss in case of liabilities that is classified as 'held for trading' and derivatives. An entity can, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss (fair value option) where doing so results in more relevant information, because either:

- ▶ it eliminates or significantly reduces a measurement or recognition inconsistency, or
- ▶ a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis.

### Subsequent measurement

Subsequent measurement depends on the classification of the given financial instrument.

#### Amortised cost

The asset or liability is measured at the amount recognised at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and any loss allowance. Interest income is calculated using the effective interest method and is recognised in profit and loss. Changes in fair value are recognised in profit and loss when the asset is derecognised or reclassified.

#### Fair value through other comprehensive income – debt instrument

The asset is measured at fair value. Interest revenue, impairment gains and losses, and a portion of foreign exchange gains and losses, are recognised in profit and loss on the same basis as for amortised cost assets. Changes in fair value are recognised initially in other comprehensive income. When the asset is derecognised or reclassified, changes in fair value previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss on a basis that always results in an asset measured at fair value through other comprehensive income having the same effect on profit and loss as if it were measured at amortised cost.

#### Fair value through other comprehensive income – equity instrument

Dividends are recognised when the entity's right to receive payment is established, it is probable the economic benefits will flow to the entity and the amount can be measured reliably. Dividends are recognised in profit and loss unless they clearly represent recovery of a part of the cost of the investment, in which case they are included in other comprehensive income. Changes in fair value are recognised in other comprehensive income and are never recycled to profit and loss, even if the asset is sold or impaired.

Fair value through profit or loss

The asset or liability is measured at fair value. Changes in fair value are recognised in profit and loss as they arise.

**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.

A financial liability should be removed from the balance sheet when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.

**Hedging**

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

- ▶ 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 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:

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 recognised 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 recognised directly as other comprehensive income, while the ineffective portion is recognised 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 recognised 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 recognised 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 recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised 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 that is measured at amortised cost or fair value through other comprehensive income is impaired.

As a general approach, impairment losses on a financial asset or group of financial assets are recognised for expected credit losses at an amount equal to:

- ▶ 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date), or
- ▶ full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

The loss allowance for financial instruments is measured at an amount equal to full lifetime expected losses if the credit risk of a financial instrument has increased significantly since initial recognition. Unless the credit risk of the financial instrument is low at the reporting date in which case it can be assumed that credit risk on the financial instrument has not increased significantly since initial recognition and 12-month expected credit losses can be applied. The Group determines significant increase in credit risk in case of debt securities based on credit rating agency ratings. As there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due assessment is required on a case-by-case basis whether the credit risk significantly increased in that financial asset when such an event occurs.

Additionally, the Group applies the simplified approach to recognise full lifetime expected losses from origination for trade receivables, IFRS 15 contract assets, lease receivables and other financial receivables. For all other financial instruments, general approach is applied.

An entity shall recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date.

Independently of the two approaches mentioned above, impairment losses recognised where there is an objective evidence on 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. These are required to be assessed on a case-by-case basis. The maximum amount of impairment accounted for by the Group is 100% of unsecured part of the financial asset. The amount of loss is recognised 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 recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of impairment loss is recognised 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.

### Significant 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.

## 18. Financial risk and capital management

### Financial risk management

As financial risk management is a centralised function in MOL Group, it is possible to integrate and measure all financial risks 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 Group actively manages its commodity exposures for the following purposes only:

- Group Level Objectives – protection of financial ratios and targeted financial results, and managing commodity price exposures at physical transactions etc.,
- Business Unit Objectives – to reduce the exposure of a business unit's cash flow to market price fluctuations (e.g.: planned refinery shutdowns).

### Management of Covenants

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

The Group is currently in low net gearing status, the credit metrics remained stable in 2019. As of 31 December 2019, the net debt / EBITDA is at 0.82 level (2018: 0.41) while the net gearing is 19% (2018: 12%).

### 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 maximise 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.

### a) Key exposures

Risk Management identifies and measures the key risk drivers and quantifies their impact on the MOL Group's operating results. MOL Group 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 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 oil than our own crude oil production. In Upstream MOL Group is long in crude oil and in Downstream MOL Group has a long position in refinery margin. Investors buying oil industry 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.

In 2019 MOL Group concluded short and mid-term commodity swap and option transactions. These transactions are mainly conducted for operational hedging purposes, in order to mitigate the effects of the price volatility in our operations and in the same time, when possible, to lock in favourable forward curve structure.

Strategic hedges were also concluded to lock in favourable Diesel-crack pricing.

### Foreign currency risk

MOL Group follows the basic economic currency risk management principle that the currency mix of the debt portfolio should reflect the net long-term currency position of profit generation ('natural hedge') however, when necessary our practice allows



for flexibility when the currency market environment is favourable or challenging. MOL Group also uses foreign exchange derivatives to hedge the foreign exchange exposures if it is necessary.

#### Interest rate risk

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

MOL Group, when necessary, uses 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

MOL Group sells 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.

Policies and procedures are in place to set the framework and principles for customer credit risk management and collection of receivables to minimise credit losses 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, 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 MOL Group's policy, customer credit limits should be covered by payment securities where applicable.

Individual customer credit limits are calculated taking into account external and/or internal assessment of customers as well as the securities provided. Information on existing and potential customers is gathered from well-known and reliable Credit Agencies and internal data available. Customer credit limits are reviewed at least once a year.

Various solutions support the customer credit management procedures, including online monitoring of credit exposures for immediate information on breach and expiry of credit limits or guarantees. When such credit situations occur, deliveries shall be blocked; decisions on the unblocking of deliveries shall be made by authorised persons on both Financial and Business side.

#### 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.

	2019	2018
	HUF million	HUF million
<b>The amount of undrawn major committed credit facilities</b>		
Long-term loan facilities available	771,217	875,630
Short-term facilities available	72,961	63,398
<b>Total loan facilities available</b>	<b>844,178</b>	<b>939,028</b>

MOL entered through its fully owned MOL Group Finance S.A. subsidiary into a EUR 570 million revolving credit facility agreement with 14 bank groups on the 26 of September 2019. Simultaneously, the total available commitment is cancelled under the USD 1.55 billion revolving credit facility agreement concluded on 30 October 2014, in the amount of USD 620 million. The maturity of the new credit line is 5 years, which can be further extended with 1-1 years altogether maximum two times.

The EUR 555 million revolving credit facility agreement signed on 9 July 2018 by MOL Group Finance S.A. as Borrower and MOL as Guarantor, with 5 years original maturity was extended by one additional year with unchanged margin levels in amount of EUR 470 million. The new maturity date regarding the extended part of the facility is 9 July 2024.

The EUR 750 million revolving credit facility agreement, signed on 15 December 2017 with 5 years original maturity, extended by one year in 2018, was extended for the second and last time for an additional one year with unchanged total amount and margin levels. New maturity of the facility is now 15 December 2024.

Maturity profile of financial liabilities based on contractual undiscounted payments 2019	Due within 1 month	Due between 1 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
Borrowings	172,882	199,870	507,081	61,447	941,280
Transferred "A" shares with put&call options	-	232,009	-	-	232,009
Trade and other payables	390,026	246,058	-	-	636,084
Other financial liabilities	1,410	5,863	888	650	8,811
<b>Non-derivative financial instruments</b>	<b>564,318</b>	<b>683,800</b>	<b>507,969</b>	<b>62,097</b>	<b>1,818,184</b>
Derivatives	11,303	682	4,227	-	16,212

Maturity profile of financial liabilities based on contractual undiscounted payments 2018	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	87,383	267,017	363,921	30,973	749,294
Transferred "A" shares with put&call options	-	210,056	-	-	210,056
Trade and other payables	304,094	287,432	402	-	591,928
Other financial liabilities	1,685	4,197	618	605	7,105
<b>Non-derivative financial instruments</b>	<b>393,162</b>	<b>768,702</b>	<b>364,941</b>	<b>31,578</b>	<b>1,558,383</b>
Derivatives	11,759	-	6,085	-	17,844

## 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:

	2019 HUF billion	2018 HUF billion
<b>Effect on Clean CCS-based* (Current Cost of Supply) profit / (loss) from operation</b>		
<b>Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin)</b>		
Upstream	+52.1/-52.1	+38.9/-42
Downstream	-6.3/+6.3	-7/+7
<b>Exchange rates (change by +/- 15 HUF/USD; with fixed crack spreads)</b>		
Upstream	+16.8/-16.8	+16.8/-16.8
Downstream	+22.6/-22.6	+20.3/-20.3
Gas Midstream	+0.8/-0.8	+0.6/-0.6
<b>Exchange rates (change by +/- 15 HUF/EUR; with fixed crack spreads / petrochemical margin)</b>		
Upstream	+3.8/-3.8	+4.8/-4.8
Downstream	+18.1/-18.1	+21.3/-21.3
<b>Refinery margin (change by +/- 1 USD/bbl)</b>		
Downstream	+29/-29.4	+31.6/-32.1
<b>Integrated petrochemical margin (change by +/- 100 EUR/t)</b>		
Downstream	+43.4/-43.4	+45.1/-45.1

\*Clean CCS-based profit / (loss) from operation (EBIT) and its calculation methodology is not regulated by IFRS. Please see the reconciliation of reported profit / (loss) from operation (EBIT) and Clean CCS profit / (loss) from operation (Clean CCS EBIT) with the relevant definitions in the Appendix III.

## c) Borrowings

### Accounting policies

All loans and borrowings are initially recognised 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.



	2019 HUF million	2018 HUF million
<b>Short-term debt</b>		
Eurobond €750 million due 2023	4,938	4,283
USD bond \$500 million due 2019	-	142,658
Schuldschein €130 million due between 2020-2027	3,966	217
Bank loans	287,693	180,905
Finance lease liabilities	26,341	12,076
Other	3,684	5,257
<b>Total short-term debt</b>	<b>326,622</b>	<b>345,396</b>
<b>Long-term debt</b>		
Eurobond €750 million due 2023	245,786	239,185
HUF bond HUF 28,400 million due 2029	28,789	-
Schuldschein €130 million due between 2020-2027	39,120	41,708
Bank loans	159,481	15,523
Finance lease liabilities	108,795	58,382
Other	446	82
<b>Total long-term debt</b>	<b>582,417</b>	<b>354,880</b>
<b>Gross debt (long-term and short-term)</b>	<b>909,039</b>	<b>700,276</b>
Cash and cash equivalents	326,108	383,511
Current debt securities	24,275	2,571
<b>Net Debt</b>	<b>558,656</b>	<b>314,194</b>
Total equity	2,451,369	2,309,946
<b>Capital and net debt</b>	<b>3,010,025</b>	<b>2,624,140</b>
<b>Gearing ratio (%)</b>	<b>19%</b>	<b>12%</b>
Profit from operation	294,059	352,876
Depreciation, depletion, amortisation and impairment	391,010	411,338
Reported EBITDA	685,069	764,214
<b>Net Debt / Reported EBITDA</b>	<b>0.82</b>	<b>0.41</b>

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

	2019 HUF million	2018 HUF million
<b>Gross debt by currency</b>		
EUR	713,701	407,912
USD	100,924	250,767
HUF	59,752	31,064
HRK	24,429	10,531
CZK	9,726	-
Other	507	2
<b>Gross debt</b>	<b>909,039</b>	<b>700,276</b>

The following issued bonds were outstanding as of 31 December 2019:

	Ccy	Amount Issued (orig ccy, millions)	Coupon	Type	Cpn Freq	Issue date	Maturity	Issuer
Eurobond	EUR	750	2.625	Fixed	Annual	28.04.2016	28.04.2023	MOL Plc.
HUF bond	HUF	28,400	2	Fixed	Annual	24.09.2019	24.09.2029	MOL Plc.

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

	31 Dec 2019		31 Dec 2018	
	Minimum lease payments HUF million	Lease liability HUF million	Minimum lease payments HUF million	Lease liability HUF million
<b>Finance leases</b>				
Due within one year	29,045	26,341	13,782	12,076
Due later than one year but not later than five years	79,936	78,862	47,053	42,916
Due later than five years	35,095	29,933	16,614	15,466
<b>Total</b>	<b>144,076</b>	<b>135,136</b>	<b>77,449</b>	<b>70,458</b>
Future finance charges	8,940	n/a	6,991	n/a
<b>Lease liability</b>	<b>135,136</b>	<b>135,136</b>	<b>70,458</b>	<b>70,458</b>

## d) Equity

### Accounting policies

Retained earnings and other 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 reconciliation of MOL Plc.'s equity prepared in accordance with the Hungarian Accounting Law.

### Reserves of exchange differences on translation

The reserves of exchange differences on translation 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 reserves of exchange differences on translation are recognised as income or expenses in the same period in which the gain or loss on disposal is recognised.

### Fair valuation reserves

The fair valuation reserve includes the cumulative net change in the fair value of effective cash flow hedges and financial assets at fair value through other comprehensive income.

### 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 recognised 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. 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.

### Share capital

There was no change in the number of issued shares in 2019. As of 31 December 2019, the issued share capital was HUF 102,429 million, consisting of 819,424,824 series "A" shares with par value of HUF 125, one series "B" share with par value of HUF 1,000 and 578 series "C" shares with par value of HUF 1,001. Outstanding share capital as of 31 December 2019 and 31 December 2018 is HUF 79,408 million and HUF 79,298 million, respectively.

Every "A" class share with a par value of HUF 125 each (i.e. one hundred and twenty-five 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 eight and eight 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 organisation(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" shares are voting preference shares 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 eight votes 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 shares, 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 shares 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 authorisation granted in the Article 17.D of the Articles of Association the Board of Directors is entitled to increase the share capital until 10 April 2024 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 authorised 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
1 Jan 2018	819,424,825	(82,139,461)	(103,057,795)	634,227,569	1,059,424,825
Share distribution for the members of the Board of Directors	-	148,800	-	148,800	-
Settlement of share option agreement with MUFG Securities EMEA Plc.	-	409,108	(409,108)	-	-
Settlement of share option agreement with Unicredit Bank A.G.	-	2,750,496	(2,750,496)	-	-
Settlement of share option agreement with ING Bank N.V.	-	2,097,955	(2,097,955)	-	-
31 Dec 2018	819,424,825	(76,733,102)	(108,315,354)	634,376,369	1,059,424,825
Share distribution for the members of the Board of Directors and participants of MRP	-	886,670	-	886,670	-
Settlement of share option agreement with MUFG Securities EMEA Plc.	-	5,648,407	(5,648,407)	-	-
Settlement of share option agreement with Unicredit Bank A.G.	-	484,582	(484,582)	-	-
Settlement of share option agreement with ING Bank N.V.	-	3,341,680	(3,341,680)	-	-
31 Dec 2019	819,424,825	(66,371,763)	(117,790,023)	635,263,039	1,059,424,825
<b>Series "C" shares</b>					
31 Dec 2018	578	(578)	-	-	578
<b>Series "C" shares</b>					
31 Dec 2019	578	(578)	-	-	578

#### Dividend

The shareholders at the Annual General Meeting in April 2019 approved to pay HUF 107,284 million dividend in respect of 2018, which equals to HUF 142.44 dividend per share. The total amount of reserves legally available for distribution based on MOL Plc.'s reconciliation of equity is HUF 1,579,432 million as of 31 December 2019 (31 December 2018: HUF 1,523,149 million).

#### Treasury share put and call option transactions

MOL Plc. has three option agreements concluded with financial institutions in respect of 77,706,015 pieces of series "A" shares ("Shares") as of 31 December 2019. 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.

Counterparty	Underlying pieces of MOL ordinary shares	Strike price per share	Expiry
ING Bank N.V.	39,179,973	EUR 8.97482	23 Jun 2020
MUFG Securities EMEA Plc.	10,951,702	EUR 9.16000	16 Jun 2020
UniCredit Bank AG	27,574,340	EUR 9.06640	14 Jun 2021

MOL agreed with ING Bank N.V. ("ING") on 11 November 2019, that the option rights in relation to 35,838,293 Shares under the share option agreement executed between ING and MOL on 26 November 2018 are cash settled on 28 November 2019. Simultaneously, MOL and ING entered into a new share purchase agreement and share option agreement, according to which MOL received American call options and ING received European put options in relation to 39,179,973 Shares, with the effective date of 28 November 2019. As a result of the share purchase agreement, ING received additional 3,341,680 Shares. The maturity date of both the call and put options is 23 June 2020, and the strike price of both options is EUR 8.97482 per Share.

MOL agreed with MUFG Securities EMEA Plc. ("MUFG") on 11 November 2019 that the option rights in relation to 5,303,295 Shares under the share option agreement executed between MUFG and MOL on 6 November 2018 are cash settled on 13 November 2019. Simultaneously, MOL and MUFG entered into a new share purchase agreement and a share option agreement, according to which MOL received American call options and MUFG received European put options in relation to 10,951,702 Shares, with the effective date of 13 November 2019. As a result of these transactions, MUFG received 5,648,407 Shares. The maturity date of both the call and put options is 16 June 2020 and the strike price of both options is EUR 9.1600 per Share.

MOL agreed with UniCredit Bank AG ("UniCredit") on 11 November 2019 that the option rights in relation to 27,089,758 Shares under the share option agreement executed between UniCredit and MOL on 14 November 2018 are cash settled on 18 November 2019. Simultaneously, MOL and UniCredit concluded a share purchase agreement and new share option agreement, according to which MOL received American call options and UniCredit received European put options in relation to 27,574,340 Shares, with the effective date of 18 November 2019. As a result of these transactions, UniCredit received 484,582 Shares. The maturity date of both the call and put options is 14 June 2021, and the strike price of both options is EUR 9.06640 per Share.

#### **Share swap agreement with OTP**

MOL Plc. ('MOL') and OTP entered into a share-exchange and a share swap agreement in 2009. Under the agreements, initially MOL transferred 40,084,008 "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, and subsequently, in 2017 further extended until 11 July 2022, which did not trigger any movement in MOL Plc.'s treasury shares.

Until the expiration date each party can initiate a cash or physical (i.e. in shares) settlement of the deal.

## 19. Financial instruments

2019		Fair value through profit or loss	Derivatives used for hedging	Amortised cost	Fair value through other comprehensive income	Total carrying amount
		HUF million	hedge acc.* HUF million	HUF million	HUF million	HUF million
<b>Carrying amount of financial instruments</b>						
<b>Financial assets</b>						
	Equity instruments	1,649	-	-	63,545	65,194
	Loans given	-	-	27,941	-	27,941
Other non-current financial assets	Deposit	-	-	323	-	323
	Finance lease receivables	-	-	8,694	-	8,694
	Debt securities	-	-	-	12,680	12,680
	Commodity derivatives	133	-	-	-	133
	Other	-	-	22,726	-	22,726
<b>Total non-current financial assets</b>		<b>1,782</b>	<b>-</b>	<b>59,684</b>	<b>76,225</b>	<b>137,691</b>
	Trade and other receivables	-	-	610,048	-	610,048
	Finance lease receivables	-	-	287	-	287
	Cash and cash equivalents	-	-	326,108	-	326,108
	Debt securities	14,136	-	-	10,139	24,275
	Commodity derivatives	5,894	-	-	-	5,894
	Loans given	-	-	4,415	-	4,415
Other current financial assets	Deposit	-	-	40,269	-	40,269
	Finance lease receivables	-	-	556	-	556
	Other derivatives	1,053	-	-	-	1,053
	Other	-	-	51,958	-	51,958
<b>Total current financial assets</b>		<b>21,083</b>	<b>-</b>	<b>1,033,641</b>	<b>10,139</b>	<b>1,064,863</b>
<b>Total financial assets</b>		<b>22,865</b>	<b>-</b>	<b>1,093,325</b>	<b>86,364</b>	<b>1,202,554</b>
<b>Financial liabilities</b>						
	Borrowings (long-term debt)	-	-	473,612	-	473,612
	Finance lease liabilities	-	-	108,805	-	108,805
Other non-current financial liabilities	Foreign exchange derivatives	556	679	-	-	1,235
	Other	-	-	1,903	-	1,903
<b>Total non-current financial liabilities</b>		<b>556</b>	<b>679</b>	<b>584,320</b>	<b>n/a.</b>	<b>585,555</b>
	Trade and other payables	-	-	624,164	-	624,164
	Borrowings (short-term debt)	-	-	300,281	-	300,281
	Finance lease liabilities	-	-	26,341	-	26,341
	Transferred "A" shares with put&call options	-	-	230,723	-	230,723
Other current financial liabilities	Commodity derivatives	10,742	-	-	-	10,742
	Foreign exchange derivatives	3	-	-	-	3
	Other derivatives	4,231	-	-	-	4,231
	Other	-	-	6,907	-	6,907
<b>Total current financial liabilities</b>		<b>14,976</b>	<b>-</b>	<b>1,188,416</b>	<b>n/a.</b>	<b>1,203,392</b>
<b>Total financial liabilities</b>		<b>15,532</b>	<b>679</b>	<b>1,772,736</b>	<b>n/a.</b>	<b>1,788,947</b>

\*hedge acc: under hedge accounting

2018		Fair value through profit or loss	Derivatives used for hedging	Amortised cost	Fair value through other comprehensive income	Total carrying amount
Carrying amount of financial instruments		HUF million	hedge acc.*	HUF million	HUF million	HUF million
<b>Financial assets</b>						
Other non-current financial assets	Equity instruments	-	-	-	64,430	64,430
	Loans given	-	-	20,360	-	20,360
	Deposit	-	-	315	-	315
	Finance lease receivables	-	-	733	-	733
	Other	1,218	-	21,370	14,037	36,625
<b>Total non-current financial assets</b>		<b>1,218</b>	<b>-</b>	<b>42,778</b>	<b>78,467</b>	<b>122,463</b>
Trade and other receivables		-	-	588,309	-	588,309
Finance lease receivables		-	-	311	-	311
Cash and cash equivalents		-	-	383,511	-	383,511
Debt securities		-	-	-	2,571	2,571
Other current financial assets	Commodity derivatives	18,536	-	-	-	18,536
	Loans given	-	-	1,889	-	1,889
	Deposit	-	-	5,489	-	5,489
	Foreign exchange derivatives	6	-	-	-	6
	Other derivatives	2,828	-	-	-	2,828
	Other	-	-	3,386	-	3,386
<b>Total current financial assets</b>		<b>21,370</b>	<b>-</b>	<b>982,895</b>	<b>2,571</b>	<b>1,006,836</b>
<b>Total financial assets</b>		<b>22,588</b>	<b>-</b>	<b>1,025,673</b>	<b>81,038</b>	<b>1,129,299</b>
<b>Financial liabilities</b>						
Borrowings (long-term debt)		-	-	296,498	-	296,498
Finance lease liabilities		-	-	58,382	-	58,382
Other non-current financial liabilities	Foreign exchange derivatives	677	2,308	-	-	2,985
	Other	-	-	1,491	-	1,491
<b>Total non-current financial liabilities</b>		<b>677</b>	<b>2,308</b>	<b>356,371</b>	<b>n/a</b>	<b>359,356</b>
Trade and other payables		-	-	573,220	-	573,220
Borrowings (short-term debt)		-	-	333,320	-	333,320
Finance lease liabilities		-	-	12,076	-	12,076
Other current financial liabilities	Transferred "A" shares with put&call options	-	-	208,599	-	208,599
	Commodity derivatives	8,769	-	-	-	8,769
	Foreign exchange derivatives	-	-	-	-	-
	Other derivatives	6,090	-	-	-	6,090
	Other	-	-	5,612	-	5,612
<b>Total current financial liabilities</b>		<b>14,859</b>	<b>-</b>	<b>1,132,827</b>	<b>n/a</b>	<b>1,147,686</b>
<b>Total financial liabilities</b>		<b>15,536</b>	<b>2,308</b>	<b>1,489,198</b>	<b>n/a</b>	<b>1,507,042</b>

\*hedge acc: under hedge accounting

The Group 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.

Investments in equity instruments designated upon initial recognition as at fair value through other comprehensive income, except for those investments in venture funds where the Group has significant influence, which are measured as at fair value through profit or loss. The managements' intention regarding the instruments which are measured as at fair value through other comprehensive income not changed so the Group decided to apply the measurement of previous years. The most significant equity instrument is JANAF interest hold by INA d.d., the company that owns and operates the Adria pipeline system. The market value of the shares as of 31 December 2019 amounted to HUF 24,814 million (31 December 2018: HUF 18,664 million).

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 299,018 million, while their carrying amount is HUF 279,513 million as of 31 December 2019 (31 December 2018: fair value was HUF 403,931 million, carrying amount was HUF 386,126 million).

Prepayment of HUF 46,233 million out of other current financial assets is related to the ongoing acquisition of non-operated E&P interests in Azerbaijan.

Impairment only accounted for on trade receivables. No impairment is recognised on the remaining financial instruments based on materiality, history and expectations.

Contract assets and contract liabilities from contracts with customers are not material for the Group.  
The carrying amount of hedging instruments designated in hedge accounting programmes are the followings.

Carrying amounts of hedging instrument			2019 HUF million	2018 HUF million
Cash flow hedge	Liabilities	Foreign exchange derivatives	679	2,308
Net investment hedge	Liabilities	Borrowings	319,002	450,287

## 20. Fair value measurement of financial instruments

Fair value hierarchy	2019			2018		
	Level 1 Unadjusted quoted prices in active markets HUF million	Level 2 Valuation techniques based on observable market input HUF million	Total fair value HUF million	Level 1 Unadjusted quoted prices in active markets HUF million	Level 2 Valuation techniques based on observable market input HUF million	Total fair value HUF million
<b>Financial assets</b>						
Equity instruments	24,814	40,380	65,194	18,664	45,766	64,430
Debt securities	4,688	32,267	36,955	2,517	14,091	16,608
Commodity derivatives	0	6,027	6,027	-	19,754	19,754
Foreign exchange derivatives	-	-	-	-	6	6
Other derivatives	0	1,053	1,053	-	2,828	2,828
<b>Total financial assets</b>	<b>29,502</b>	<b>79,727</b>	<b>109,229</b>	<b>21,181</b>	<b>82,445</b>	<b>103,626</b>
<b>Financial liabilities</b>						
Commodity derivatives	-	10,742	10,742	-	8,769	8,769
Foreign exchange derivatives	-	1,238	1,238	-	2,985	2,985
Other derivatives	-	4,231	4,231	-	6,090	6,090
<b>Total financial liabilities</b>	<b>-</b>	<b>16,211</b>	<b>16,211</b>	<b>-</b>	<b>17,844</b>	<b>17,844</b>

Both in 2019 and 2018, the Group does not have any instruments with fair value categorised as Level 3 (valuation techniques based on significant unobservable market input).

## 21. 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 for expected credit losses and 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 derecognised 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.

Trade and other receivables	31 Dec 2019 HUF million	31 Dec 2018 HUF million
Trade receivables	540,841	530,312
Other receivables	69,494	58,308
<b>Total</b>	<b>610,335</b>	<b>588,620</b>

Trade receivables	31 Dec 2019 HUF million	31 Dec 2018 HUF million
Trade receivables (gross)	560,339	554,370
Loss allowance for receivables	(19,498)	(24,058)
<b>Total</b>	<b>540,841</b>	<b>530,312</b>

	2019 HUF million	2018 HUF million
<b>Movements in the loss allowance for receivables</b>		
At 1 January	24,058	35,765
Additions	5,146	2,510
Reversal	(10,378)	(15,768)
Amounts written off	(250)	(243)
Foreign exchange differences	922	1,794
At 31 December	19,498	24,058

	31 Dec 2019		31 Dec 2018	
	Gross book value HUF million	Net book value HUF million	Gross book value HUF million	Net book value HUF million
<b>Ageing analysis of trade receivables</b>				
Not past due	491,071	487,971	488,541	487,486
Past due	69,268	52,870	65,829	42,826
Within 180 days	42,660	41,481	37,050	36,953
Over 180 days	26,608	11,389	28,779	5,873
<b>Total</b>	<b>560,339</b>	<b>540,841</b>	<b>554,370</b>	<b>530,312</b>

#### Current assets pledged as security

There are no current assets pledged as security as of 31 December 2019 (31 December 2018: HUF 431 million).

## 22. 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. The Group considers the term "insignificant risk of change in value" not being limited to three-month period.

	31 Dec 2019 HUF million	31 Dec 2018 HUF million
Short-term bank deposits	33,042	217,516
Demand deposit	281,794	155,071
Cash on hand	11,272	10,924
<b>Total</b>	<b>326,108</b>	<b>383,511</b>



## 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.

### 23. 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 contractually HUF 188,088 million.

#### b) Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2019 is HUF 283,483 million (31 December 2018: HUF 378,908 million), of which HUF 2,336 million relates to associated company, HUF 239,938 million relates to Hungarian operation and HUF 19,687 million relates to operation in Slovakia. The most significant amounts relate to a polyol project in MOL Petrochemicals (143,275 million) which it intends to become a significant producer of polyether polyols, high-value intermediates for products applied in the automotive, packaging and furniture industry. Under the project, a new polyol plant will be constructed to which significant part of capital expenditures relate both in the current and comparative period. General construction contract of MOL Campus project was signed in 2019 in amount of HUF 63,338 million. Additional significant amounts relate to a project in Slovakia that aims to increase of crude oil storage capacity in Slovnaft refinery (HUF 3,970 million) and the blending of alternative crudes (HUF 3,023 million) and rail tank car cleaning facility (HUF 2,566 million) at Danube Refinery in Hungary.

As part of corporate social responsibility MOL Group is committed to spending HUF 12,549 million via sponsorship agreements in the next 5 years.

MOL Group has a take-or-pay contract with JANAF in amount of HUF 5,305.3 million.

#### c) Unrecognised lease commitments

	31 Dec 2019 HUF million	31 Dec 2018 HUF million
Unrecognised lease commitments		
Due within one year	1,216	14,539
Due later than one year but not later than five years	912	38,599
Due later than five years	240	39,242
<b>Total</b>	<b>2,368</b>	<b>92,380</b>

The variance is the result of change in regulation due to new lease standard IFRS 16 effective from 01 January 2019, please refer to Note 1.

#### 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 34,576 million for which HUF 24,578 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 Plc. 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, which has been rejected by the court of appeal. The court of appeal upheld the judgement of the court of first instance. Creditor GAMA filed an extraordinary appeal on the last day of the deadline. The justification they use is similar to their arguments which was used in the appeal procedure. The Supreme Court agreed with the argumentation of MOL Plc. placed within the extraordinary remedy proceeding and dismissed the extraordinary remedy issued by Creditor GAMA.

CREDITOR BETA s.r.o. alleges that the buying offer of MOL Plc. in connection with the acquisition of Slovnaft a.s. shares was not approved by the Slovak financial authority 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 Plc. has filed an appeal against the interim decision on the legal basis with the appellate court. This appeal was dismissed by the court. MOL Plc. has filed an extraordinary appeal against the dismissal of its appeal.

### ICSID arbitration (MOL Plc. vs. Croatia)

MOL Plc.'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") under the Energy Charter Treaty 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. This arbitration is about more than just seeking a remedy for the breach of the contracts in general; it is also about the abuse of regulatory power at the expense of a single actor, INA, and indirectly, MOL Plc.

### 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.

On 08 September 2017 INA received the judgment brought by the High Administrative Court of the Republic of Croatia, rejecting INA's appeal against the first-instance verdict in the "Drava" case. Thus, the Decision on seizure of hydrocarbon exploration approvals in the "Drava" research area, issued by the competent Ministry, became final. The court still did not reach decisions regarding INA's lawsuits regarding exploration areas "Sava" and "North-West Croatia".

On 06 October 2017 INA filed a Constitutional lawsuit before the Constitutional Court of the Republic of Croatia against judgments brought by the High Administrative Court and Administrative Court of the Republic of Croatia in "Drava" case, in which INA requires from Constitutional Court to annul all those judgments. INA is waiting for Constitutional Court's judgment.

On 12 July, 2018, INA received decision of the High Administrative Court cancelling previous decision of the Administrative Court and Ministry of Economy decision regarding „Sava" exploration license and has returned a case in its initial state.

According to the explanation of the High Administrative Court, INA was without valid reason deprived of the „Sava „exploration license. However, on 12 September 2018, the Ministry deprived from INA same license, again. INA initiated an administrative procedure against it. The court still did not reach decisions regarding INA's lawsuits regarding exploration areas "Sava" and "North-West Croatia".

### BELVEDERE

In July 2017 INA received a lawsuit from Belvedere d.d. Dubrovnik with a claim amounting HRK 220 million. The root of the case lies in 2005 when INA gave a loan to Belvedere d.d. (hotel "Belvedere" in Dubrovnik city coast was a pledge for the loan). Since Belvedere d.d. has not returned the loan, enforcement procedure was initiated in 2012, and the hotel was sold to a highest bidder on a public auction, for HRK 92 million. Enforcement procedure was executed through a public notary where the value of the hotel was evaluated by three independent court experts. Belvedere d.d. now claims that the hotel was sold below its market value and also claims damage to its reputation and loss of profit.

It should be stated that INA already won two separate but similar procedures at the court one for the declaration that the sale and purchase agreement of the hotel Belvedere is null and void and one for the nullity of the enforceable clause on the Lien agreement. Both court decisions are final. Although the outcome of this procedure is uncertain it is more likely in favour of INA than not. Notwithstanding the possible outcome, request for the damage is deemed to set too high considering three independent court experts already discussed the market price issue.

### MOL Plc. and INA vs Federation of the Bosnia and Herzegovina

MOL Plc. and INA initiated arbitration against FBiH in year 2012, in front of ICC Zurich. Case was in abeyance till November 2019.

INA/MOL claim:

In the Energopetrol (EP) Recapitalization Agreement, signed September 2006, Federation of the Bosnia and Herzegovina (FBiH) gave representations and warranties to the Consortium in respect of EP's compliance with legal regulations relating to labour and employment matters, that there was no risk of legal proceedings to be brought against EP. Following the closing of the transaction, a significant number of then former and existing employees started lawsuits against EP. Employees filed lawsuits requesting the difference between agreed (as per employment contract) and actually paid salaries, increased for the number of years of service, as well as payment of difference between paid severance. Namely, when calculating and paying out salaries, EP did not take into account Branch Collective Agreement, to which employment contracts referred to.

The claims submitted relate to a period of time ranging from 2004 until today.

On December 6th, 2019, INA and MOL have received the FBiH answer and counterclaim.

FBiH counterclaim:

According to the EP Recapitalization Agreement (RA), INA and MOL Plc. obligation was to provide for the investments in the EP. According to the text of RA, investment means to ensure necessary funds, including, without limitation, the loans, to the EP, with a purpose to renew and expand the existing network of PS, as foreseen in the Investment plan which was enclosed to the RA.

By said plan, investments should have been implemented during the period of three years after privatization. Further, Investment shall be deemed as fulfilled when the EP obtains control over the funds provided.

The Consortium provided total loan amount of KM 150 mil, within deadlines, to the EP. Hence, the Deloitte, who was engaged by the parties to the RA to confirm performance of the agreed RA provisions, confirmed the Consortium has performed its investment obligations. However, FBIH claims INA and MOL Plc. should have secured, through the EP, said loan amount is invested according to the Investment plan (part of the RA).

The deadline for INA/MOL Plc. to submit their reply to FBIH's counterclaim is February 2020.

## e) Environmental liabilities

MOL Group's operations are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work. MOL Group is currently responsible for significant remediation of past environmental damage relating to its operations. Accordingly, MOL Group has established a provision of HUF 90,266 million for the estimated cost as at 31 December 2019 for probable and quantifiable costs of rectifying past environmental damage (see Note 15). In addition a provision of HUF 7,500 million was recorded to cover an expected intervention where the timing, cost and nature of the intervention is still uncertain. 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 area of MOL's Tisza refinery, where the Group has identified significant underground water and subsurface soil contamination. In accordance with the resolutions of the regional environmental authorities combined for MOL Petrochemicals and MOL Group, the Group completed a detailed investigation and submit the results and technical specifications to the authorities in July of 2017. Based on these documents the authorities brought a resolution on 15 September 2017 requiring MOL Petrochemicals and MOL Group to jointly perform this plan in order to manage the soil and underground water contamination. The total amount of liabilities originating from this plan can be estimated properly and MOL Petrochemicals and MOL Group set the required amount of environmental provision.

In addition, contingent liabilities exist for uncertain remediation tasks; their magnitude 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 1995 may give rise to future remediation of drilling mud produced (in 1995 there was modification in the drilling technology). In accordance with legal requirements the treatment (extraction and disposal) of the resulting pollutant is required. 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. According to current estimates the amount of the environmental liability is HUF 1.14 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 previous business combinations. As at 31 December 2019, on Group level the aggregate amount of environmental liabilities recorded on the statement of financial position was HUF 42.8 billion (31 December 2018: HUF 43.2 billion).

## 24. 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.

Analysis of net cash flow related to sale of subsidiaries, joint operations as business combinations	2019 HUF million	2018 HUF million
Cash consideration	-	22,087
Cash at bank or on hand disposed	-	-
<b>Net cash inflow / (outflow) related to sale of subsidiaries, joint operations</b>	<b>-</b>	<b>22,087</b>

Net cash outflow on acquisition of subsidiaries as asset-deals	2019 HUF million	2018 HUF million
Cash consideration	915	-
<b>Total</b>	<b>915</b>	<b>-</b>

Analysis of net cash outflow on acquisition of subsidiaries, joint operations as business combinations	2019 HUF million	2018 HUF million
Cash consideration	(56,192)	(12,555)
Cash at bank or on hand acquired	10,356	5,184
<b>Net cash outflow on acquisition of subsidiaries, joint operations</b>	<b>(45,836)</b>	<b>(7,371)</b>

Analysis of cash flow related to joint ventures and associates	2019 HUF million	2018 HUF million
Cash consideration of acquisition and capital increase	(1,849)	(1,550)
Cash consideration of sale and capital decrease	33	-
Dividend from joint ventures and associates	11,654	12,433
Net movements of loans	70	(1,065)
<b>Total</b>	<b>9,908</b>	<b>9,818</b>

Analysis of other items	2019 HUF million	2018 HUF million
Write-off of inventories, net	6,775	19,635
Write-off of receivables, net	526	(9,998)
Other non-highlighted items	36,010	(20,287)
<b>Total</b>	<b>43,311</b>	<b>(10,650)</b>

2018 balance	Cash flows used in financing activities	Acquisitions/ Disposals	Non-cash changes					Non- financing CF related movements	2019 balance
			Realised and non- realised FX	FV change on derivatives	Accrued Interest	New lease liabilities			
HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Long-term debt	354,880	107,860	1,566	5,206	-	16,849	96,056	-	582,417
Other non- current financial liabilities	4,476	(1,804)	-	54	-	-	-	412	3,138
Short-term debt	345,396	(56,469)	-	27,055	-	8,173	-	2,467	326,622
Other current financial liabilities	229,070	25,504	-	(5,665)	415	-	-	3,282	252,606
Total Cash flows used in financing activities from financial liabilities	75,091								
Other items impacting Cash flows used in financing activities*	(129,605)								
Total Cash flows used in financing activities	(54,514)								

\*From the HUF 129,605 million Other items impacting Cash flows used in financing activities, HUF 125,925 million is the paid dividend to shareholders from retained earnings.

## 25. 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 number of dividends and interest recognised 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.

The diluted earnings per share differs from the basic earnings per share due to dilutive effect of outstanding number of shares with conversion option at the end of the year, please refer to Note 4.

	Income HUF million	Weighted average number of shares	Earnings per share HUF million
Basic Earnings Per Share 2018	301,197	697,913,954	432
Diluted Earnings Per Share 2018	301,197	697,913,954	432
Basic Earnings Per Share 2019	223,214	704,367,982	317
Diluted Earnings Per Share 2019	223,214	710,992,821	314

## 26. Related party transactions

### a) Transactions with associated companies and joint ventures

	2019 HUF million	2018 HUF million
Trade and other receivables due from related parties	29,585	9,609
Trade and other payables due to related parties	11,302	11,755
Net sales to related parties	28,091	12,520

The Group purchased and sold goods and services with associated companies and joint ventures during the ordinary course of business in 2019 and 2018. All of these transactions were conducted under market prices and conditions.

#### b) Remuneration of the members of the Board of Directors

Directors' total remuneration approximated HUF 131 million in 2019 (2018: 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, Chief Executives' Committee and the Management

	2019 Number of shares	2018 Number of shares
Board of Directors	2,685,974	2,380,272
Chief Executives' and Management Committee (except Board of Directors members)	491,220	378,824
Senior Management (except Board of Directors, Chief Executives' and Management Committee members)	117,258	86,744
<b>Total</b>	<b>3,294,452</b>	<b>2,845,840</b>

#### d) Transactions with Management, officers and other related parties

In 2019 entities controlled by the members of key management personnel purchased fuel and other retail services from MOL Group in the total value of HUF 2,100 million. MOL Group provided subsidies through sponsorship for sport organisations controlled by key management personnel in the total value of HUF 589 million. MOL Group purchased other services (including PR, media, business operations related services) from companies controlled by key management personnel in the total value of HUF 470 million.

Entities controlled by key management personnel hold 2,100,000 shares.

### e) Key management compensation

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

	2019 HUF million	2018 HUF million
Salaries and wages	1,073	959
Other short-term benefits	345	851
Share-based payments	1,537	2,892
<b>Total</b>	<b>2,955</b>	<b>4,702</b>

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

No loans have been granted to key management personnel.

## 27. Events after the reporting period

No significant post - balance sheet event occurred.

## 28. 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:

- ▶ IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021, not yet endorsed by EU)
- ▶ Amendment to IFRS 3 Business Combination (effective for annual periods beginning on or after 1 January 2020, not yet endorsed by EU)
- ▶ Amendments to IAS 1 Presentation of Financial Statement and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material (effective for annual periods beginning on or after 1 January 2020)
- ▶ Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosure (effective for annual periods beginning on or after 1 January 2020)

The above-mentioned standards and amendments are not expected to significantly impact the Group's consolidated results, financial position or disclosures.



## b) Appendix II.: Subsidiaries

Company name	Country (Incorporation / Branch)	Range of activity	Ownership	
			2019	2018
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%
Croplin, d.o.o.	Croatia	Natural gas trading	49%	49%
Csanád Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
EMSZ Első Magyar Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
INA Adria B.V.	Netherlands	Exploration financing	49%	49%
INA Jadran d.o.o.	Croatia	Exploration and production activity	49%	49%
INA Naftaplin International Exploration and Production Ltd. <sup>4</sup>	United Kingdom	Exploration and production activity	-	49%
Kalegran B.V.	Netherlands	Exploration financing	100%	100%
Kalegran Ltd.	Iraq	Exploration and production activity	100%	100%
KMSZ Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
MH Oil and Gas BV.	Netherlands	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 Bázakerettye Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
MOL Bucsá Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
MOL Crossroads B.V. <sup>2</sup>	Netherlands	Exploration financing	100%	-
MOL Denmark B.V. <sup>2</sup>	Netherlands	Exploration financing	100%	-
MOL Dania APS <sup>2</sup>	Denmark	Exploration and production activity	100%	-
MOL Dráva Szénhidrogén Koncessziós Kft. <sup>2</sup>	Hungary	Exploration and production activity	100%	-
MOL (FED) Kazakhstan B. V. - Head office	Netherlands	Exploration financing	100%	100%
MOL (FED) Kazakhstan B.V. - Representative office	Kazakhstan	Exploration financing	100%	100%
MOL (FED) Kazakhstan B.V. - Branch office	Kazakhstan	Investment management	100%	100%
MOL Jászárószállítás Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
MOL Mezőtúr Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
MOL Nordsjön B.V.	Netherlands	Exploration financing	100%	100%
MOL Norge AS	Norway	Exploration activity	100%	100%
MOL Okány-Nyugat Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
MOL Őrség Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
MOL Pakistan Oil and Gas Co. B.V. - Head Office	Netherlands	Exploration financing	100%	100%
MOL Pakistan Oil and Gas Co. B.V. - Branch Office	Pakistan	Exploration and production activity	100%	100%
MOL-RUSS Ooo.	Russia	Management services	100%	100%
MOL Somogybükkösd Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
MOL Somogyvámos Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
MOL SZMDK Szénhidrogén Koncessziós Kft. <sup>2</sup>	Hungary	Exploration and production activity	100%	-
MOL West Oman B.V. - Head Office	Netherlands	Exploration financing	100%	100%
MOL West Oman B.V. - Oman Branch Office	Oman	Exploration activity	100%	100%
MOL Zala-Nyugat Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
Panfora Oil and Gas S.r.l.	Romania	Exploration and production activity	100%	100%
Tápió Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
Gas-Midstream				
FGSZ Földgázszállító Zrt.	Hungary	Natural gas transmission	100%	100%
Magyar Gáz Transzit Zrt. <sup>2</sup>	Hungary	Natural gas transmission	100%	-
Downstream				
IES S.p.A.	Italy	Refinery and marketing of oil products	100%	100%
Nelsa S.r.l.	Italy	Trading of oil products	74%	74%
MOL Group Italy L&G 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 Kosovo d.o.o.	Kosovo	Trading of oil products	49%	49%
INA Maziva Ltd.	Croatia	Lubricants production and trading	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 CEE Investments B.V. <sup>4</sup>	Netherlands	Investment management	-	100%
MOL Commodity Trading Kft.	Hungary	Financial services	100%	100%
MCT Slovakia s.r.o.	Slovakia	Financial services	100%	100%
MOL Germany GmbH	Germany	Trading of oil products	100%	100%
Aurora Kunststoffe GmbH <sup>2</sup>	Germany	Plastic compounding	100%	-
MOL Kunststoff Kft.	Hungary	Investment management	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 Petrokémia Zrt.	Hungary	Petrochemical production and trading	100%	100%
Tisza-WTP Kft. <sup>1</sup>	Hungary	Feed water and raw water supply	0%	0%
TVK-Erőmű Kft.	Hungary	Electricity production and distribution	100%	100%
MOL Slovenia Downstream Investment B.V.	Netherlands	Investment management	100%	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%	99%
MOL Ukraine LLC	Ukraine	Wholesale and retail trade	100%	100%
SLOVNAFT a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	100%	99%
Slovnaft Polska S.A.	Poland	Wholesale and retail trade	100%	99%
Slovnaft Trans a.s.	Slovakia	Transportation services	100%	99%
SWS s.r.o.	Slovakia	Transport support services	51%	50%
Vúrup a.s.	Slovakia	Research and development	100%	99%

Company name	Country (Incorporation / Branch)	Range of activity	Ownership	
			2019	2018
Terméktároló Zrt.	Hungary	Oil product storage	74%	74%
Zväz pre skladovanie zásob a.s.	Slovakia	Wholesale and retail trade, warehousing	100%	100%
<b>Consumer Services</b>				
Energopetrol d.d.	Bosnia and Herzegovina	Retail trade	44%	44%
Holdina 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 Maloprodajni servisi d.o.o.	Croatia	Trade agency in the domestic and foreign market	49%	49%
INA Slovenija d.o.o.	Slovenia	Trading of oil products	49%	49%
MOL Česká republika s.r.o.	Czech Republic	Wholesale and retail trade	100%	99%
MOL E-mobilitás Vagyongkezelő Kft.	Hungary	Investment management	100%	100%
MOL Fleet Holding Kft.	Hungary	Investment management	100%	100%
MOL Fleet Solution Flottakezelő Kft.	Hungary	Fleet management	100%	100%
MOL Limitless Mobility Holding Kft.	Hungary	Investment management	100%	100%
MOL Limitless Mobility Kft.	Hungary	Car sharing	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 Serbia d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
Port SPV d.o.o. <sup>2</sup>	Serbia	Water transportation services	100%	-
MOL Slovenia d.o.o.	Slovenia	Retail trade of fuels and lubricants	100%	100%
Petrol d.d.	Croatia	Trading of oil products	49%	49%
Slovnaft Mobility Services, s.r.o.	Slovakia	Rental services	100%	99%
Tifon d.o.o.	Croatia	Retail trade of fuels and lubricants	100%	100%
<b>Corporate and other</b>				
CEGE Közép-európai Geotermikus Energia Termelő Zrt.	Hungary	Geothermal energy production	100%	100%
CEGE Geotermikus Koncessziós Kft.	Hungary	Geothermal energy production	100%	100%
Croscos Naftni Servisi d.o.o.	Croatia	Oilfield services	49%	49%
Croscos B.V.	Netherlands	Oilfield services	49%	49%
Nordic Shipping Ltd.	Marshall Islands	Platform ownership	49%	49%
Croscos International d.o.o. (Tuzla)	Bosnia and Herzegovina	Oilfield services	49%	49%
Croscos S.A. DE C.V.	Mexico	Maintaining services	49%	49%
Croscos Ukraine LLC.	Ukraine	Oilfield 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%
INA Industrijski servisi d.o.o. <sup>2</sup>	Croatia	Investment management	49%	-
INA Vatrogasni Servisi d.o.o. <sup>2</sup>	Croatia	Firefighting services	49%	-
MOL Aréna Kft.	Hungary	Investment management	100%	100%
MOL CVC Investment Kft.	Hungary	Investment management	100%	100%
MOL Cyprus Co. Ltd.	Cyprus	Captive insurance	100%	100%
MOL GBS Slovensko s.r.o. <sup>2</sup>	Slovakia	Accounting services	100%	-
MOL Group Finance S.A. - Head Office	Luxembourg	Financial services	100%	100%
MOL Group Finance S.A. - Branch Office	Switzerland	Financial services	100%	100%
MOL Group International Services B.V.	Netherlands	Financial and accounting services	100%	100%
MOL Ingatlan Holding Kft.	Hungary	Investment management	100%	100%
MOL C.F. Kft.	Hungary	Real estate management	100%	100%
MOL Ingatlankezelő Kft.	Hungary	Real estate management	100%	100%
MOL Investment Kft.	Hungary	Financial services	100%	100%
MOL IT GBS Slovensko s.r.o. <sup>2</sup>	Slovakia	IT services	100%	-
MOL IT Holding Kft. (former: MOL E-mobilitás Kft.)	Hungary	Investment management	100%	100%
MOL Magyarország Szolgáltató Központ	Hungary	Business services	100%	100%
MOL Csoportszintű Pénzügyi Szolgáltató Kft. <sup>3</sup>	Hungary	Accounting services	-	100%
MOL Magyarország HR Szolgáltató Kft. <sup>3</sup>	Hungary	HR services	-	100%
MOL Magyarország Társasági Szolgáltató Kft.	Hungary	Company services	100%	100%
MOL GBS Magyarország Kft.	Hungary	Accounting services	100%	100%
MOL IT & Digital GBS Magyarország Kft.	Hungary	IT services	100%	100%
White Solar Energy Kft. <sup>2</sup>	Hungary	Power production	100%	-
MOL Reinsurance Co. DAC	Ireland	Captive insurance	100%	100%
MOL Vagyongkezelő Kft.	Hungary	Investment management	100%	100%
Multipont Program Zrt.	Hungary	Marketing agent activity	100%	100%
Neptunus Investment Kft.	Hungary	Investment management	100%	100%
Fonte Viva Kft.	Hungary	Mineral water production and distribution	100%	100%
OT Industries Vagyongkezelő Zrt.	Hungary	Investment management	100%	51%
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	100%	99%
MOL Solar Investment Kft.	Hungary	Investment management	100%	100%
MOL Solar Operator Kft.	Hungary	Power production	100%	100%
ISO-SZER Kft.	Hungary	Construction services	100%	98%
OT Industries-DKG Gépgyártó Zrt.	Hungary	Manufacturing of machinery and equipment	100%	51%
OT Industries Eszközhasznosító Kft.	Hungary	Leasing activity	100%	51%
OT Industries Fővállalkozó Zrt.	Hungary	Technical consultancy	100%	51%
OT Industries-KVV Kivitelező Zrt.	Hungary	Pipeline construction	100%	51%
OT Industries Tervező Zrt.	Hungary	Engineering activity	100%	51%
STSI Integrirani tehnički servisi d.o.o.	Croatia	Repairs and maintenance services	49%	49%
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 2019; 3) Merged to MOL GBS Magyarország Kft. Company; 4) Liquidated in 2019

### 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 derivative transactions.

#### Inventory holding gain / loss

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

#### Impairment on 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 recognised 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 recognised 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 recognised to the recoverable level.

#### Derivative transactions

CCS methodology is based on switching to period average crude oil prices, but the CCS effect together with the effect of commodity derivative transactions would lead to unnecessary duplication, the P&L effect of all commodity derivatives are eliminated.

#### CO2 adjustment

CO2 adjustment reevaluates provisions created in Downstream operation for CO2 consumption above freely allocated quotas, as defined in accounting policy, which ensures in the clean CCS result the accurate cost recognition in the given period also including smoother distribution within the financial year. It consequently eliminates rolled-over impacts between financial years, too.

#### Non-recurring special items

One-off items are single, significant (more than USD 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.

	2019	2018
	HUF million	HUF million
<b>Clean CCS profit / (loss) from operation reconciliation</b>		
<b>Profit / (loss) from operation</b>	<b>294,059</b>	<b>352,876</b>
Inventory holding gain / loss	(8,065)	(28,917)
Impairment on raw materials and own-produced inventory	(6,007)	10,298
- thereof affects raw materials	(635)	642
- thereof affects own-produced inventory	(5,014)	9,656
- thereof affects purchased goods/products inventory	(358)	-
Cargo hedge	406	4,017
CO2 adjustment	(978)	-
<b>CCS profit / (loss) from operation</b>	<b>279,415</b>	<b>338,275</b>
Impact of derivative transactions	34,893	(4,220)
Special items	24,111	9,848
<b>Clean CCS profit / (loss) from operation</b>	<b>338,419</b>	<b>343,903</b>

Special items	2019 HUF million	2018 HUF million
Profit / (loss) from operation excluding special items	318,170	362,724
<b>Upstream</b>		
Kalegran switch to accrual accounting	3,922	-
Year-end impairments (mainly in Hungary)	(7,927)	-
Impairment reversal in UK	-	21,227
Gain on INAgip acquisition	-	12,699
Impairment in INA Group	-	(20,158)
<b>Total special items in Upstream</b>	<b>(4,005)</b>	<b>13,768</b>
<b>Downstream</b>		
Environmental provision	(7,505)	-
Unutilised refinery impairment	(12,601)	-
Penalty from LDPE 4 constructor in Slovnaft a.s.	-	4,510
HCK (HydroCracker) impairment	-	(24,218)
<b>Total special items in Downstream</b>	<b>(20,106)</b>	<b>(19,708)</b>
<b>Corporate and Other</b>		
Impairment in geothermal energy investment project	-	(3,908)
<b>Total special items in Corporate and Other</b>	<b>-</b>	<b>(3,908)</b>
<b>Total impact of special items on profit / (loss) from operation</b>	<b>(24,111)</b>	<b>(9,848)</b>
<b>Profit / (loss) from operation</b>	<b>294,059</b>	<b>352,876</b>

## **d) Appendix IV.: Additional presentations according to the Hungarian Accounting Law**

### **Person responsible for supervising transactional accounting and preparation of IFRS financial statements**

Name: Ervin Berki

Registration number: 195106 (IFRS specialisation)

### **Person required to sign financial statements**

Name: Zsolt Hernádi

Address: HU – 1026 Budapest, Orló utca 7.

Name: József Simola

Address: HU – 1112 Budapest, Ördögöröm út 3/C A ép. 1.

### **Contacts**

Company name: MOL Plc.

Registered address: HU – 1117 Budapest, Október huszonharmadika utca 18.

Official website: [www.molgroup.info](http://www.molgroup.info)

### **Presentation of company controls**

In accordance with paragraph 89 of the Hungarian Accounting Law the financial statements include the itemised list of the name, registered address and voting percentage of all business associations in which the company has majority control according to the provisions of the Civil Code governing business associations. See Appendix II.

There is no such company which holds majority control or qualified majority control in MOL Plc.

### **Audit fees**

In accordance with paragraph 88 of the Hungarian Accounting Law the financial statements include the total fees for the financial year charged by the auditor or audit firm for the audit of annual accounts and for non-audit services. In the year of 2019 fee of audit was HUF 794.3 million and fee of non-audit services was HUF 40 million.

# MANAGEMENT DISCUSSION AND ANALYSIS OF 2019 BUSINESS OPERATIONS

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## 1. OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT

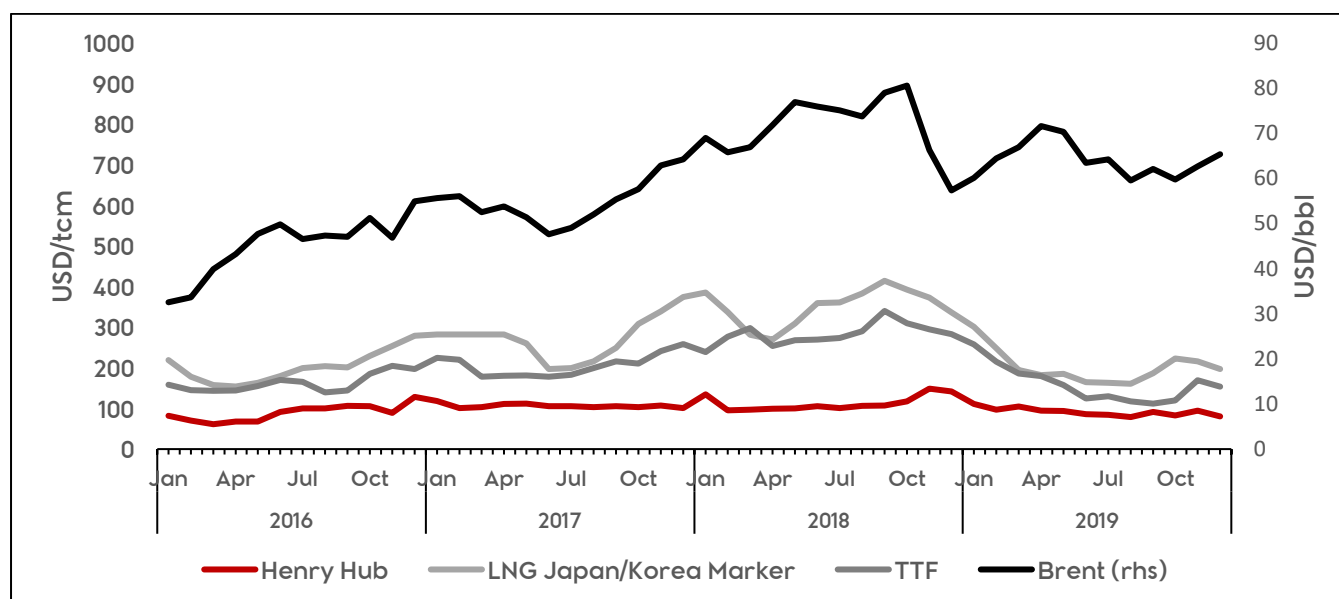
### Macroeconomic environment

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

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

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

**Figure 1 Brent and gas prices dtd (Bloomberg source)**



### Oil and natural gas market developments

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

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

## Downstream

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

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

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

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

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

Historical macro figures are available in the annual [Data Library](#) on the company's website.



## 2. INTEGRATED CORPORATE RISK MANAGEMENT

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

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

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

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

### The main risk drivers of the Group

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

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

- ▶ **Commodity price risk:** MOL is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks reflect the integrated business model with downstream processing more crude than own production and selling refined products. This risk is monitored in order to support strong financial position and capacity to fund operations and investments. When necessary, commodity hedging is considered to eliminate risks other than 'business as usual' risks or general market price volatility.
- ▶ **Foreign exchange (FX) risk:** MOL's current FX risk management policy is to monitor the FX risk and to balance the FX exposures of the operating & investment cash flow with the financing cash flow exposures when necessary and optimal.
- ▶ **Interest rate (IR) risk:** According to risk management policy of MOL Group IR risk is continuously monitored and managed by the adequate mix of funding portfolio.
- ▶ **Credit risk:** MOL Group provides products and services to a diversified customer portfolio - both from business segment and geographical point of view - with deferred payment terms - representing an acceptable credit risk profile. MOL Group's risk management tracks and manages these risks on a continuous basis and provides support to the sales processes in accordance with MOL Group's sales strategy and ability to bear risk.

#### Operational risks include, but are not limited to:

- ▶ **Physical asset safety and equipment breakdown risk:** High asset concentration in Downstream is a significant risk driver. The potential negative effects are mitigated by comprehensive HSE activities and a group-wide insurance management program.
- ▶ **Crude oil supply risk:** Crude supply disruption is a major risk factor for the Downstream business, as it can hamper continuous operations. In order to mitigate this risk, supplies of crude oil via pipelines are currently diversified with regular crude cargo deliveries from the Adriatic Sea.
- ▶ **Cyber risk:** Recently increased cyber risks need high attention and effective management to ensure the company is able to monitor, detect and respond to cyber threats. MOL has set up a clear vision and strategy in order to manage cyber incidents and cyber threats (people, process and technology) so the company is able to identify and manage cyber risks.

#### Strategic risks include, but are not limited to:

- ▶ **Regulatory risk:** MOL has significant exposure to a wide range of laws, regulations, environmental and government policies that may change significantly over time. Government actions may be affected by the elevated risk of economic and, in some regions, political crisis, increasing their impact on MOL's operations.
- ▶ **Country risk:** The international presence of MOL Group contributes to diversification but also exposure to country specific risk at the same time. Therefore, political risk and compliance are monitored with local regulations and international sanctions to keep country risk in the investment portfolio within acceptable limits.

- ▶ **Reputation risk:** MOL, as a major market player in the region, operates under special attention from a considerable number of stakeholders, and the Group is constantly seeking to meet their responsibilities towards them.
- ▶ **Climate change risk:** The transitional and physical risks associated with climate change have the potential to adversely impact MOL's current and future revenue streams, expenditures, assets and financing. MOL Group launched its 2030 Strategy as a response to the potential mid-long-term decrease in demand for fossil fuels, primarily driven by a combination of regulatory changes, electrification and digitalization of transportation, energy and fuel efficiency gains, as well as changes in consumer behaviour and advances in technology. MOL Group's transformational strategy is meant to respond to these challenges by opening new business lines, with an increasing focus on the extension of the (petro)chemical value chain. Several strategic and operational steps have been taken at both group and divisional level. For more details, go to the Management Discussion & Analysis, and the Notes on Sustainability Performance.

## Main risk management tools

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

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

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

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

### 3. FINANCIAL AND OPERATIONAL OVERVIEW OF 2019

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

#### Key financial data by business segment

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

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

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

	HUF billion			USD million		
Depreciation	FY 2019	FY 2018	Ch %	FY 2019	FY 2018	Ch %
Upstream	172.2	212.6	(19)	592	783	(24)
Downstream	143.8	132.4	9	493	486	1
Gas Midstream	14.0	13.7	2	48	51	(6)
Consumer Services	34.8	27.3	27	120	101	19
Corporate and other	27.1	27.1	0	93	100	(7)
Intersegment transfers <sup>(7)</sup>	(1.0)	(1.7)	(41)	(3)	(6)	(50)
<b>Total Depreciation</b>	<b>391.0</b>	<b>411.3</b>	<b>(5)</b>	<b>1,342</b>	<b>1,514</b>	<b>(11)</b>

Operating Profit	FY 2019	FY 2018	Ch %	FY 2019	FY 2018	Ch %
Upstream	136.9	144.3	(5)	473	532	(11)
Downstream	80.8	160.6	(50)	278	596	(53)
Gas Midstream	40.3	36.6	10	138	138	0
Consumer Services	102.5	87.6	17	352	322	9
Corporate and other	(64.3)	(69.0)	(7)	(222)	(255)	(13)
Intersegment transfers <sup>(7)</sup>	(2.1)	(7.3)	(71)	(8)	(29)	(72)
<b>Total Operating Profit</b>	<b>294.1</b>	<b>352.9</b>	<b>(17)</b>	<b>1,012</b>	<b>1,305</b>	<b>(22)</b>

Operating Profit Excluding Special Items <sup>(4)</sup>	FY 2019	FY 2018	Ch %	FY 2019	FY 2018	Ch %
Upstream	141.0	130.6	8	486	483	1
Downstream	100.9	180.3	(44)	346	665	(48)
Gas Midstream	40.3	36.6	10	138	138	0
Consumer Services	102.5	87.6	17	352	322	9
Corporate and other	(64.3)	(65.1)	(1)	(222)	(241)	(8)
Intersegment transfers <sup>(7)</sup>	(2.1)	(7.3)	(71)	(8)	(29)	(72)
<b>Total Operating Profit Excluding Special Items</b>	<b>318.2</b>	<b>362.7</b>	<b>(12)</b>	<b>1,092</b>	<b>1,339</b>	<b>(18)</b>

Capital Expenditures	FY 2019	FY 2018	Ch %	FY 2019	FY 2018 Restated	Ch %
Upstream	104.8	84.6	24	360	335	7
Downstream	416.3	170.1	145	1,422	617	130
Gas Midstream	48.9	9.4	420	163	34	379
Consumer Services	51.2	54.7	(6)	175	199	(12)
Corporate and other	38.4	42.3	(9)	131	151	(13)
Intersegment transfers <sup>(7)</sup>	(2.4)	(4.2)	(43)	(8)	(10)	(20)
<b>Total</b>	<b>657.2</b>	<b>356.8</b>	<b>84</b>	<b>2,242</b>	<b>1,326</b>	<b>69</b>

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

### 3.1 KEY ACHIEVEMENTS AND SUMMARY OF 2019 RESULTS

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

- ▶ The Upstream segment's EBITDA, excluding special items, reached HUF 305bn (USD 1.1bn) in 2019, representing a 13% decrease compared to 2018 reflecting lower oil and gas prices. Total hydrocarbon production remained unchanged year-on-year at 111 mboepd, while group-level average unit production cost increased slightly to USD 6.4/boe, but remained at a highly competitive level.
- ▶ Downstream Clean CCS EBITDA decreased by 6% to HUF 252bn. Profitability was adversely affected by deteriorating refining (MOL group refining margin was USD 4.2/bbl, down 22% year-on-year) and petrochemical margins (MOL Group Petrochemicals margin down by 7% to 372 EUR/t). This was partly offset by strong sales margin and lower energy prices, as well as the continuous internal efficiency improvement delivered as part of the DS2022 program.
- ▶ Consumer Services EBITDA increased in 2019 by 20% to HUF 137bn (USD 471mn), driven by the dynamic expansion of non-fuel margin and by healthy fuel market trends in the CEE, supporting both fuel volumes growth and fuel margins.
- ▶ Gas Midstream full-year EBITDA increased by 8% to HUF 54bn (USD 187mn) in 2019, mainly due to increasing domestic transmission revenues and declining OPEX.

- ▶ Corporate and other segment delivered an EBITDA loss of HUF 37bn in 2019, slightly decreasing year-on-year.
- ▶ Net financial expenses decreased significantly to HUF 17bn in 2019 compared to HUF 37bn in the previous year, as net interest expenses declined, and no big FX loss burdened the P&L in 2019.
- ▶ Total CAPEX spending reached HUF 609bn (USD 2.2bn) in 2019, increasing 71% year-on-year on, mainly due to the increasing spending on Downstream transformational projects. Sustain capex also rose in 2019, mainly because of the major turnarounds in Downstream.
- ▶ Operating cash flow before working capital increased marginally, by 1% to HUF 712bn, while operating cash flow increased by 18% year-on-year to HUF 704bn as there was no major movement in working capital in 2019 (as opposed to a rather large build up in the previous year).
- ▶ Net debt increased to HUF 559bn in 2019 from HUF 315bn a year ago. Net Debt/EBITDA rose to 0.82 from 0.41, and net gearing also increased to 19% from 12%, yet the level of indebtedness remained low and the balance sheet stayed very robust. MOL maintained investment grade credit rating at all the major credit rating institutions.
- ▶ Total headcount increased to 26,032 in 2019 from 25,970 in 2018.
- ▶ Key group financial and operational figures and historical financial statements are available in the annual [Data Library](#) on the company's website.

### Operational highlights

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

### 3.2 OUTLOOK ON THE STRATEGIC HORIZON

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

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

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

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

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

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

In Upstream, the primary target for 2020 is to successfully close the ACG/BTC acquisition in Azerbaijan and then to integrate the new assets. Otherwise, the priority and homework are very similar to the previous few years: to deliver on the promises and to maximize cash generation of the existing barrels through maintaining an efficient operation. With the addition of ACG, Upstream shall maintain a production level of around 120-130 mboepd through 2023 and further reduce its already very competitive unit production cost. This would allow the business to generate around USD 700mn Simplified Free Cash Flow annually at a USD 60/bbl oil price. Reserve replacement continues to be high on the agenda in the coming years, although the ACG acquisition was a significant milestone towards getting closer to the mid-term reserves ambitions. Exploration will continue in Norway in 2020, while MOL Group will also continue to monitor inorganic opportunities, but a transaction with the magnitude of the ACG deal is rather unlikely in the next couple of years.

### 3.3 UPSTREAM

Segment IFRS results (HUF bn)	FY 2019	FY 2018	Ch %
EBITDA	309.1	356.9	(13)
<b>EBITDA excl. spec. items<sup>(1)</sup></b>	<b>305.2</b>	<b>344.2</b>	<b>(11)</b>
Operating profit/(loss)	136.9	144.3	(5)
<b>Operating profit/(loss) excl. spec. items<sup>(1)</sup></b>	<b>141.0</b>	<b>130.6</b>	<b>8</b>
<b>CAPEX and investments</b>	<b>104.8</b>	<b>84.6</b>	<b>24</b>
o/w exploration CAPEX	27.5	18.9	46
<b>Hydrocarbon Production (mboepd)</b>	<b>FY 2019</b>	<b>FY 2018</b>	<b>Ch %</b>
<b>Crude oil production</b>	<b>47.8</b>	<b>44.5</b>	<b>7</b>
Hungary	11.7	13.0	(10)
Croatia	12.1	12.4	(3)
Kurdistan Region of Iraq	3.4	3.3	2
United Kingdom	17.6	12.7	39
Pakistan	0.6	0.9	(31)
Other International	2.4	2.1	13
<b>Natural gas production</b>	<b>47.8</b>	<b>51.2</b>	<b>(6)</b>
Hungary	22.7	24.9	(9)
Croatia	18.1	18.9	(4)
o/w. Croatia offshore	6.1	6.5	(6)
United Kingdom	1.1	1.3	(17)
Pakistan	5.9	6.0	(2)
<b>Condensate</b>	<b>6.3</b>	<b>6.5</b>	<b>(6)</b>
Hungary	3.4	3.6	(6)
Croatia	1.3	1.4	(11)
Pakistan	1.6	1.5	1
<b>Average hydrocarbon production of fully consolidated companies</b>	<b>101.9</b>	<b>102.2</b>	<b>0</b>
Russia (Baitex)	4.9	5.6	(13)
Kurdistan Region of Iraq (Pearl Petroleum)	4.2	2.8	55
<b>Average hydrocarbon production of joint ventures and associated companies</b>	<b>9.1</b>	<b>8.4</b>	<b>9</b>
<b>Group level average hydrocarbon production</b>	<b>111.0</b>	<b>110.6</b>	<b>0</b>
<b>Main external macro factors</b>	<b>FY 2019</b>	<b>FY 2018</b>	<b>Ch %</b>
Brent dated (USD/bbl)	64.3	71.0	(9)
HUF/USD average	290.7	270.2	8
CEGH gas price (EUR/MWh)	14.8	23.1	(36)
<b>Average realised hydrocarbon price</b>	<b>FY 2019</b>	<b>FY 2018</b>	<b>Ch %</b>
Crude oil and condensate price (USD/bbl)	60.5	65.3	(7)
Average realised gas price (USD/boe)	27.6	36.2	(24)
<b>Total hydrocarbon price (USD/boe)</b>	<b>46.1</b>	<b>51.1</b>	<b>(10)</b>
<b>Production cost (USD/boe)</b>			<b>Ch %</b>
<b>Average unit direct production cost of fully consolidated companies</b>	<b>7.1</b>	<b>6.9</b>	<b>2</b>
Average unit direct production cost of joint ventures and associated companies	1.9	1.8	6
Group level average unit direct production cost (USD/boe)	6.4	6.3	2
<b>Key Upstream ESG Indicators</b>	<b>FY 2019</b>	<b>FY 2018</b>	<b>Ch %</b>
Total Direct GHG (scope-1)	0.84	0.78	8
Volume of Spills (above 1 m3)	23.75	19.20	24
Total Recordable Injury Rate (own & contractors)	0.65	0.55	18
Total number of employees (average)	2,851	2,951	(3)

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



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

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

### 3.3.1 Financial overview of 2019

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

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

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

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

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

### Changes in the Upstream regulatory environment

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

### 3.3.2 Operational overview of 2019

#### Exploration

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

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

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

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

**In Norway,** operated and non-operated exploration activities continued. One operated well was drilled on PL539 and the well proved to be dry, and the second operated drilling has commenced on PL8205. In addition, MOL participated in the drilling of two



non-operated wells, Kark on PL019C, which was a sub-commercial discovery, and Freke/Gram on PL814, which proved to be dry. MOL Norge fully relinquished seven licences due to inferior prospectivity.

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

### Field Development and Production

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

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

**In Croatia**, EOR project with CO<sub>2</sub> and water injection continued on two oil fields, Ivanić and Žutica. Production optimization program continued with 64 completed well workovers and it contributed to 0.5 mboepd additional production on an annualized basis. INA also started artificial lift optimization through which sucker-rod pumps are being replaced with electrical submersible pumps. This yields less operating cost and lower number of workovers, leading to safer operations. Evaluation of early development well Legrad-1 South, drilled in 2018, has finished and the well proved to be dry.

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

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

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

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

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

### 3.4 DOWNSTREAM

Segment IFRS results (HUF bn)	FY 2019	FY 2018	Ch %
EBITDA	224.6	293.0	(23)
EBITDA excl. spec. items <sup>(1)</sup>	232.1	288.5	(20)
Clean CCS-based EBITDA <sup>(1) (2)</sup>	252.4	269.7	(6)
o/w Petrochemicals <sup>(1) (2)</sup>	82.9	86.6	(4)
Operating profit/(loss) reported	80.8	160.6	(50)
Operating profit/(loss) excl. spec. items <sup>(1)</sup>	100.9	180.3	(44)
Clean CCS-based operating profit/(loss) <sup>(1) (2)</sup>	121.2	161.5	(25)
CAPEX	403.1	170.1	137
o/w transformational	228.8	46.6	391
<b>MOL Group Without INA</b>			
EBITDA excl. spec. items <sup>(1)</sup>	241.4	296.8	(19)
Clean CCS-based EBITDA <sup>(1) (2)</sup>	260.0	285.6	(9)
o/w Petrochemicals clean CCS-based EBITDA <sup>(1) (2)</sup>	82.9	86.6	(4)
Operating profit/(loss) excl. spec. items <sup>(1)</sup>	136.3	207.2	(34)
Clean CCS-based operating profit/(loss) <sup>(1) (2)</sup>	154.9	196.0	(21)
<b>INA Group</b>			
EBITDA excl. spec. items <sup>(1)</sup>	(9.2)	(8.2)	12
Clean CCS-based EBITDA <sup>(1) (2)</sup>	(7.6)	(15.9)	(52)
Operating profit/(loss) excl. spec. items <sup>(1)</sup>	(35.4)	(26.9)	31
Clean CCS-based operating profit/(loss) <sup>(1) (2)</sup>	(33.7)	(34.6)	(2)
<b>Refinery margin</b>			
Total MOL Group refinery margin (USD/bbl)	4.2	5.4	(22)
Complex refinery margin (MOL+Slovnaft) (USD/bbl)	5.1	6.3	(18)
MOL Group petrochemicals margin (EUR/t) <sup>(9)</sup>	372	399	(7)
<b>External refined product and petrochemical sales by country (kt)</b>			
	FY 2019 restated	FY 2018 restated	Ch %
Hungary	5,074.6	5,009.4	1
Slovakia	1,931.2	1,857.8	4
Croatia	2,219.5	2,008.2	11
Italy	1,949.6	2,061.0	(5)
Other markets	8,807.1	8,938.5	(1)
<b>Total</b>	<b>19,981.9</b>	<b>19,874.8</b>	<b>1</b>
<b>External refined and petrochemical product sales by product (kt)<sup>(13)</sup></b>			
	FY 2019 restated	FY 2018 restated	Ch %
<b>Total refined products</b>	<b>18,657</b>	<b>18,410</b>	<b>1</b>
o/w Motor gasoline	4,018	3,699	9
o/w Diesel	10,592	10,382	2
o/w Fuel oil	394	612	(36)
o/w Bitumen	551	563	(2)
<b>Total petrochemicals products</b>	<b>1,324</b>	<b>1,465</b>	<b>(10)</b>
o/w Olefin products	210	219	(4)
o/w Polymer products	1,033	1,159	(11)
o/w Butadiene products	81	87	(7)
<b>Total refined and petrochemicals products</b>	<b>19,981</b>	<b>19,875</b>	<b>1</b>
<b>Key Downstream ESG Indicators</b>			
	FY 2019	FY 2018	Ch %
Total Direct GHG (scope-1)	5.91	6.40	(8)
Volume of Spills (above 1 m3)	282.50	10.00	n.a.
Total Recordable Injury Rate (own & contractors)	2.40	3.15	(24)
Process Safety Events TIER 1+2	24	19	26
Total number of employees (average)	9,541	9,643	(1)

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

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

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

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

### 3.4.1 Financial overview of 2019

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

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

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

### 3.4.2 Operational overview of 2019

In Production the volume of processed total raw material and crude oil reached 17.5mn tons and 14.5mn tons, respectively. This was achieved despite the REB chloride content crisis, which was efficiently managed along the supply chain. Petrochemicals utilization slightly decreased from 93.8% to 92.5% due to planned and unplanned shutdowns. 2019 marked the execution of major turnarounds (TAs) in Slovnaft, INA and MPC sites, out of which Rijeka Refinery has conducted its biggest ever TA in its history. Besides regular maintenance activities, the projects improving energy efficiency, yield and decreasing environmental impact were also successfully implemented during the turnaround. Although there is always room for improvement in the HSE performance, the area has improved materially in 2019, resulting in more than 20% lower TRIR compared to last year. By the end of the year the Group started to produce E10 grade gasoline on sites according to the national regulations enabling smooth and flawless introduction of new grade to the market.

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

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

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

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

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

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

### 3.5 INNOVATIVE BUSINESSES AND SERVICES

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

#### 3.5.1 Consumer Services

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

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

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

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

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

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

##### 3.5.1.1 Financial overview of 2019

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

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

##### 3.5.1.2 Operational overview of 2019

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

#### Retail

Retail completed over 350 reconstruction, car wash and growth projects, continuing with the installation of the new non-fuel concept, Fresh Corner at the stations. Number of Fresh Corners increased by 28% in 2019. Closing number of own SeSs is close to 1,850, whilst together with the franchise network over 1,900. MOL Group maintained a leading position on the Hungarian, Croatian and Slovakian markets, as well as in Bosnia and Herzegovina, and remained the second largest market player on the Czech market, and the third largest market player on the Slovenian & Romanian markets and in Montenegro.

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

MOL Group has been continuing the development of their Gastro offer to its customers. Based on the results of the Fresh Corner brand launched coffee concept MOL Group started the implementation of the hot-dog concept offering hot snacks in ca. 700 SeSs

in 2019 for the people on the go. Grocery Category Management has been enhanced to the next level by implementing Spaceman Planogram developing software and by developing Supplier Management to increase the level of their contribution to the margin and strengthen the strategic cooperation with biggest suppliers on group level.

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

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

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

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

## **Mobility**

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

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

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

### **3.5.2 Industrial Services<sup>(15)</sup>**

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

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

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

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

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

### 3.6 GAS MIDSTREAM

Segment IFRS results (HUF bn)	FY 2019	FY 2018	Ch %
EBITDA	54.2	50.3	8
<b>EBITDA excl. spec. items<sup>(1)</sup></b>	<b>54.2</b>	<b>50.3</b>	<b>8</b>
Operating profit/(loss) reported	40.3	36.6	10
<b>Operating profit/(loss) reported excl. spec. items<sup>(1)</sup></b>	<b>40.3</b>	<b>36.6</b>	<b>10</b>
<b>CAPEX and investments</b>	<b>48.9</b>	<b>9.4</b>	<b>420</b>
o/w organic	12.9	9.4	37
Key Gas Midstream ESG Indicators	FY 2019	FY 2018	Ch %
Total Direct GHG (scope-1)	0.24	0.19	22
Volume of Spills (above 1 m3)	0.00	0.00	n.a.
Lost Time Injury Frequency (own staff)	0	0	n.a.
Total number of employees	677	688	(2)

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

#### 3.6.1 Financial overview of 2019

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

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

#### 3.6.2 Operational overview of 2019

FGSZ is the sole operator of the nearly 6,000km long high-pressure natural gas transmission pipeline system in Hungary as FGSZ completed the acquisition of Hungarian Gas Transit Ltd. (MGT Zrt.) in Q4 2019. It performs its main activity under market conditions regulated by law. Beside the domestic natural gas transmission, FGSZ is also engaged in international transmission activities and operates bidirectional interconnection points with Slovak Republic, Ukraine, Romania and Croatia and unidirectional inlet point from Austria and exit point to Serbia.. The security of supply of Hungary is inseparable from the energy security of the CEE region and whole Europe. Therefore, within the framework of European gas market cooperation based on mutual advantages, FGSZ aims to ensure the interoperability of the natural gas networks of the region on the part of Hungary; FGSZ also strives to increase the volume of transmission and transit through Hungary. The developments of the pipeline and trade infrastructure implemented by FGSZ in the recent years laid down the foundations for the company's future, the completion of the company's role in the regional gas distribution.

On October 10, 2019, FGSZ Ltd. became 100% owner of Hungarian Gas Transit Ltd. through the acquisition of the state-owned MGT shares, successfully completing the transaction to acquire MGT's line of business and its state-owned shares. The sale of MGT was governed by Government resolution No. 1366/2019 (VI.25). The transaction agreement was signed by FGSZ and MGT on June 28, 2019. In accordance with the agreement FGSZ has completed the payment of HUF 38bn (including the prepayment of MGT's loans) to the Hungarian state for the Slovakian-Hungarian natural gas interconnector pipeline system. On October 4, 2019, FGSZ took over the operation of the 92km long natural gas transmission pipeline connecting Hungary to Slovakia.

The Regional Booking Platform (RBP) of FGSZ is an IT application developed in accordance with the EU network code governing the capacity allocation mechanisms used in natural gas transmission networks and with other relevant EU and national legislation<sup>(16)</sup> The capacity allocation application enables capacity allocation procedures and secondary capacity trading among other services. Today – beyond FGSZ – nine further transmission system operators use it partially or entirely on their system capacities throughout the EU: Eustream (Slovakia), Transgaz (Romania), Plinacro (Croatia), Bulgartransgaz (Bulgaria), DESFA (Greece), Gas Connect Austria (Austria), Gascade (Germany), Ontras (Germany) and Gaz-System (Poland).



## 4. APPENDICES

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

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

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



## APPENDIX II - NOTES

Number of footnote	
(1)	Special items that affected operating profit and EBITDA are detailed in Appendix I.
(2)	As of Q2 2013 MOL Group's applied clean CCS methodology eliminates from EBITDA/operating profit inventory holding gain / loss (i.e.: reflecting actual cost of supply of crude oil and other major raw materials); impairment on inventories; FX gains / losses on debtors and creditors; furthermore, adjusts EBITDA/operating profit by accurate CO2 cost recognition and capturing the results of underlying commodity derivative transactions. Clean CCS figures of the base periods were modified as well according to the improved methodology.
(3)	Both the 2018 and 2019 figures have been calculated by converting the results of each month in the period on its actual monthly average HUF/USD rate.
(4)	Net gearing: net debt divided by net debt plus shareholders' equity including non-controlling interests.
(5)	Brent dated price vs. average Ural MED and Ural ROTT prices.
(6)	Net external sales revenues and operating profit includes the profit arising both from sales to third parties and transfers to the other business segments. Upstream transfers domestically produced crude oil, condensates and LPG to Downstream and natural gas to the Gas Midstream segment. The internal transfer prices used are based on prevailing market prices. The gas transfer price equals the average import price. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.
(7)	This line shows the effect on operating profit of the change in the amount of unrealised profit deferred in respect of transfers between segments. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. Unrealised profits arise principally in respect of transfers from Upstream to Downstream and Gas Midstream.
(8)	From 2016 Austrian retail operations were reclassified into wholesale.
(9)	As of January 2018 an updated formula for calculating the „MOL Group petrochemicals margin“ was introduced, replacing the previous „Integrated petrochemical margin“. The purpose of the new formula is to better reflect the petchem product slate of the group.
(10)	CIF Med parity
(11)	FOB Rotterdam parity
(12)	FOB Med parity
(13)	Retail segment sales are shown in chapter 3.5.4. ("Consumer Services").
(14)	Regional diesel and gasoline figures do not reflect full year in the case of Croatia; because of data availability the average of January-November YoY figure is presented.
(15)	Internal corporate governance and external reporting structure of Innovative Businesses and Services are different, thus the financial result of the Industrial Services and new Ventures unit of the Innovative Businesses and Services segment is reported within „Corporate and other“ segment.
(16)	Commission Regulation (EU) No 2017/459 on capacity allocation, Commission Regulation (EU) No 2017/460 on tariff, Regulation (EU) No 2012/490 (contractual congestion management), Regulation (EU) No 1227/2011 (REMIT), Regulation (EU) No 703/2015 (interoperability), Directive 2000/31/EC (electronic commerce), Regulation (EU) No 910/2014 (eIDAS)

## 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 its announced 2019 consolidated financial statement, which has been prepared to the best of our knowledge based on Section 10 of the Hungarian Accounting Act, in accordance with International Financial Reporting Standards (IFRS), and give a true and fair view of the assets, liabilities, financial position, and profit and loss of MOL Plc.

Moreover, we declare that the Management Discussion and Analysis presents a fair review of the position, development and performance of MOL Plc. and its consolidated companies with a description of principal risks and uncertainties.

Please note that our Company's position on the effects of the coronavirus epidemic is not included in the 2019 Annual Report. In this regard, we published detailed information on the Company website on 8 April 2020, which includes the current situation, our main measures, and our future expectations. The information is available at the following link: <https://molgroup.info/en/investor-relations/investor-news/operational-and-financial-update>

Budapest, 30 April 2020



József Molnár  
Group Chief Executive Officer



József Simola  
Group Chief Financial Officer