

INTEGRATED CORPORATE RISK MANAGEMENT FUNCTION

The aim of MOL Group Risk Management is to deal with challenges of the business environment to support stable and sustainable operation and future growth of the company. MOL Group has developed a risk management function as an integral part of its corporate governance structure.

Incorporation of the broadest variety of risks into one long-term, comprehensive and dynamic system is arranged by Enterprise Risk Management (ERM) on group level. ERM integrates financial and operational risks along with a wide range of strategic risks, also taking into consideration compliance issues and potential reputation effects. The ERM process identifies the most significant risks to the performance of the company. Risks are assessed based on a unified methodology and collected into risk maps at different levels. Risk responses and controls are reviewed and mitigation actions set and reviewed for completion regularly by top management.

THE MAIN RISK DRIVERS OF THE GROUP ARE THE FOLLOWING

- **Commodity price risk:** MOL is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks stem from a long crude oil position to the extent of its group level production, a long refinery margin position to the extent of the refined product volumes and a long petrochemical margin position. Investors buying shares in oil companies are generally willing to take the risk of the oil business so commodity price risk should not be fully eliminated from the cash flow. However, commodity hedge deals are considered to eliminate risks beyond 'business as usual' risks and general market price volatility.
- **Foreign Exchange (FX) risk:** Financially, business operations are driven mainly by USD. The overall operating cashflow exposure of the Group is net long USD, EUR, RON, and net short HUF, HRK, RUB from a finance point of view. According to MOL's current FX risk management policy, the long FX exposures of the operating cash flow are decreased by short financing cash flow exposures.



- **Regulatory risk:** Due to the economic crisis, the risk of potential government actions increased as well as potential impact of such decisions.
- **Country risks:** The internationally extending portfolio requires the proper management of country risk exposures. Country exposures are monitored to enhance the diversification effect in the investment portfolio.
- **Drilling risks:** The uncertainty related to drilling success is a typical business risk in exploration activities.
- **Equipment breakdown:** Due to the high asset concentration in Downstream business, this is a significant risk driver. Potential negative effects are mitigated besides comprehensive HSE activities through a Group-wide insurance management program.
- **Market demand uncertainties:** External factors, such as drop in market demand, can affect MOL's results negatively.
- **Reputation risk:** Reputation of energy industry players has been in the focus of media in recent years due to extreme negative events (e.g. BP oil spill, Fukushima nuclear disaster). As a major market player in the region, MOL operates under special attention from stakeholders. Some of the risks are managed centrally, while some are dealt with by affected MOL Group companies or within the Business Units or Functions, overseen always by nominated risk owners. Risk Management regularly controls the realisation of these risk mitigation actions – in the form of quarterly reports.

MAIN RISK MANAGEMENT TOOLS

Enterprise Risk Management is a framework covering Business Units and Functional Units, which ensures incorporation of risks faced by the company into Risk Maps.

Risk analysis activity supports stable and efficient operation by identifying key risks that threaten achievement of company objectives and require specific attention by Top Management through strengthened controls or execution of mitigation actions. Risk Maps is a heat map used to graphically present major risks on a matrix using probability and impact ratings as a result of detailed risk assessment processes. Risk Maps integrate Strategic, Operational and Financial risks, which are identified and reassessed on a quarterly basis, providing regular updates to Top Management on evolution of risks and status of mitigation actions.

To ensure the profitability and 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 by using a complex model based on Monte Carlo simulation, and are managed – if necessary - with risk mitigation tools (such as swaps, forwards and options). Transfer of excess operational risks is performed by **Insurance Management**. The purchase of insurance represents an important risk mitigation tool used to cover the most relevant operational and liability exposures. The major insurance types are: Property Damage, Business Interruption, Liability and Control of Well Insurance, set around a yearly cycle (i.e. annual renewal of most insurance programs). Insurance is managed through a joint program for the whole MOL Group to exploit considerable synergy effects.

VALUABLE SYNERGIES CAN BE EXPLOITED WHEN RISK IS APPROACHED IN A COMPREHENSIVE WAY

The existence of an integrated risk management function enables MOL to exploit the synergies between the above detailed pillars of risk management. The input sources for modelling financial risks are also applied in ERM. Similarly, the accumulated information on operational risks gained through managing insurances is also an important factor in ERM development. The results of ERM on operational risks (including business continuity management) can give a better direction to insurance management by highlighting areas that should be covered by insurance as a must and which are those where further analysis is required to make decisions on how to manage the related risks.

DECISION-MAKING SUPPORT OF CAPITAL ALLOCATION

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