MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS OF 2014 BUSINESS OPERATIONS

SUMMARY OF 2014 RESULTS

In 2014, MOL Group delivered a clean CCS EBITDA of HUF 511bn (or USD 2.2bn) which is a mere 1% decrease in HUF terms compared to 2013.

In Upstream, the 24% or HUF 86bn decrease, excluding special items, was mainly attributable to a lower oil price, the natural decline of matured assets and adverse regulatory changes. The combined effect of a regulated gas price reduction and doubled royalties in Croatia reached HUF 20bn in 2014. Moreover, the impact of asset divestures in Russia (ZMB in Q3 2013 and 49% of BaiTex LLC in Q1 2014) has only been partially mitigated by new asset purchases in the North Sea and intensified field development activities in our international operations. However, the Upstream division met its strategic targets, delivered the production level forecasted, and lower lifting costs in 2014 on a like-for-like portfolio basis.

The Downstream division's clean CCS results were 32% ahead of similar figures in 2013. MOL Group's refinery margin, as well as the integrated petrochemical margin, widened, which, together with better retail performance, supported the results. The implementation of efficiency improvement measures also played a key role in the outstanding results. In 2014, MOL Group successfully completed its three-year New Downstream Program, which delivered a USD 500mn improvement, hence elevating the results. However, a few planned and unplanned shutdowns and the non-recurring costs of the Mantua Refinery conversion hindered the full capture of more favourable market conditions.

Gas Midstream's contribution was more than 37% lower than a year ago. This significant drop was a result of an enforced gas inventory sale due to regulatory changes in Croatia, and a lack of revenue from storage following the sale of MMBF in Q4 2013.

In 2014, MOL Group generated HUF 422bn operating cash flow, before working capital changes, which was 16% behind the 2013 value. The decrease reflects the fact that reported EBITDA shrank (by HUF 113bn) well ahead of clean CCS figures on a similar basis (down by HUF 5bn).

- **Upstream:** The Upstream division's EBITDA, excluding special items, reached HUF 270bn - lower than 2013's performance by 24%. This was negatively affected by: (1) lower average realised hydrocarbon prices due to unfavourable changes in oil and gas prices; (2) the reduction of the regulated gas price and doubled royalties in Croatia; (3) lower production from matured CEE assets and due to Russian divestures (ZMB in Q3 2013 and 49% of BaiTex LLC in Q1 2014); (4) higher exploration costs in relation to accelerated international work programmes; and (5) an increase in Q1 2013 Upstream performance by HUF 8bn non-recurring revenue due to a modification to the transfer parity of Croatian crude oil.

- **Downstream:** In Downstream, clean-CCS-based EBITDA came in 32% stronger and amounted to HUF 206bn. The improvement was supported by: (1) a 23% uplift of the integrated petrochemical margin; (2) a significantly improved retail contribution supported by a sales increase in core countries and higher captured margins; (3) the widening Group refinery margin by over 1 USD/bbl, (4) positive sales margins development; and (5) the implementation of New Downstream Efficiency measures.

- **Gas Midstream:** In 2014, EBITDA, excluding special items, amounted to HUF 37bn, 37% lower compared to the base period. This significant drop is a result of an enforced gas inventory sale due to regulatory changes in Croatia and lack of storage revenues following the sale of the Hungarian storage unit (MMBF) in Q4 2013 (HUF 21bn contribution in the base period). The Hungarian gas transmission business delivered solid results in light of a further cut in regulated returns in November 2013.

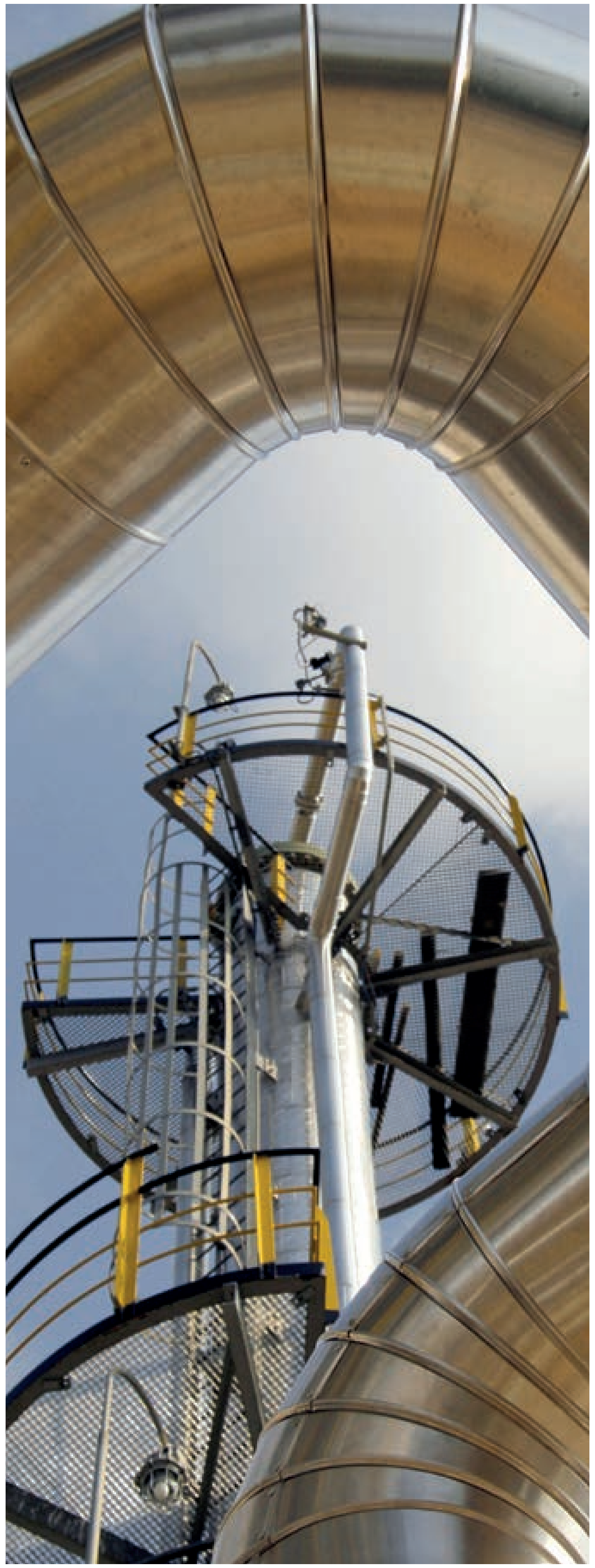
- **Corporate and other divisions** delivered an EBITDA improvement of HUF 21bn in 2014 and amounted to HUF (22bn). Beyond cost-cutting measures in the corporate centre, this was mostly attributable to higher contributions from oil service companies due to a better utilisation rate of rigs.

- **Net financial expenses** rose to HUF 104bn in 2014 compared to HUF 58bn in the base period, mainly as a result of the weakening HUF, which was mostly represented in net foreign exchange losses on borrowings and payables.

- **CAPEX spending** reached HUF 534bn in 2014, of which HUF 135bn targeted inorganic investments mainly through the completion of North Sea acquisitions and a retail network acquisition composed of 44 stations in the Czech Republic. Organic CAPEX amounted to HUF 399bn. Consistent with our strategy, organic CAPEX spending was skewed to Upstream with HUF 205bn spent. Downstream CAPEX grew nearly 100% year-on-year and organic expenditure amounted to HUF 173bn, 44% of which relates to the construction of the Butadiene plant, the LDPE4 unit and the reconstruction of the Friendship I crude oil pipeline, while the remaining 56% is made up by maintenance, sustain, legal and efficiency spending.

- **Operating cash flow** before working capital changes dropped by 16% to HUF 422bn mostly due to lower Upstream cash generation. Operating cash flow amounted to HUF 435bn (lower by 29% compared to the base period), which also reflected higher cash outflows in the working capital lines.

- **The decreasing trend of indebtedness ratios** stopped, however still remained on favourable levels. The slight increase is partially due to cash outflow regarding the current year's upstream and retail asset acquisitions, and partially due to FX changes. The Net gearing ratio increased to 19.6% at the end of the period, increasing by close to 4 percentage points against the base period, while net debt to EBITDA reached 1.31 by the end of the year.



KEY FINANCIAL DATA BY BUSINESS SEGMENT

NET SALES REVENUES	FY 2013	FY 2014	FY 2013	FY 2014
	(HUF mn)	(HUF mn)	(USD mn)[5]	(USD mn)[5]
Upstream	608,258	514,092	2,719	2,215
Downstream	4,847,969	4,410,471	21,672	19,008
Gas Midstream	385,522	232,806	1,723	1,006
Corporate and other	201,009	217,220	899	932
Total	6,042,758	5,374,589	27,013	23,161
Total External Net Sales Revenue	5,400,417	4,866,607	24,141	20,975
EBITDA	FY 2013	FY 2014	FY 2013	FY 2014
	(HUF mn)	(HUF mn)	(USD mn)[5]	(USD mn)[5]
Upstream	367,005	285,784	1,641	1,233
Downstream	108,492	95,512	485	428
Gas Midstream	55,930	37,020	250	157
Corporate and other	(42,201)	(23,509)	(189)	(99)
Inter-segment transfers[2]	31,832	13,557	142	57
Total	521,058	408,364	2,329	1,776
EBITDA EXCL. SPECIAL ITEMS[3]	FY 2013	FY 2014	FY 2013	FY 2014
	(HUF mn)	(HUF mn)	(USD mn)[5]	(USD mn)[5]
Upstream	356,498	270,381	1,594	1,165
Downstream	134,579	110,795	602	488
Clean CCS-based DS EBITDA[3,4]	156,827	206,333	701	874
Gas Midstream	58,781	37,019	263	157
Corporate and other	(42,201)	(21,532)	(190)	(91)
Inter-segment transfers[2]	(13,431)	13,558	(60)	57
Total*	494,226	410,221	2,209	1,776
Clean CCS-based EBITDA[3,4]	516,474	510,607	2,308	2,183
OPERATING PROFITS	FY 2013	FY 2014	FY 2013	FY 2014
	(HUF mn)	(HUF mn)	(USD mn)[5]	(USD mn)[5]
Upstream	142,432	75,275	637	352
Downstream	(169,659)	(31,579)	(758)	(113)
Gas Midstream	34,009	23,532	152	99
Corporate and other	(62,351)	(43,525)	(279)	(184)
Inter-segment transfers[2]	36,941	16,377	165	69
Total	(18,628)	40,080	(83)	223
OPERATING PROFITS EXCL. SPECIAL ITEMS[3]	FY 2013	FY 2014	FY 2013	FY 2014
	(HUF mn)	(HUF mn)	(USD mn)[5]	(USD mn)[5]
Upstream	175,290	110,301	784	485
Downstream	6,986	(306)	31	10
Gas Midstream	36,860	23,532	165	99
Corporate and other	(62,351)	(40,835)	(279)	(174)
Inter-segment transfers[2]	(8,322)	16,377	(37)	69
Total	148,463	109,069	664	489

* In 2014, the intersegment line contains HUF 4,848mn (USD 21mn) non-recurring inventory loss related to methodology changes, which impacted the Group CCS line.
Notes and special items listed in Appendix I and II.

STRATEGIC OUTLOOK FOR MOL GROUP IN 2015

Around USD 2bn is achievable in 2015 with our strong, resilient integrated business model

The year 2014 was challenging not only for MOL Group, but for the whole oil & gas sector, with the oil price plunging by almost half. Despite a tough external environment, MOL Group managed to deliver strong results reaching USD 2.2bn Clean CCS EBITDA. Furthermore, we managed to sustain a strong cash flow generating ability, growing our capital expenditures to an all-time high, while keeping gearing and indebtedness at relatively low levels of 19.6% and 1.31x respectively.
The last twelve months have demonstrated that MOL Group is well protected against sharp drops in oil prices, and will continue to be for the foreseeable future, given the strength and resilience of our integrated business model. Having achieved the right balance between Upstream and Downstream (each contributing 53% and 40% respectively to Group CCS EBITDA in 2014), will allow MOL Group is expected to reach around USD 2bn CCS Group EBITDA for 2015, even at around a 60 USD/bbl price environment.

During 2014, MOL Group invested its highest level of organic CAPEX (USD 1.7bn) of the past five years, to fuel its future growth. For 2015, we foresee a USD1.5-1.8bn CAPEX level, retaining further flexibility due to a combination of scope adjustments, the potential effects of lower oil prices on key partners and increased scrutiny and evaluation of projects.
In line with our conservative financial policy, organic CAPEX is expected to be covered by operating cash flow.

Growing production and utilisation of inorganic opportunities is the focus of Upstream

For Upstream, 2014 production reached 98 mboepd, ahead of our original target of 91-96 mboepd. Production has been growing since mid-2014 and we expect the continuation of this trend in 2015. The Upstream portfolio in its current form will be able to deliver a production level of 105-110 mboepd for 2015. Furthermore, MOL Group surpassed the 100% organic reserve replacement ratio, reaching a level of 103% during 2014. We are aiming to maintain this level going forward.

At the same time we intend to maintain rigorous discipline to keep lifting costs in a flat to declining range country by country. For 2015, we expect total CAPEX for Upstream to reach USD 0.9bn, of which a fifth will be earmarked for exploration projects.

MOL Group wants to continue its active portfolio management approach, which we followed during 2013 and 2014 when we disposed of some assets in Russia and entered into the North Sea regions through acquisition of several non-operated offshore assets.

Although a continued low oil price poses a great challenge for Upstream, we believe that MOL Group can benefit from the lower oil price environment by seizing attractive new opportunities in the markets where we operate. While there is no rush to do so, a healthy balance sheet and an overall strong financial position allows us to be ready to act in case the right opportunity presents itself, as we aim to balance further the portfolio in terms of country risk, and seek new accretive exploration and development opportunities to grow our international E&P portfolio.

Next Downstream Program targets USD 0.9bn normalised free cash flow by 2017

Downstream delivered strong results during 2014, reporting CCS EBITDA of USD 0.87bn, an increase of 25% in USD terms compared to 2013. Additionally, the New Downstream Program was successfully closed in 2014, fully delivering on our USD 500mn promise. Despite these major achievements, MOL Group will continue to implement structural changes to put Downstream on an even stronger footing, consolidating our position as one of the most successful integrated Downstream businesses in Europe. Based on the 2014 average macro environment, the target of Downstream is to reach a CCS EBITDA level of USD 1.3-1.4bn, with normalised cashflow (Clean CCS EBITDA minus CAPEX excluding investments into large strategic projects) of USD 900mn, both by 2017. Through a combination of more than 150 individual actions, the launch of the Next Downstream Development Program for the period of 2015-17 will target an additional USD 500mn in improvements, as we launch further asset and market efficiency measures and several strategic growth projects. The aforementioned efficiency improvements are expected to contribute USD 350mn and will be composed of comprehensive production-, supply- and sales-, as well as retail-specific actions. The envisaged CAPEX needed for efficiency improvements is USD 500mn.

The Next Downstream Program's initiatives within the strategic projects' group is planned to deliver a USD 150mn improvement. 2015 will witness the start of the butadiene extraction unit in the TVK petrochemical plant in Hungary, as well as the new low-density polyethylene plant (LDPE-4) in Bratislava which will replace all three old-fashioned production units currently in operation. The development of these two projects during the coming twelve months and the subsequent extension of the petrochemical value chain will further strengthen MOL Group's place among the top ten petrochemical players in Europe. We continued our regional retail expansion with two announced acquisitions during 2014, and our future approach remains unchanged. We will develop the existing retail network, while proactively pursuing inorganic growth opportunities in the CEE region within the supply radius of our refineries. A conceptual change in retail will gradually convert filling stations into broader sales points in order to maximise non-fuel sales revenue.

UPSTREAM OVERVIEW

HIGHLIGHTS

- Production on the rise since mid-2014, 98 mboepd average production delivered in 2014, exceeding original guidance
- Organic Reserve Replacement Ratio of 103% in 2014
- Successfully closed two deals in the North Sea region
- Started commercial production in the Akri-Bijeel block in the Kurdistan Region of Iraq
- Production to increase by around 10% to 105-110 mboepd in 2015
- Utilised opportunities to balance risk and sought new accretive exploration and development opportunities

OVERVIEW OF 2014

Results hit by lower crude oil prices, regulatory changes and lower yearly average production levels

- Lower average realised hydrocarbon prices due to unfavourable changes in oil and gas prices
- Unfavourable changes in regulation in the CEE region, namely the reduction of regulated gas price and doubled royalties in Croatia (HUF 20bn effect)
- Lower production from matured CEE assets and Russian divestures
- Higher exploration costs in relation to accelerated international work programmes, primarily in the Kurdistan Region of Iraq and in Oman
- Q1 2013 Upstream performance increased by HUF 8bn in non-recurring revenue due to the modification of the transfer parity of Croatian crude oil and natural gas condensate volumes. As a result, total Croatian oil and condensate production for the period, and inventory accumulated during 2012 were transferred to the Downstream (Sisak refinery).

Negative impacts were partially offset by the stronger USD against HUF, and by a higher level of payments in Egypt in December 2014.
Reported EBIT decreased by HUF 52bn due to impairment of Syrian assets in Q4 2014, treated as a special item.

Production is on the rise since mid-2014

Average daily hydrocarbon production reached at 98 mboepd in 2014, a decrease of 6% compared to the base period, however above our original 2014 target of 91-96 mboepd. The main reasons behind this production drop were the divestures of Russian fields (ZMB and 49% of BaiTex LLC together totalling 6.3 mboepd), just partially compensated by the first contributions from the UK North Sea acquisition. Excluding these factors, production was close to the base level as a natural decline in the CEE region was partly offset by higher production in the MEA region, mainly from the Kurdistan Region of Iraq.

Average realised price decreased by 10% compared to the base period as a result of the combined impact of the lower oil price and lower gas prices in CEE, the latter of which also affected by adverse regulatory changes in Croatia.

AVERAGE REALISED HYDROCARBON PRICE	FY 2013	FY 2014	CH. %
Crude oil and condensate price (USD/bbl)	87.1	82.2	(5.7)
Average realised gas price (USD/boe)	52.2	44.6	(14.6)
Total hydrocarbon price (USD/boe)	69.2	62.2	(10.1)

HYDROCARBON PRODUCTION (MBOEPD)	FY 2013	FY 2014	CH. %
Crude oil production	38.2	34.5	(9.8)
Hungary	11.5	10.9	(5.5)
Croatia	8.6	8.9	3.7
Russia	14.3	7.7	(46.1)
Kurdistan Region of Iraq	0.2	1.9	957.2
Other international	3.6	5.0	38.8
Natural gas production	57.8	54.9	(4.9)
Hungary	27.2	26.0	(4.4)
Croatia	26.2	24.2	(7.8)
o/w. Croatia offshore	11.9	11.1	(6.4)
Other International	4.4	4.8	8.1
Condensate	7.6	8.1	6.0
Hungary	4.5	4.7	5.2
Croatia	2.4	2.1	(11.3)
Other International	0.8	1.3	63.5
Average hydrocarbon production	103.7	97.5	(5.9)

MAIN REASONS BEHIND PRODUCTION CHANGES:

- **Hungarian hydrocarbon production** decreased by 4% basically as a consequence of natural depletion, which could be only partially offset by new tie-ins. MOL Group is committed to taking further measures to keep its production decrease below 5% in 2015, and expects positive contributions from newly-awarded exploration concessions over the longer term.
- **In 2014, total Croatian production** decreased by 2.0 mboepd or 5% versus the prior year, partly caused by a decrease in offshore gas of 0.8 mboepd as a result of natural decline, water cuts and higher restitutions. Onshore gas and condensate production decreased by 9%, again due to natural decline and the longer duration of annual maintenance on GTP Molve and Etan. On the other hand, domestic crude oil production increased by 4% as a result of performed workovers, well optimisation and additional production from new wells.
- **In Russia,** in the Matjushkinskj block, production decreased to 2.9 mboepd as a consequence of the decreasing production rate of the fields, falling pressure and increasing watering. On the other hand, as a result of an intensive field development programme in the Baitugan field, production reached 4.8 mboepd, which is an increase of 16% over 2013, taking into account the sale of 49% of MOL Group's share in 2014.
- **In Pakistan,** production increased to 6.6 Mboepd due to a combination of enhanced production from the Makori East field, (mainly as a result of additional production from the Makori East-3 well, which was tied into GPF), as well as an incremental contribution from the Ghauri discovery well.
- The contribution from the **Kurdistani Region of Iraq** increased to 1.9 mboepd after production of commercial crude started from the Bijell-1 Production Facility following FDP approval. In Shaikan, the second production facility (PF-2) became operational and three wells were tied into it in 2014.
- Recently acquired **North Sea** assets also contributed 1.3 mboepd to full-year production in 2014.

EXPENDITURES

Competitive level of unit OPEX at 8.5 USD/boe

Upstream operating expenditures, including DD&A, but without special items, amounted to HUF 410bn, HUF 33bn lower compared to 2013. Royalties on Upstream production (including export duties connected to Russian sales) amounted to HUF 99bn. Compared to 2013, this is a decrease of HUF 19bn was mainly due to divestments in Russia, while changes in Hungarian and Croatian regulations also resulted in an increase. Exploration spending increased by HUF 8bn (to HUF 16bn), mainly as a result of intensified seismic activity in Oman. DD&A decreased by HUF 21 bn as there were larger impairments in connection with Omani and Kurdish activity in 2013.

Unit OPEX, excluding DD&A, amounted to USD 8.5 USD/boe, broadly in line with 2013 (8.3 USD/boe).

SUMMARY OF KEY EXPLORATION AND DEVELOPMENT ACTIVITIES IN 2014

In the Kurdistan Region of Iraq:

In the Akri-Bijeel Block, the drilling programme continued with four drilling rigs and one workover rig in 2014. (1) A key milestone was reached with the official approval of the Field Development Plan by the Ministry of Natural Resources. (2) Extensive drilling and well testing in the Bijell field has resulted in a significant improvement in the understanding of the complexities of the reservoirs, however, Bijell-4 & 6 well tests are still in progress and results are expected in Q1 2015. In the meantime, the Bijell 2 well reached its target depth in the Triassic reservoir and confirmed the presence of hydrocarbons. (3) Production and transportation of commercial crude oil started from the Bijell-1 Production Facility following FDP approval. De-bottlenecking is on-going and is scheduled to be completed by Q2 2015. (4) In Bakrman area, the first appraisal well, Bakrman 2, reached target depth in Triassic, oil bearing zones were confirmed with good shows and better-than-anticipated structure. In the Shaikan block, the Shaikan-7 well was drilled and completed as a Jurassic producer, and subsequently connected to PF-1. Shaikan-11, an additional producer to be connected to PF-2, was spudded in December 2014. PF-2 became operational in May 2014 and three wells were tied in to PF-2 in 2014 with Shaikan-11 to follow in 2015. Peak production of nearly 40,000 bpd was achieved on 27 December 2014 on block level (100% gross).

In UK:

On Cladhan, P1 and W1 wells were drilled and completed. The work on P2 was underway at year-end. On Catcher, following its sanction in June 2014, the project got underway successfully. On the facilities side, good progress has been made. FPSO hull fabrication commenced in Japan.

In Russia:

In the Baitugan block, the 2014 development drilling programme was carried out with 4-6 rigs. 52 producing and injection wells were drilled to continue last year's production growth. Construction of infield infrastructure was finished. After the completion of 3D seismic interpretation in 2014 in the Yerilkinsky block the first exploration well is planned for Q3 2015. In the Matjushkinskj block, 673 km of 2D seismic field-work was completed in 2014 and interpretation is in progress with results expected in 2015.

In Kazakhstan:

In the Fedorovsky block, a successful appraisal programme was completed by May 2014. Based on the testing result of the RZK U-24 appraisal well, a new oil discovery was announced in the Bashkirian reservoir of the Rozhkovsky field. After finishing the appraisal programme, an SPE standards-based, independent reserve audit increased bookable 2P reserves by 24 MMboe to 60 MMboe (net to MOL Group). In the North Karpovsky block, drilling of the SK-1 well finished unsuccessfully, because the well was impaired at year-end 2014. Drilling of the SK-2 well is being carried out by the operator on sole risk. Results are expected in Q2 2015.

In Pakistan:

In the TAL Block, production commenced from the Makori East-3, Manzalai 10 & Manzalai 11 wells, while the drilling of two development wells (Makori East-4, Maramzai-3) has started. The Makori Gas Processing Facility was commissioned, producing volumes from the Manzalai, Makori, Makori East, Maramzai and Mamikhel fields. Moreover, the Mamikhel and Maramzai fields were declared commercial, and development plans were submitted to the Government of Pakistan.
The Kot-1 and Malgin-1 exploration wells were tested, then suspended. Drilling operations commenced at the Mardankhel-1 exploratory well, with results expected by the end of Q1 2015. In the Margala and Margala North blocks, drilling of the first exploration well (MGN-1) commenced in Q2 2014 and is due to be completed in Q2 2015. It is expected to have a significant impact on the future exploration approach in the area. In the Ghauri Block, the first exploration well Ghauri X-1 was drilled in Q1 2014 and resulted in oil discovery. The well was put into early production.

In the CEE region:

In Hungary, nine conventional exploratory drillings were completed, five of which were gas or gas condensate discoveries. The unconventional exploration project continued in the Derecske Basin.

Eleven field developments were completed and 10 were still in progress at the end of 2014. Furthermore, five new development wells were drilled and several work-overs were performed during the year. In Croatia, onshore exploration activities included the completion of two exploration wells, as well as the continuation of an unconventional fracking campaign (with the second phase of the campaign performed successfully on three wells). In onshore development, an important milestone was reached in the Ivanić-Žutica EOR project as the permit for trial work on CO_2 injection in the Ivanić field was obtained from the Ministry. As a result, injection in 12 out of 14 wells commenced in Q4 2014. Offshore, five development wells were drilled in 2014, yielding 1.6 mboepd in incremental gas production for INA.

Extended acreage position in Hungary, Croatia and UK

LICENCES ACQUIRED IN 2014

Since 2010, the total territory of Hungary has been a closed area for hydrocarbon exploration. Exploration licenses are not extendable and exploration rights may only be acquired through a concession process. In the first bid round MOL Group contracted for the Szeged Basin West concession block and for the Jászberény geothermal block. In the second bid round in June 2014, MOL Group applied for 2 hydrocarbon concession areas. The contract was signed for the awarded Okány-East concession block in 2015.

In the framework of the first offshore bid round in Croatia, the Ministry of Economy opened a data room for 29 exploration blocks in the Central & South Adriatic in 2014. Two exploration blocks were granted to INA, South Adriatic 25 and South Adriatic 26. INA will proceed with negotiation and signing of the PSA Agreement. In the framework of the first onshore bid round, a data room was opened for six exploration blocks in 2014, while licences will be granted in Q1 2015.

In the UK, MOL Group applied for and was granted four exploration licenses in the Twenty-Eighth UK Bid Round. Each licence is for a four year period, within which time the commitment is to obtain existing seismic and then reprocess the data, with a variety of petrotechnical studies, before deciding whether to drill an exploration well (drill-or-drop commitment).

103% organic Reserves Replacement Ratio

As of the end of 2014, MOL Group has SPE 2P reserves of 555 MMboe. This includes organic reserves bookings among others in Shaikan block, the Kurdistan Region of Iraq (15 MMboe) and in the Fedorovsky block in Kazakhstan (24 MMboe), as well as the effect of last years' acquisitions (North Sea – 30 MMboe) and divestment (49% share in BaiTex LLC – 53 MMboe). The organic reserves replacement ratio reached 103%.

SPE 2P RESERVES, MMBOE	FY 2014
Hungary	123.5
Croatia	194.9
Russia	74.5
Syria	35.8
Kazakhstan	60.4
United Kingdom	30.4
Other	35.4
Total	554.9

The Hungarian Mining Act was modified twice during 2014. Relevant changes are as follows:

- Exploration licensed territory possessed by one mining entrepreneur increased from 12,000 km^2 to 15,000 km^2.
- Fracturing processes are regulated and permitted, which gives the green light to unconventional exploration.
- Hydrocarbons produced by enhanced gas recovery methods (EGR) are royalty free (0%).
- When ownership of a mining plot on which production has not yet started is transferred, the new obligor must start production within one year.

The extraction tax in Russia is dependent on average Urals blend listed prices (Rotterdam and Mediterranean markets) and the Russian Rouble/US Dollar exchange rate and is calculated by a formula set out in tax legislation. Tax authorities inform the public of the extraction tax rate through official announcements on a monthly basis. The Mineral Extraction Tax (MET) rate increased by 4.9% compared to 2013, reaching RUB 493 per ton.
Rates of custom duties are set by the Ministry of Economic Development on a monthly basis, using average prices for Urals crude oil on world crude markets (Mediterranean and Rotterdam) during the monitoring period. The maximum rate of export duty on crude oil is calculated in accordance with the provisions of the law of the Russian Federation "On the Customs Tariff". In 2014, the export duty rate increased to 54%.
As part of tax reforms launched for the oil industry in 2011, further amendments were introduced to provide more incentives for the upstream sector to improve production efficiency. Changes are in force since 1 January 2015.
As of 26 March 2014 the Croatian royalty rate increased from 5% to 10% of hydrocarbons' market value.

UPSTREAM OUTLOOK

Mitigate production decline and maximise cash flow in mature CEE assets, while monetising value from key international growth projects

Key goals for 2015

- Zero HSE incidents/accidents
- Increase MOL Group production to 105-110 mboepd
- Mitigate production decline and maximise cash flow in mature CEE assets
- Progress towards monetising the value from key international growth projects in the Kurdistan Region of Iraq, Pakistan and the CIS countries
- Grow MOL Group's presence in the North Sea
- Reach flat to declining unit cost across all countries
- Enhance international exploration portfolio
- Finalise major organisational changes in Group Upstream
- Utilise opportunities arising from the current lower oil price environment

Following the U-turn in production in mid-2014, MOL Group will further increase it in 2015. The main areas of incremental barrels are: (1) North Sea, where Cladhan development is now almost complete and should be on track for first oil in H2 2015, joining the barrels of recently-acquired producing fields; (2) The Kurdistan Region of Iraq, where we expect a gradual increase of production from both the Akri-Bijeel and Shaikan blocks, following de-bottlenecking activities on surface facilities and tie-in of new wells; (3) Finally, INA's firm goal is to reverse the production decline in Croatia. Monetisation of the value from key international growth projects will ensure further sizable production growth beyond 2015.

MOL Group intends to mitigate the decline in production and maximise cash flow on matured CEE fields, building on MOL Group's extensive know-how, as well as taking portfolio optimisation steps and making cost efficiency improvements. In Hungary, besides drilling nine new exploratory wells, the 2015 work programme includes finalisation of 10 field development projects and the start of 14 new field development projects with the strategic goal of keeping the production decline rate below 5%. Moreover, to ease the pressure of declining production on unit production costs, an extensive cost optimisation programme is being undertaken. In Croatia, INA's firm goal is to stop natural production decline and put Croatian production on an upward trend. 2015 will bring the finalisation of the first phase of major EOR projects, with a positive effect on production of the Ivanić field and the start of CO^2 injection in the Žutica field. The 4P well-optimisation program will continue, which in 2014 already resulted in a crude oil production increase for the first time in more than a decade. Moreover, an extensive onshore exploration drilling campaign should also contribute to the growth.

In the Kurdistan Region of Iraq, MOL Group intends to increase production gradually from both blocks. However, in the Akri-Bijeel block the main goal for 2015 is to complete our information acquisition campaigns with the testing of Bijell-2, -4, -6 and Bakrman-2 appraisal wells, which should serve as valuable information for further delineation of the reservoir. In the meantime, de-bottlenecking is on-going and scheduled to be completed by Q2 2015 on the Bijell-1 Production Facility. The 2015 work plan on Shaikan includes completion of Shaikan-11, as well as de-bottlenecking and facility upgrade projects, enabling production to stabilize around 37-40 Mboepd at block level (100% gross).

North Sea operations, where MOL Group extended its presence after purchasing assets from Premier Oil in 2014, should already contribute substantially to Group-level production. The Cladhan development is now almost complete and should be on track for first oil in H2 2015, joining the barrels of recently-acquired producing fields. The Catcher field development project is moving forward with the first wells planned for drilling in Q2 2015 and FPSO construction in Japan is underway. The ultimate aim is to be able to commence oil production from Catcher in mid-2017. In Pakistan, MOL Group continues field development in TAL block, as well as being committed to fully exploring the upside potential of all other blocks. In the Margala North block, where MOL Group has a 70% interest as an operator, the MGN-1 well is the first to be drilled in the northern part of the Potwar Basin, and is therefore expected to have a significant impact on the future exploration approach to the area. In the Karak block, the continuation of extended Well Test Production and the drilling of two exploratory wells are the key tasks ahead.

In Russia, in order to maintain the increasing production trend in the Baitugan block, drilling of 40-50 production and injection wells per year will take place. In the Yerilkinsky block, 3D seismic interpretation confirmed the block's high potential while the first exploration well is planned to be drilled in Q3 2015. In the Matjushkinskj block, the focus will remain on exploration, including the interpretation of recent 2D seismic surveys, which is expected to clarify the remaining potential of the block. Following a successful completion of the appraisal programme in Kazakhstan's Fedorovsky block in 2014, MOL Group will proceed with preparations for the start of the first phase of the development project. This will evaluate the behaviour of the reservoirs to determine the full-scale field development plan, while also ensuring the sale of produced gas and condensate. The first development well (U-25) is expected to be spudded in Q2 2015. Moreover, following a new commercial discovery in the Bashkirian reservoir in 2014, a two year Exploration Licence extension was offered, providing a unique opportunity to explore the remaining area and upside potential of the block.

Finally, MOL Group is well-positioned to utilise opportunities that arise from the current lower oil price environment with the aim of balancing risk and seeking new accretive exploration and development opportunities.

DOWNSTREAM OVERVIEW

HIGHLIGHTS

- Clean CCS EBITDA increased by more than 30% in 2014;
- Beside a better macro environment, outstanding results were also supported by the successful implementation of the New Downstream efficiency improvement programme, which delivered a $500mn improvement between 2011 and 2014;
- The new, three-year Next Downstream Program has been launched, which supports the overall Downstream normalized free cash flow generation target of USD 900mn and clean CCS Downstream EBITDA target of USD 1.3-1.4bn by 2017 through:
    - USD 350mn asset and market efficiency improvement
    - and further USD 150mn contribution of strategic growth projects
- Tangible demand recovery in domestic markets: aggregate motor fuel markets grew by 4%.

OVERVIEW OF 2014

	FY 2013	FY 2014	CH. %
Total MOL Group refinery margin (USD/bbl)	2.0	3.1	55
Complex refinery margin (MOL+Slovnaft) (USD/bbl)	3.4	4.6	35
Brent dated (USD/bbl)	108.7	98.9	(9)
Ural Blend (USD/bbl)	108.0	98.0	(9)
Brent Ural spread (USD/bbl)	0.69	1.35	96
Crack spread – premium unleaded (USD/t)	165	170	3
Crack spread – gasoil 10ppm (USD/t)	117	107	(9)
Crack spread – naphtha (USD/t)	53	61	15
Crack spread – fuel oil 3.5 (USD/t)	(234)	(223)	5
Integrated petrochemicals margin (EUR/t)	295	364	23

Favourable trends in the downstream environment, especially in the second half of 2014

The refining environment improved during 2014 compared to the previous year. The lower oil price environment – especially in the second half of the year – supported refinery margins through lower costs of own consumption and significant refinery run cuts. Additionally, after the especially tight Urals' markets in 2013, it took almost a year for refineries to adapt and turn to oil grades substitutes outside the region (e.g. from the Arab Gulf and Latin America) resulting in a wider Brent-Urals spread year-on-year. Lower European gasoline production lifted gasoline cracks compared to 2013. On the other hand, global diesel demand was lower than expected due to the mild European winter and slowing Chinese economy, while export volumes from Russia and the US increased. These factors prompted a 9% gasoil crack decrease by the end of 2014.

CCS-BASED DS EBITDA [3,4] (HUF BN)	FY 2013	FY 2014	CH. %
MOL Group	156.8	206.3	32
o/w Petrochemicals	13.7	40.0	192
o/w Retail	33.7	47.4	41
MOL excl. INA	171.8	235.2	37
INA	(15.0)	(28.9)	93
CCS-BASED DS OPERATING PROFITS [3,4] (HUF BN)	**FY 2013**	**FY 2014**	**CH. %**
MOL Group	29.2	95.2	226
MOL excl. INA	73.3	147.0	101
INA	(44.0)	(51.8)	18

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

Drop in total sales mainly on account of black products due to the change of business model in Italy

EXTERNAL REFINED AND PETROCHEMICALS PRODUCT SALES BY PRODUCT (KT)	FY 2013 RESTATED	FY 2014	CH. %
Total refined products	18,092	16,725	(8)
o/w Motor gasoline	3,987	3,614	(9)
o/w Diesel	9,363	9,133	(2)
o/w Fuel oil	677	554	(18)
o/w Bitumen	1,026	629	(39)
o/w Retail segment sales	3,480	3,513	1
o/w Motor gasoline	1,105	1,073	(3)
o/w Gas and heating oils	2,289	2,347	3
Total Petrochemicals product sales	1,302	1,126	(14)
o/w Olefin products	306	184	(40)
o/w Polymer products	996	942	(5)
Total refined and petrochemicals product sales	19,394	17,851	(8)

Successful implementation of USD 500mn New Downstream Program

MOL Group Downstream benefited from a better external environment and the success of our internal efficiency improvement efforts. Consequently, Downstream's clean CCS EBITDA rose by 32% year-on-year. The MOL Group-level New Downstream Program was launched in 2012 to improve profitability throughout the whole value chain and to reach USD 500mn EBITDA growth by 2014 on a like-for-like basis, compared with 2011. Through the completion of more than 300 initiatives, the division managed to improve its efficiency, ensure more flexible operations and maximise its revenues whilst enforcing a more rigorous cost management approach. In line with original plans, in 2014 (which was the third and final year of the New Downstream Program), USD 500mn EBITDA improvement was achieved.

Considerable improvement under-pinned by strengthening R&M, petchem and retail

Annual Downstream performance was positively influenced by:

- a significant improvement in the petrochemicals segment's results supported by the most favourable petrochemicals environment since 2007, as the integrated petrochemicals margin increased by 23% to 364 EUR/t, compared to the prior year.
- a significantly improving Retail contribution supported by a volume sales increase, mainly in Hungary and Slovakia, as well as higher margins.
- the widening of the Group refinery margin by over 1 USD/bbl, due mostly to the 10 USD/bbl drop of Brent, which generated lower costs of own consumption and losses, and the 0.7 USD/bbl widening of the Brent-Ural spread.
- Implementation of New Downstream Efficiency measures described in more detail above.

These positive effects, however, were partly offset by:

- a less favourable R&M contribution from INA due to deteriorating production yields and higher own consumption and losses mainly related to fall-out of some conversion units. This had an adverse impact on sales volumes as well, which dropped by 5%. Additionally, last year's INA performance was positively influenced by a change in inventories evaluation methodology with a HUF 9bn impact.
- non-recurring effect of the IES refinery conversion completed during the first nine months of 2014, following which regular depot operations were launched. The termination of crude processing activities adversely impacted volumes sold in Italy in a year-on-year comparison.

CHANGE IN REGIONAL MOTOR FUEL DEMAND FY 2014 VS. FY 2013 IN %	MARKET*			MOL GROUP SALES**		
	GASO-LINE	DIESEL	MOTOR FUELS	GASO-LINE	DIESEL	MOTOR FUELS
Hungary	3	9	7	(3)	1	0
Slovakia	3	6	5	(3)	3	1
Croatia	(5)	0	(2)	(14)	(3)	(6)
Other	(2)	0	(1)	(11)	1	(3)
CEE 10 countries	(1)	1	0	(8)	1	(2)

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

In 2014, we experienced 4% aggregate domestic market (Hungary, Slovakia and Croatia) growth, while the wider CEE motor fuels market remained broadly in line with last year's levels. The motor gasoline market showed positive trends in two domestic countries, Hungary and Slovakia, but was still down regionally. The diesel market performed better, growing regionally by a mere 1%. In the case of gasoil, the Hungarian, Slovak and Czech markets strongly supported the increase.

Group motor fuel sales dropped both in core markets and in the wider CEE region (excluding Italy) mainly due to enhanced competition and the planned major Slovnaft turnaround in Q2 and also other smaller-scale unplanned events.

Significant improvement in retail performance

The Retail arm delivered a 41% increase on a clean CCS EBITDA basis and its contribution reached HUF 47bn. This remarkable uplift was supported by retail price liberalisation in Croatia in February 2014. In addition to that, we achieved a 10% and a 7% sales increase in Hungary and Slovakia respectively against 2013.

TOTAL RETAIL SALES (KT)	FY 2013	FY 2014	CH. %
Hungary	789	864	10
Slovakia	422	452	7
Croatia	1,106	1,077	(3)
Romania	503	501	0
Other	660	619	(6)
Total retail sales*	3,480	3,513	1

* Restatement of 2013 sales data

Total retail sales volumes (including LPG and lubricants volumes) increased by 1% year-on-year due to the expanded filling station network and demand recovery in Hungary, Slovakia and the Czech Republic. Romanian and Croatian markets remained depressed due to an excise duty increase effective from the first quarter of the year.

During 2014, MOL Group announced inorganic deals in order to extend its retail portfolio. Following the anticipated closing of all purchases, the number of fuel stations will increase by 169 in the Czech Republic, by 42 in Romania and by 41 in Slovakia. New service stations will extend our captive market as well as improve our ability to reach a higher number of end users. At the same time, MOL Group's retail market share is expected to approach 15% in the Czech Republic and comfortably exceed 10% in Romania.

DOWNSTREAM OUTLOOK

Slightly easing fundamentals in the mid-term

With a conservative approach, our expectation for the 2015 environment is similar to that of 2014. While the lower crude price environment is lending support through lower processing costs, this effect is limited as European refinery capacity overhang will persist, capping any sudden surge in margins. Global surplus of refinery capacity may even increase as new deep conversion refineries are starting up in the Middle East, India and Brazil. Due to sluggish global demand, margins may be under pressure in 2015.

In the mid-term however, we assume there will be closure of marginal assets in Europe and a revival of economic performance leading to healthier demand growth on a global level. Therefore, the margin environment may improve overall in Europe in the mid-term.
Following years of decline, motor fuel demand is expected to stabilise in the CEE region. On the back of economic growth, an increase in motor fuel demand may again be largely driven by diesel in 2015, meaning that the gap between motor gasoline and diesel sales will increase further regionally.

Next Downstream targets further USD 500m EBITDA improvement…

The overall target of Downstream is to achieve USD 1.3-1.4bn EBITDA and around USD 900mn normalised cash flow generation by the end of 2017. Our 2014 performance serves as a baseline for the initiation of the Next Downstream Program with the target of reaching incremental USD 500mn EBITDA generation on the same time horizon.

…USD 350m coming from asset and market efficiencies

The Downstream division is ready to address the challenges ahead by delivering a new asset and market efficiency programme of USD 350mn within the scope of the Next Downstream Program. Altogether, more than 150 individual actions are included in this part of the program, tackling efficiency improvements in production and commercial areas. As a result, MOL Group will improve our white product yield by 2.5%, increase operational availability of key assets, enhance energy intensity and increase traded motor fuel volumes to 150% against own-produced motor fuels.
We also intend to develop our existing retail network. The conceptual change in retail, through the conversion of filling stations into a widespread sales point network means that we will concentrate on selling consumer goods and attracting more customers. As a result, MOL Group will be able to increase fuel sales by over 25% and reach a high double digit margin increase on the non-fuel side (including the additional contribution of retail deals announced in 2014).

… USD 150mn added by strategic projects

Additionally, our strategic growth projects will further contribute USD 150mn to the Next Downstream Program. This part of the programme covers the construction of a new 130,000 tonne-per-annum capacity butadiene extraction unit in our TVK petrochemical plant and the installation of a new low-density polyethylene plant (LDPE-4) in Bratislava, which will not only replace three out-of-date production units currently in operation, but also significantly increase the quality of produced LPDE.
Furthermore, retail performance will benefit from the additional contribution of the recently-acquired fuel stations, exceeding 250 retail outlets overall.
The refinery conversion project in Mantua was completed by the end of the third quarter of 2014. The new operational model will bring additional financial benefits in the coming years.

Pursuing inorganic opportunities in the region

Following the aggressive inorganic network expansion of previous years, we wish to further pursue inorganic growth opportunities in the region within the supply radius of our refineries. Such potential steps will enhance our captive market positions and support overall margin capture of our Downstream business.

GAS MIDSTREAM SEGMENT OVERVIEW

Gas Midstream delivered 37% lower results on an EBITDA basis, excluding special items, compared to last year. This significant drop is a result of forced gas inventory sale due to regulatory changes in Croatia and lack of storage revenues following the sale of the Hungarian storage unit (MMBF) in 2013 with its HUF 21bn contribution in the base period. The Hungarian gas transmission business delivered solid results in light of a further cut in regulated returns in November 2013.

FGSZ LTD.

Operating profit contribution fell (based on IFRS figures)

Operating profits of FGSZ in 2014 were significantly (16%) lower compared to the previous year, mainly due to the effects of unfavourable external factors.

Significantly lower operating revenues from domestic transmission due to external factors

Revenues from domestic transmission services totalled HUF 60.1bn, significantly lower (by 12%) than the base period figures. Revenues fell mainly due to the unfavourable effect of tariff changes valid from 1 July 2014, as well as lower capacity bookings and lower turnover fee revenues in line with decreasing domestic natural gas consumption, and further decreases in public utility charges as of 1 November 2013.

Despite lower tariffs for household customers and due to decreased industrial demand, domestic natural gas consumption showed a further decrease compared to the previous year but the significantly higher volumes injected to storage compensated this negative effect.

Lower transit transmission revenues in line with lower transmission volumes

Revenue from natural gas transit was HUF 19.6bn, lower by 9% compared to the base period figure. Favourable FX effects could compensate only partly for the significant negative effect of decreasing transit transmission volumes (lower by 20%). Both the southward Serbian-Bosnian and other transit transmission volumes were significantly lower compared to the previous year.

Strict control of operating costs

Lower operating costs (by 3%) had a favourable effect on operating profit. The lower operating expenses as a result of strict cost control and lower depreciation compensated for the negative effect of the slightly higher cost of natural gas consumption by the transmission system (thanks to higher compressor gas consumption, as a result of increased storage injection activities and changing transmission needs).

PRIRODNI PLIN D.O.O.

Prirodni Plin (PP), INA's gas trading company, reported a HUF 21.4bn EBIT loss in 2014. Performance was negatively impacted by enforced stored gas sales during Q2 as a consequence of regulatory changes in Croatia. From January 1 2015, PP will be reported as part of the Upstream division.
A package of resolutions put forward by the Ministry of Economy and related to INA's obligation to deliver the gas produced in Croatia at a regulated price was applied from 1 April 2014. This decision obliges INA to sell the portion of its natural gas production for household supplies to state-owned company HEP as the wholesale market supplier, also introducing distributors' purchase obligation from HEP. With this change, the regulated price of natural gas to households was reduced from 2.4 to 1.7 HRK/m3

CAPITAL EXPENDITURE PROGRAMME

CAPITAL EXPENDITURES	FY 2013	FY 2014
	(HUF BN)	(HUF BN)
Upstream	149.5	326.3
of which inorganic:	0.0	121.0
Downstream	93.8	186.3
of which inorganic:	0.0	13.7
Gas Midstream	8.1	3.8
Corporate	18.4	19.3
Intersegment	0.0	(2.0)
Total	269.8	534.1
of which inorganic:	0.0	134.7

CAPEX spending was focused on Upstream (61%)

Total CAPEX nearly doubled in 2014 compared to the previous year, however, 25% of total CAPEX was spent on inorganic investment projects. In line with the announced strategy, CAPEX spending was more focused on Upstream, representing 61% of total Group CAPEX, while Downstream was responsible for 35% of the spending. The remaining 4% or HUF 23bn of our capital expenditure targeted gas and corporate projects.

UPSTREAM CAPEX

FY 2014 (HUF BN)	HUNGARY	CROATIA	KURDISTAN REGION OF IRAQ	RUSSIA	PAKISTAN	UK	OTHER	TOTAL (HUF BN)
Exploration	12.4	3.9	41.6	4.9	8.4	0.5	14.4	86.1
Development	11.6	30.3	7.1	11.5	1.2	41.6	6.1	109.4
Acquisition	1.6	0.0	0.0	0.0	0.0	119.4	0.0	121.0
Consolidation & other	6.3	2.2	0.9	0.1	0.0	0.1	0.2	9.8
Total	31.9	36.4	49.6	16.5	9.6	161.6	20.7	326.3

In 2014, Upstream CAPEX amounted to HUF 328bn, the biggest contributor of which was HUF 121bn in inorganic CAPEX, mostly composed of two acquisitions of North Sea assets. Other major investments excl. acquisitions were made in the Kurdistan Region of Iraq (24% of total), the North Sea Region (20%), Croatia (18%), Hungary (15%), and Russia (8%).

DOWNSTREAM CAPEX

CAPEX (IN BN HUF)	FY 2013	FY 2014	CH. %	MAIN PROJECTS IN FY 2014
R&M CAPEX and investments excluding retail	42.5	70.5	66	• Friendship I crude pipeline reconstruction • Major Turnaround in Slovnaft • Tank reconstruction program • High-value asset replacements (SN AVD-6 Unit revamp) • Significant CAPEX spending in MOL RO (New Giurgiu Storage Terminal) • Conversion of the Mantova refinery
Retail CAPEX and investments	20.1	29.7	48	• Friendship I crude pipeline reconstruction • Major turnaround in Slovnaft • Tank reconstruction program • High-value asset replacements (SN AVD-6 Unit revamp) • Significant CAPEX spending in MOL RO (New Giurgiu Storage Terminal) • Conversion of the Mantova refinery
Petrochemicals CAPEX	29.1	85.0	192	• Construction works in Butadiene Recovery Project started at TVK • At SN Petchem LDPE4 substantial implementation progress (civil, equipment installation) were achieved
Power and other	2.1	1.5	(29)	• Follow-up activities in Slovnaft related to TPP Revamp
Total	93.8	186.7	99	

Downstream CAPEX doubled year-on-year. In Petrochemicals, growth projects dominated (e.g. LDPE4 and Butadiene), consequently investments increased almost threefold within the segment. In Refining & Marketing, the major turnaround of Slovnaft and the reconstruction of the Friendship pipeline was the main reason for the 66% increase. We continued the expansion of the Group retail network both inorganically and organically, which pushed investments up by close to 50%.

CAPEX BY TYPE (IN BN HUF)	FY 2013	FY 2014	CH. %
Total	93.8	186.7	99
Strategic projects	30.4	93.9	209
Normalised CAPEX	63.4	92.8	46

Of key projects:

- The conversion of the Mantua refinery to a logistics hub was completed in Q3 2014, and as of Q4 operations commenced in line with the new business model.
- The 130 kt/year butadiene extraction unit construction works are on track. The unit is expected to reach the commissioning phase in Q2 2015 and start commercial operations during Q3 2015. The unit will produce feedstock material of synthetic rubber for car tyres and improve further the profitability of the Petrochemicals business.
- The construction of the new 220 kt/year capacity LPDE4 unit in Slovnaft is progressing according to schedule. It is expected to be commissioned by the end of 2015. The new unit will increase production flexibility, improve product quality and ensure higher naphtha off-take from the refinery.
- The mechanical completion of the Friendship-1 pipeline has been reached, which will be followed by commissioning and subsequent test runs in Q1 2015. The Bratislava refinery may receive the first crude cargo from the Adriatic Sea during 2015.

FINANCING OVERVIEW

MOL Group sustained its strong financial position

The overall corporate financial position and the ability to generate operational cash flow are key priorities due to the turbulent financial environment, the fall in commodity prices and economic slowdown.

During 2014, MOL maintained its strong financial position and enjoyed EUR 4.1bn available liquidity at year-end. Indebtedness slightly increased from the previous year's record low level, but remained at a favourable level. The slight increase is partially due to cash outflows regarding recent upstream and retail asset acquisitions, partially due to FX changes. Simplified net debt to EBITDA stood at 1.31 at the close of the year, increasing from 0.79, whilst the gearing ratio increased from 15.9% to 19.6% year-on-year.

Sufficient external financing

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

Enhancing the maturity profile

To further enhance the Group's funding portfolio, MOL Plc. concluded a USD 1,550mn revolving credit facility in October, which replaced the matured EUR 500mn and, due to more favourable terms, also replaced the USD 545mn facility, which was subsequently cancelled. The term of the facility is five years with an extension option of two additional years. The Group also decreased its cost of funding via the prepayment of a loan signed in November 2010 with the European Investment Bank (EIB) by EUR 150mn with original maturity due in December 2018, as well as by reduced pricing of a 7-year loan agreement between INA and the European Bank for Reconstruction and Development.

Slightly increased gearing ratio

INDEBTEDNESS

	2013	2014
Simplified Net debt/EBITDA	0.79	1.31
Net gearing	15.9%	19.6%

72% euro-denominated debt

PROPORTION AND AMOUNT OF TOTAL DEBT (EXCLUDING SHORT-TERM DEBT) DENOMINATED IN THE FOLLOWING CURRENCIES

31 DEC 2013 (BN OWN CURRENCY)	31 DEC 2013 (BN HUF)	PORTION	CURRENCY	31 DEC 2014 (BN OWN CURRENCY)	31 DEC 2014 (BN HUF)	PORTION %
0.88	189	24.5	USD	0.8	203	25.9
1.84	548	71.0	EUR	1.8	559	71.5
N.A.	34	4.5	HUF and other*	N.A.	20	2.6
N.A.	771	100	Total	N.A.	782	100

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

NOTES TO THE PROFIT & LOSS STATEMENT

SALES, OPERATING EXPENSES AND OPERATING PROFITS

Group net sales revenue decreased

Group net sales revenues decreased by 10% to HUF 4,867bn following revenue decreases in Gas Midstream by 40%, in Upstream by 15% and in Downstream by 9%.

Other operating income decreased by 65% to HUF 26.6bn mainly as the result of fewer one-off gains realised on divestiture in 2014 than in 2013: gain on divestment of Russian entities (2014: HUF 12.7bn; 2013: HUF 10.5bn) and MMBF Zrt. (2013: HUF 42.4bn).

Other operating expenses decreased by HUF 5.0bn to HUF 288.7bn in 2014. In 2014 and 2013, other operating expenses also included one-off tax penalties by INA for the amount of HUF 9.1bn and HUF 5.0bn, respectively.

In 2014 and in 2013, non-recurring expenses relating to the termination of refining activities at IES increased operating expenses by HUF 4.1bn and by HUF 22.8 bn respectively, of which HUF 9.3bn related to the provision made for redundancies in 2013, recognised as personnel expenses. In 2014, depreciation expenses decreased by 32% to reach HUF 368.3bn, mainly as a result of fewer one-off impairment charges compared to those recognised in 2013.

In 2014, an impairment charge of HUF 16.0bn was recognised on the refining assets of INA. In Upstream and Corporate & Other segments, the one-off effect in relation to the impairment on INA's Syrian current and non-current assets amounted to HUF 52.4bn and HUF 1.3bn respectively. Furthermore, unsuccessful exploration wells were written down in Kazakhstan, Egypt, Russia, Croatia and Hungary to the amount of HUF 17.7bn in 2014.

In 2013, impairment expenses of HUF 123.8bn and HUF 26.7bn respectively were recognised on the refining assets of IES and INA. In the Upstream division, the one-off effect impairment expense on INA's Syrian assets amounted to HUF 43.4bn. In 2013, unsuccessful exploration wells were written down in the Kurdistan Region of Iraq, Egypt, Oman and Hungary to the amount of HUF 27.3bn.

FINANCIAL RESULTS

Higher net financial expenses in 2014

A net financial expense of HUF 104.5bn was recorded in 2014, compared to HUF 58.3bn in 2013. Interest payable and interest received have not changed significantly from 2013 to 2014. However in 2014 and in 2013, a foreign exchange loss of HUF 38.8bn and a gain of HUF 4.1bn respectively were booked on trade and other receivables and payables. In 2014 and in 2013, a foreign exchange loss of HUF 32.2bn and of HUF 8.2bn respectively was booked on borrowings. In 2014, a HUF 48.7bn foreign exchange loss on bank loans designated as net investment hedging instruments was accounted for in the translation reserve, within equity. In 2013, a HUF 4.4bn foreign exchange gain on bank loans was accounted for in equity. A fair valuation gain on the conversion option embedded in the capital security issued by Magnolia Finance Ltd. amounted to HUF 0.6bn versus the unrealised loss of HUF 0.3bn in 2013.

INCOME FROM ASSOCIATES

Income from associates amounted to HUF 18.9bn in 2014, mainly as the result of the contribution from MET Zrt., (HUF 6.8bn) and from MOL Group's 10% share in the operations of the Pearl Petroleum Company (HUF 12.9bn).

PROFIT BEFORE TAXATION

As a result of the above-mentioned items, the Group's loss before taxation in 2014 was HUF 45.5bn, compared to a loss of HUF 56.9bn in 2013.

TAXATION

Slight Income tax expense due to offsetting effect of current and deferred taxes

Income tax expenses amounted to HUF 5.4bn in 2014 compared to income tax benefits of HUF 38.0bn in 2013. Significant one-off impairment expenses recognised both in 2014 and in 2013 lowered the relevant corporate tax bases of MOL Plc. and INA d.d., and resulted in huge negative deferred tax expenses. Despite the above effects, Group member entities provided stable local and corporate income tax expenses (2014: 30.5bn; 2013: HUF 33.4bn).

CASH FLOW

CONSOLIDATED CASH FLOW	2013	2014
	(HUF mn)	**(HUF mn)**
Net cash provided by operating activities	614,685	434,528
of which: movements in working capital	175,575	47,116
Net cash used in investing activities	(124,994)	(558,459)
Net cash provided by/(used in) financing activities	(239,251)	(263,670)
Net increase/(decrease) in cash and cash equivalents	250,440	(387,601)

Operating cash flow decreased by 29%

Operating cash inflow in 2014 decreased to HUF 434.5bn from HUF 614.7bn in 2013, due to higher cash outflows in the working capital lines. Operating cash flow, before movements in working capital, decreased by 16% to HUF 421.9bn. Income taxes paid amounted to HUF 34.4bn.
Net cash used in investment activities increased to HUF 558.5bn in 2014, mainly as a result of cash outflows relating to inorganic (North Sea and Czech retail network acquisition) and organic investments (construction of the Butadiene plant, the LDPE4 unit and the reconstruction of Friendship I crude oil pipeline).

Net financing cash outflow totalled HUF 263.7bn, primarily as a result of the net repayment of long-term and short-term debt and the dividend payment.

SUSTAINABILITY

Overview of Sustainability Performance of MOL Group

Sustainability is considered to be a fundamental criterion of business success by the largest companies and an increasing number of shareholders. Long-term financial success and good corporate sustainability performance are complementary to each other. For MOL Group, sustainability translates as the balanced integration of economic, environmental and social factors into our everyday business operations.

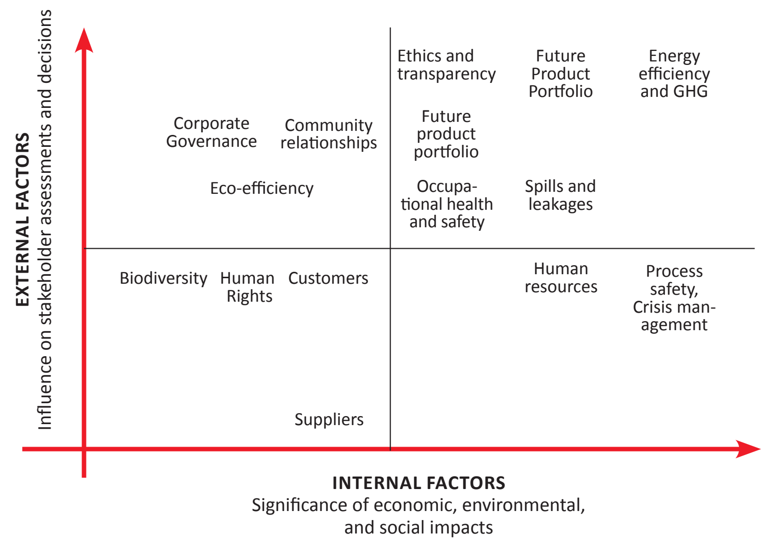
MOL Group operates strong governance systems (including a Board of Directors-level committee) to oversee its sustainability performance, and has a sustainability strategy to manage it. The overall target to be reached by the end of 2015 has been defined as: "Achieve and maintain an internationally-acknowledged leading position (top 20%) in sustainability performance." As a key performance indicator (KPI), we use the total score awarded to us by the Dow Jones Sustainability Index.

Materiality of Sustainability Topics in Reporting

MOL Group in 2014 qualified for inclusion in the Sustainability Yearbook 2015 issued by RobecoSAM (the company which conducts the assessment related to the Dow Jones SI). In order to be listed in the Yearbook, companies must be in the top 15% of their industry. MOL Group was also included in the MSCI Emerging Market ESG index.

MOL Group considers materiality to be a fundamentally important concept in sustainability reporting. We conduct a materiality assessment which we use to rank and classify topics that are relevant to the oil and gas industry according to how important they are to our external and internal stakeholders. To read more about our materiality assessment, please visit our website.
Internal factors include potential financial impacts and the existence of internal objectives. The key input is the MOL Group-level risk matrix that is continuously updated and presented to the Board of Directors, and feedback from our employee representatives.
External stakeholder perceptions are surveyed through our public forums and collected using our feedback channels (sd@mol.hu). Special attention is paid to topics that are considered to be relevant to external sustainability analysts and issues which are related to governmental initiatives.
The outcome of the materiality assessment is a materiality matrix, an illustration of which is presented in this chapter. We consider all the topics in the matrix to be material except for those located at the bottom left.

MATERIALITY OF RELEVANT TOPICS



The procedure for materiality assessment is not designed to exclude any of the relevant topics from our reporting. The assessment is drawn up with a view to ensuring that the most material topics are highlighted and described in more detail, thereby providing our readers with deeper insight into our sustainability performance.

Performance summary on selected material topics

According to the materiality assessment, the most important sustainability topics for MOL Group operations are GHGs and energy efficiency, prevention and clean-up of spills, future product portfolio, ethics and transparency and also occupational and process safety management. Hereafter, we briefly summarise our performance in each of these areas.

GHG emissions further decreased at Group level through increasing the efficiency of energy consumption. The most significant achievement is that our energy efficiency projects, especially our New Downstream Development program, resulted in an estimated saving of almost 320 thousand tonnes of CO_2 emissions compared to the baseline from the year 2011. Of these savings, 85 thousand tonnes is an additional achievement made in 2014. These projects alone helped us make annual financial savings of HUF 13bn. The total reduction in direct CO_2 emissions since 2011 is 1.4 million tons, which is equivalent to 0.3 million tonnes on an annual basis (a 5% decrease); however, this reduction is a result of several factors, also including operational changes and divestments.

Spills and leakages are large and unpredictable sources of environmental contamination caused by industry. Managing and preventing spills is of key importance to oil and gas companies but the Company's impacts are still considered to be moderate. MOL Group is the owner and operator of production and storage facilities and transportation pipelines worldwide. Spills are mostly associated with our aging assets in Central Eastern Europe, while the largest single spill event was due to an attempted theft. The number of spills with more than 1 m^3 hydrocarbon content further decreased in 2014 and all of them happened onshore. In 2014, only five such spills occurred, which is the lowest number in recent years. Even though no major spills occurred in MOL Group's operations in 2014, the overall amount has increased from 133 m^3 in 2013 to 194 m^3 in 2014. The increase is the result of two cases in Croatia, one caused by a one-off human error, while the other was the result of attempted theft.

Health and safety is a top priority for MOL Group and for the oil and gas industry generally. The company employs 27,499 workers, who perform almost 50 million work hours per year, while our contractors work more than 40 million hours per year. Workers spend a large portion of this time using dangerous technology at operational sites. MOL Group's safety performance slightly improved in 2014 compared to 2013. The Lost Time Injury Frequency Rate decreased to 1.0 (from 1.5 in 2013) and no own employee fatalities occurred at our controlled operations. Sadly, however, there was one on-site contractor fatality. Moreover, there was an increase in road accident-related contractor and third-party fatalities, which was mostly related to our Upstream international operations where crude oil is transported by road.

Continuously improving our product portfolio is important due to external factors and the potential financial implications it has on MOL Group. Meeting the obligations of the Climate Change Package of the European Union will have a significant impact on the long-term demand for fossil fuels and energy, on refinery product quality, and also on petrochemical operations. However, through its impact, this will also open up new business opportunities for oil and gas companies in the area of "clean fuel/ energy". To increase the share of low-carbon products and services that we offer, MOL Group has launched and continues to work on a series of R&D projects. The focus in 2014 was on identifying and promoting technologies to further reduce the life-cycle-emissions of our fuels and to be able to comply with regulations. Some project examples include MOL Truck Diesel, a high-quality, CO_2-efficient product. Its formula was improved in 2014 to further reduce GHGs. The chemically-stabilised rubber bitumen product of MOL Group launched in 2013, received ECO-label certification in 2014.

Ethics and transparency are key to long-term business success. MOL Group has had a Code of Ethics since 1999 and has been operating an ethics reporting system for all stakeholders since 2002. In 2014, 88 ethics-related complaints were reported to the Ethics Council of MOL Group and the INA Group, a slight increase compared to the 81 cases reported in 2013. Investigation was necessary in 61 cases. Consequences for ethical misconduct revealed by the Ethics Council included termination of employment in three cases, written disciplinary notices in nine cases and verbal disciplinary notices given in four cases. Awareness-raising and training are continuous throughout MOL Group, and employees spent an estimated 26,490 hours on ethics-related training in 2014.

INTEGRATED RISK MANAGEMENT

MOL's integrated risk management is one of the best, according to Dow Jones Sustainability Management

The aim of MOL Group Risk Management is to deal with the challenges posed by an ever-changing external environment as we seek to support stable and sustainable operations underpinning the future growth of the company. MOL Group has developed a risk management function as an integral part of its corporate governance structure.

A comprehensive and dynamic system that incorporates a broad range of risks is prepared by Enterprise Risk Management (ERM) at group level. ERM integrates financial and operational risks along with a wide range of strategic risks, as well as compliance issues and potential reputational effects. The ERM process identifies the most significant and material 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, while mitigation actions are established and reviewed for completion by top management on a regular basis.
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 operations by identifying key risks that threaten the achievement of the company's objectives and require specific attention by the top management through the strengthening of controls, the execution of mitigation actions or a combination of the two. The Risk Map is a heat map that is graphically presents major risks on a matrix using probability and impact ratings, both being the result of detailed risk assessment processes. The Risk Maps integrate Strategic, Operational and Financial risks, which are identified and reassessed on a quarterly basis, providing regular updates to top management on the evolution of risks and the 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 considered necessary - with risk mitigation tools such as swaps, forwards and options.
Business Continuity Management is the process of preparing for unexpected disruptions that have low probability but high impact. Emergency Response plans, Crisis Management procedures, Disaster Recovery and other risk control programmes are crucial in a business where operational risk exposure is significant, as a result of the chemical and physical processes underlying most of the Group's operations.

Transfer of excess operational risks is carried out by Insurance Management. 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. These are set around a yearly cycle (i.e. annual renewal of most insurance policies). Insurance is managed through a joint programme for the whole of MOL Group, in order to exploit considerable synergy effects.

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

Besides providing information on the most imperative risks that MOL Group faces, Risk Management also supports top management and the Board of Directors in optimizing investment decision-making, taking into consideration the risk profile of each project. For this purpose, Group Risk Management is involved in the evaluation of major projects through the utilisation of its ERM capabilities by providing its opinion on capital allocation and financing headroom.

APPENDIX

APPENDIX I

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

MOL GROUP	FY 2013	FY 2014
OPERATING PROFIT EXCLUDING SPECIAL ITEMS	**148,463**	**109,069**
UPSTREAM	**(32,858)**	**(35,026)**
Gain on divestiture of Russian companies	10,507	12,679
Impairment on INA Syrian assets (non-current and current)	(43,365)	(52,426)
Disputed gas price differential		6,436
INA provision for redundancy		(1,715)
DOWNSTREAM	**(176,645)**	**(31,273)**
Impairment on INA's refinery assets	(26,745)	(15,990)
Gain on sale of surplus state reserves of Slovnaft Polska	3,420	
Tax penalty of INA	(5,005)	(9,095)
IES write-off	(123,813)	
SN CAPEX reclassification	(1,665)	
IES scrapping	(3,324)	
IES provision for dismantling, restructuring	(10,255)	(4,145)
IES provision for redundancy	(9,258)	
Compensation for damages to CMEPS s.r.o.		(38)
INA provision for redundancy		(2,005)
GAS MIDSTREAM	**(2,851)**	
Loss on MMBF transaction	(2,851)	
CORPORATE and OTHER		**(2,690)**
Impairment on INA Syrian assets (Crosco)		(1,336)
INA provision for redundancy		(1,354)
INTERSEGMENT	**45,263**	
Gain on MMBF transaction	45,263	
TOTAL IMPACT OF SPECIAL ITEMS ON OPERATING PROFIT	**(167,091)**	**(68,989)**
OPERATING PROFIT	**(18,628)**	**40,080**

MOL GROUP	FY 2013	FY 2014
EBITDA EXCLUDING SPECIAL ITEMS	**494,226**	**410,221**
UPSTREAM	**10,507**	**15,403**
Gain on divestiture of Russian companies	10,507	12,679
Impairment on INA Syrian assets (non-current and current)		(1,997)
Disputed gas price differential		6,436
INA provision for redundancy		(1,715)
DOWNSTREAM	**(26,087)**	**(15,283)**
Gain on sale of surplus state reserves in Slovnaft Polska	3,420	
Tax penalty imposed on INA	(5,005)	(9,095)
SN CAPEX reclassification	(1,665)	
IES scrapping	(3,324)	
IES provision for dismantling, restructuring	(10,255)	(4,145)
IES provision for redundancy	(9,258)	
Compensation for damages to CMEPS s.r.o.		(38)
INA provision for redundancy		(2,005)
GAS MIDSTREAM	**(2 851)**	
Loss on MMBF transaction	(2 851)	
CORPORATE and OTHER		**(1,977)**
Impairment on INA Syrian assets (Crosco)		(623)
INA provision for redundancy		(1,354)
INTERSEGMENT	**45,263**	
Gain on MMBF transaction	45,263	
TOTAL IMPACT OF SPECIAL ITEMS ON EBITDA	**26,832**	**(1,857)**
EBITDA	**521,058**	**408,364**

APPENDIX II

Notes

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

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

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

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

[5] In converting HUF financial data into USD, the 223.7 HUF/USD MNB rate was used for FY 2013, while the FY 2014 figure was calculated by converting the results of each month based on the respective monthly average HUF/USD MNB rate.