

6. ECONOMIC SUSTAINABILITY

General aim: Focus on responsible operations and long-term economic development

ACHIEVEMENTS:

- > The Business Partner Code of Ethics is now a component of 99% of supplier contracts.
- > The value of contracts with locally-owned suppliers in our international Exploration and Production activities amounted to HUF 85bn in 2014.
- > Security training material for all employees was rolled out across MOL Group in 2014. In Pakistan, Russia and the Kurdistan Region of Iraq the training material includes principles related to the protection of human rights. Training materials were shared with private security contractors (who reported a 100% compliance level), and also with public contractors as recommended training material.

CHALLENGES:

- > Implementation and improvement of the new supplier qualification system in 2015.
- > In 2014, steps were taken by MOL Group to implement a new and improved process for the pre-qualification of contractors during the procurement process. As part of this process, the procurement of a Supplier Qualification System started with implementation and roll-out planned for 2015.

6.1. CUSTOMERS

Customer satisfaction

Related objective

- “Achieve and maintain a high level of customer satisfaction”
- “Engage with customers in SD-related issues”

MOL Group focuses on building and maintaining a good relationship with both wholesale and retail customers in the regions in which it operates. Wholesale customers purchase about 75% of MOL Group products, while approximately 25% of fuels are sold through the retail network of the company, together with non-fuel products. Based on the results of the 2013 Customer satisfaction survey MOL Group Downstream updated its strategic viewpoint and redefined its vision in 2014 as follows: MOL Group Downstream should be the first choice for customers, fuelling growth while delivering value for people and shareholders. The new strategic direction, called “Customer first”, focuses on markets and customers as the key growth areas. The new approach puts more focus on better satisfying customers than in the past and on ensuring that they stay with the company as clients in the long run. MOL Group would like to enlarge its share of loyal customers by providing them with a unique combination of price, quality and service.

In 2014, MOL Group maintained wholesale customer satisfaction level of 86%. The main drivers of this success were fuel (including

fuel cards) and lubricant customers. At INA wholesale customer satisfaction did not change significantly although considerable progress was made with reducing the number of complaints by wholesale customers. Almost 4 times less complaints were made in 2014 than in 2013.

At Retail, the main channel of communication is personal contact through the network of filling stations themselves, while customer loyalty is also encouraged in the form of a two loyalty card system. A centralized customer service is also in place which is responsible for handling any claims and complaints related to or generated at filling stations through personal contact or via phone.

MOL Group considers legitimate complaints and customer feedback to be useful inputs for improving processes and practices. In 2014 there were 55 million retail transactions in Hungary alone, from which we received 2,423 justified complaints. In Croatia 10,822 calls were received on the free customer line in 2014, 2.19% less than in the previous year.

In Retail operations, customers are locally engaged in sustainability-related initiatives. In 2014 the implementation of preexisting programs continued. They included Cycle Pit Stop (bicycle stands at filling stations), health days (at 5 filling stations in Hungary) the eye-testing program in Croatia (480 tests), and the organizing of fruit markets at which local producers can sell their products.

6.2. SUPPLIERS

Related objective: “Introduce comprehensive supplier risk assessment and have prequalification for at least 80% of the critical suppliers in each subsidiary”

Local suppliers

Employing local people where we operate, as well as hiring local contractors when it is possible, is beneficial to the local economy as the income it generates increases the purchasing power of these communities.

MOL Group understands that hiring local suppliers has multiple benefits and can also be a way of establishing a positive relationship with local communities. As a result, MOL Group contracts with such suppliers whenever it is beneficial, taking into consideration the expectations of local governments also.

In Central Europe local suppliers comprise the absolute majority of all suppliers, with the highest number in Croatia where 93% of suppliers are locally-registered. This makes MOL Group a key component of the economies of these countries. However, in some countries the proportion of local spending has decreased significantly. This is because some large scale investments are being carried out by foreign contractors.

Number of local suppliers [GRI G4-EC9]

CEE / SEE REGION, TOTAL VALUE OF CONTRACTS*	LOCAL SUPPLIERS	TOTAL	RATIO OF LOCAL SUPPLIERS		
	COUNTRY	NO.	NO.	NO.	VALUE
	Hungary (MOL Plc.)	13,284	14,202	94%	80%
	Hungary (TVK Plc.)	1,303	1,657	79%	65%
	Slovakia (SLOVNAFT A.S.)	1,864	2,339	80%	65%
	Croatia (INA d.d.)	1,081	1,310	83%	93%
	CEE / SEE REGION Total	17,532	19,508	90%	81%
	UPSTREAM INTERNATIONAL Total	1,333	1,889	71%	57%
	Group total	18,865	21,397	88%	72%

*Locally-registered suppliers

In the countries where we have International Upstream operations, local procurement is especially important because operational sites are very often situated in areas populated by low-income communities. Hiring local contractors and employees therefore strengthens the relationships MOL Group has with all the stakeholders, including local governments and communities. Contracting local suppliers can also be advantageous due to their knowledge of the market.

In countries where MOL Group is only involved in exploration activities the opportunities for hiring local suppliers can be limited due to the special knowledge and technology we require. However, where MOL Group undertakes production activity as well, the proportion of local suppliers is high, especially in the Russian region where the involvement of local enterprises is 100%.

Number of local suppliers in E&P International countries [GRI G4-EC9]

	PAKISTAN	OMAN	KAZAKH-STAN	RUSSIA	KURDISTAN REGION OF IRAQ
Proportion of local suppliers* (to total number)	68%	50%	90%	100%	52%

*Locally-registered suppliers

Having a local supply chain creates the greatest benefits to society and to the local economy when locally-owned small businesses are hired as contractors. The total value of contracts signed between MOL Group and locally-owned (not only locally registered) businesses in 2014 was HUF 85bn (EUR 289mn) in Upstream international countries (Pakistan, Oman, the Kurdistan Region of Iraq, Russia and Kazakhstan).

Supplier management

In 2014 steps were taken by MOL Group to implement a new and improved process for the pre-qualification of contractors as part of the procurement process. As a part of this process, the procurement of a Supplier Qualification System has started with implementation and roll-out planned for 2015.

Moreover, MOL Plc. has started a new sustainability-focused supplier auditing process. This process is designed to review and potentially improve the sustainability-related practices of key strategic suppliers.

6.3. ETHICS AND COMPLIANCE

Related objective: “Implement key pillars of ethics management system (code of ethics, e-learning, managerial presentation, and business partner code of ethics) in all companies and reach 100% coverage”

Within the ethics management system, MOL Group places special emphasis on communicating the Code of Ethics and ethics training.

The internal auditing of the system continued in 2014.

- The Code of Ethics has been translated into Ukrainian and is now available to employees and external stakeholders in 13 languages (English, Bosnian, Croatian, Polish, Hungarian, German, Italian, Russian, Romanian, Serbian, Slovakian, Slovenian and Ukrainian).
- The Business Partner Code of Ethics is a component of 99% of supplier contracts.
- An ethics awareness-raising poster campaign against harassment, discrimination and corruption was launched at all MOL Group companies.
- Ethics eLearning courses – addressing topics such as human rights and corruption – were successfully completed by employees with Intranet access at INA Group, MOL-Russ, Slovnaft Czech Republic spol. s r. o., SLOVNAFT Polska S. A., MOL Romania, Geoinform Ltd., Petrolszolg Ltd., and Tifon d.o.o.
- 94% of our employees have attended an annual ethics presentation that is delivered by managers. Level 1-4 managers have published an ethics statement via the Intranet to make it publicly available and to increase transparency.
- In order to raise awareness of ethics-related issues in the supply chain, special ethics-focused training was conducted for filling station operators and attendants in the Czech Republic, Bosnia and Herzegovina, Croatia, Hungary, Romania, Serbia, Slovakia and Slovenia.
- Based on our estimates, eLearning and ethics presentations delivered by managers and filling station training events totalled 26,490 hours.

Notes to the sustainability performance

- In addition to ethics investigations and an assessment of ethics-related measures and country and company risk, internal ethics auditing continued this year at 10 subsidiaries and organizational units.

Ethical cases

The Ethics Council is responsible for ensuring that all MOL Group employees comply with the Code, thus the Council, among its other responsibilities, replies to questions that are raised and conducts internal investigations. This year the Council primarily assisted in resolving ethics-compliance issues associated with harassment/inappropriate communication, theft/fraud and discrimination.

Compared to the 81 ethics-related complaints/reports reported in 2013, a higher number, 88 were reported to MOL Group and the INA Group Ethics Council in 2014. The higher number of potential ethical breaches indicates an improvement in the ethical awareness of employees at an increasing number of MOL Group companies. The same trend can be observed with external stakeholders.

- Ethics reports were received from 8 countries, including Iraq and Pakistan, which is a sign of the effective group-level rollout of the ethics management system
- 58% of the reports were received from internal stakeholders and 42% were filed by external stakeholders (this represents an increase of external reports of 11% year-on-year).
- External reports were primarily submitted by customers (27%), former employees (24%), and local communities/citizens (22%). 19% were filed by suppliers/business partners and 1% were received from shareholders.

Topics of ethics-related reports in 2014

TOPICS	SHARE OF TOTAL NUMBER OF REPORTS
Harassment/inappropriate communication	34%
Discrimination	8%
Theft/fraud	11%
Misuse of digital system	2%
Corruption/bribery	5%
Conflict of interest	2%
Breach of HSE norms	3%
Unethical supplier	5%
Other	30%

88 reports were received in total, from which 61 were investigated by the Ethics Council in 2014. Out of the 61 investigations, ethical misconduct was substantiated in 16 cases and 19 investigations are in progress. In addition, the Ethics Council initiated 3 investigations in 2013 that were completed in 2014. Of these cases, ethical misconduct was substantiated in two cases concerning bribery and making false entries in statements.

Consequences for the ethical misconduct revealed by the Ethics Council include the following: termination of employment in 3 cases, written disciplinary notices were issued in 9 cases and verbal disciplinary notices given in 4 more while cash penalties were awarded to

filling station operating partners in 2 cases. Transfer to another workplace was suggested in 2 cases. Customer reimbursement, termination of partner contract and an apology were requested in 1 case each. In the bribery case all the business associations and subcontractors associated with the shareholders and/or senior managers of the company have been blacklisted and excluded from future MOL Group tenders for a period of 99 years. In the remaining cases, the Ethics Council recommended that the awareness of ethical norms should be raised. The Ethics Council regularly reports about ethics related cases to the Executive Board and Supervisory Board and takes the necessary measures to raise awareness of ethical norms.

In 2014, the most common types of cases involved inappropriate communication. The style of some managers was found to be offensive and insulting by a number of our colleagues and a manager failed to involve their direct manager in a performance evaluation and to provide the daily, up-to-date information required to perform their duties: this conduct was considered malicious behaviour. There were some cases of inappropriate and disturbing e-mail communication between employees, harassing phone calls on official cell phones, verbal attacks, threats and cursing. A filling station attendant talked to a customer impolitely. Due to the lack of formal communication with a supplier the company became convinced from information derived from hearsay and rumours that it had fallen out of favour. A manager forwarded an e-mail to a supplier without authorisation. A number of cases of misconduct associated with low value fraud and impropriety by filling station attendants were detected (such as misuse of the loyalty card of a customer, the addition of the price of unpurchased newspapers to the cost of a purchased motorway vignette, borrowing of money from the cash registry and being caught stealing on a video surveillance system). A guarantee fund was not released on time to a former filling station employee. The amount that should have been released was incorrectly calculated.

Cases of falsification included when a project leader and an employee reported a piece of work to be unfinished. The settlement documentation for the supplementary work was missing. An employee failed to report changes in the data that constitute the basis of expense reimbursement settlements, therefore HR failed to cancel an expense reimbursement payment for commuting to work.

Violations of HSE standards were identified when a manager failed to report a 'near-miss' HSE incident. Other cases of ethical misconduct included the violation of personal rights which occurred when a manager placed a video recording tool in a unisex changing room without the approval of colleagues. A MOL Group supplier placed a significant amount of money in a greetings card envelope which was to be given to a professional buyer during a year-end courtesy visit. The IT system (e-mail) was used for private purposes (i.e. a civil initiative). In 2012 we extended the scope of data supply related to ethics cases to the breaches of ethical norms identified by MOL Group Corporate Security.

In 2014, of the total of 877 investigations, MOL Group Security identified 427 cases of misconduct (48.6%). 67.2% of the cases concerned misconduct at filling stations, 27.4% were thefts and frauds from MOL Group companies, 3% involved misuse of corporate property or breaches of security rules, 1.87% were conflicts of interest and 0.5% were security risks that concerned business partners. As result of the disclosed conflicts of interest the managers who exercised

the employer's rights were informed so that consequences could be determined for individuals.

At the MOL Group filling station network, financial penalties for distributors, the termination of contracts to operate and the termination of the employment contracts of station attendants took place. When criminal offences were committed against MOL Group companies, charges were pressed against the perpetrators.

Human Rights

MOL Group respects the fundamental human rights which are described in our Group Code of Ethics. Furthermore, it can be stated that MOL Group is not engaged in activities which affect indigenous people. Nevertheless, MOL's modus operandi ensures the safeguarding of the rights of tribal populations.

As part of the continuous improvement of our ethical governance, all country chairmen – as part of their annual ethics-related duties – have to report on the human rights-related risks of the given country they are working in and draw up relevant mitigation plans. In 2014 MOL Group continued to adapt the UN Guiding Principles on Business and Human Rights ('Ruggie framework').

In 2013 MOL Group put in place a new health, safety and environment management system (HSE MS) which includes a new element for managing social impacts more effectively, with a special focus on our international Exploration and Production operations.

Social impact management covers all the potential resettlement issues which may appear at our exploration and production sites. Accordingly, we will gain free prior and informed consent in the event that indigenous people should be relocated from their land. So far there have not been any resettlements at any of our operational international locations.

One specific area of human rights concerns the interaction of external parties with security personnel. During MOL's operations, the security guards that are present are not MOL employees but the staff of the security service provider. MOL's contracts with security services contain the MOL Group Code of Ethics as a binding appendix that the supplier is obliged to accept. It is the supplier's obligation to enforce the provisions of the Code of Ethics and ensure employees abide by them; inter alia, to respect human rights. Since 2013, in the countries with international Upstream operations (Pakistan and the Kurdistan Region of Iraq), security supplier contracts have stipulated that the employees of the security service provider must be educated about human rights. In 2013, MOL Group started developing mandatory security training material for all employees which was rolled out across the company in 2014. In Pakistan, Russia and the Kurdistan Region of Iraq the training material contained principles related to the protection of human rights. Training materials were shared with private security contractors (who reported a compliance level of 100%) and also with public contractors as recommended training material.

Transparency

The most important annual sustainability related disclosure for MOL Group is the integrated Annual Report. However, in addition to this report MOL issues several other types of communication both at a Group and local level to inform external and internal stakeholders about its sustainability performance.

Besides the Annual Report, sustainability summaries have been incorporated into the "Quarterly Flash reports" of MOL Group for more than 1.5 years. The short summaries provide shareholders with information about the key performance indicators and key activities in the field of sustainability.

Some of the major subsidiaries of MOL Group disclose information on their sustainability performance individually. INA Group once again issued a Sustainability Report in 2014. The report has been prepared according to GRI G3.1 guidelines and the Oil & Gas Sector Supplement and is externally verified by two independent parties. The Hungarian petrochemical company TVK integrates sustainability information into its Annual Report.

The transparency initiatives and performance of MOL Group and its member companies received external recognition in 2014. MOL Group's Annual report was shortlisted for the Corporate Register's Corporate Reporting Award in the 'Best integrated report' category for the third time in a row.

In order to ensure that we receive feedback from stakeholders in a systematic way, MOL Group has continued implementing its stakeholder dialogue program about its SD performance in 2013. This program included the following events:

- the executive management of the European Workers' Council (EWC) analysed the workforce-related information published in the MOL Group Annual Report and web pages at the preparation stage of the report;
- In 2014, the second INA Green Forum was organized in Molve. The Forum gathered experts from the field of Exploration and Production, sustainable development, and representatives of the local and academic community in order to disseminate knowledge about sustainable development and to foster the better understanding of EOR processes.
- a 'green day' was organised at Slovnaft for the third time where Slovnaft's experts presented information about environmental and safety issues and CSR topics to NGOs and local authorities.

6.4. ECONOMIC IMPACTS

Direct Economic Impact

The most important economic impacts of MOL Group are related to the distribution of its revenues to its investors, employees and suppliers and through taxes and royalties paid in the countries in which it operates. The data presented in the key sustainability data table of this report is sourced from financial reports, but compiled and calculated according to GRI G4 indicator definitions. The data is therefore not directly comparable with that contained in MOL's financial statements.

MOL Group revenues decreased in 2014 (by 10.5%) compared to the previous year, primarily reflecting the lower Upstream sales volumes (due to a natural decline in mature fields and due to Russian divestitures - ZMB in Q3 2013 and 49% of Baitex in Q1 2014), lower average hydrocarbon prices (due to unfavourable changes in oil and gas prices) and the reduction of the regulated gas price.

The lower transmission revenue at FGSZ due to the negative effect of cuts in public utility charges and lower volumes also reduced Group-level revenue.

Total Downstream revenue was lower, mainly due to 1.2 million tonnes lower own product sales. This negative impact, however, was partly compensated for by the 0.4 million tonnes higher sales of goods. Revenues were also negatively influenced by the decrease in sales prices which followed the steep decline of crude prices in the second half of the year.

Operating costs decreased in 2014 (by 10.2%) compared to 2013. The decrease in material costs was mainly driven by the lower crude price and crude processing related to the turnaround at the Bratislava refinery in Slovakia, the new 'on-demand' operation mode of INA refineries in Croatia and the transformation of the IES refinery in Italy. Lower processing volumes coupled with a fall in energy prices resulted in lower energy costs: the latter's impact was driven by the decrease in average crude price, albeit with couple of months' delay. These cost decreases were offset by the rise in the cost of goods due mainly to the higher volume of third party sales. The accelerated international work programs resulted in higher US exploration costs.

Company cash added value decreased by 12.0%.

Employee wages and benefits increased by 0.2 %. Even though there was a drop in total headcount (from 28,769 people in 2013 to 27,499 by the end of 2014), its impact was offset by salary increases, excess costs and provisions made for headcount reduction.

Payments to capital investors went up, driven by the higher foreign exchange loss on borrowings, cash and cash equivalents, receivables and payables, alongside the higher dividends paid to shareholders.

Payments to governments consist of taxes, with more than half going on mining royalties. The total amount of payments to governments was less than the base level due to a decrease in group-level corporate income tax and in export duties. The slightly higher-than-base-level mining royalties are a consequence of unfavorable changes in royalty regulations in the CEE region (Hungary and Croatia) and Russian divestitures, partly offset by a decline in production and a lower regulated gas price.

In the countries where MOL Group only has Exploration and Production operations, the energy industry (through royalties or production-sharing agreements) may contribute a significant proportion of the revenue of a government. As a result, MOL Group considers it fundamentally important to observe the Extractive Industries Transparency Initiative (EITI) principles and criteria for financial reporting. MOL Group started to support EITI at an international level in 2013 and has been cooperating with EITI in the countries that are implementing the EITI system.

MOL Group has operations or non-operated assets in EITI compliant countries: the Kurdistan Region of Iraq, Cameroon and Kazakhstan.

Indirect Economic Impact

In the main countries where MOL Group has Upstream and midstream operations, the most significant indirect impact of MOL Group on the economies of these countries is through the energy it supplies.

Another area where the company can make a significant positive impact on the societies of host countries is by improving access to infrastructure and energy as a result of our operations.

MOL Pakistan provided financial aid for the construction of a new bridge, thereby improving (and making safer) the connection between the two main provinces of Khyber Pakhtunkhwa and Punjab in Paki-

stan. The project was not only advantageous for local communities but also allowed MOL to optimize its logistics, making possible the use of larger capacity tankers and thereby reducing diesel consumption (by app. 1,400 tonnes/ year) and consequently CO₂ emissions (app. 4,300 tonnes of CO₂/year). The project was finalized in Q1, 2014.

Another example from previous years is that in 2013 MOL Pakistan managed to meet the needs of domestic households and improve their livelihoods by increasing production of LPG in its newly-constructed gas processing facility (Makori GPF).

A more recent example is the construction of a check dam at Ahmadi Banda in the Karak District which was undertaken in 2014 and is due to be completed in 2015. Keeping in mind the scarcity of water in the area, MOL Pakistan has started construction of Water Harvesting Structures to harness rain water and help recharge ground water. Ten water structures including 2 check dams have already been constructed in Karak District in collaboration with the Soil and Water Conservation Department and handed over to local community.