MOL Hungarian Oil and Gas Public Limited Company

Consolidated Annual Report

31 December 2017

Table of contents

Consolidated Financial Statements (including Independent Auditor’s Report)

Management Discussion and Analysis

Statement of Responsibility

MOL HUNGARIAN OIL AND GAS PLC.

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

31 December 2017

Budapest, 12 March 2018

Zsolt HERNÁDI
Chairman of the Board of Directors
Chief Executive Officer

József SIMOLA
Group Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

Introduction

General information

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

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

Authorization and Statement of Compliance

These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 12 March 2018.

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

Contents

Independent auditor's report 2

Primary statements

Consolidated Statement of profit or loss 3
Consolidated statement of comprehensive income 4
Consolidated statement of financial position 5
Consolidated statement of changes in equity 6
Consolidated statement of cash flows 7

Accounting information, policies and significant estimates

1. Accounting information, policies and significant estimates 8

Results for the year

2. Segmental information 10
3. Total operating income 12
4. Total operating expenses 13
5. Finance result 16
6. Investments in associates and joint ventures 16
7. Income taxes 19
8. Components of other comprehensive income 22

Non-financial assets and liabilities

9. Property, plants and equipment and intangible assets 23
10. Business combinations, transactions with non-controlling interests 29
11. Disposals 31
12. Material non-controlling interest 31
13. Other non-current assets 32
14. Inventories 32
15. Other current assets 33
16. Provisions 33
17. Other non-current liabilities 36
18. Other current liabilities 36
19. Assets held for sale 36

Financial instruments, capital and financial risk management

20. Financial risk and capital management 39
21. Financial instruments 46
22. Fair value measurement 48
23. Trade and other receivables 48
24. Cash and cash equivalents 49

Other financial information

25. Commitments and contingent liabilities 50
26. Notes to the consolidated statements of cash flows 52
27. Earnings per share 53
28. Related party transactions 54
29. Events after the reporting period 55
30. Appendices 56

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of MOL Hungarian Oil and Gas Plc.

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying 2017 consolidated financial statements of MOL Hungarian Oil and Gas Plc. ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017 - showing an asset total of HUF 4,231,700 million and a net profit for the year of HUF 316,410 million -, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and has been prepared, in all materials respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for consolidated financial statements prepared in accordance with EU IFRSs.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters

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

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

Oil and natural gas reserve estimation process

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

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

We have performed the test of detail and we have selected the items with significant movements compared to the prior year. For these we tested if the changes were made in the appropriate period, and in compliance with the Group's internal policies and we validated these volumes against underlying information such as

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

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

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

Wholesale revenue recognition

MOL Group net revenue derives from different activities and we identified wholesale revenue as a significant revenue stream. Revenue is recognized when the risks and rewards of the underlying products have been transferred to the customer.

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

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

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

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Asset impairments

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

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

We examined the methodology used by management to assess the carrying value of respective assets, to determine its compliance with accounting standards and consistency of application. We performed understanding of the process and tested the design of the internal controls operated by the Group relating to the assessment of the carrying value of respective assets. For the assets where impairment indicators were not identified by the Group we assessed the assumptions used by the Group in its determination of whether impairment indicators exist. The assessment took into consideration current industry and Group expectations for the key inputs to impairment models.

In respect of performed impairment tests, we used external data in assessing and corroborating the assumptions used in impairment testing, the most significant being future market oil prices, reserves and resources volumes and discount rates. We involved internal experts in the evaluation of discount rates. We also performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and procedures to assess the completeness of the impairment charges.

We assessed the adequacy of the Group's disclosures in respect of valuation of intangible assets and tangible fixed assets.

The disclosures about intangible assets and tangible fixed assets are included in Note 9 to the consolidated financial statements.

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Trading operations

Unauthorized trading activity (which covers physical and paper trading of products and product related derivatives) gives rise to an inherent risk of fraud in revenue or profit recognition as there is an incentive to mismarking of the Group's trading positions to minimize trading losses or maximize trading profits or understate profits or move profits to subsequent periods when bonus ceilings have already been reached, to maximize individual bonuses across financial years. This risk together with the potential significant effect on the revenue or profit of the Group led us to identify the risk of unauthorized trading operation as a key audit matter.	Our audit procedures included testing of the design of internal controls implemented in the process and testing of the design and operating effectiveness of the controls implemented by the Group to avoid unauthorized trading activity. We selected a sample of third parties to whom we sent confirmation letters to confirm the year-end balances of open transactions. We tested fair value of a sample of derivatives using contract and external market prices with the involvement of valuation experts. We performed test of the completeness of the trading transactions and amounts recorded in the consolidated financial statements through performing procedures to detect unrecorded liabilities as well as procedures related to the recognition of sales, purchases, trade receivables and trade payables. We assessed the appropriateness of disclosures made in relation of the result and details of trading transactions as detailed in Note 20 and Note 21 to the consolidated financial statements.

Other information

Other information consists of the 2017 consolidated business report of the Group and the Overview Chapter, the Management & Discussion & Analysis Chapter, the Corporate Governance Chapter ("Statement on corporate governance"), the Supplementary and Sustainability Chapter and the Report on Payments to Governments of the Annual Report of MOL Hungarian Oil and Gas Plc. Management is responsible for the other information, including preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether 1) the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and 2) the consolidated business report has been prepared in

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accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

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

In our opinion, the consolidated business report of the Group, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law for 2017 is consistent, in all material respects, with the 2017 consolidated financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

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

We also confirm that the Group have made available the information required according to Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law and that the consolidated business report includes the non-financial statements as required by Subsection (5) of Section 134 of the Hungarian Accounting Law.

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing and Hungarian National Auditing Standards, and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

Report on other legal and regulatory requirements

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

Appointment and Approval of Auditor

We were appointed as the statutory auditor of MOL Hungarian Oil and Gas Plc. by the General Assembly of Shareholders of the Company on 13 April 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 16 years.

Consistency with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on 1 March 2018.

Non-audit Services

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

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

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

Budapest, 12 March 2018

Szabó Gergely
Partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
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Szabó Gergely
Registered auditor
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INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	2017 HUF million	2016 HUF million
Net sales	3	4,130,320	3,553,005
Other operating income	3	25,543	25,316
Total operating income	3	**4,155,863**	**3,578,321**
Raw materials and consumables used		3,080,556	2,571,717
Employee benefits expense		255,664	240,260
Depreciation, depletion, amortisation and impairment		318,216	315,483
Other operating expenses		233,549	221,382
Change in inventory of finished goods & work in progress		(28,131)	(33,771)
Work performed by the enterprise and capitalised		(58,358)	(44,655)
Total operating expenses	4	**3,801,496**	**3,270,416**
Profit from operation		**354,367**	**307,905**
Finance income		62,096	49,502
Finance expense		68,769	99,254
Total finance expense, net	5	**(6,673)**	**(49,752)**
Share of after tax results of associates and joint ventures	6	17,944	14,390
Profit before tax		**365,638**	**272,543**
Income tax expense	7	49,228	20,888
Profit for the year		**316,410**	**251,655**
Attributable to:			
Owners of parent		306,952	263,497
Non-controlling interest		9,458	(11,842)
Basic earnings per share*	27	437	359
Diluted earnings per share*	27	437	359

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2017 HUF million	2016 HUF million
Profit for the year		**316.410**	**251.655**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations, net of tax	8	(13.842)	(13.970)
Net investment hedge, net of tax	8	21.364	(5.161)
Changes in fair value of available-for-sale financial assets, net of tax	8	(251)	3.690
Changes in fair value of cash flow hedges, net of tax	8	249	789
Share of other comprehensive income of associates and joint ventures	8	(13.569)	7.849
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods		**(6.049)**	**(6.803)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of post employment benefit obligations	8	(1.205)	839
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		**(1.205)**	**839**
Other comprehensive income / (loss) for the year, net of tax		**(7.254)**	**(5.964)**
Total comprehensive income for the year		**309.156**	**245.691**
Attributable to:			
Owners of parent		300.012	250.466
Non-controlling interest		9.144	(4.775)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 Dec 2017 HUF million	31 Dec 2016 HUF million
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,261,166	2,193,419
Intangible assets	9	181,451	183,561
Investments in associates and joint ventures	6	206,374	257,090
Other non-current financial assets	21	78,400	63,652
Deferred tax asset	7	120,633	125,055
Other non-current assets	13	43,555	44,403
Total non-current assets		**2,891,579**	**2,867,180**
CURRENT ASSETS			
Inventories	14	436,572	385,142
Trade and other receivables	23	538,986	476,531
Securities	21	26,043	53,910
Other current financial assets	21	55,715	26,829
Income tax receivable	7	9,865	7,945
Cash and cash equivalents	24	202,041	216,928
Other current assets	15	69,828	66,239
Assets classified as held for sale	19	1,071	3,082
Total current assets		**1,340,121**	**1,236,606**
Total assets		**4,231,700**	**4,103,786**
EQUITY	20		
Share capital		79,279	79,260
Retained earnings and other reserves		1,354,723	1,149,315
Profit for the year attr. to owners of parent		306,952	263,497
Equity attributable to owners of parent		**1,740,954**	**1,492,072**
Non-controlling interest		**314,817**	**309,554**
Total equity		**2,055,771**	**1,801,626**
NON-CURRENT LIABILITIES			
Long-term debt	21	491,701	436,922
Other non-current financial liabilities	21	6,565	6,160
Non-current provisions	16	434,291	405,175
Deferred tax liabilities	7	50,068	47,766
Other non-current liabilities	17	23,522	22,658
Total non-current liabilities		**1,006,147**	**918,681**
CURRENT LIABILITIES			
Short-term debt	21	171,561	440,372
Trade and other payables	21	516,737	493,389
Other current financial liabilities	21	229,250	202,056
Current provisions	16	40,149	32,423
Income tax payable		1,754	2,615
Other current liabilities	18	210,331	212,624
Total current liabilities		**1,169,782**	**1,383,479**
Total liabilities		**2,175,929**	**2,302,160**
Total equity and liabilities		**4,231,700**	**4,103,786**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HUF million	Share premium HUF million	Fair valuation reserve HUF million	Reserve of exchange differences on translation HUF million	Retained earnings with profit for the year attr. to owners of parent HUF million	Total reserves HUF million	Equity attr. to owners of parent HUF million	Non-controlling interests HUF million	Total equity HUF million
Opening balance 1 Jan 2016	79,241	223,866	1,246	245,772	902,094	1,372,978	1,452,219	364,349	1,816,568
Profit / (loss) for the year	-	-	-	-	263,497	263,497	263,497	(11,842)	251,655
Other comprehensive income / (loss) for the year	-	-	2,761	(17,488)	1,696	(13,031)	(13,031)	7,067	(5,964)
Total comprehensive income / (loss) for the year	-	-	2,761	(17,488)	265,193	250,466	250,466	(4,775)	245,691
Dividends	-	-	-	-	(47,782)	(47,782)	(47,782)	-	(47,782)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(2,533)	(2,533)
Equity recorded for share-based payments	19	-	-	-	314	314	333	-	333
Treasury share transactions	-	(4,477)	-	-	4,477	-	-	-	-
Acquisition / divestment of subsidiaries	-	-	-	-	-	-	-	(4,834)	(4,834)
Acquisition of non-controlling interests	-	-	-	-	(163,164)	(163,164)	(163,164)	(42,653)	(205,817)
Closing balance 31 Dec 2016	79,260	219,389	4,007	228,284	961,132	1,412,812	1,492,072	309,554	1,801,626
Profit / (loss) for the year	-	-	-	-	306,952	306,952	306,952	9,458	316,410
Other comprehensive income / (loss) for the year	-	-	(196)	(3,489)	(3,255)	(6,940)	(6,940)	(314)	(7,254)
Total comprehensive income / (loss) for the year	-	-	(196)	(3,489)	303,697	300,012	300,012	9,144	309,156
Dividends	-	-			(52,681)	(52,681)	(52,681)	-	(52,681)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(3,917)	(3,917)
Equity recorded for share-based payments	19	-	-	-	1,556	1,556	1,575	-	1,575
Treasury share transactions	-	-	-	-	-	-	-		-
Acquisition / divestment of subsidiaries		-	-	-		-	-	58	58
Acquisition of non-controlling interests	-		-	-	(24)	(24)	(24)	(22)	(46)
Closing balance 31 Dec 2017	79,279	219,389	3,811	224,795	1,213,680	1,661,675	1,740,954	314,817	2,055,771

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2017 HUF million	2016 HUF million
Profit before tax		**365,638**	**272,543**
Adjustments to reconcile profit before tax to net cash provided by operating activities			
Depreciation, depletion, amortisation and impairment	4	318,309	315,483
Increase / (decrease) in provisions	16	(4,149)	(27,272)
Net (gain) / loss on asset disposal and divestments		3,764	659
Net interest expense / (income)	5	27,351	40,790
Other finance expense / (income)	5	(20,705)	8,963
Share of after tax results of associates and joint ventures	6	(17,944)	(14,390)
Other non-cash item		15,691	13,908
Income taxes paid	7	(44,159)	(63,415)
Cash flows from operations before changes in working capital		**643,796**	**547,269**
Change in working capital		*(84,100)*	*(27,884)*
(Increase) / decrease in inventories	14	(58,052)	(41,706)
(Increase) / decrease in trade and other receivables	23	(126,404)	(47,040)
Increase / (decrease) in trade and other payables		89,124	78,389
(Increase)/decrease in other assets and liabilities	15, 18	11,232	(17,527)
Cash flows from operations		**559,696**	**519,385**
Capital expenditures	2	(285,532)	(289,438)
Proceeds from disposal of fixed assets		7,013	4,623
Acquisition of businesses (net of cash)	10	(2,567)	(29,935)
Proceeds from disposal of businesses (net of cash)	11	9,996	(3,562)
Decrease in other financial assets		(22,542)	(423)
Interest received and other financial income	5	5,935	3,962
Dividends received	5, 26	32,477	7,805
Cash flows used in investing activities		**(255,220)**	**(306,968)**
Proceeds from issue of bonds, notes and debentures		-	233,348
Repayments of bonds, notes and debentures		(234,840)	-
Proceeds from borrowings		933,026	1,056,074
Repayments of borrowings		(911,255)	(1,088,709)
Interest paid and other finance expense	5	(50,640)	(61,255)
Dividends paid to owners of parent	20	(52,666)	(47,802)
Dividends paid to non-controlling interest		(3,781)	(2,550)
Transactions with non-controlling interest		(23)	(214,987)
Cash flows used in financing activities		**(320,179)**	**(125,881)**
Currency translation differences relating to cash and cash equivalents		(5,032)	(1,446)
Increase/(decrease) in cash and cash equivalents		**(20,735)**	**85,090**
Net cash and cash equivalents at the beginning of the year		216,928	131,838
Change in Cash and cash equivalents		(14,887)	85,090
Net cash and cash equivalents at the end of the year		**202,041**	**216,928**
Overdraft		(5,848)	-
Cash and cash equivalents		**196,193**	**216,928**

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

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

1. Accounting information, policies and significant estimates

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and interpretations issued by IFRS Interpretations Committee as adopted by the EU and effective on 31 December 2017.

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

Principles of consolidation

The consolidated financial statements as of and for the twelve-month period ended 31 December 2017 comprise the accounts of the MOL Plc. and the subsidiaries that it controls together with the Group's attributable share of the results of associates and joint ventures. MOL Plc. and its subsidiaries are collectively referred to as the 'Group'.

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

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

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

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

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

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2017:

- Amendments to IAS 7 – Statement of cash flows: disclosure initiative
- Amendments to IAS 12 – Income taxes: recognition of deferred tax assets for unrealized losses
- Annual improvements 2014-2016: IFRS 12 – Disclosure of interest in other entities

The adoption of these amendments does not have significant impact on the financial statements of the Group.

Issued but not yet effective International Financial Reporting Standards

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

Summary of significant accounting policies

Functional and presentation currency

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

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

Foreign Currency Transactions

Foreign currency transactions are recorded initially at the rate of exchange at the date of the transaction. Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognised or in previous financial statements are reported in profit or loss in the period. Monetary items, goodwill and fair value adjustments arising on the acquisition of a foreign operation denominated in foreign currencies are retranslated at exchange rate ruling at the balance sheet date.

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

Financial statements of foreign entities are translated at year-end exchange rates with respect to the statement of financial position and at the weighted average exchange rates for the year with respect to the statement of profit or loss. All resulting translation differences are included in the translation reserve in other comprehensive income.

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

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

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

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

Significant accounting estimates and judgements

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

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

RESULTS FOR THE YEAR

This section explains the results and performance of the Group for the financial years ended 31 December 2017 and 31 December 2016. Disclosures are following the structure of statement of profit or loss and provide information on segmental data, total operating income, total operating expense, finance result, share of after tax results of associates and joint ventures. For taxation, share-based payments, joint ventures and associates, statement of financial position disclosures are also provided in this section.

2. Segmental information

Accounting policies

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

Consumer Services segment was launched in 2017 consisting of Retail and Mobility (car sharing, fleet management) units.

2017	Upstream HUF million	Downstream HUF million	Consumer Services HUF million	Gas Midstream HUF million	Corporate and other HUF million	Inter-segment transfers HUF million	Total HUF million
Net Revenue							
External sales	162,436	2,724,721	1,123,104	94,070	25,989	-	**4,130,320**
Inter-segment transfers	249,297	918,786	4,911	4,471	189,137	(1,366,602)	-
Total revenue	**411,733**	**3,643,507**	**1,128,015**	**98,541**	**215,126**	**(1,366,602)**	**4,130,320**
Profit / (loss) from operation	74,497	226,832	72,051	48,227	(64,424)	(2,816)	**354,367**

2016 restated	Upstream HUF million	Downstream HUF million	Consumer Services HUF million	Gas Midstream HUF million	Corporate and other HUF million	Inter-segment transfers HUF million	Total HUF million
Net Revenue							
External sales	156,905	2,298,224	996,703	83,423	17,750	-	**3,553,005**
Inter-segment transfers	214,670	758,670	3,467	5,986	170,891	(1,153,684)	-
Total revenue	**371,575**	**3,056,894**	**1,000,170**	**89,409**	**188,641**	**(1,153,684)**	**3,553,005**
Profit / (loss) from operation	37,053	247,550	52,950	41,439	(62,545)	(8,542)	**307,905**

2017	Upstream HUF million	Downstream HUF million	Consumer Services HUF million	Gas Midstream HUF million	Corporate and other HUF million	Inter-segment transfers HUF million	Total HUF million
Other segment information							-
Capital expenditure:	147,810	133,416	38,673	5,660	22,217	-	**347,776**
Property, plant and equipment	137,085	125,486	37,910	4,969	13,685	-	**319,135**
Intangible assets	10,725	8,438	763	691	8,024	-	**28,641**
Depreciation, depletion, amortisation and impairment	158,030	99,657	25,234	13,127	24,040	(1,872)	**318,216**
From this: impairment losses recognized in statement of profit or loss	26,244	2,164	1,175	150	4,171	(555)	**33,349**
From this: reversal of impairment recognized in statement of profit or loss	1,259	1,900	604	-	370	-	**4,133**

2016 restated	Upstream HUF million	Downstream HUF million	Consumer Services HUF million	Gas Midstream HUF million	Corporate and other HUF million	Inter-segment transfers HUF million	Total HUF million
Other segment information							
Capital expenditure:	113,247	124,302	26,950	7,696	18,676	-	**290,871**
Property, plant and equipment	96,122	121,012	26,209	5,752	11,684	-	**260,779**
Intangible assets	17,125	3,290	741	1,944	6,992	-	**30,092**
Depreciation, depletion, amortisation and impairment	146,637	100,486	33,363	13,049	23,681	(1,733)	**315,483**
From this: impairment losses recognized in statement of profit or loss	14,815	6,841	7,621	84	6,062	(249)	**35,174**
From this: reversal of impairment recognized in statement of profit or loss	833	252	210	-	176	-	**1,471**

Introduction of Consumer services segment in 2017 does not impact the total revenue and profit figures as the 2016 activities were part of Downstream segment in which is restated in this Financial Statement.

The operating profit of the segments includes the profit arising both from external sales and transfers to the other business segments. Corporate and other segment provide maintenance, financing and other services to the business segments. The internal transfer prices used are based on prevailing market prices. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.

The differences between the capital expenditures presented above and the additions in the intangible and tangible movement schedule are due to the additions of emission rights, and non-cash items such as capitalization of field abandonment provisions, and assets received free of charge.

a) Assets by geographical areas

2017	Intangible assets (Note 9) HUF million	Property, plant and equipment (Note 9) HUF million	Investments in associates and joint ventures (Note 6) HUF million
Hungary	79,206	814,896	16,870
Croatia	50,162	610,808	-
Slovakia	6,992	452,225	2,996
Rest of EU	20,668	288,742	18,446
Rest of Europe	11,830	47,223	21,972
Rest of the World	12,593	47,272	146,090
Total	**181,451**	**2,261,166**	**206,374**

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

3. Total operating income

Accounting policies

Net sales

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

Lease income

The recognition of interest revenue from lease transactions is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Sales taxes

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

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

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

Other operating income

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

a) Sales by product lines

	2017 HUF million	2016 HUF million
Sales of crude oil and oil products	2,868,428	2,435,736
Sales of petrochemical products	679,838	578,109
Sales of natural gas and gas products	251,692	225,811
Sales of services	175,273	157,703
Sales of other products	155,089	155,646
Total	4,130,320	3,553,005

b) Sales by geographical area

	2017 HUF million	2016 HUF million
Hungary	1,065,673	960,933
Croatia	450,063	404,814
Slovakia	389,532	343,990
Czech Republic	375,113	320,540
Italy	342,887	281,488
Romania	265,448	226,355
Austria	229,660	213,124
Serbia	165,803	115,849
Poland	140,280	130,735
Germany	124,820	96,442
United Kingdom	117,194	49,222
Bosnia-Herzegovina	95,760	82,808
Switzerland	84,523	82,856
Slovenia	69,779	74,508
Rest of Central-Eastern Europe	30,207	21,212
Rest of Europe	83,716	84,845
Rest of the World	99,862	63,284
Total	4,130,320	3,553,005

The Group has no single major customer the revenue from which would exceed 10% of the total net sales revenues in 2017 (neither in 2016).

c) Other operating income

	2017 HUF million	2016 HUF million
Penalties, late payment interest, compensation received	3,867	7,282
Gain on sales of intangibles, property, plant and equipment	2,682	3,387
Allowances and subsidies received	875	868
Other	18,119	13,779
Total	**25,543**	**25,316**

4. Total operating expenses

Accounting policies

Total operating expense

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

	2017 HUF million	2016 HUF million
Raw materials and consumables used	**3,080,556**	**2,571,717**
Crude oil purchased	1,530,002	1,251,839
Value of material-type services used	209,124	200,539
Cost of goods purchased for resale	635,782	556,175
Purchased bio diesel component	82,865	68,391
Non-hydrocarbon based material	306,364	233,048
Utility expenses	75,345	72,747
Value of inter-mediated services	28,664	19,329
Other raw materials	212,410	169,649
Employee benefits expense	**255,664**	**240,260**
Wages and salaries	179,090	176,171
Social security	44,698	41,526
Other employee benefits expense	31,876	22,563
Depreciation, depletion, amortisation and impairment	**318,216**	**315,483**
Other operating expenses	**233,549**	**221,382**
Mining royalties	42,629	42,893
Rental cost	30,335	29,023
Contribution in strategic inventory storage	29,017	21,716
Taxes and contributions	15,159	20,505
Other	116,409	107,245
Change in inventory of finished goods & work in progress	**(28,131)**	**(33,771)**
Work performed by the enterprise and capitalised	**(58,358)**	**(44,655)**
Total operating expenses	3,801,496	3,270,416

Employee benefit expenses

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

Share-based payments

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

Equity-settled transactions

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

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

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

Cash-settled transactions

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

	2017 HUF million	2016 HUF million
Cash-settled share-based payment expense	5,172	4,096
Equity-settled share-based payment expense	1,686	460
Total expense of share-based payment transactions	**6,858**	**4,556**

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

Cash-settled share-based payments

Share Option Incentive Schemes for management

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

- For incentive plan valid till 31 December 2016 it covers a five-year period starting annually, where periods are split into a two-year vesting period (it is not possible to exercise Share Options) and a three-year redeeming period. If unexercised, the Share Option lapses after 31 December of the redeeming period.
- The grants are defined centrally in line with MOL job category.
- The payout is linked to individual short-term performance.

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

The payment of incentive is upon exercising of option by management. The payout/earning is the difference between the exercise price and Strike Price for one Share Option, multiplied by the number of Share Options the manager is entitled to.

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

	2017		2016*	
	Number of shares in conversion option units number of share	Weighted average exercise price HUF/share	Number of shares in conversion option units number of share	Weighted average exercise price HUF/share
Outstanding at the beginning of the year	**3,777,800**	**1,785**	**4,529,472**	**1,922**
Granted during the year	380,160	2,016	1,302,784	1,643
Forfeited during the year	(116,008)	1,799	(442,760)	1,779
Exercised during the year	(1,435,976)	2,000	(1,585,712)	2,045
Expired during the year	-	-	(25,984)	2,186
Outstanding at the end of the year	**2,605,976**	**1,700**	**3,777,800**	**1,785**
Exercisable at the end of the year	1,246,808	1,635	1,613,464	2,074

* Recalculated due to Mol Plc. one to eight share split in 2017 to enable comparability.

As required by IFRS 2 – Share-based payment, this share-based compensation is accounted for as cash-settled payments, expensing the fair value of the benefit as determined at vesting date during the vesting period. In 2017 expenses amount to HUF 2,074 million (2016: HUF 2,509 million). Liabilities in respect of share-based payment plans amount to HUF 4,013 million as at 31 December 2017 (31 December 2016: HUF 2,992 million), recorded in Other non-current liabilities and Other current liabilities.

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

	2017	2016*
Weighted average exercise price (HUF / share)	1,700	1,785
Share price as of 31 December (HUF / share)	3,005	2,579
Expected volatility based on historical data	22.05%	22.76%
Expected dividend yield	2.91%	3.03%
Estimated maturity (years)	2.30	2.60
Risk free interest rate	0.37%	0.86%

* Recalculated due to Mol Plc. one to eight share split in 2017 to enable comparability.

Performance Share Plan for management

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

- Programme starts each year on a rolling scheme with a three-year vesting period. Payments are due after the third year.
- Target is the development of MOL's share price compared to relevant and acknowledged regional and industry specific indicators (the CETOP and Dow Jones Emerging Market Titans Oil & Gas 30 Index).
- Basis of the evaluation is the average difference in MOL's year-on-year (12 months) share price performance in comparison to the benchmark indices during three years.
- Payout rates are defined based on the over / underperformance of MOL share price.
- The rate of incentive is influenced by the individual short-term performance.

Expenses arising from the Performance Share Plan program amount to HUF 3,098 million in 2017 (2016: HUF 1,587 million). Liabilities in respect of the Performance Share Plan program amount to HUF 3,174 million as at 31 December 2017 (31 December 2016: HUF 1,808 million) recorded in Other non-current liabilities and Other current liabilities.

Equity-settled share-based payments

From 1 January 2017, the MOL Group established two new equity-settled share-based payment remuneration plans to supersede former cash-settled share-based payment programs in Hungary: Absolute Share Value Based Remuneration Incentive and Relative Market Index Based Remuneration Incentive. MOL Group reserves the right to choose the method of payment either in form of providing of MOL shares or in cash payment and intention of the Group is settlement in shares.

Absolute Share Value Based Remuneration Incentive for management

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

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

Payment is upon exercising of option by management. The value of the incentive is the difference between the strike price and a selected spot price for each unit of the entitlement.
In case the Annual General Meeting of MOL Plc. decides on dividend payment after the grant date, the managers, who are entitled to long-term incentives are eligible for a compensation in share equivalent when redeeming the share entitlement. Payment to one manager is the value equal to the dividend payment per share multiplied by the share unit numbers the manager is entitled to. This is paid at redemption.

	2017	
	Number of shares in conversion option units	Weighted average exercise price
	number of share	HUF/share
Outstanding at the beginning of the year	-	-
Granted during the year	2,575,064	2,352
Forfeited during the year	(33,664)	2,352
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at the end of the year	**2,541,400**	**2,352**
Exercisable at the end of the year	-	-

As required by IFRS 2 – Share-based payment, this share-based compensation is accounted for as equity-settled, expensing the fair value of the benefit as determined at grant date during the vesting period. In 2017 expenses amount to HUF 976 million.

Relative Market Index Based Remuneration Incentive for management

The Relative Market Index Based Remuneration Plan is a three-year programme using the Comparative Share Price methodology with following characteristics:

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

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

Expenses arising from the Relative Market Index Based Remuneration Plan amount to HUF 212 million in 2017.

Share Incentive scheme for the members of the Board of Directors

The members of the Board of Directors become entitled to defined annual amount of MOL shares based on the number of days spent in the position. 1200 shares per month are granted to each director, the Chairman of the Board is entitled to an additional amount of 400 shares per month. If an executive director is in charge as a Chairman of the Board then this additional amount of shares should be granted to the non-executive Deputy Chairman. The new incentive system ensures the interest of the Board of Directors in the long-term increase of the MOL share price as 2/3 of the shares vested in the year are under transferring restriction for one year.

According to IFRS 2 – Share-based payment, the incentive qualifies as an equity-settled share-based scheme; therefore the fair value of the benefit should be expensed during the one year vesting period with a corresponding increase in the equity. The fair value of the benefit has been determined with reference to the average quoted price of MOL shares at the date of grant, which is the first trading day of the year. In 2017 with respect of the share scheme program, HUF 498 million (2016: HUF 460 million) is recorded as an expense, parallel with the corresponding increase in the equity.

	2017	2016*
Number of shares vested	148,800	148,800
Share price at the date of grant (HUF / share)	2,598	1,756

* Recalculated due to Mol Plc. one to eight share split in 2017 to enable comparability.

5. Finance result

Accounting policies

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

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

Finance result	2017 HUF million	2016 HUF million
Interest income	4,063	3,440
Dividend income	6,693	6,095
Foreign exchange gains	48,164	38,997
Other finance income	3,176	970
Total finance income	**62,096**	**49,502**
Interest expense	24,629	35,530
Unwinding of discount on provisions	6,786	8,699
Foreign exchange losses	31,132	39,369
Other finance expense	6,222	15,656
Total finance expense	**68,769**	**99,254**
Net finance expense	**6,673**	**49,752**

6. Investments in associates and joint ventures

Accounting policies

Statement of financial position

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

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

Investments in associates and joint ventures are assessed to determine whether there is any objective evidence of impairment. If there is evidence of impairment the recoverable amount of the investment is determined to identify any impairment loss to be

recognised. Where losses were made in previous years, an assessment of the factors is made to determine if any loss may be reversed

Statement of profit or loss

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

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

			Ownership	Contribution to net income		Net book value of investments	
Company name	Country	Range of activity	2017	2017 HUF million	2016 HUF million	2017 HUF million	2016 HUF million
Investment in joint ventures							
BaiTex Llc / MK Oil and Gas B.V.	Russia / Netherlands	Exploration and production activity / Exploration investment management	51%	1,501	1,727	18,446	30,565
JSR MOL Synthetic Rubber Zrt.	Hungary	Production of synthetic rubber	49%	(430)	(358)	12,269	12,735
CM European Power International B.V.	Netherlands	Power plant investment management	50%	-	9,484	-	9,484
Rossi Biofuel Zrt.	Hungary	Biofuel component production	25%	478	863	3,162	2,691
Dunai Vízmű Zrt.	Hungary	Water production, supply	33%	-	-	1,400	1,400
Investment in associated companies							
Pearl Petroleum Ltd.	Kurdistan region / Iraq	Exploration of gas	10%	15,270	-	129,720	156,064
MET Holding AG. (MET)	Switzerland	Natural gas trading	40%	1,618	2,489	21,972	22,310
Ural Group Limited (Expl)	Kazakhstan	Exploration and production activity	28%	(698)	(190)	16,371	19,262
Meroco a.s.	Slovakia	Production of bio-diesel component (FAME)	25%	262	316	1,083	1,074
Messer Slovnaft s.r.o	Slovakia	Production of technical gases	49%	71	59	731	720
DAC ARENA a.s.	Slovakia	Facility management	23%	-	-	1,181	618
IN-ER Erőmű Kft.	Hungary	Power plant investment management	30%	(128)	-	39	167
Total				17,944	14,390	206,374	257,090

Joint ventures

MK Oil and Gas B.V.

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

JSR MOL Synthetic Rubber Zrt.

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

CM European Power International B.V.

CM European Power International B.V. was governed and treated as a joint venture and was consolidated using the equity method accordingly. In 2016, disposal of investment in CM European Power Slovakia s.r.o was made resulted one-off income from the entity. In 2017, CM European Power International B.V. has been terminated.

	BaiTex Llc / MK Oil and Gas B.V.		JSR MOL Synthetic Rubber Zrt.	
	2017 HUF million	2016 HUF million	2017 HUF million	2016 HUF million
The joint venture's statement of financial position:				
Non-current assets	58,020	54,151	60,666	38,431
Current assets	2,485	3,398	27,893	31,892
Non-current liabilities	29,366	5,873	62,027	34,212
Current liabilities	8,030	7,777	1,493	10,121
Net assets	**23,109**	**43,899**	**25,039**	**25,990**
Proportion of the Group's ownership at year end	51%	51%	49%	49%
Group's share of assets	**11,786**	**22,389**	**12,269**	**12,735**
Fair value adjustment	6,660	8,176	-	-
Borrowing cost capitalization	-	-	-	-
Carrying amount of the investment	**18,446**	**30,565**	**12,269**	**12,735**
The joint venture's statement of profit or loss:				
Net revenue	52,775	39,145	-	-
(Loss) / Profit from operations	9,469	8,655	(975)	(663)
Net income attributable to equity holders	4,455	7,253	(878)	(731)
Group's share of reported profit for the year	**2,272**	**3,699**	**(430)**	**(358)**
Fair value adjustment P&L impact	(1,070)	(874)	-	-
Borrowing cost capitalization P&L impact	-	(328)	-	-
Inventory consolidation P&L impact	299	(807)	-	-
Interest difference	-	37	-	-
Group's share of profit/loss for the year after consolidation	**1,501**	**1,727**	**(430)**	**(358)**

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

Associates

Pearl Petroleum Company Limited

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

MET Holding AG.

MOL Group has 40% ownership in MET Holding AG. The group is accounted for as an associated company and is consolidated using the equity method accordingly.

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

In 2017 dividend received on Group's 40% interest held in MET is HUF 1,251 million (2016: HUF 622 million).

Ural Group Limited

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

	Pearl Petroleum		MET Holding AG.		Ural Group Limited (Expl)	
	2017 HUF million	2016 HUF million	2017 HUF million	2016 HUF million	2017 HUF million	2016 HUF million
The associate's statement of financial position:						
Non-current assets	496,770	193,167	13,144	11,006	66,132	74,725
Current assets	130,516	688,727	339,213	217,326	1,235	1,864
Non-current liabilities	331	310	3,560	3,081	3,461	1,428
Current liabilities	26,806	40,391	293,866	169,476	4,376	5,116
Net assets	**600,149**	**841,193**	**54,931**	**55,775**	**59,530**	**70,045**
Proportion of the Group's ownership at year end	10%	10%	40%	40%	28%	28%
Group's share of assets	**60,015**	**84,119**	**21,972**	**22,310**	**16,371**	**19,262**
Fair value adjustment	73,033	82,873	-	-	-	-
Movements on impairment	8,856	(10,928)	-	-	-	-
Dividend received over impairment	(12,184)	-	-	-	-	-
Carrying amount of the investment	**129,720**	**156,064**	**21,972**	**22,310**	**16,371**	**19,262**
The associate's statement of profit or loss:						
Net revenue	76,626	62,749	2,345,689	1,481,481	-	-
(Loss) / Profit from operations	(25,375)	66,036	8,851	16,626	(1,127)	(653)
Net income attributable to equity holders	64,136	109,282	4,045	6,223	(2,537)	(690)
Group's share of reported profit for the year	**6,414**	**10,928**	**1,618**	**2,489**	**(698)**	**(190)**
Movements on impairment	8,856	(10,928)	-	-	-	-
Group's share of consolidated profit for the year	**15,270**	-	**1,618**	**2,489**	**(698)**	**(190)**

Given the current economic situation impacting the Group's associate in the Kurdistan Region of Iraq HUF 10,928 million provision has been made in 2016 on Group's share of profit of Pearl Petroleum which has been reversed in 2017 in line with cash distribution received from the entity. In 2017, further HUF 1,608 million impairment has been recorded.

7. Income taxes

Accounting policies

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

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

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

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

Significant accounting estimates and judgements

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

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

a) Analysis of taxation charge for the year

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2017 and 2016 include the following components:

	2017 HUF million	2016 HUF million
Current corporate income tax and industry taxes	(26,661)	(34,931)
Local trade tax and innovation fee	(14,894)	(13,651)
Deferred taxes	(7,673)	27,694
Total income tax (expense) / benefit	**(49,228)**	**(20,888)**

b) Current income taxes

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

Industry taxes include tax on energy supply activities in Hungary with an effective tax rate of 21% on taxable statutory profit of MOL Plc. and oil and gas companies in Norway where tax rates consist of corporate income tax of 24% (2016: 25%) and resource rent tax of 54% (2016: 53%) both payable on net operating profits derived from extractive activities. Upstream companies in Norway are refunded for the tax loss of exploration activities incurred for the year.

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

Change in tax rates

The following changes in corporate income tax rates effective from 1 January 2018 are taken into account in deferred tax calculation:

- change in corporate income tax and resource rent tax in Norway to 23% and to 55% respectively (2017: 24% and 54% respectively)
- change in Pakistan to 30% (2017: 31%)

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

The below listed changes were applicable from 2017:

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

c) Deferred tax assets and liabilities

The deferred tax balances as of 31 December 2017 and 2016 in the consolidated statement of financial position consist of the following items by categories:

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Provisions	88,330	110,759
Statutory tax losses carried forward	80,848	52,414
Deferred tax impact on IFRS transition	27,341	40,516
Property, plant and equipment and intangible assets	(133,285)	(77,349)
Elimination of intragroup transactions	(40,273)	(72,590)
Other temporary differences (1)	47,604	23,540
Net deferred tax asset	**70,565**	**77,289**
of which:		
Total deferred tax assets	120,633	125,055
Total deferred tax liabilities	(50,068)	(47,766)

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

As of 31 December 2017 deferred tax assets of HUF 120,633 million consist of deferred tax on tax losses carried forward of HUF 27,144 million and HUF 14,576 million at MOL Plc. and INA Group, respectively. Besides, amount of HUF 20,386 million at MOL Plc. relates to timing differences of provisions net of intragroup transactions.

As of 31 December 2017 deferred tax liabilities of HUF 50,068 million include temporary differences on intangible and tangible assets at FGSZ Zrt. (HUF 16,915 million) and Slovnaft a.s. (HUF 35,158 million). In case of Slovnaft a.s. deferred tax assets and liabilities are offset, decreasing the deferred tax liability by HUF 16,648 million arising mainly from differences in provisions.

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

	2017 HUF million	2016 HUF million
Net deferred tax asset as at 1 January	77,289	49,048
Recognized in statement of profit or loss	(7,673)	27,694
Recognized directly in equity (as other comprehensive income)	(1,532)	437
Acquisition of business	474	(293)
Sale of business	-	(102)
Exchange difference	2,007	505
Net deferred tax asset as at 31 December	**70,565**	**77,289**

The amount recognised in statement of profit or loss as an expense is mainly driven by changes related to MOL Plc. (HUF 4,731 million).

d) Reconciliation of taxation rate

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

	2017 HUF million	2016 HUF million
Profit before tax per consolidated statement of profit or loss	**365,638**	**272,543**
Less: share of profit of joint ventures and associates	(17,944)	(14,390)
Income before taxation and share of profit of joint ventures and associates	**347,694**	**258,153**
Tax expense at the applicable tax rate (2017: 9%, 2016: 10%, 19%)	(31,292)	(49,049)
Deferred tax impact of IFRS transition	-	61,471
Effect of change in tax rates on deferred taxes	365	18,048
Non-taxable income	6,693	6,095
Tax allowance available	387	6,026
Permanent differences (tax value - IFRS value)	(5,269)	(23,943)
Losses not recognized as deferred tax asset	(13,744)	(21,043)
Other tax expenses (local trade tax, industry tax)	(12,667)	(9,125)
Differences in tax rates at subsidiaries	(8,553)	(9,160)
Recognition of prior year tax losses carried forward	14,506	142
Effect of tax audits	346	(350)
Total income tax expense for the year	**(49,228)**	**(20,888)**
Effective tax rate	**13%**	**8%**

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

e) Income tax recognized in other comprehensive income

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

	2017 HUF million	2016 HUF million
Net gain on hedge of a net investment and foreign exchange differences of loans given	(1,804)	891
Revaluations of available-for-sale financial assets	56	(491)
Revaluations of financial instruments treated as cash flow hedges	227	(8)
Equity recorded for actuarial gain/(loss) on provision for retirement benefit obligation	(11)	45
Total income tax recognized in other comprehensive income	**(1,532)**	**437**

f) Unrecognised deferred tax assets

HUF 108,078 million deferred tax assets have not been recognized in respect of tax losses out of the total. Further, HUF 54,705 million deferred tax asset also have not been recognized on temporary differences in the Group due to uncertainty of realization. Out of tax losses on which no deferred tax assets recognized, HUF 89,268 million has no expiry, HUF 16,954 million has expiry within five years and HUF 1,856 million will expire after five years.

8. Components of other comprehensive income

	2017 HUF million	2016 HUF million
Exchange differences on translating foreign operations, net of tax		
Gains / (losses) arising during the year	(18,010)	(25,580)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	4,168	11,610
Income tax effect	-	-
	(13,842)	**(13,970)**
Net investment hedge, net of tax		
Gains / (losses) arising during the year	23,168	(6,052)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	(1,804)	891
	21,364	**(5,161)**
Changes in fair value of available-for-sale financial assets, net of tax		
Gains / (losses) arising during the year	(307)	4,181
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	56	(491)
	(251)	**3,690**
Changes in fair value of cash flow hedges, net of tax		
Gains / (losses) arising during the year	17	(325)
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	(9,221)
Reclassification adjustments to initial cost of hedged inventories	5	10,343
Income tax effect	227	(8)
	249	**789**
Remeasurement of post employment benefit obligations		
Gains / (losses) arising during the year	(1,194)	794
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	-	-
Income tax effect	(11)	45
	(1,205)	**839**
Share of other comprehensive income of associates and joint ventures		
Gains / (losses) arising during the year	(13,228)	7,849
Recycling reserves from OCI to profit or loss due to removal of balance sheet items	(341)	-
Income tax effect	-	-
	(13,569)	**7,849**

NON-FINANCIAL ASSETS AND LIABILITIES

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

9. Property, plants and equipment and intangible assets

a) Property, plants and equipment

Accounting policies

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

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

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

	Land and buildings	Machinery and equipment	Other machinery and equipment	Construction in progress	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
At 1 Jan 2016					
Gross book value	3,079,941	2,324,814	169,969	382,334	5,957,058
Accumulated depreciation and impairment	(1,779,341)	(1,754,695)	(133,610)	(85,041)	(3,752,687)
Net book value	**1,300,600**	**570,119**	**36,359**	**297,293**	**2,204,371**
Year ended 31 Dec 2016					
Additions and capitalizations	122,742	173,707	10,669	(45,225)	261,893
Acquisition of subsidiaries	21,968	619	490	203	23,280
Depreciation for the year	(151,762)	(107,826)	(10,119)	-	(269,707)
Impairment	(5,253)	(8,900)	(188)	(6,021)	(20,362)
Reversal of impairment	966	323	32	3	1,324
Disposals	(2,368)	(1,614)	(554)	(1,033)	(5,569)
Disposal of subsidiaries	(2,219)	(9,068)	(23)	(1,899)	(13,209)
Exchange adjustment	(2,366)	(3,471)	509	(7,115)	(12,443)
Transfers and other movements	25,358	164	(160)	(1,521)	23,841
Closing net book value	**1,307,666**	**614,053**	**37,015**	**234,685**	**2,193,419**
At 31 Dec 2016					
Gross book value	3,226,680	2,350,377	174,155	314,202	6,065,414
Accumulated depreciation and impairment	(1,919,014)	(1,736,324)	(137,140)	(79,517)	(3,871,995)
Net book value	**1,307,666**	**614,053**	**37,015**	**234,685**	**2,193,419**
Year ended 31 Dec 2017					
Additions and capitalizations	108,115	237,891	21,810	(16,135)	351,681
Acquisition of subsidiaries	3,223	930	460	171	4,784
Depreciation for the year	(158,705)	(107,193)	(11,124)	-	(277,022)
Impairment	(5,628)	(5,704)	(381)	(8,043)	(19,756)
Reversal of impairment	1,405	865	1,711	68	4,049
Disposals	(3,655)	28	(3,322)	(47)	(6,996)
Disposal of subsidiaries	-	-	-	-	-
Exchange adjustment	2,432	(7,864)	(33)	(206)	(5,671)
Transfers and other movements	8,357	11,814	3,029	(6,522)	16,678
Closing net book value	**1,263,210**	**744,820**	**49,165**	**203,971**	**2,261,166**
At 31 Dec 2017					
Gross book value	3,354,726	2,479,511	199,530	265,511	6,299,278
Accumulated depreciation and impairment	(2,091,516)	(1,734,691)	(150,365)	(61,540)	(4,038,112)
Net book value	**1,263,210**	**744,820**	**49,165**	**203,971**	**2,261,166**

Asset acquisitions

In 2017, MOL Group made one significant asset acquisition transaction through terminating the Joint Operation Agreement with Hungarian Horizon Energy Ltd. (HHE). With the termination MOL Group acquired the remaining 50% right to assets from HHE for HUF 5,752 million. The Group has not performed any significant asset acquisitions in 2016.

Leased assets

Accounting polices

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

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

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

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

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Gross book value	76,543	7,174
Accumulated depreciation	(1,032)	(3,965)
Net book value	**75,511**	**3,209**

Out of the gross book value of leased assets as of 31 December 2017 HUF 63,643 million is related to lease of Floating Production and Offloading vessel that is used at North Sea.

Borrowing costs

Accounting policies

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

Property, plant and equipment include borrowing costs incurred in connection with the construction of qualifying assets. Additions to the gross book value of property, plant and equipment include borrowing costs of HUF 433 million in 2017 (2016: HUF 818 million). In 2017 the applicable capitalisation rate (including the impact of foreign exchange differences) has been 0.9% (2016: 1.9%).

Government grants

Accounting policies

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

In 2017 property, plant and equipment includes assets with a value of HUF 10,562 million (2016: HUF 11,182 million) financed from government grants. The total amount reflects mainly the assets of FGSZ Zrt. partly financed via a European Union grant for the construction of the Hungarian-Romanian and the Hungarian-Croatian natural gas interconnector and transformation of nodes, and the assets of Slovnaft a.s. financed by the grant received from Slovakian government in order to serve State Authorities in case of state emergencies.

	2017 HUF million	2016 HUF million
At 1 January	**11,182**	**12,477**
Asset related government grants received	497	173
Release of deferred grants	(1,105)	(1,440)
Foreign exchange differences	(12)	(28)
At 31 December (see Note 17 and 18)	**10,562**	**11,182**

b) Intangible assets

Accounting policies

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

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

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

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

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

	Rights HUF million	Software HUF million	Exploration and evaluation assets HUF million	Goodwill HUF million	Total HUF million
At 1 Jan 2016					
Gross book value	147,600	48,592	188,762	89,146	**474,100**
Accumulated amortization and impairment	(97,432)	(37,847)	(77,390)	(52,059)	**(264,728)**
Net book value	**50,168**	**10,745**	**111,372**	**37,087**	**209,372**
Year ended 31 Dec 2016					
Additions	15,531	5,811	16,838	-	**38,180**
Acquisition of subsidiary	2,432	70	(4)	4,282	**6,780**
Amortization for the year	(8,055)	(2,946)	(1,072)	-	**(12,073)**
Write-offs	(3,743)	(31)	(11,038)	-	**(14,812)**
Reversal of impairment	-	-	147	-	**147**
Disposals	(8,164)	(7)	-	-	**(8,171)**
Revaluation of emission quotas	(1,763)	-	-	-	**(1,763)**
Disposal of subsidiaries	(179)	-	(2,580)	-	**(2,759)**
Exchange adjustment	(1,240)	47	1,435	(77)	**165**
Transfers and other movements	2,161	(1,309)	(32,357)	-	**(31,505)**
Closing net book value	**47,148**	**12,380**	**82,741**	**41,292**	**183,561**
At 31 Dec 2016					
Gross book value	151,222	54,770	179,477	92,713	**478,182**
Accumulated amortization and impairment	(104,074)	(42,390)	(96,736)	(51,421)	**(294,621)**
Net book value	**47,148**	**12,380**	**82,741**	**41,292**	**183,561**
Year ended 31 Dec 2017					
Additions	7,748	9,170	10,886	708	**28,512**
Acquisition of subsidiary	48	285	111	-	**444**
Amortization for the year	(7,114)	(3,813)	(1,169)	-	**(12,096)**
Write-offs	(1)	(76)	(13,414)	(75)	**(13,566)**
Reversal of impairment	93	-	82	-	**175**
Disposals	(10,839)	-	-	-	**(10,839)**
Revaluation of emission quotas	(3,281)	-	-	-	**(3,281)**
Disposal of subsidiaries	-	-	(2)	-	**(2)**
Exchange adjustment	(6)	66	(3,358)	404	**(2,894)**
Transfers and other movements	13,102	(1,172)	(1,747)	1,254	**11,437**
Closing net book value	**46,898**	**16,840**	**74,130**	**43,583**	**181,451**
At 31 Dec 2017					
Gross book value	146,821	62,162	155,953	95,576	**460,512**
Accumulated amortization and impairment	(99,923)	(45,322)	(81,823)	(51,993)	**(279,061)**
Net book value	**46,898**	**16,840**	**74,130**	**43,583**	**181,451**

In 2017, MOL Group started its so-called Polyol Project with which it intends to become a significant producer of polyether polyols, high-value intermediates for products applied in the automotive, packaging and furniture industry. Under the project a new polyol plant will be constructed .License agreements are already signed with Evonik and thyssenkrupp, which will enable MOL Group to produce propylene oxide, a key component for the production of polyether polyols and licenses are recorded as intangible assets.

Goodwill

Accounting policies

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

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

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

Goodwill (net book value)	31 Dec 2017 HUF million	31 Dec 2016 restated HUF million
Consumer services	33,164	30,873
Croatian retail network	15,473	15,302
Hungarian retail network	6,165	4,282
Czech retail network	7,155	6,789
Romanian retail network	4,371	4,500
Downstream	8,370	8,392
Austrian wholesale and logistic	7,893	7,915
MOL Petrochemicals	477	477
Corporate	2,049	2,027
Croatian oil field services	2,049	2,027
Total goodwill	**43,583**	**41,292**

Oil and natural gas exploration and development expenditures

Accounting policies

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

License and property acquisition costs

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

Exploration expenditure

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

Development expenditure

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

Significant accounting estimates and judgements

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

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

Exploration and evaluation assets

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

Within exploration and evaluation assets, exploration expenses incurred in 2017 is HUF 4,684 million (2016: HUF 4,202 million), which were not eligible for capitalization. Consistent with the successful effort method of accounting they were charged to various operating cost captions of the consolidated statement of profit or loss as incurred.

Other research and development costs are less significant compared to exploration expenses. These research and development costs are HUF 892 million in 2017 (2016: HUF 1,132 million).

Write-offs of dry holes

Dry-holes	2017 HUF million	2016 HUF million
Hungary	2 685	4 310
Norway	449	1 311
Oman	-	5 149
UK	-	162
Croatia	-	106
Total	3 134	11 038

g) Depreciation, depletion and amortization

Accounting policies

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

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

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

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

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

Significant accounting estimates and judgements

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

h) Impairment of assets

Accounting policies

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

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

Significant accounting estimates and judgements

Impairment of non-current assets, including goodwill

The impairment calculation requires an estimate of the recoverable amount of the cash generating units. Value in use is usually determined on the basis of discounted estimated future net cash flows. In determination of cash flows the most significant

variables are discount rates, terminal values, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the cash inflows and outflows, including commodity prices, operating expenses, future production profiles and the global and regional supply-demand equilibrium for crude oil, natural gas and refined products.

Impairments

In 2017, the following significant impairment losses and impairment reversals were recognised:

Impairment test of Upstream assets

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

- Recoverable amount is calculated with the assumption of using the assets in long-term in the future.
- Discount rates: the value in use calculations take into account the time value of money, the risks specific to the asset and the rate of return that would be expected by market for an investment with similar risk, cash flow and timing profile. It is estimated from current market transactions for similar assets or from the 'weighted average cost of capital' (WACC) of a listed entity that has a single asset or portfolio of assets that are similar in terms of service potential and risks to the asset under review.
- Official 2017-22 Exploration and Production segment pre-tax WACC premise were applied (7.4%) plus Country Risk Premium of the related country. Based on the above, the WACC rates used for the impairment tests in 2017 were in the range from 7.4% to 17.4%.
- Oil and gas price assumptions used in the value in use models: approximately 60 USD / barrel for the years between 2018 and 2020 and increasing price curve from 2021 (to 81 USD/bbl. for 2030).

In other segments no judgmental based impairment has been accounted for in 2017 and 2016.

Impairments and write-offs (without dry-holes) - 2017*	Upstream HUF million	Downstream HUF million	Consumer services HUF million	Corporate and other HUF million	Midstream HUF million	Total HUF million
Hungary	18,646	1,522	303	13	150	20,634
Croatia	2,441	42	241	4,154	-	6,878
Pakistan	1,417	-	-	-	-	1,417
Slovakia	-	380	159	4	-	543
Romania	-	219	237	-	-	456
Other	52	-	235	-	-	287
Total	22,556	2,164	1,175	4,171	150	30,215

*Containing the intersegment impact

Impairments and write-offs (without dry-holes) - 2016* restated	Upstream HUF million	Downstream HUF million	Consumer services HUF million	Corporate and other HUF million	Midstream HUF million	Total HUF million
Croatia	1,461	176	361	5,749	84	7,831
Hungary	1,183	5,178	262	-	-	6,623
Italy	-	-	5,982	-	-	5,982
Slovakia	-	972	56	-	-	1,028
Slovenia	-	-	888	-	-	888
Romania	303	-	26	-	-	329
UK	239	-	-	-	-	239
Other	316	564	23	313	-	1,216
Total	3,502	6,890	7,598	6,062	84	24,136

*Containing the intersegment impact

In 2017 and 2016 impairment was accounted in:

- Upstream segment mainly for production fields, damages and for assets under construction.
- Downstream segment mainly for assets under construction, for damaged assets and for filling stations. Impairment figures also contains written-off assets.
- Consumer services mainly for machineries and equipment in filling stations.
- Corporate and other segment was accounted for mainly oilfield service equipment.

i) Impairment of goodwill

Accounting policies

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

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

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

Consumer services and Downstream

Pre-tax weighted average cost of capital (WACC) rates applied to discount the forecast cash flows reflecting risks specific to the segment and specific to the certain countries vary between 7.6% and 11.6% in Consumer services while 7.8% and 11.8% in Downstream in current year.

The growth rates are based on industry growth forecasts. The Group prepares cash flow forecasts derived from the most recent financial budgets of Consumer services segment approved by management for financial year 2018-2021 and extrapolates cash flows for the following years based on an estimated growth rates varying between 1 and 3.5 %.

Corporate and other

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

As a result of impairment tests performed at the end of 2017 no impairment is recognised on goodwill and management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the CGUs subject to goodwill impairment test to materially exceed their recoverable amount.

10. Business combinations, transactions with non-controlling interests

Accounting policies

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

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

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

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

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

Based on new information the value of goodwill recognised has been increased by HUF 1,883 million against the value of acquired assets. The accounting of business combination was completed by 30 September 2017.

b) Acquisition of OT Industries

On 31 January 2017 MOL Group has acquired 51% shareholding of OT Industries Vagyonkezelő Zrt. (OVK). OVK has five owned operating subsidiaries.

OT Industries is a key market participant of the Central and Eastern European gas, oil and chemistry industry and the energy sector providing engineering, procurement, construction and production services with a main focus on designing facilities for extrapolation, transportation and processing of crude oil and natural gas as well as the implementation of major chemical and energy projects.

The acquisition is in line with MOL Group's long-term strategy on significant investments and expansion of consumer and industrial service portfolio. The accounting of business combination was completed by 30 September 2017.

c) Acquisition of ISO-SZER

On 31 August 2017 MOL Group has acquired 98% shareholding interest of ISO-SZER Ltd.

ISO-SZER Ltd. is dealing with assembly (qualified welding and industrial pipe installation) and construction (construction and installation of concrete elements, steel structures). Regarding the acquisition, the initial accounting of the business combination is provisional as at 31 December 2017, as the valuation has not been finalised.

	OT Industries HUF million	ISO-SZER HUF million
Non-current assets	**5,313**	**952**
Intangible assets	446	656
Property, plant and equipment	3,832	296
Investment	3	-
Other non-current asset	896	-
Deferred tax asset	136	-
Current assets	**16,735**	**226**
Inventories	1,221	-
Trade and other receivables	3,088	181
Other current assets	12,426	-
Cash and cash equivalents	-	45
Non-current liabilities	**(396)**	**(76)**
Non-current provisions	(184)	-
Long-term debt	(53)	(11)
Other non-current liability	(155)	(8)
Deferred tax liability	(4)	(57)
Current liabilities	**(21,564)**	**(127)**
Current provisions	(3,829)	-
Short-term debt	(14,139)	(5)
Trade payables	(174)	(4)
Taxes and contributions	(100)	-
Other current liabilities	(3,322)	(118)
Net assets	**88**	**975**
MOL Group's share of net assets	**45**	**975**
Goodwill on acquisition		
Fair value of consideration transferred	45	825
Contingent consideration	-	150
Less: fair value of identifiable net assets acquired	(45)	(975)
Goodwill on acquisition	**-**	**-**
Net cash outflow on acquisition of subsidiaries		
Consideration paid in cash	45	825
Less: cash and cash equivalent balances acquired	1,116	(45)
Net cash outflow	**1,161**	**780**

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

Acquired subsidiary	Net revenue HUF million	Profit / (loss) for the period HUF million
OT Industries	22,285	(5,464)
ISO-SZER	117	(138)

Acquisition related costs were immaterial.

11. Disposals

In 2017 MOL Group sold its 49% share in North Karpovsky field to Coöperatieve KMG EP U.A for a marginal price.

	KS EP Investment B.V. Karpovskiy Severniy LLP HUF million
Non-current assets	826
Current assets	2,268
Total assets	**3,094**
Non-current liabilities	-
Current liabilities	(310)
Total liabilities	**(310)**
Non-controlling interest	-
Net assets sold	**2,784**
Cash consideration received	-
Net loss on net assets sold	**(2,784)**
Recycling of cumulative foreign exchange loss	(3,136)
Net loss on disposal	**(5,920)**
Analysis of cash outflow on sales	
Cash consideration received	-
Net cash disposed of during the sale	(124)
Net cash outflow	**(124)**

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

12. Material non-controlling interest

INA-Industrija nafte d.d.

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

Proportion of equity interest held by non-controlling interests:

	Proportion of non-controlling interest	
Name	31 Dec 2017	31 Dec 2016
INA-Industrija nafte d.d.	51%	51%

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Accumulated balances of material non-controlling interest	314,266	306,650
Profit / (Loss) allocated to material non-controlling interest	10,820	(13,508)

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

Summarised statement of profit or loss	2017 HUF million	2016 HUF million
Total operating income	776,535	651,794
Total operating expenses	(758,685)	(664,369)
Financial expense, net	5,963	(6,687)
Profit / (loss) before income tax	**23,813**	**(19,262)**
Income tax (expense) / income	(2,167)	(7,453)
Profit / (loss) for the year	**21,646**	**(26,715)**
Total comprehensive income	**21,250**	**(26,528)**
Attributable to non-controlling interests	10,820	(13,508)
Dividends paid to non-controlling interests	(3,204)	-

Summarised statement of financial position	2017 HUF million	2016 HUF million
Current assets	183,966	186,967
Non-current assets	797,393	866,676
Total assets	**981,359**	**1,053,643**
Current liabilities	(170,982)	(238,406)
Non-current liabilities	(193,177)	(212,994)
Total liabilities	**(364,159)**	**(451,400)**
Total equity	**617,200**	**602,243**
Attributable to owners of parent	302,934	295,593
Attributable to non-controlling interest	314,266	306,650

Summarised cash flow information	2017 HUF million	2016 HUF million
Cash flows from (used in) operations	102,123	95,437
Cash flows from (used in) investing activities	(57,235)	(66,663)
Cash flows from (used in) financing activities	(53,021)	(23,809)
Increase / (decrease) in cash and cash equivalents	**(8,133)**	**4,965**

13. Other non-current assets

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Obligatory level of inventory required by state legislations	39,015	38,467
Advance payments for assets under construction	1,796	2,879
Prepaid mining royalty	930	1,502
Advance payments for intangible assets	886	912
Prepaid fees of long-term rental fees	550	640
Other	378	3
Total	**43,555**	**44,403**

14. Inventories

Accounting policies

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

	31 Dec 2017		31 Dec 2016	
	At cost HUF million	Lower of cost or net realisable value HUF million	At cost HUF million	Lower of cost or net realisable value HUF million
Work in progress and finished goods	254,193	241,757	220,298	212,685
Other raw materials	76,049	50,471	75,219	53,781
Purchased crude oil	105,845	98,077	93,469	86,426
Other goods for resale	48,434	46,267	33,737	32,250
Total	**484,521**	**436,572**	**422,723**	**385,142**

Impairment of HUF 9,073 million has been recorded in 2017 (2016: HUF 6,027 million), mainly on raw materials and finished goods. In 2016 impairment was accounted for drilling inventory in Kurdistan Region of Iraq (HUF 3,344 million).

15. Other current assets

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Prepaid and recoverable taxes and duties (excluding income taxes)	50,944	40,103
Advance payments	8,983	12,332
Prepaid expenses	9,166	7,554
Other (1)	735	6,250
Total	**69,828**	**66,239**

(1) mainly revenue accruals.

16. Provisions

Accounting policies

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

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

Provision for Environmental expenditures

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

Provision for Field abandonment

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

Provision for Redundancy

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

Provision for Retirement benefits

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

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

Legal provisions

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

Emission rights

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

Significant accounting estimates and judgements

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

Scope, quantification and timing of environmental and field abandonment provision

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

Actuarial estimates applied for calculation of retirement benefit obligations

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

Outcome of certain litigations

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

	Environmental HUF million	Field abandonment HUF million	Redundancy HUF million	Long-term employee benefits HUF million	Legal claims HUF million	Emission rights and other HUF million	Total HUF million
Balance as of 01 Jan 2016	**78,691**	**277,414**	**16,063**	**21,666**	**25,194**	**47,904**	**466,932**
Acquisition / (sale) of subsidiaries	46	(3,007)	-	9	-	222	**(2,730)**
Additions and revision of previous estimates	2,251	4,902	1,550	397	2,518	(650)	**10,968**
Unwinding of the discount	1,771	6,484	-	444	-	-	**8,699**
Currency differences	666	(11,157)	29	2	(95)	586	**(9,969)**
Provision used during the year	(4,432)	(165)	(14,704)	(2,571)	(2,120)	(12,310)	**(36,302)**
Balance as of 31 Dec 2016	**78,993**	**274,471**	**2,938**	**19,947**	**25,497**	**35,752**	**437,598**
Acquisition / (sale) of subsidiaries	-	-	-	22	111	3,858	**3,991**
Additions and revision of previous estimates	4,181	35,444	1,176	2,896	1,016	11,185	**55,898**
Unwinding of the discount	1,753	4,601	-	432	-	-	**6,786**
Currency differences	339	(1,777)	(41)	45	25	(2,574)	**(3,983)**
Provision used during the year	(3,665)	(115)	(1,295)	(2,264)	(3,509)	(15,002)	**(25,850)**
Balance as of 31 Dec 2017	**81,601**	**312,624**	**2,778**	**21,078**	**23,140**	**33,219**	**474,440**
Current portion 31 Dec 2016	4,888	398	1,135	2,720	17,233	6,049	**32,423**
Non-current portion 31 Dec 2016	74,105	274,073	1,803	17,227	8,264	29,703	**405,175**
Current portion 31 Dec 2017	5,124	503	1,168	3,363	13,984	16,007	**40,149**
Non-current portion 31 Dec 2017	76,477	312,121	1,610	17,715	9,156	17,212	**434,291**

Environmental Provision

As of 31 December 2017 provision of HUF 81,601 million has been made for the estimated cost of remediation of past environmental damages, primarily soil and groundwater contamination and disposal of hazardous wastes, such as acid tar, in Hungary, Croatia, Slovakia and Italy. The provision is made on the basis of assessments prepared by MOL's internal environmental expert team. The amount of the provision has been determined on the basis of existing technology at current prices by calculating risk-weighted cash flows discounted using estimated risk-free real interest rates. The amount reported as at 31 December 2017 also includes a contingent liability of HUF 24,915 million recognized upon acquiring INA Group, representing its present environmental obligations and a further HUF 15,667 million environmental contingent liability regarding the acquisition of IES (see Note 25).

Provision for Field abandonment

As of 31 December 2017 provision of HUF 312,624 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 10% of these costs are expected to be incurred between 2018 and 2022 and the remaining 90% between 2023 and 2069. The amount of the provision has been determined on the basis of management's understanding of the respective legislation, calculated at current prices and discounted using estimated risk-free real interest rates. Activities related to field suspension, such as plugging and abandoning wells upon termination of production and remediation of the area are planned to be performed by hiring external resources. Based on the judgement of the management, there will be sufficient capacity available for these activities in the area. As required by IAS 16 – Property, Plant and Equipment, the qualifying portion of the provision has been capitalized as a component of the underlying fields.

Provision for Redundancy

As part of continuing efficiency improvement projects, MOL Plc., INA d.d., IES S.p.A and other Group members decided to further optimize workforce. As the management is committed to these changes and the restructuring plan was communicated in detail to parties involved, the Group recognised a provision for the net present value of future redundancy payments and

related tax and contribution. Relating to the restructuring of activities in Mantova, a provision for redundancy of HUF 9,145 million was recognised at IES in 2013 out of which HUF 568 million remained as of 31 December 2017. In 2015, a provision of HUF 9,804 million was made for redundancy program at INA out of which HUF 720 million still remained as of 31 December 2017. The closing balance of provision for redundancy is HUF 2,778 million as of 31 December 2017 (31 December 2016: HUF 2,938 million).

Provision for Long-term employee benefits

As of 31 December 2017 the Group has recognised a provision of HUF 21,078 million to cover its estimated obligation regarding future retirement and jubilee benefits payable to current employees expected to retire from group entities. These entities operate benefit schemes that provide lump sum benefit to all employees at the time of their retirement. MOL employees are entitled to 3 times of their final monthly salary regardless of the period of service, while MOL Petrochemicals and Slovnaft, a.s. provide a maximum of 2 and 7 months of final salary respectively, depending on the length of service period. In addition to the above mentioned benefits, in Hungary the retiring employees are entitled to the absence fee for their notice period – which lasts for 1-3 months depending on the length of the past service – which is determined by the Hungarian Labour Code. None of these plans have separately administered funds; therefore there are no plan assets. The amount of the provision has been determined using the projected unit credit method, based on financial and actuarial variables and assumptions that reflect relevant official statistical data which are in line with those incorporated in the business plan of the Group.

	2017 HUF million	2016 HUF million
Present value of total long-term employee benefit obligation at the beginning of the year	**19,947**	**21,666**
Acquisitions / (disposals)	22	9
Past service cost	727	496
Current service cost	1,196	1,910
Interest costs	432	444
Provision used during the year	(2,264)	(2,571)
Net actuarial (gain)/loss	973	(2,009)
from which:		
Retirement benefit (See Note 8)	1,194	(794)
Jubilee benefit	(221)	(1,215)
Exchange adjustment	45	2
Present value of total long-term employee benefit obligation at year end	**21,078**	**19,947**

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

	2017 HUF million	2016 HUF million
Current service cost	1,196	1,910
Net actuarial (gain)/loss	(221)	(1,215)
Past service cost	727	496
Balance as at year end	**1,702**	**1,191**

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

	2017	2016
Discount rate in %	1.9 - 5.2	1.7 - 3.0
Average wage increase in %	1.4 - 5.2	0.0 - 2.0
Mortality index (male)	0.04 - 3.57	0.05 - 3.57
Mortality index (female)	0.02 - 1.53	0.02 - 1.53

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

	Retirement benefits		Jubilee benefits	
	2017 HUF million	2016 HUF million	2017 HUF million	2016 HUF million
Actuarial (gains) / losses arising from changes in demographic assumptions	(646)	(867)	(152)	(605)
Actuarial (gains) / losses arising from changes in financial assumptions	1,097	786	(406)	(345)
Actuarial (gains) / losses arising from experience adjustments	743	(713)	337	(265)
Total actuarial (gains) / losses	**1,194**	**(794)**	**(221)**	**(1,215)**

Legal provisions

As of 31 December 2017 provision of HUF 23,140 million (31 December 2016: HUF 25,497 million) has been made for estimated total future losses from litigations.

In July 2017 MOL Group entered into the settlement agreement with the Angolan Ministry of Finance regarding the settlement of the Additional tax and Profit Oil in Angolan Blocks for the period 2002-2016. As the result of the agreement MOL Group was obliged to pay USD 6.6 million while the Angolan's Ministry of Finance waived its right to claim any additional tax payment from the Group for the years till 2016 (inclusive). As a result HUF 10,528 million provision and its foreign exchange impact has been released to profit or loss in 2017.

Emission right and other

As of 31 December 2017 the Group has recognized a provision of HUF 5,480 million for the shortage of emission quotas (31 December 2016: 4,329 million). In 2017, MOL Group has been granted 4,353,955 (2016: 4,293,688) emission quotas by the Hungarian, Croatian and Slovakian authorities. The total emissions during 2017 amounted to equivalent of 6,635,778 tons of emission quotas (2016: 6,374,298 tons).

17. Other non-current liabilities

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Government grants received (see Note 9)	9,603	10,553
Received and deferred other subsidies	5,085	3,301
Deferred compensation for property, plant and equipment	4,741	4,319
Liabilities to government for sold apartments	1,356	1,592
Deferred income for apartments sold	1,273	1,292
Other	1,464	1,601
Total	23,522	22,658

18. Other current liabilities

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

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Taxes, contributions payable (excluding corporate tax)	134,278	141,919
Amounts due to employees	41,736	35,723
Custom fees payable	11,386	9,867
Advances from customers	9,996	7,607
Fee payable for strategic inventory storage	4,162	3,794
Other accrued incomes	3,429	4,806
Government subsidies received and accrued (see Note 9)	959	629
Strategic capacity booking fee	405	1,466
Fair value of firm commitments designated hedged item transactions	-	3,299
Other	3,980	3,514
Total	210,331	212,624

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

19. Assets held for sale

Accounting policies

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

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

In 2017 the Group decided to commit itself to sale of Ghauri block in Pakistan and actively seek market for the related assets therefore classified the assets as held for sale at fair value less cost to sell at HUF 751 million. Classification triggered HUF 1,417 million impairment. These assets classified as held for sale are reported in the Upstream segment.

In 2016 divestiture process for Zagreb 1 platform in Croatia has started resulting in classification as held for sale in the value of HUF 320 million. These assets classified as held for sale are reported in the Corporate and other segment at 31 December 2017.

On 14 June 2017 MOL Group sold its Italian retail network related assets from Consumer Services segment. Sold assets were already impaired and classified as assets held for sale at 31 December 2016. As part of the sale transaction HUF 2,521 million of assets at net book value have been sold. Transaction resulted no significant gain/loss in 2017.

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

Assets and liabilities held for sale	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Assets		
Property, plant and equipment	1,071	3,082
Assets classified as held for sale	**1,071**	**3,082**
Liabilities		
Liabilities related to assets classified as held for sale	-	-

FINANCIAL INSTRUMENTS, CAPITAL AND FINANCIAL RISK MANAGEMENT

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

Accounting policies

Initial recognition

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial investments

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

Fair value measurement

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

Derecognition of Financial Instruments

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

Hedging

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

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

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

Hedges of a net investment

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

Impairment of Financial Assets

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

Assets carried at amortised cost

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

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

Available-for-sale financial investments

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

Significant accounting estimates and judgements

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

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

20. Financial risk and capital management

Financial risk management

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

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

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

Capital management

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

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

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

The Group is currently in Low Gearing status, the credit metrics further improved in 2017. As of 31 December 2017 the Net Debt / EBITDA is at 0.65 level (FY 2016: 0.97) while the Net Gearing is 17% (FY 2016: 25%).

a) Key exposures

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

Commodity price risk

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

In 2017 MOL Group concluded short and mid-term commodity swap and option transactions. These transactions are mainly conducted for operational hedging purposes, in order to mitigate the effects of the price volatility in our operations and in the same time, when possible, to lock in favorable forward curve structure.

Foreign currency risk

MOL Group follows the basic economic currency risk management principle that the currency mix of the debt portfolio should reflect the net operating cash-flow position of MOL Group ('natural hedge') however, when necessary our practice allows for flexibility when the currency market environment is favorable or challenging. MOL Group also uses foreign exchange derivatives to hedge the foreign exchange exposures.

Interest rate risk

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

MOL Group, when necessary, uses interest rate swaps to manage the relative level of its exposure to cash-flow interest rate risk associated with floating interest-bearing borrowings.

Credit risk

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

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

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

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

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

Liquidity risk

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

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

The amount of undrawn major committed credit facilities	2017 HUF million	2016 HUF million
Long-term loan facilities available (general corporate purpose)	901,753	911,616
Short-term facilities available	82,055	109,146
Total loan facilities available	**983,808**	**1,020,762**

Maturity profile of financial liabilities based on contractual undiscounted payments 2017	Due within 1 month HUF million	Due between 1 and 12 months HUF million	Due between 1 and 5 years HUF million	Due after 5 years HUF million	Total HUF million
Borrowings	67,164	110,489	274,071	261,531	**713,255**
Transferred "A" shares with put&call options	-	202,695	-	-	**202,695**
Trade and other payables	355,686	178,424	2,361	29	**536,500**
Other financial liabilities	1,100	2,966	7,190	1	**11,257**
Non-derivative financial instruments	**423,950**	**494,574**	**283,622**	**261,561**	**1,463,707**
Total exposure under financial guarantees	-	44	-	-	**44**
Derivatives	15,115	257	9,766	-	**25,138**

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

b) Sensitivity analysis

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

Effect on Clean CCS-based* (Current Cost of Supply) profit / (loss) from operation	2017 HUF billion	2016** HUF billion
Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin)		
Upstream	+37.8 / -37.8	+42.3 / -42.3
Downstream	-7.9 / +7.9	-8.5 / +8.5
Gas Midstream***	-0.0 / +0.0	-0.9 / +0.9
Exchange rates (change by +/- 15 HUF/USD; with fixed crack spreads)		
Upstream	+11.4 / -11.4	+10.0 / -10.0
Downstream	+15.9 / -15.9	+15.8 / -15.8
Gas Midstream	+0.7 / -0.7	+0.7 / -0.7
Exchange rates (change by +/- 15 HUF/EUR; with fixed crack spreads / petrochemical margin)		
Upstream	+2.2 / -2.2	+1.4 / -1.4
Downstream	+22.0 / -22.0	+26.5 / -26.5
Refinery margin (change by +/- 1 USD/bbl)		
Downstream	+30.5 / -30.5	+29.1 / -29.1
Integrated petrochemical margin (change by +/- 100 EUR/t)		
Downstream	+44.1 / -44.1	+40.4 / -40.4

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

**The values are restated.

***Brent based contract expired in 2016.

c) Borrowings

Accounting policies

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

	2017 HUF million	2016 HUF million
Short-term debt		
Eurobond | 5.875% €750 million due 2017	-	242,660
Eurobond | 2.625% €750 million due 2023	4,132	4,362
USD bond | 6.250 % $500 million due 2019	2,125	2,425
Schuldschein | €130 million due between 2020-2027	171	-
Bank loans	148,627	181,172
Financial lease liabilities	10,063	619
Other	6,443	9,134
Total short-term debt	**171,561**	**440,372**
Long-term debt		
Eurobond | 2.625% €750 million due 2023	230,332	230,632
USD bond | 6.250 % $500 million due 2019	128,747	146,569
Schuldschein | €130 million due between 2020-2027	40,251	-
Bank loans	29,148	57,676
Financial lease liabilities	63,132	1,970
Other	91	75
Total long-term debt	**491,701**	**436,922**
Gross debt (long-term and short-term)	**663,262**	**877,294**
Cash and cash equivalents	202,041	216,928
Current debt securities	26,043	53,910
Net Debt	**435,178**	**606,456**
Total equity	**2,055,771**	**1,801,626**
Capital and net debt	**2,490,949**	**2,408,082**
Gearing ratio (%)	**17%**	**25%**
EBITDA	672,583	623,388
Net Debt / EBITDA	**0.65**	**0.97**

MOL Plc. signed a Schuldscheindarlehen ("SSD") Agreement in the amount of EUR 110,000,000 on 24 July 2017 and in the amount of additional EUR 20,000,000 on 2 October 2017. SSD is a loan evidenced by certificate of indebtedness under German law.

The EUR 750mn 7-year maturity fixed-rate Eurobond (coupon 5.875%, ISIN: XS0503453275) issued on 20th April 2010 has been fully paid back along with the last coupon payment on the maturity date.

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

Gross debt by currency	2017 HUF million	2016 HUF million
EUR	379,882	623,187
USD	253,996	231,973
HUF	23,447	16,229
HRK	5,937	5,905
Gross debt	**663,262**	**877,294**

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

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

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

Finance leases	31 Dec 2017 Minimum lease payments	Lease liability	31 Dec 2016 Minimum lease payments	Lease liability
	HUF million	HUF million	HUF million	HUF million
Due within one year	12,868	10,063	723	625
Due later than one year but not later than five years	47,339	39,978	990	646
Due later than five years	24,937	23,154	1,629	1,318
Total	**85,144**	**73,195**	**3,342**	**2,589**
Future finance charges	11,949	n/a	(753)	n/a
Lease liability	**73,195**	**73,195**	**2,589**	**2,589**

d) Equity

Accounting policies

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

Reserves of exchange differences on translation

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

Fair valuation reserves

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

Equity component of debt and difference in buy-back prices

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

Treasury Shares

The nominal value of treasury shares held is deducted from registered share capital. Any difference between the nominal value and the acquisition price of treasury shares is recorded directly to retained earnings. In order to consistently distinguish share premium and retained earnings impact of treasury share transactions, repurchase and resale of treasury transactions affect retained earnings instead of having impact on share premium.

Share capital

There was a change in the number of issued shares due to an 8-for-1 share split of the Company's registered ordinary "A" shares in 2017. As of 31 December 2017, the issued share capital was HUF 102,429 million, consisting of 819,424,824 series "A" shares with par value of HUF 125, one series "B" share with par value of HUF 1,000 and 578 series "C" shares with par value of HUF 1,001. Outstanding share capital as of 31 December 2017 and 2016 is HUF 79,279 million and HUF 79,260 million, respectively.

Every "A" class share with a par value of HUF 125 each (i.e. one hundred and twenty-five forint) entitles the holder thereof to have one vote and every "C" class share with a par value of 1,001 each (i.e. one thousand one forint) entitles the holder to have eight and eight thousandth vote, with the following exceptions. Based on the Articles of Association, no shareholder or shareholder group may exercise more than 10% of the voting rights with the exception of organization(s) acting at the Company's request as depository or custodian for the Company's shares or securities representing the Company's shares.

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

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

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

Series "A" and "B" shares	Number of shares issued	Number of treasury shares	Shares under repurchase obligation	Number of shares outstanding	Authorised number of shares
01 Jan 2016	**104,518,485**	**(1,530,080)**	**(23,748,142)**	**79,240,263**	**134,518,485**
Share repurchase transaction with Magnolia Finance Limited	-	(6,006,495)	6,007,479	984	-
Share distribution for the members of the Board of Directors	-	18,600	-	18,600	-
Cancellation of Treasury share	(2,090,381)	2,090,381	-	-	(2,090,381)
Settlement of share option agreement with CA CIB	-	(2,129,666)	2,129,666	-	-
Settlement of share option agreement with ING Bank N.V.	-	(356,899)	356,899	-	-
31 Dec 2016 (before share split)	**102,428,104**	**(7,914,159)**	**(15,254,098)**	**79,259,847**	**132,428,104**
31 Dec 2016 (recalculated due to share split in 2017)	**819,424,825**	**(63,313,272)**	**(122,032,784)**	**634,078,769**	**1,059,424,825**
Settlement of share option agreement with Unicredit Bank A.G.	-	(13,771,328)	13,771,328	-	-
Share distribution for the members of the Board of Directors	-	148,800	-	148,800	-
New share purchase agreement with MUFG Securities EMEA Plc.	-	4,894,187	(4,894,187)	-	-
Settlement of share option agreement with Unicredit Bank A.G.	-	(4,933,378)	4,933,378	-	-
Settlement of share option agreement with ING Bank N.V.	-	(5,164,470)	5,164,470	-	-
31 Dec 2017	**819,424,825**	**(82,139,461)**	**(103,057,795)**	**634,227,569**	**1,059,424,825**
Series "C" shares					
31 Dec 2016	**578**	**(578)**	**-**	**-**	**578**
Series "C" shares					
31 Dec 2017	**578**	**(578)**	**-**	**-**	**578**

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

Dividend

The shareholders at the Annual General Meeting in April 2017 approved to pay HUF 58,007 million dividend in respect of 2016, which equals to HUF 78 dividend per share (HUF 625 dividend per share before the share split). The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Plc. is HUF 1,305,164 million as of 31 December 2017 (31 December 2016: HUF 1,170,422 million).

Treasury share put and call option transactions

MOL Plc. has some option agreements concluded with financial institutions in respect of 62,973,787 pieces of series "A" shares as of 31 December 2017. Under the agreements, MOL Plc. holds American call options and the financial institutions hold European put options in respect of the shares. The expiry of both the put and call options are identical and are one year from the date of the agreement.

Counterparty	Underlying pieces of MOL ordinary shares	Strike price per share	Expiry
ING Bank N.V.	33,740,338	EUR 10.46670	26-Nov-2018
MUFG Securities EMEA Plc.	4,894,187	EUR 10.30000	6-Nov-2018
UniCredit Bank AG	24,339,262	EUR 10.27147	14-Nov-2018

MOL has entered into share purchase and a share option agreements with MUFG Securities EMEA Plc („MUFG") on 6 of November 2017. As a result of this transaction, MUFG owns a total number of 4,894,187 MOL Series „A" Ordinary shares.

Simultaneously MOL and MUFG concluded share option agreements regarding 4,894,187 MOL Series „A" Ordinary shares. The maturity date of the options is 6 November 2018.

The options arising out of the share option agreement concluded between MOL Plc. and UniCredit Bank AG on 3 January 2017, regarding 29,272,640 MOL Series „A" Ordinary shares, were physically settled in respect of 4,933,378 options and cash settled in respect of 24,339,262 options on 16 November 2017. Simultaneously MOL Plc. and UniCredit Bank AG concluded new share option agreements regarding 24,339,262 MOL Series „A" Ordinary shares. The maturity date of the options is 14 November 2018.

The options arising out of the share option agreement concluded between MOL Plc. and ING Bank N.V. („ING") on 24 November 2016, were physically settled in respect of 5,164,470 number of options and cash settled in respect of 33,740,338 number of options on 28 November 2017. Simultaneously MOL and ING concluded new share option agreements regarding 33,740,338 MOL Series „A" Ordinary shares. The maturity date of the options is 26 November 2018.

Share swap agreement with OTP

After the lending of 40,084,008 pieces of MOL Plc. shares to OTP Bank Plc. ('OTP') has been terminated on 16 April 2009, MOL Plc. ('MOL') and OTP entered into a share-exchange and a share swap agreement. Under the agreements, initially MOL transferred 40,084,008 "A" series MOL ordinary shares to OTP in return for 24,000,000 pieces OTP ordinary shares. The agreement contains settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. The original expiration of the share-swap agreements was on 11 July 2012. During 2012 the expiration has been extended to 11 July 2017. Subsequently, in 2017 this share swap agreement, in respect of 40,084,008 "A" series MOL Plc ordinary shares owned by OTP Bank Plc and 24,000,000 OTP Bank Plc ordinary shares owned by MOL Plc, has been further extended until 11 July 2022 which did not trigger any movement in MOL Plc's treasury shares.

Until the expiration date each party can initiate a cash or physical settlement of the deal.

21. Financial instruments

2017 Carrying amount of financial instruments		Fair value through profit or loss FVTPL* HUF million	Derivatives used for hedging hedge acc.* HUF million	Loans and receivables and liabilities at amort cost amortised cost HUF million	Available-for-sale FVTOCI* HUF million	Total carrying amount HUF million
Financial assets						
Other non-current financial assets	Equity instruments	-	-	-	31,158	**31,158**
	Loans given	-	-	42,414	-	**42,414**
	Deposit	-	-	306	-	**306**
	Financial lease receivables	-	-	402	-	**402**
	Other	87	-	209	3,824	**4,120**
Total non-current financial assets		**87**	**-**	**43,331**	**34,982**	**78,400**
Trade and other receivables		-	-	538,902	-	**538,902**
Financial lease receivables		-	-	84	-	**84**
Cash and cash equivalents		-	-	202,041	-	**202,041**
Debt securities		5,141	-	-	20,902	**26,043**
Other current financial assets	Commodity derivatives	4,815	-	-	-	**4,815**
	Loans given	-	-	1,451	-	**1,451**
	Deposit	-	-	46,590	-	**46,590**
	Foreign exchange derivatives	395	-	-	-	**395**
	Other	523	-	1,941	-	**2,464**
Total current financial assets		**10,874**	**-**	**791,009**	**20,902**	**822,785**
Total financial assets		**10,961**	**-**	**834,340**	**55,884**	**901,185**
Financial liabilities						
Borrowings (Long-term debt)		-	-	428,569	-	**428,569**
Financial lease liabilities		-	-	63,132	-	**63,132**
Other non-current financial liabilities	Foreign exchange derivatives	321	2,968	-	-	**3,289**
	Other	-	-	3,276	-	**3,276**
Total non-current financial liabilities		**321**	**2,968**	**494,977**	**n/a.**	**498,266**
Trade and other payables		-	-	516,737	-	**516,737**
Borrowings (short-term debt)		-	-	161,498	-	**161,498**
Financial lease liabilities		-	-	10,063	-	**10,063**
Other current financial liabilities	Transferred "A" shares with put&call options	-	-	201,257	-	**201,257**
	Commodity derivatives	15,356	-	-	-	**15,356**
	Foreign exchange derivatives	16	-	-	-	**16**
	Other derivatives	6,477	-	-	-	**6,477**
	Other	-	-	6,144	-	**6,144**
Total current financial liabilities		**21,849**	**-**	**895,699**	**n/a.**	**917,548**
Total financial liabilities		**22,170**	**2,968**	**1,390,676**	**n/a.**	**1,415,814**

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

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

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

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

The fair values of financial instruments measured at amortised cost approximate their carrying amounts except for the issued bonds. The fair value of the issued bonds is HUF 404,576 million, while their carrying amount is HUF 365,336 million as of 2017 year-end (fair value was HUF 651,676 million, carrying amount was HUF 626,648 million as of 2016 year-end).

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

The Group narrowed the scope of instruments involved in hedge accounting and made the decision to cease hedge accounting in case of commodities as of 1 January 2017.

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

Carrying amounts of hedging instrument			2017 HUF million	2016 HUF million
Fair value hedge	Assets	Commodity derivatives	-	3,299
	Liabilities	Foreign exchange derivatives	-	3
		Commodity derivatives	-	5,743
Cash flow hedge	Assets	Commodity derivatives	-	182
	Liabilities	Foreign exchange derivatives	2,968	3,048
		Commodity derivatives	-	124
Net investment hedge	Liabilities	Borrowings	435,154	518,400
		Foreign exchange derivatives*	-	11,065

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

22. Fair value measurement

	2017			2016		
Fair value hierarchy	Level 1 Unadjusted quoted prices in active markets HUF million	Level 2 Valuation techniques based on observable market input HUF million	Total fair value HUF million	Level 1 Unadjusted quoted prices in active markets HUF million	Level 2 Valuation techniques based on observable market input HUF million	Total fair value HUF million
Financial assets						
Equity instruments	26,228	5,453	**31,681**	25,909	5,948	**31,857**
Debt securities	22,867	7,000	**29,867**	53,910	2	**53,912**
Commodity derivatives	-	4,902	**4,902**	-	13,243	**13,243**
Foreign exchange derivatives	-	395	**395**	-	8	**8**
Other derivatives	-	-	**-**	-	1	**1**
Total financial assets	**49,095**	**17,750**	**66,845**	**79,819**	**19,202**	**99,021**
Financial liabilities						
Commodity derivatives	-	15,356	**15,356**	-	19,794	**19,794**
Foreign exchange derivatives	-	3,305	**3,305**	-	14,640	**14,640**
Other derivatives	-	6,477	**6,477**	-	4,714	**4,714**
Total financial liabilities	**-**	**25,138**	**25,138**	**-**	**39,148**	**39,148**

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

In 2017 (neither in 2016) the Group does not have any instruments with fair value categorized as Level 3 (valuation techniques based on significant unobservable market input).

23. Trade and other receivables

Accounting policies

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

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

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Trade receivables	466,479	417,133
Other receivables	72,507	59,398
Total	**538,986**	**476,531**

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Trade receivables	502,244	464,139
Allowance for doubtful receivables	(35,765)	(47,006)
Total	466,479	417,133

Movements in the allowance for doubtful receivables	2017 HUF million	2016 HUF million
At 1 January	47,006	45,618
Additions	3,001	11,453
Reversal	(14,546)	(9,999)
Amounts written off	(153)	(433)
Foreign exchange differences	457	367
At 31 December	35,765	47,006

	31 Dec 2017		31 Dec 2016	
Ageing analysis of trade receivables	Gross book value HUF million	Net book value HUF million	Gross book value HUF million	Net book value HUF million
Not past due	418,014	417,621	380,729	380,280
Past due	84,230	48,858	83,410	36,853
Within 90 days	40,803	39,931	24,366	23,609
91 - 180 days	5,114	3,119	4,328	1,779
Over 180 days	38,313	5,808	54,716	11,465
Total	502,244	466,479	464,139	417,133

24. Cash and cash equivalents

Accounting policies

Cash includes cash on hand and cash at banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. The Group considers the term "insignificant risk of change in value" not being limited to three month period.

	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Short-term bank deposits	100,616	111,505
Demand deposit	87,996	98,190
Cash on hand	13,429	7,233
Total	202,041	216,928

OTHER FINANCIAL INFORMATION

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

25. Commitments and contingent liabilities

Accounting policies

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

a) Guarantees

The total value of guarantees undertaken to parties outside the Group is contractually HUF 221,789 million.

b) Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2017 is HUF 91,438 million from which HUF 48,411 million relates to associated company, HUF 25,855 million relates to Hungarian operation and HUF 13,637 million relates to operation in Slovakia. Significant amounts relate to a storage silos capacity extension project in Slovakia and the preparation phase of polyol production in Hungary (HUF 2,793 million and HUF 9,873 million, respectively).

c) Operating leases

Operating lease commitments	31 Dec 2017 HUF million	31 Dec 2016 HUF million
Due within one year	10,838	6,384
Due later than one year but not later than five years	18,632	84,079
Due later than five years	2,135	752
Total	**31,605**	**91,215**

Out of the outstanding operating lease liabilities as of 31 December 2017 HUF 10,417 million relates to operation in Slovakia, HUF 5,738 million relates to operation in Croatia and HUF 14,434 million to operation in Hungary.

d) Authority procedures, litigation

General

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

The value of litigation where members of the MOL Group act as defendant is HUF 35,991 million for which HUF 23,140 million provision has been made.

CREDITOR procedures (MOL Plc.)

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

CREDITOR BETA s.r.o. alleges that the buying offer of MOL in connection with the acquisition of Slovnaft a.s. shares was not approved by the Slovak financial authority (Úrad pre financny trh) and therefore it was not able to receive consideration for its shares for 213 days. It claims for compensation for damages suffered in connection with this delay (cca. EUR 3 million plus delay interest 10.48% p.a from 28 June 2007). The procedure continues with the question of amount, while MOL has filed an appeal against the interim decision on the legal basis with the appellate court. This appeal was dismissed by the court. MOL has filed an extraordinary appeal against the dismissal of its appeal.

ICSID arbitration (MOL Plc. vs. Croatia)

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

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

SALBATRING ENERGIJA, Međunarodna trgovina, d.o.o. ("SALBATRING") initiated the arbitration procedure. INA received Salbatring's full Statement of Claim on 20 June 2015 by which Salbatring is claiming the amount of USD 27,950,385 plus the interest and costs. INA and Salbatring have signed the Settlement Agreement on 27.11.2017. by which INA is obliged to pay to Salbatring USD 1.45 million and Salbatring is withdrawing all of its claims in the respective arbitration procedure.

CONCESSIONS (INA Group)

On 29 July 2011 the Ministry of Economy, Labour and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA of the license to explore hydrocarbons in exploration areas "Sava", "Drava" and "North-West Croatia".
On 29 August 2011, INA filed three administrative lawsuits against the Ministry's Decisions. The Administrative Court annulled the Ministry's Decisions.
On 10 November 2014, and on 20 February 2015 the Ministry adopted new Decisions in which it again deprived INA of the license to explore hydrocarbons in exploration areas "Sava" and "North-West Croatia" and "Drava", with the same explanations. INA filed lawsuits against new Ministry Decisions regarding exploration areas "Sava", "Drava" and "NW Croatia" and requested the Court to order a temporary measure.
During April, 2015, the Administrative Court passed Resolution in which it rejected INA's request for temporary measure. INA filed its Appeal, but in June 2015, High Administrative court rejected such INA's Appeal.
In November 2016 the Administrative Court reached a decision and rejected INA's claim in the case regarding exploration area "Drava". INA has filed an appeal against that decision in December 2016.
On 08 September 2017 INA received the judgment brought by the High Administrative Court of the Republic of Croatia, rejecting INA's appeal against the first-instance verdict in the "Drava" case. Thus, the Decision on seizure of hydrocarbon exploration approvals in the "Drava" research area, issued by the competent Ministry, became final. The court still did not reach decisions regarding INA's lawsuits regarding exploration areas "Sava" and "North-West Croatia".
On 06 October 2017 INA filed a Constitutional lawsuit before the Constitutional Court of the Republic of Croatia against judgments brought by the High Administrative Court and Administrative Court of the Republic of Croatia in "Drava" case, in which INA requires from Constitutional Court to annul all those judgments. INA is waiting for Constitutional Court's judgment.

BELVEDERE

In July 2017 INA received a lawsuit from Belvedere d.d. Dubrovnik with a claim amounting HRK 220 million. The root of the case lies in 2005 when INA gave a loan to Belvedere d.d. (hotel "Belvedere" in Dubrovnik city coast was a pledge for the loan). Since Belvedere d.d. has not returned the loan, enforcement procedure was initiated in 2012, and the hotel was sold to a highest bidder on a public auction, for HRK 92 million. Enforcement procedure was executed through a public notary where the value of the hotel was evaluated by three independent court experts. Belvedere d.d. now claims that the hotel was sold below its market value and also claims damage to its reputation and loss of profit.
It should be stated that INA already won two separate but similar procedures at the court one for the declaration that the sale and purchase agreement of the hotel Belvedere is null and void, which is final and one for the nullity of the enforceable clause on the Lien agreement which is not final. Although the outcome of this procedure is uncertain it is more likely in favor of INA than not. Notwithstanding the possible outcome, request for the damage is deemed to set too high considering three independent court experts already discussed the market price issue.

Dana Gas and Crescent Petroleum (Pearl shareholders) vs MOL Plc.

Pearl Petroleum Company Limited's ("Pearl") shareholders include, among others, Dana Gas PJSC ("Dana Gas") and Crescent Petroleum Company International Limited ("Crescent") and MOL.
Dana Gas and Crescent, along with Pearl, entered into an agreement (the "Settlement Agreement") to settle Pearl's long-standing dispute with the Kurdistan Regional Government of Iraq ("KRG") without proper prior consultation with MOL or obtaining requisite approval, in breach of MOL's contractual right as set in the Joint Venture Agreement (JVA).
MOL accordingly filed a default notice for breach of contract on Dana Gas and Crescent on 11 September 2017 in accordance with the mechanism ensured by the JVA to the shareholders of Pearl. The default notice for breach of contract has severe legal consequences for the defaulting shareholders, their shareholdings in Pearl and their related entitlements.
Dana Gas and Crescent initiated arbitration procedure against MOL before the London Court of International Arbitration, disputing the validity of MOL's default notice for breach of contract. MOL will take all appropriate steps to enforce and protect its rights deriving from the JVA.
In addition to the above, the Dana Gas and Crescent also seek a declaration that MOL is in breach of the JVA; and damages in an amount to be quantified in due course. At current stage it is hard to assess the financial implications.

e) Environmental liabilities

MOL's operations are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work. MOL is currently responsible for significant remediation of past environmental damage relating to its operations. Accordingly, MOL has established a provision of HUF 81,601 million for the estimated cost as at 31 December 2017 for probable and quantifiable costs of rectifying past environmental damage (see Note 16). Although the management believes that these provisions are sufficient to satisfy such requirements to the extent that the related costs are reasonably estimable, future regulatory developments or differences between known environmental conditions and actual conditions could cause a revaluation of these estimates.

In addition, some of the Group's premises may be affected by contamination where the cost of rectification is currently not quantifiable or legal requirement to do so is not evident. The main case where such contingent liabilities may exist is the Tiszaújváros site, including both the facilities of MOL Petrochemicals and area of MOL's Tisza refinery, where the Group has identified significant underground water and subsurface soil contamination. In accordance with the resolutions of the regional environmental authorities combined for MOL Petrochemicals and MOL Plc., the Group completed a detailed investigation and submit the results and technical specifications to the authorities in July of 2017. Based on these documents the authorities

brought a resolution on 15th of September requiring MOL Petrochemicals and MOL to jointly perform this plan in order to manage the soil and underground water contamination. The total amount of liabilities originating from this plan can be estimated properly and MOL Petrochemicals and MOL set the required amount of environmental provision.

In addition, contingent liabilities exist for uncertain remediation tasks; their magnitude cannot be estimated currently, but it is not expected to exceed HUF 4 billion.

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

Further to more detailed site investigations to be conducted in the future and the advancement of national legislation or authority practice, additional contingent liabilities may arise at the industrial park around Mantova refinery and the Croatian refineries depots and retail sites which have been acquired in previous business combinations. As at 31 December 2017, on Group level the aggregate amount of environmental liabilities recorded on the statement of financial position was HUF 40.6 billion (31 December 2016: HUF 40.1 billion).

26. Notes to the consolidated statements of cash flows

Accounting policies

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

Cash and cash equivalents comprise the following at 31 December	2017 HUF million	2016 HUF million
Cash and cash equivalents according to Balance Sheet	202,041	216,928
Overdraft as part of cash-flow	(5,848)	-
Cash and cash equivalents for continuing operation	**196,193**	**216,928**
Cash and cash equivalents for discontinued operation	-	-
Total Cash and cash equivalents	**196,193**	**216,928**

Analysis of net cash outflow on acquisition of subsidiaries, joint operations as business combinations	2017 HUF million	2016 HUF million
Cash consideration	(871)	(31,057)
Cash at bank or on hand acquired	(1,071)	3,835
Net cash outflow on acquisition of subsidiaries, joint operations	**(1,942)**	**(27,222)**

Analysis of net cash flow related to sale of subsidiaries, joint operations as business combinations	2017 HUF million	2016 HUF million
Cash consideration	10,107	2,152
Cash at bank or on hand disposed	(111)	(5,715)
Net cash inflow / (outflow) related to sale of subsidiaries, joint operations	**9,996**	**(3,563)**

Net cash outflow on acquisition of subsidiaries as asset-deals	2017 HUF million	2016 HUF million
Cash consideration	-	-
Total	-	-

Analysis of cash flow related to joint ventures and associates	2017 HUF million	2016 HUF million
Cash consideration of acquisition and capital increase	(625)	(3,599)
Cash consideration of sale and capital decrease	-	887
Dividend from joint ventures and associates	26,243	1,715
Net movements of loans	(5,570)	(5,069)
Total	**20,048**	**(6,066)**

Analysis of other non-cash items	2017 HUF million	2016 HUF million
Write-off of inventories, net	9,073	6,027
Write-off of receivables, net	(3,620)	2,587
Release of reserves of exchange differences on translation	(520)	46
Other non-highlighted items	10,758	5,249
Total	**15,691**	**13,909**

			Non-cash changes						
	2016	Cash flows used in financing activities	Acquisition/ Disposals	Realized and non-realized FX	FV change on derivatives	Accrued Interest	New lease liabilities	Non-financing CF related movements	2017
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Long-term debt	436,922	**(14,725)**	(680)	(24,215)	-	21,315	73,063	21	491,701
Other non-current financial liabilities	6,160	**2,854**	-	(8)	-	-	-	(2,441)	6,565
Short-term debt	440,372	**(281,129)**	-	(3,562)	-	9,906	-	5,974	171,561
Other current financial liabilities	202,056	**31,970**	(80)	(810)	(791)	-	-	(3,095)	229,250
Total Cash flows used in financing activities from financial liabilities		**(261,030)**							
Other items impacting Cash flows used in financing activities		**(59,149)**							
Total Cash flows used in financing activities		**(320,179)**							

*From the HUF 59,149 million Other items impacting Cash flows used in financing activities, HUF 56,447 million is the paid dividend to shareholders from retained earnings.

27. Earnings per share

Accounting policies

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

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

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

Both in 2017 and 2016, the diluted earnings per share equals with the basic earnings per share as there is no dilutive effect on the earnings.

	Income HUF million	Weighted average number of shares	Earnings per share HUF million
Basic Earnings Per Share 2016 (recalculated due to share split in 2017)	261,601	728,669,973	359
Diluted Earnings Per Share 2016 (recalculated due to share split in 2017)	261,601	728,669,973	359
Basic Earnings Per Share 2017	306,952	702,321,506	437
Diluted Earnings Per Share 2017	306,952	702,321,506	437

	2017 HUF million	2016 HUF million
Net profit attributable to ordinary shareholders	306,952	263,497
Coupon payment to holders of capital securities of Magnolia (-)	-	(1,896)
Net profit attributable to ordinary shareholders for basic earnings per share	**306,952**	**261,601**
Coupon payment to holders of capital securities of Magnolia (+)	-	-
Fair value of conversion option	-	-
Net profit attributable to ordinary shareholders for diluted earnings per share	**306,952**	**261,601**

	2017	2016*
Weighted average number of ordinary shares for basic earnings per share	702,321,506	728,669,973
Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities	-	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	**702,321,506**	**728,669,973**

* Recalculated due to Mol Plc. one to eight share split in 2017 to enable comparability.

28. Related party transactions

a) Transactions with associated companies and joint ventures

	2017 HUF million	2016 HUF million
Trade and other receivables due from related parties	13,852	4,465
Trade and other payables due to related parties	13,658	12,871
Net sales to related parties	27,906	26,144

The Group purchased and sold goods and services with associated companies and joint ventures during the ordinary course of business in 2017 and 2016. All of these transactions were conducted under market prices and conditions.

Capital and contractual commitments related to Ural Group Limited (which is associated company related to Fedorovskyfield) is HUF 49,332 million.

INA d.d concluded a Gas Purchase Obligation (Take or pay). The obligation refers to a one year natural gas import contract signed with PPD for this terminal year. Through this contract INA will procure the quantities of gas needed to cover the gap in the sales portfolio. The value of future liabilities until the termination of the contract are HRK 589 million without VAT (cca. Net HUF 24,462 million).

Trade and other receivables due from related parties also contains leased assets. For further explanations, refer to the "Transactions with Management, officers and other related parties" section.

b) Remuneration of the members of the Board of Directors

Directors' total remuneration approximated HUF 130 million in 2017 (2016: HUF 130 million). In addition, the directors participate in a long-term incentive scheme details of which are given below.

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

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

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

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

	2017 Number of shares	2016* Number of shares
Board of Directors	2,231,472	2,082,672
Executive Board (except Board of Directors members)	924,064	924,064
Senior Management (except Board of Directors and Executive Board members)	86,744	86,744
Total	3,242,280	3,093,480

* Recalculated due to Mol Plc. one to eight share split in 2017 to enable comparability.

d) Transactions with Management, officers and other related parties

In 2017 entities controlled by the members of key management personnel purchased fuel from MOL Group in the total value of HUF 1,086 million. MOL Group purchased PR, media and other services from companies controlled by key management personnel in the total value of HUF 106 million.

MOL Group provided subsidies through sponsorship for sport organisations controlled by key management personnel in the total value of HUF 334 million.

MOL Group entered into a long-term (15 years) lease contract for marketing and advertisement surfaces with an entity controlled by key management personnel with a yearly lease fee of HUF 240 million.

Entities controlled by key management personnel hold 1,720,000 shares.

e) Key management compensation

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

	2017 HUF million	2016 HUF million
Salaries and wages	979	853
Other short-term benefits	987	687
Share-based payments	1,522	896
Total	3,488	2,436

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

No loans have been granted to key management personnel.

29. Events after the reporting period

No significant post - balance sheet event occurred which would have impact on 2017 figures.

30. Appendices

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

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

- IFRS 2 Share-based Payment - Amendment (effective for annual periods beginning on or after 1 January 2018, this amendment has not been approved by EU yet)
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)
- IFRS 9 Financial Instruments - Amendment (effective for annual periods beginning on or after 1 January 2019, this amendment has not been approved by EU yet)
- IFRS 4 Insurance contracts - Amendment (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018): IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 will replace IAS 18 Revenue and IAS 11 Construction contracts.
- IFRS 15 Revenue from contracts with customers Amendment (effective for annual periods beginning on or after 1 January 2018)
- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)
- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021, this amendment has not been approved by EU yet)
- IAS 40 Investment Property – Amendment (effective for annual periods beginning on or after 1 January 2018, this amendment has not been approved by EU yet)
- IAS 28 Investment in Associates and Joint Ventures– Amendment (effective for annual periods beginning on or after 1 January 2019, this amendment has not been approved by EU yet)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018, this amendment has not been approved by EU yet)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019, this amendment has not been approved by EU yet)
- Annual improvements 2014-2016 (IAS 28 Investment in Associates and Joint Ventures; effective for annual periods beginning on or after 1 January 2018, this amendment has not been approved by EU yet)

The above mentioned standards and amendments are not expected to significantly impact the Group's consolidated results, financial position or disclosures, except for the following standards:

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 covers the classification, measurement and derecognition of financial instruments, new impairment methodology and a new hedge accounting model. IFRS 9 is intended to replace IAS 39 Financial instruments: recognition and measurement.

No material impact in allowances for doubtful accounts is expected on Group level in relation to transition to IFRS 9.

IFRS 16 Leases

In the case of the lessee, the new standard provides a single accounting model, and require recognition of assets and liabilities for all leases. Exceptions are leases contracted for less than 1 year, and leases with low value underlying assets. This removes the present classification as either finance or operative leases for lessee. Lessors continue to classify leases as operating or finance similarly to IAS 17 Leases. IFRS 16 Leases replaces IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27.

b) Appendix II.: Subsidiaries

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2017	Ownership 2016
Integrated subsidiaries				
INA-Industrija nafte d.d.	Croatia	Integrated oil and gas company	49%	49%
Upstream				
Adriagas S.r.l.	Italy	Pipeline project company	49%	49%
CEGE Közép-európai Geotermikus Energia Termelő Zrt.	Hungary	Geothermal energy production	100%	100%
CEGE Geothermikus Koncessziós Kft.	Hungary	Geothermal energy production	100%	100%
CROPLIN, d.o.o.	Croatia	Natural gas trading	49%	49%
Csanád Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
EMSZ Első Magyar Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
INA Naftaplin International Exploration and Production Ltd.	United Kingdom	Exploration and production activity	49%	49%
Kalegran B.V.	Netherlands	Exploration financing	100%	100%
Kalegran Ltd.	Cyprus / Iraq	Exploration and production activity	100%	100%
KMSZ Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
Ménrót Kft.	Hungary	Exploration investment management	100%	100%
Karpinvest Kft.	Hungary	Exploration investment management	100%	100%
MH Oil and Gas BV.	Netherlands	Exploration investment management	100%	100%
MNS Oil and Gas B.V.	Netherlands	Exploration financing	100%	100%
MOL ENERGY UK Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOLGROWEST (I) Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOLGROWEST (II) Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOL OPERATIONS UK Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOL UK FACILITIES Ltd.	United Kingdom	Exploration and production activity	100%	100%
MOL Bázakerettye Szénhidrogén Koncessziós Kft. [2]	Hungary	Exploration and production activity	100%	-
MOL Bucsa Szénhidrogén Koncessziós Kft. [2]	Hungary	Exploration and production activity	100%	-
MOL (FED) Kazakhstan B. V.	Netherlands	Exploration financing	100%	100%
MOL (FED) Kazakhstan B.V. Rep. Office	Kazakhstan	Exploration financing	100%	100%
MOL (FED) Kazakhstan B.V. BO	Kazakhstan	Exploration investment management	100%	100%
MOL Jászárokszállás Szénhidrogén Koncessziós Kft. [2]	Hungary	Exploration and production activity	100%	-
MOL Mezőtúr Szénhidrogén Koncessziós Kft. [2]	Hungary	Exploration and production activity	100%	-
MOL Nordsjön B.V.	Netherlands	Exploration financing	100%	100%
MOL Norge AS	Norway	Exploration activity	100%	100%
MOL Okány-Nyugat Szénhidrogén Koncessziós Kft. [2]	Hungary	Exploration and production activity	100%	-
MOL Pakistan Oil and Gas Co. B.V.	Netherlands / Pakistan	Exploration and production activity	100%	100%
MOL-RUSS Ooo.	Russia	Management services	100%	100%
MOL West Oman B. V.	Netherlands	Exploration financing	100%	100%
MOL West Oman B.V. Oman BO	Oman	Exploration activity	100%	100%
MOL Zala-Nyugat Szénhidrogén Koncessziós Kft. [2]	Hungary	Exploration and production activity	100%	-
Panfora Oil and Gas S.r.l.	Romania	Exploration and production activity	100%	100%
Tápió Szénhidrogén Koncessziós Kft.	Hungary	Exploration and production activity	100%	100%
Theatola Ltd.	Cyprus	Exploration investment management	100%	100%
Gas-Midstream				
FGSZ Földgázszállító Zrt.	Hungary	Natural gas transmission	100%	100%
Downstream				
IES S.p.A.	Italy	Refinery and marketing of oil products	100%	100%
Nelsa S.r.l.	Italy	Trading of oil products	74%	74%
IES Power & Gas S.r.l.	Italy	Energy services	70%	70%
Panta Distribuzione S.r.l.	Italy	Trading of oil products	100%	100%
INA d.o.o.	Serbia	Trading of oil products	49%	49%
INA BH d.d.	Bosnia and Herzegovina	Trading of oil products	49%	49%
INA BL d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	49%
INA Kosovo d.o.o.	Kosovo	Trading of oil products	49%	49%
INA Maziva Ltd.	Croatia	Lubricants production and trading	49%	49%
Leodium Investment Kft.	Hungary	Financial services	100%	100%
MOL Austria GmbH	Austria	Wholesale trade of lubricants and oil products	100%	100%
Roth Heizöle GmbH	Austria	Trading of oil products	100%	100%
MOL Commodity Trading Kft.	Hungary	Financial services	100%	100%
MCT Slovakia s.r.o.	Slovakia	Financial services	100%	100%
MOL Germany GmbH	Germany	Trading of oil products	100%	100%
MOL-LUB Kft.	Hungary	Production and trade of lubricants	100%	100%
MOL-LUB Russ LLC	Russia	Production and trade of lubricants	100%	100%
MOL CEE Investments B.V.	Netherlands	Investment management	100%	100%
MOL Slovenia Downstream Investment B.V.	Netherlands	Investment management	100%	100%
MOL South-East Europe Holding Kft. [4]	Hungary	Investment management	-	100%
Moltrans Kft.	Hungary	Transportation services	100%	100%
MOLTRADE-Mineralimpex Zrt.	Hungary	Importing and exporting of energetical products	100%	100%
MOL CZ Downstream Investment B.V.	Netherlands	Investment management	100%	100%
MOL Ukraine LLC	Ukraine	Wholesale and retail trade	100%	100%
SLOVNAFT a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	99%	99%
CM European Power Slovakia s.r.o.	Slovakia	Operation of thermo-power plant	99%	99%
Slovnaft Polska S.A.	Poland	Wholesale and retail trade	99%	99%
Slovnaft Trans a.s.	Slovakia	Transportation services	99%	99%
SWS s.r.o.	Slovakia	Transport support services	51%	51%
VÚRUP a.s.	Slovakia	Research and development	99%	99%
Zväz pre skladovanie zásob a.s.	Slovakia	Wholesale and retail trade, warehousing	99%	99%

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2017	Ownership 2016
Terméktároló Zrt.	Hungary	Oil product storage	74%	74%
MOL Petrolkémia Zrt.	Hungary	Petrochemical production and trading	100%	100%
Tisza-WTP Kft. [1]	Hungary	Feed water and raw water supply	0%	0%
TVK-Erőmű Kft.	Hungary	Electricity production and distribution	100%	100%
Consumer Services				
Energopetrol d.d.	Bosnia and Herzegovina	Retail trade	33%	33%
Holdina d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	49%
INA Crna Gora d.o.o.	Montenegro	Trading of oil products	49%	49%
INA Maloprodajni servisi d.o.o.	Croatia	Trade agency in the domestic and foreign market	49%	49%
INA Slovenija d.o.o. (formerly: Interina d.o.o. Ljubljana)	Slovenia	Trading of oil products	49%	49%
MOL Česká republika s.r.o.	Czech Republic	Wholesale and retail trade	100%	100%
MOL E-mobilitás Vagyonkezelő Kft.	Hungary	Investment management	100%	100%
MOL E-mobilitás Kft.	Hungary	Electrical traffic solutions	100%	100%
MOL Fleet Holding Kft. [2]	Hungary	Investment management	100%	-
MOL Fleet Solution Flottakezelő Kft. [2]	Hungary	Fleet management	100%	-
MOL Limitless Mobility Holding Kft. [2]	Hungary	Investment management	100%	-
MOL Limitless Mobility Kft. [2]	Hungary	Car sharing	100%	-
MOL Naftna Družba, trgovsko podjetje d.o.o.	Slovenia	Retail trade	100%	100%
MOL Retail Comert s.r.l. [5]	Romania	Retail trade	-	100%
MOL Retail Holding Kft.	Hungary	Real estate management	100%	100%
MOL Kiskereskedelmi Ingatlan Kft.	Hungary	Real estate management	100%	100%
MOL Kiskereskedelem Zrt. [3]	Hungary	Retail and Wholesale	-	100%
MOL Romania PP s.r.l.	Romania	Retail and wholesale trade of fuels and lubricants	100%	100%
MOL Serbia d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
MOL Slovenia d.o.o.	Slovenia	Retail trade of fuels and lubricants	100%	100%
Petrol d.d.	Croatia	Trading of oil products	49%	49%
Tifon d.o.o.	Croatia	Retail trade of fuels and lubricants	100%	100%
Corporate and other				
Crosco Naftni Servisi d.o.o.	Croatia	Oilfield services	49%	49%
Crosco B.V.	Netherlands	Oilfield services	49%	49%
Nordic Shipping Ltd.	Marshall Islands	Platform ownership	49%	49%
Crosco International d.o.o. (Slovenia)	Slovenia	Oilfield services	49%	49%
Crosco International d.o.o. (Tuzla)	Bosnia and Herzegovina	Oilfield services	49%	49%
Crosco International Ltd.	United Kingdom	Oilfield services	49%	49%
Crosco S.A. DE C.V	Mexico	Maintaining services	49%	49%
Crosco Ukraine Llc. [2]	Ukraine	Oilfield services	49%	-
Rotary Zrt.	Hungary	Oilfield services	49%	49%
Sea Horse Shipping Inc.	Marshall Islands	Platform ownership	49%	49%
Geoinform Kft.	Hungary	Hydrocarbon exploration	100%	100%
Hostin d.o.o.	Croatia	Tourism	49%	49%
Magnolia Finance Ltd. [1]	Jersey	Financial services	0%	0%
MOL Aréna Kft.	Hungary	Investment management	100%	100%
MOL Cyprus Co. Ltd.	Cyprus	Captive insurance	100%	100%
MOL Group Finance S.A.	Luxemburg	Financial services	100%	100%
MOL Group International Services BV	Netherlands	Financial and accounting services	100%	100%
MOL Ingatlan Holding Kft. [2]	Hungary	Investment management	100%	-
MOL Ingatlankezelő Kft. [2]	Hungary	Real estate management	100%	-
MOL Investment Kft.	Hungary	Financial services	100%	100%
MOL Magyarország Szolgáltató Központ	Hungary	Business services	100%	100%
MOL Csoportszintű Pénzügyi Szolgáltató Kft.	Hungary	Accounting services	100%	100%
MOL Magyarország HR Szolgáltató Kft.	Hungary	HR services	100%	100%
MOL Magyarország Informatikai Szolgáltató Kft.	Hungary	IT services	100%	100%
MOL Magyarország Pénzügyi Szolgáltató Kft.	Hungary	Accounting services	100%	100%
MOL Magyarország Társasági Szolgáltató Kft.	Hungary	Company services	100%	100%
MOL Reinsurance Co. DAC	Ireland	Captive insurance	100%	100%
MOL Vagyonkezelő Kft.	Hungary	Investment management	100%	100%
MULTIPONT Program Zrt.	Hungary	Marketing agent activity	100%	100%
OT INDUSTRIES Vagyonkezelő Zrt. [2]	Hungary	Investment management	51%	-
OT INDUSTRIES-DKG Gépgyártó Zrt. [2]	Hungary	Manufacturing of machinery and equipment	51%	-
OT INDUSTRIES Eszközhasznosító Kft. [2]	Hungary	Leasing activity	51%	-
OT INDUSTRIES Fővállalkozó Zrt. [2]	Hungary	Technical consultancy	51%	-
OT INDUSTRIES-KVV Kivitelező Zrt. [2]	Hungary	Pipeline construction	51%	-
OT INDUSTRIES Tervező Zrt. [2]	Hungary	Engineering activity	51%	-
Petrolszolg Kft.	Hungary	Repairs and maintenance services	100%	100%
PLAVI TIM d.o.o.	Croatia	IT services	49%	49%
Slovnaft Montáže a opravy a.s.	Slovakia	Repairs and maintenance services	99%	99%
MOL Solar Investment Kft.	Hungary	Investment management	100%	100%
MOL Solar Operator Kft.	Hungary	Power production	100%	100%
ISO-SZER Kft. [2]	Hungary	Construction services	98%	-
STSI integrirani tehnički servisi d.o.o.	Croatia	Repairs and maintenance services	49%	49%
Ticinum Kft.	Hungary	Asset management	100%	100%
Top Računovodstvo Servisi d.o.o.	Croatia	Accounting services	49%	49%
TVK Ingatlankezelő Kft.	Hungary	Real estate management	100%	100%

1) Consolidated as required by "IFRS 10 - Consolidated Financial Statements; 2) Fully consolidated from 2017; 3) Merged to MOL Kiskereskedelmi Ingatlan Kft. in 2017; 4) Merged to MOL Retail Holding Kft. in 2017; 5) Merged to MOL Romania PP S.r.l.; 6) Merged to Slovnaft a.s.

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

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

Inventory holding gain/loss

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

Impairment on raw materials and own-produced inventory

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

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

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

Derivative transactions

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

Non recurring special items

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

Clean CCS profit / (loss) from operation reconciliation	2017 HUF million	2016 HUF million
Profit / (loss) from operation	**354,367**	**307,905**
Inventory holding gain/loss	(18,124)	(26,362)
Impairment on raw materials and own-produced inventory	597	(6,356)
- *thereof affects raw materials*	6	(633)
- *thereof affects own-produced inventory*	591	(5,722)
Cargo hedge	1,807	3,217
CCS profit / (loss) from operation	**338,647**	**278,404**
Impact of derivative transactions	8,817	4,957
Special items	29,553	22,968
Clean CCS profit / (loss) from operation	**377,017**	**306,329**

Special items	2017 HUF million	2016 HUF million
Profit / (loss) from operation excluding special items	**383,920**	**330,873**
Upstream		
North Karpovsky divestment	(5,920)	-
Angola provision release	10,528	-
CEOC arbitration	(6,875)	-
Hungarian year-end impairments	(18,389)	-
Matjushkinskaya Vertical divestment	-	(3,234)
Kalegran inventory impairment	-	(3,344)
Total special items in Upstream	**(20,656)**	**(6,578)**
Downstream		
Environmental provision at INA	(4,755)	-
IES impairment (Asset Held for Sale IFRS5)	-	(5,982)
HCK (HydroCracker) impairment	-	(4,471)
Total special items in Downstream	**(4,755)**	**(10,453)**
Corporate and Other		
Impairment in INA Group	(4,142)	(5,937)
Total special items in Corporate and Other	**(4,142)**	**(5,937)**
Total impact of special items on profit / (loss) from operation	**(29,553)**	**(22,968)**
Profit / (loss) from operation	**354,367**	**307,905**

MOL GROUP

MANAGEMENT DISCUSSION AND ANALYSIS OF 2017 BUSINESS OPERATIONS

Contents

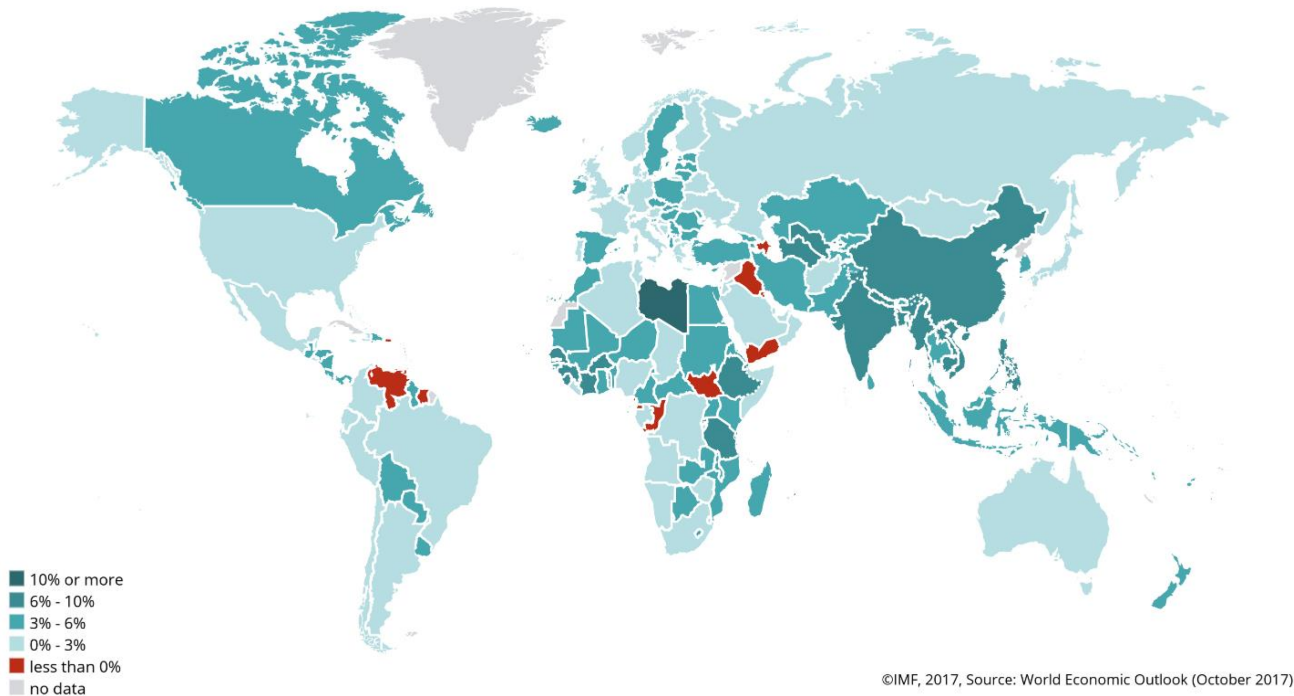
1. OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT 61
2. INTEGRATED CORPORATE RISK MANAGEMENT 65
3. FINANCIAL AND OPERATIONAL OVERVIEW OF 2017 67
3.1 SUMMARY OF 2017 RESULTS 67
3.2 OUTLOOK ON THE STRATEGIC HORIZON 70
3.3 UPSTREAM 72
3.4 DOWNSTREAM 80
3.5 INNOVATIVE BUSINESSES AND SERVICES 89
3.6 GAS MIDSTREAM 96
4. APPENDICES 99

1. OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT

World Economy

The cyclical upswing – underway since mid-2016 – has continued to strengthen. Around 2/3 of the countries, accounting for three quarters of world GDP, have seen a stronger growth in 2017 than in the previous year, the broadest synchronized global growth upsurge since 2010. Global growth for 2017 is estimated to have reached 3.7%, a significant acceleration compared to the growth of 3.2% in 2016 and the highest rate of global growth over the last 6 years.

Figure 1 Real GDP growth (annual percent change, 2017)



The recent acceleration in GDP growth stems predominantly from firmer growth in developed economies, although East and South Asia remain the world's most dynamic regions. Cyclical improvements in Argentina, Brazil, Nigeria and the Russian Federation, as these economies emerge from recession, also explain roughly a third of the rise in the rate of global growth between 2016 and 2017.

Growth in China is estimated to have reached 6.9% in 2017, marking the first acceleration in growth since 2010. The stronger than expected growth can be explained by healthy domestic demand supported by continued fiscal support and the stronger-than expected recovery of exports. Still, credit continues to grow considerably faster than GDP making the Chinese financial sector vulnerable.

The estimated 2017 GDP growth of 2.3% in the U.S. marks a significant improvement compared to the 1.5% growth recorded in 2016. Besides the solid private consumption and investment growth, weakness of the dollar and gradually increasing oil prices supported the economy. The 10% loss of the U.S. dollar against the euro last year was the steepest drop in more than a decade despite the three Fed interest rate hikes and a loosening European Central Bank.

Growth gained substantial momentum in the Eurozone, reaching an estimated 2.5% in 2017— way higher than previously expected — with broad-based improvements across member countries spurred by policy stimulus, improving labour market conditions, rising confidence and strengthening global demand. In particular, private sector credit continued to respond to the loose monetary policy stance of the European Central Bank, and both domestic demand and import growth were robust.

Oil and natural gas markets

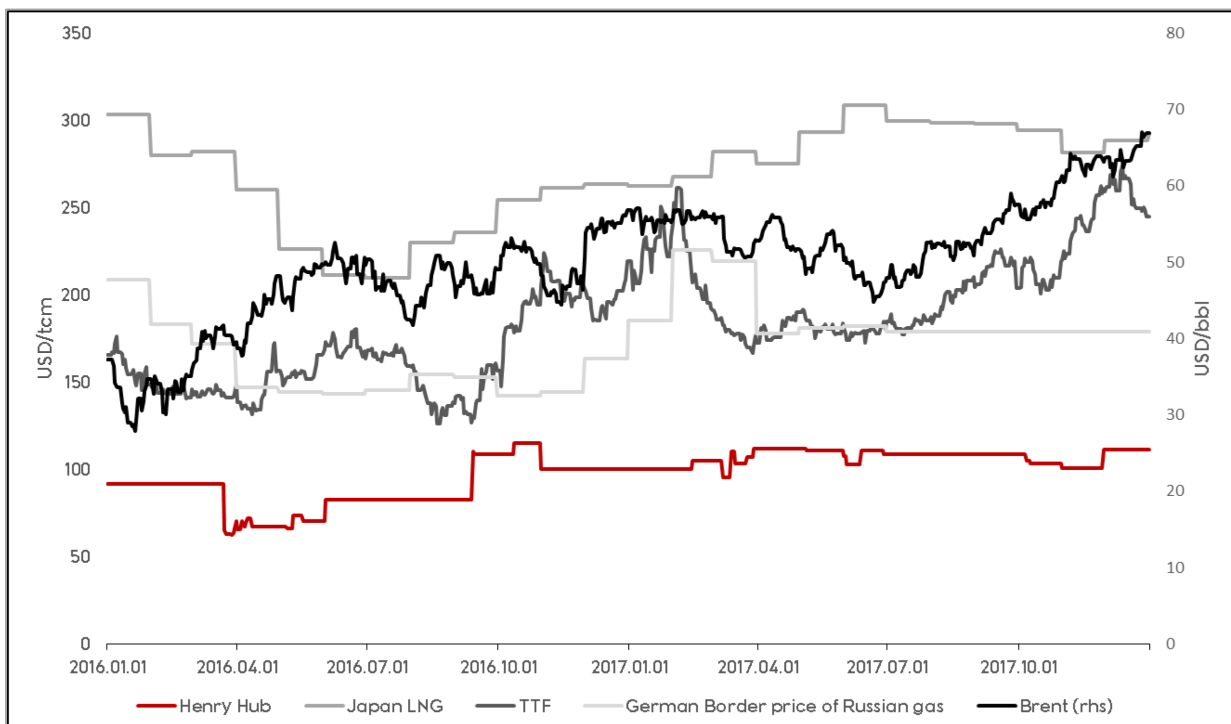
Benchmark crude oil price, dated Brent averaged at USD 54/bbl in 2017, however crude prices moved in a broad range throughout the year. Dated Brent reached its minimum at USD 44/bbl in June, then climbed to its maximum, to USD 67/bbl by the end of the year, beating a 3-year record.

Despite a positive outlook in the first quarter of 2017 caused by high demand expectations and a successful OPEC agreement, dated Brent started to decrease from its Q1 average of USD 55/barrel to USD 44/bbl in June, its lowest value in the year. The first half of the year was dominated by questions around the sustainability/(non-)compliance rate in respect of the OPEC agreement, and by increasing shale production in the US, which together with the limited decline rate of conventional fields resulted in a technically unchanged inventory overhang.

In the second half of 2017, crude prices started their increase mainly due to temporary factors, like heightened geopolitical and political tensions both in the Middle East, North-Korea and in Venezuela, and also due to an extreme hurricane season in the U.S. High expectations regarding the November OPEC meeting put an upward pressure on crude prices, which remained above USD 60/barrel after a successful extension of the supply cut into 2018. In the meantime, structural factors like an upward revision of global growth, the renewed strengthening relationship between economic growth and oil demand growth, and the enormous demand potential of Asia further supported the price increase. Moreover, the drop in OECD inventories finally signaled a clear tightening of the market. Unexpected supply disruptions (closure of the Forties pipeline, disruptions in Libya, crisis of Venezuela) in the end of the year further supported the price increase, which was only slightly eased by the slowly increasing production in the U.S.

Gas prices remained at historically low levels, however cold winter in the U.S. and in Asia supported prices through increased consumption. The convergence of gas prices continued during 2017 supported by a fast growing LNG market. Although the difference between Japan LNG (the highest gas price globally) and Henry Hub (the lowest gas price) increased slightly from its 2016 average of 162 USD/tcm to 180 USD/tcm in 2017, it is still largely below its 2011-2015 average of 414 USD/tcm. European TTF gas price averaged at 206 USD/tcm, 26% higher than in 2016, which is attributable to relatively low storage levels in the beginning of the year, depleting domestic production, ongoing coal-to-gas switching, rising oil and coal prices, cold winters, Norwegian outages and persistent concerns about French nuclear availability.

Figure 2 Brent and gas prices dtd



Source: Bloomberg

Downstream

The good margin environment that started late 2016 continued in 2017. Indeed, European refinery margins outperformed 2016 in the first three quarters and stayed on average above the 5-year historical average

throughout the whole year. High margins were driven by the strong demand increase for refined products and the high level of unplanned shutdowns. In particular, the severe hurricane season in the U.S. meant extra import need and European refineries could step in to fill the shortage. The first half of the year was dominated by strong fuel oil cracks due to limited supplies because of previous refinery upgrades and a competitive naphtha compared to LPG. Fuel demand was also robust in line with the broad-based GDP growth. On the other hand, rising crude prices in the second half of the year weighed on margins.

Petrochemicals showed healthy but below 2016 margins for most of the time. While polymer margins narrowed significantly, monomer margins stayed relatively strong. 2017 saw the launch of the first new ethane-based steam cracking capacities in the U.S. In parallel, new petrochemical plants integrated with world scale refineries in the Middle East stabilized production, too. These two factors led to increased competition on polyethylene markets. This was, however, largely offset by the strong demand growth so far, especially in China. In the first half of the year, low crude prices supported naphtha-based steam crackers and associated polymer production and sales in Europe. Later, in parallel to the increasing crude prices ethane based ethylene production regained some advantages against naphtha based ethylene production, leading to lower integrated margins. This tendency was somewhat slowed down by the hurricane-related shutdowns in the U.S. when the import pressure decreased temporarily on European markets. Even though integrated margins were on average below 2015 and even 2016 figures, they remained above the 5-years historical average.

Central and Eastern Europe

The Central and Eastern Europe (CEE) region showed very robust GDP growth rates in 2017 (ranging between 3.1% and 6.7% p.a.), as the surprisingly fast expansion of the Eurozone was coupled with strong household demand, private investment activity and reaccelerating EU fund inflows. Regional growth has become more broad-based.

Hungary

Growth picked up in 2017 following a temporary slowdown in 2016. In 2017Q4 Hungary posted the second strongest GDP expansion within the EU. Hungary's real GDP is estimated to have increased by 3.8% in 2017 on the back of strong domestic demand. Consumer confidence remained high and private consumption was supported by rapid wage increases and continued employment growth. The main driver of the acceleration of investment growth was the resumption of EU fund absorption under the new multiannual financial framework. Business and household investment also increased dynamically as the global economic recovery improved the prospects for businesses and strong demand for new homes spurred residential construction. Fiscal policy measures and favourable financing conditions further supported domestic demand.

Gasoline demand increased by 4.1% yoy, supported by the improved real income position of households and the end of deleveraging efforts. Diesel demand growth was 3.4% supported both by passenger and freight traffic.

Slovakia

In 2017, Slovakia's economy maintained the growth of 3.3% matching the figure of the previous year. The growth was driven mainly by accelerating household consumption and to some extent by re-raised investments, while lower net export weighed on growth. The unemployment rate declined further to 8.3% and is set to remain on a falling path, reflecting the continued economic expansion. The general government deficit declined to 1.4% of GDP in 2017, the second lowest deficit of the country.

Both gasoline and diesel demand growth, 1.5% and 3.9% respectively, remained below 2016 growth rates (3.2% and 5.8% respectively).

Croatia

Economic growth kept accelerating in 2017 to an estimated growth rate of 3.2% after expanding by 2.8% in 2016. The growth was driven primarily by domestic factors: while consumption – especially household consumption – strengthened, investment growth turned out to be weaker compared to 2016 although above the historical average growth rate. Net export of goods and services, turned negative in 2017 detracting from the growth. Government deficit remained low, similarly to 2016, at -0.9%. Unemployment is still a significant issue even after falling to 11.1% from 13.4% and showing a decreasing trend.

Croatian gasoline demand declined by 4.1%, even more than in 2016, while diesel demand rose by 1.8% yoy.

Disclaimer:

- *This chapter is based on information available for the period ending 28 February, 2018.*
- *Crude oil figures are based on EIA.*
- *Regional diesel and gasoline figures do not reflect full year in the case of Croatia; because of data availability the average of January-November YoY figure is presented.*

Macro figures (average)	FY 2017	FY 2016	Ch %
Brent dated (USD/bbl)	54.3	43.7	24
Ural Blend (USD/bbl)(10)	53.3	42.5	25
Brent Ural spread (USD/bbl)(5)	1.2	2.1	(43)
Premium unleaded gasoline 10 ppm (USD/t)(11)	557	467	19
Gas oil – ULSD 10 ppm (USD/t)(11)	493	397	24
Naphtha (USD/t)(12)	467	367	27
Fuel oil 3.5 (USD/t)(12)	298	206	45
Crack spread – premium unleaded gasoline (USD/t)(11)	147	136	8
Crack spread – gas oil (USD/t)(11)	83	66	26
Crack spread – naphtha (USD/t)(12)	57	36	58
Crack spread – fuel oil 3.5 (USD/t)(12)	(106)	(125)	15
Crack spread – premium unleaded gasoline (USD/bbl)(11)	12.7	12.4	2
Crack spread – gas oil (USD/bbl)(11)	12.0	9.5	26
Crack spread – naphtha (USD/bbl)(12)	(1.8)	(2.5)	28
Crack spread – fuel oil 3.5 (USD/bbl)(12)	(7.1)	(11.3)	(37)
MOL Group refinery margin (USD/bbl)	6.5	5.7	14
Complex refinery margin (MOL + Slovnaft) (USD/bbl)	7.1	6.3	13
Ethylene (EUR/t)	1,017	909	12
Butadiene-naphtha spread (EUR/t)	698	313	123
NEW MOL Group petrochemicals margin (EUR/t)(9)	504	543	(7)
OLD Integrated petrochemical margin (EUR/t)	512	613	(16)
HUF/USD average	274.4	281.5	(3)
HUF/EUR average	309.2	311.5	(1)
HUF/HRK average	41.4	41.4	0
HRK/USD average	6.6	6.8	(3)
3m USD LIBOR (%)	1.3	0.7	86
3m EURIBOR (%)	(0.3)	(0.3)	0
3m BUBOR (%)	0.1	1.0	(90)

Macro figures (closing)	FY 2017	FY 2016	Ch %
Brent dated closing (USD/bbl)	66.5	54.9	21
HUF/USD closing	258.8	293.7	(12)
HUF/EUR closing	310.1	311.0	0
HUF/HRK closing	41.6	41.1	1
HRK/USD closing	6.2	7.1	(13)
MOL share price closing (HUF)	3,005	2,579	17

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

2. INTEGRATED CORPORATE RISK MANAGEMENT

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

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

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

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

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

During 2017, we renewed our risk management processes to ensure special attention is given to our 2030 Strategy: we identified major long-term risks that may impact our strategic objectives and detailed analysis is ongoing.

At the same time, mid-term risks related to our business plans are assessed and managed over the full lifetime of assets, performed at business segment level and coordinated by the group-level risk management team.

As in previous years, the short-term risk profile of the company is regularly reviewed with main focus on the 1-year budget of MOL Group.

Regular reporting to top management provides oversight on top risks and assurance that updated responses, controls, and appropriate mitigation actions are set and followed by the Executive Board.

The main risk drivers of the Group

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

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

   i. Commodity price risk: MOL is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks stem from the integrated business model with downstream processing more crude and selling more than our equity crude oil production. We monitor this risk in order to support our strong financial position and capacity to fund operations and investments. When necessary, we consider commodity hedging to eliminate risks other than 'business as usual' risks or general market price volatility.

   ii. Foreign exchange (FX) risk: Business operation is economically driven mainly by USD. MOL's current FX risk management policy is to monitor the FX risk, and to balance the FX exposures of the operating cash flow with the financing cash flow exposures when necessary and optimal.

   iii. Credit risk: MOL Group provides products and services to a diversified customer portfolio - both from business segment and geographical point of view – with a large number of customers representing an acceptable credit risk profile. MOL Group's risk management tracks these risks on a continuous basis, and provides support to the sales processes in accordance with MOL Group's sales strategy and ability to bear risk.

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

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

   ii. Crude oil supply risk: Crude supply disruption is a major risk factor for the Downstream business, as it can hamper continuous operations. In order to mitigate this risk, supplies of crude oil via pipelines are currently diversified with regular crude cargo deliveries from the Adriatic Sea.

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

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

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

ii. **Country risk**: The international portfolio requires proper management of country risk exposures, therefore possible political violence, compliance with local regulations or sanctions are monitored to enhance the diversification effect in the investment portfolio.

iii. **Reputation risk**: Reputation of energy industry players has been in the focus of media for the past years due to extreme negative events. MOL, as a major market player in the region, operates under special attention from a considerable number of stakeholders, and we are constantly seeking to meet our responsibilities towards them.

iv. **Climate change risk**: The effects of climate change have the potential to adversely impact MOL's current operations. As a response, MOL Group launched its 2030 Strategy based on the expected decrease in demand for fossil fuels, primarily driven by a combination of electrification and digitalization of transportation, energy and fuel efficiency gains, as well as changes in consumer behaviour and advances in technology. MOL Group's transformational strategy is meant as a response to the fast-developing consequences of global warming and climate change. Several measures have already been taken at group and divisional level in the past, and actions are ongoing. For more details, go to the Notes on Sustainability Performance.

Main risk management tools

Enterprise Risk Management is a framework covering business units and functional units, which ensures incorporation of risks faced by the company into risk maps. The risk assessment activity supports stable and efficient operation by identifying key risks that threaten the achievement of company objectives and require specific attention by top management through strengthened controls or execution of mitigation actions.

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

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

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

Besides providing information on the most imperative risks that MOL Group faces, risk management also supports the top management and the Board of Directors to take more educated decisions on capital allocation for major CAPEX projects.

3. FINANCIAL AND OPERATIONAL OVERVIEW OF 2017

3.1 SUMMARY OF 2017 RESULTS

MOL delivered Clean CCS EBITDA of HUF 673bn in 2017 (USD 2.45bn), 11% above the 2016 level and exceeding its upgraded target (USD 2.3bn+) for the year. The Downstream segment EBITDA levelled off compared to last year and contributed nearly half of the total group-level EBITDA, while the Upstream, Consumer Services and Gas Midstream segments substantially increased their EBITDA contribution year-on-year. Upstream turned into a material earnings contributor on the back of increasing hydrocarbon prices, while Consumer Services continued its double-digit EBITDA growth.

Net operating cash flow increased by 8% year-on-year (to HUF 560bn), while organic CAPEX was at a similar level in 2017 compared to the previous year, hence free cash flow generation further improved in 2017 year-on-year and exceeded USD 1bn. As a result, the balance sheet substantially strengthened during 2017 and Net debt/EBITDA fell to 0.65, while net gearing decreased to 17% by the end of the year.

- The Upstream segment's EBITDA, excluding special items, reached HUF 235bn in 2017, representing a 23% increase compared to 2016 due to higher Brent (+24%) and higher realized gas prices (+10%). A 24% decrease in CAPEX spending meant that the segment doubled its simplified free cash flow (EBITDA less organic CAPEX), thus became a major free cash flow contributor in 2017. Total hydrocarbon production declined by 5% year-on year to 107 mboepd, while group-level average unit OPEX increased slightly to USD 6.1/bbl, but remained at a highly competitive level.
- Downstream Clean CCS EBITDA remained broadly unchanged from 2016 level and came in at HUF 324bn in 2017. Profitability was supported by strong refining macro environment (MOL complex refining margin was USD 7.1/bbl, up 13% year-on year) and USD ~100mn contribution from the final year of the Next Downstream Program. These factors were mitigated by normalising petrochemicals margins (MOL Group Petrochemicals margin down by EUR 40/t year-on-year) and higher energy, maintenance and personnel expenses.
- Consumer Services, a separate business segment from 2017, increased its EBITDA by 13% year-on-year and reached HUF 97bn in 2017. Earnings were supported by increased volumes and sustained growth in both fuel and non-fuel margins.
- Gas Midstream brought in full-year EBITDA of HUF 61bn in 2017, 13% higher year-on-year, as strong transmission volumes counterbalanced the impact of adverse tariff changes.
- Corporate and other segment delivered an EBITDA loss of HUF 40bn in 2017, widening slightly year-on-year.
- Net financial expenses declined significantly to HUF 7bn in 2017 compared to HUF 50bn in the previous year, primarily on the back of large FX gains and substantially lower interest expenses year-on-year.
- Total CAPEX spending reached HUF 280bn (USD 1.04bn) in 2017, down by 9% year-on-year on declining spending in E&P and the lack of any material M&A activity.
- Operating cash flow before working capital changes increased by 18% to HUF 644bn, in line with the increase in underlying EBITDA. Accounting for the HUF 84bn build in net working capital, reflecting the higher oil price environment, net cash provided by operating activities came in at HUF 560bn, 8% higher year-on-year.
- Net debt decreased to HUF 435bn in 2017 from HUF 606bn a year ago due to the substantial free cash flow generation during the year. As a result Net Debt/EBITDA decreased to 0.65 from 0.97 in 2016, and net gearing also dropped to 17.5% from 25.2%, thus the balance sheet became even more robust in 2017. In December 2017 MOL signed a EUR 750mn revolving credit facility agreement contributing to a financial headroom of USD 4.4bn at year end. In November 2017 S&P upgraded MOL to BBB-, therefore MOL is now a full investment grade issuer.

	HUF billion			USD million		
Summary of results	FY 2017	FY 2016	Ch %	FY 2017	FY 2016	Ch %
Net sales revenues	4,130.3	3,553.0	16	15,114	12,624	20
EBITDA	672.6	623.4	8	2,444	2,217	10
EBITDA excl. special items[1]	**679.6**	**630.0**	**8**	**2,472**	**2,240**	**10**
Clean CCS-based EBITDA [1] [2]	**672.7**	**605.4**	**11**	**2,447**	**2,153**	**14**
Profit from operation	354.4	307.9	15	1,278	1,099	16
Profit from operation excl. special items[1]	**383.9**	**330.9**	**16**	**1,391**	**1,179**	**18**
Clean CCS-based operating profit [1] [2]	**377.0**	**306.3**	**23**	**1,366**	**1,092**	**25**
Net financial gain / (expenses)	(6.7)	(49.8)	87	(25)	(176)	86
Net profit attributable to equity holders of the parent	**307.0**	**263.5**	**17**	**1,112**	**941**	**18**
Operating cash flow before ch. in working capital	643.8	547.3	18	2,349	1,948	21
Operating cash flow	559.7	519.4	8	2,070	1,843	12
EARNINGS PER SHARE						
Basic EPS, HUF [6]	436.8	359.0	22	1.6	1.3	23
Basic EPS excl. special items, HUF	475.9	375.6	27	1.7	1.3	31
INDEBTEDNESS						
Simplified Net debt/EBITDA	0.65	0.97	-			
Net gearing[4]	17%	25%	-			

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

Key financial data by business segment

	HUF billion			USD million		
Net Sales Revenues (3) (6)	FY 2017	FY 2016 restated	Ch %	FY 2017	FY 2016 restated	Ch %
Upstream	411.7	371.6	11	1,501	1,318	14
Downstream	3,643.5	3,056.9	19	13,333	10,863	23
Gas Midstream	98.5	89.4	10	359	317	13
Consumer Services	1,128.0	1,000.2	13	4,132	3,556	16
Corporate and other	215.1	188.6	14	793	668	19
Total Net Sales Revenues	**5,496.8**	**4,706.7**	**17**	**20,118**	**16,722**	**20**
Total External Net Sales Revenues(6)	**4,130.3**	**3,553.0**	**16**	**15,114**	**12,624**	**20**

EBITDA	FY 2017	FY 2016 restated	Ch %	FY 2017	FY 2016 restated	Ch %
Upstream	232.5	183.7	27	844	652	29
Downstream	326.5	348.0	(6)	1,184	1,238	(4)
Gas Midstream	61.4	54.5	13	223	194	15
Consumer Services	97.3	86.3	13	358	307	17
Corporate and other	(40.4)	(38.9)	(4)	(149)	(137)	(9)
Intersegment transfers(7)	(4.7)	(10.3)	54	(16)	(37)	54
Total EBITDA	**672.6**	**623.4**	**8**	**2,444**	**2,217**	**10**

Depreciation	FY 2017	FY 2016 restated	Ch %	FY 2017	FY 2016 restated	Ch %
Upstream	158.0	146.6	8	580	520	12
Downstream	99.7	100.5	(1)	364	356	2
Gas Midstream	13.1	13.0	1	48	46	3
Consumer Services	25.2	33.4	(24)	92	117	(21)
Corporate and other	24.0	23.7	2	88	84	5
Intersegment transfers(7)	(1.8)	(1.7)	(8)	(6)	(5)	(12)
Total Depreciation	**318.2**	**315.5**	**1**	**1,166**	**1,118**	**4**

Operating Profit	FY 2017	FY 2016 restated	Ch %	FY 2017	FY 2016 restated	Ch %
Upstream	74.5	37.1	101	264	132	100
Downstream	226.8	247.6	(8)	820	881	(7)
Gas Midstream	48.2	41.4	16	175	147	19
Consumer Services	72.1	53.0	36	266	190	40
Corporate and other	(64.4)	(62.5)	(3)	(238)	(221)	(7)
Intersegment transfers(7)	(2.8)	(8.7)	67	(10)	(30)	67
Total Operating Profit	**354.4**	**307.9**	**15**	**1,278**	**1,099**	**16**

EBITDA Excluding Special Items (1)	FY 2017	FY 2016 restated	Ch %	FY 2017	FY 2016 restated	Ch %
Upstream	234.8	190.3	23	853.9	675	26
Downstream	331.2	348.0	(5)	1,202.4	1,238	(3)
Downstream - clean CCS-based(2)	324.3	323.5	0	1,177.8	1,151	2
Gas Midstream	61.4	54.5	13	223.3	194	15
Consumer Services	97.3	86.3	13	358.3	307	17
Corporate and other	(40.4)	(38.9)	(4)	(149.4)	(137)	(9)
Intersegment transfers(7)	(4.7)	(10.2)	54	(17.0)	(37)	54
Total - clean CCS-based(1) (2)	**672.7**	**605.4**	**11**	**2,446.9**	**2,153**	**14**
Total EBITDA Excluding Special Items	**679.6**	**630.0**	**8**	**2,471.5**	**2,240**	**10**

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

	HUF billion			USD million		
Operating Profit Excluding Special Items (1)	FY 2017	FY 2016 restated	Ch %	FY 2017	FY 2016 restated	Ch %
Upstream	95.2	43.6	118	343	155	121
Downstream	231.6	252.0	(8)	838	897	(7)
Gas Midstream	48.2	41.4	16	175	147	19
Consumer Services	72.1	58.9	22	266	211	26
Corporate and other	(60.4)	(56.5)	(6)	(222)	(200)	(11)
Intersegment transfers(7)	(2.8)	(8.5)	67	(10)	(31)	67
Total Operating Profit Excluding Special Items	**383.9**	**330.9**	**16**	**1,391**	**1,179**	**18**

Capital Expenditures	FY 2017	FY 2016 Restated	Ch %	FY 2017	FY 2016 restated	Ch %
Upstream	87.0	114.4	(24)	320	407	(21)
Downstream	128.9	110.3	17	478	390	23
Gas Midstream	4.9	7.5	(36)	18	26	(31)
Consumer Services	39.7	61.8	(36)	148	220	(33)
Corporate and other	21.7	16.3	33	81	57	40
Intersegment transfers(7)	(1.9)	(1.6)	(20)	(7)	(6)	(26)
Total	**280.3**	**308.7**	**(9)**	**1,037**	**1,095**	**(5)**

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

3.2 OUTLOOK ON THE STRATEGIC HORIZON

2017 was another year of MOL Group delivering strong financial results, but equally importantly it was also a year of visible progress along the transformation journey set out in the MOL 2030 strategy. The recovering, albeit still low oil prices, the strong economic growth in the region and the continued strength in downstream margins provided a heathy tailwind during the year.

MOL Group managed to comfortably beat the original USD 2bn+ and even the upgraded USD 2.3bn+ EBITDA target in 2017, as all business segments increased their earnings contribution (in USD terms), a further testament to the high-quality, low-cost asset base and the resilient, integrated business model. Upstream more than doubled its free cash flow contribution, Downstream clean CCS EBITDA increased further somewhat from a high base, while Consumer Services sustained its double-digit earnings growth. Coupled with the strong capex discipline, this meant Simplified Free Cash Flow (EBITDA less organic capex) jumped to over USD 1.4bn in 2017, well ahead of the initial plans.

Regarding strategic transformation and the execution of the MOL 2030 long-term strategy, the flagship chemicals (polyol) project made major progress in 2017 with all technology licences secured and substantial, EUR 131mn state-aid endorsed by the European Commission. Consumer Services have also been launching new, innovative mobility-related services, such as fleet management and e-mobility.

The financial framework for 2017-21 remains intact, with the impressive 2017 delivery implying some upside to the 5-year cash flow. The primary financial target of MOL Group remains to generate enough operating cash flows to cover the internal investment needs – including the transformational projects –, financial costs, taxes and rising dividends to shareholders, while retaining a safe and strong balance sheet. With unchanged underlying assumptions (oil price in the range of USD 40-60/bbl, normalizing downstream margins), but with some upside risks, MOL shall deliver around 2.2bn EBITDA in 2018, while capex should be in a range of USD 1.1-1.3bn, including up to USD 300m spending on the strategic projects. This implies sustained free cash flow generation in 2018, allowing MOL to fund peak transformational capex in 2019-20 and also to be able to pay rising dividends to its shareholders.

In Downstream, 2018 will be the first year of the recently announced DS2022 program, a program of transformation, growth and efficiency. In 2018, MOL shall see final investment decision on some of the key transformational projects (including the polyol plant), while other strategic projects shall also see progress (including the completion of the synthetic rubber plant). Downstream targets USD 100mn efficiency improvement in 2018 as part of the DS2022 program and plans to make up for some of the shortfall experienced in the final year of the NXDSP delivery. In particular, the LDPE4 plant shall start contributing to the bottom line in 2018. At the same time, Downstream has to ensure the highest possible asset availability so that its high quality, integrated, highly cash generative platform continues to benefit from the still supportive external environment.

In Consumer Services, 2018 and the coming years shall again be the years of delivery and transformation. MOL will continue to exploit the remaining fuel market potential in the growing CEE markets and push forward with its massive site reconstruction and non-fuel concept rollout program. The segment is right on track to deliver on its 2021 target of reaching USD 450mn EBITDA. At the same time, the segment is also working on its own long-term transformation. Digitalization will gain momentum and new mobility services will continue to be launched and expanded in the coming years.

In Upstream, the focus has been gradually shifting from "fixing the basics" and ensuring a robust existing business towards working on a sustainable long-term future for the business. In 2017, Upstream generated more than USD 500mn (or USD 14/boe) Simplified Free Cash Flow, more than doubling year-on-year. This was the result of two years of rebalancing, rigorous cost control and discipline, which made MOL fit to prosper even in a very low oil price environment. While keeping a relentless focus on efficiency and cash generation, 2018 and the coming years shall see increasing focus on reserves replacement. MOL expects oil and gas production to be around 110 mboepd in 2018-2019, but in case of no addition to reserves, production is likely to decline from 2020 onwards. Organic reserves replacement is not sufficient to stabilize production in the medium term, hence inorganic steps are necessary. Such inorganic steps and options will increasingly be in focus in the coming years.

3.3 UPSTREAM

3.3.1 Overview of 2017

Key achievements

- In 2017 Upstream doubled its simplified free cash-flow delivery, exceeding USD 500 mn;
- ~14 USD/boe unit free cash-flow achieved on portfolio level in a 54 USD/bbl oil price environment;
- Production decreased by 5% in 2017 on portfolio level driven by lower UK volumes affected by the wax build-up in the Scolty and Crathes pipeline system and lower volumes in the CEE mainly due to natural depletion;
- Production Optimization Program (PO) continued in the CEE region, and delivered 3.2 mboepd production increment on an annualized basis, which partly offset the lower volumes from mature fields;
- Within the international portfolio the Floating Production, Storage and Offloading (FPSO) installation on the Catcher field was delivered and first oil was achieved in December 2017, while in Pakistan in the MOL-operated TAL Block gross production exceeded 85 mboepd as a result of several tie-ins were completed in 2017;
- Unit direct production cost stayed at a very competitive level of 6.1 USD/boe on portfolio level;
- In the frame of the well cost optimization project ~20% cost reduction was delivered in Hungary through the improvement in well design and activity rationalization;
- Strong CAPEX discipline remained in place in 2017; total organic CAPEX spending[1] declined to USD ~320 mn from USD ~410 mn;
- Exploration portfolio was extended through successful licencing rounds in Hungary and in Norway. MOL Hungary acquired three new hydrocarbon exploration licences in the 5th bid round in the areas of Őrség, Somogybükkösd, Somogyvámos. MOL Norge has been also offered three new licences with reputable partners in the 2017 APA licencing round, including two operated blocks;
- 2P oil and gas reserves stood at 356 MMboe at the end of 2017, affected by reclassification in Syria (-36 MMboe) and negative revision in Kazakhstan (-37 MMboe).

Outlook for 2018-2020

- Sustain self-funding and a value-generating operation even in a below 50 USD/bbl oil price environment;
- Maintain production at ~110 mboepd through PO in the CEE and international field development program, with Catcher having a significant contribution from 2018;
- MOL Upstream will continuously pursue efficiency to maintain unit direct production cost competitively low, in the single-digit territory (USD/boe) on a portfolio level;
- Exploration CAPEX will be spent on near-field exploration activities in the CEE and in Pakistan, while in 2018 the first operated offshore well will be drilled in Norway. Development CAPEX will be used to unlock undeveloped 2P reserves in CEE, and continue the Production Optimization Program. International field development activity will focus on the UK, Pakistan, and Kazakhstan and on the Baitugan field in Russia;
- The free cash-flows generated by the Upstream business shall be sufficient to cover 100% reserve replacement even in an oil price environment of 50 USD /bbl.
- For efficient organic reserve replacement MOL Upstream intends to achieve competitive finding and development unit costs (12-16 USD/boe).

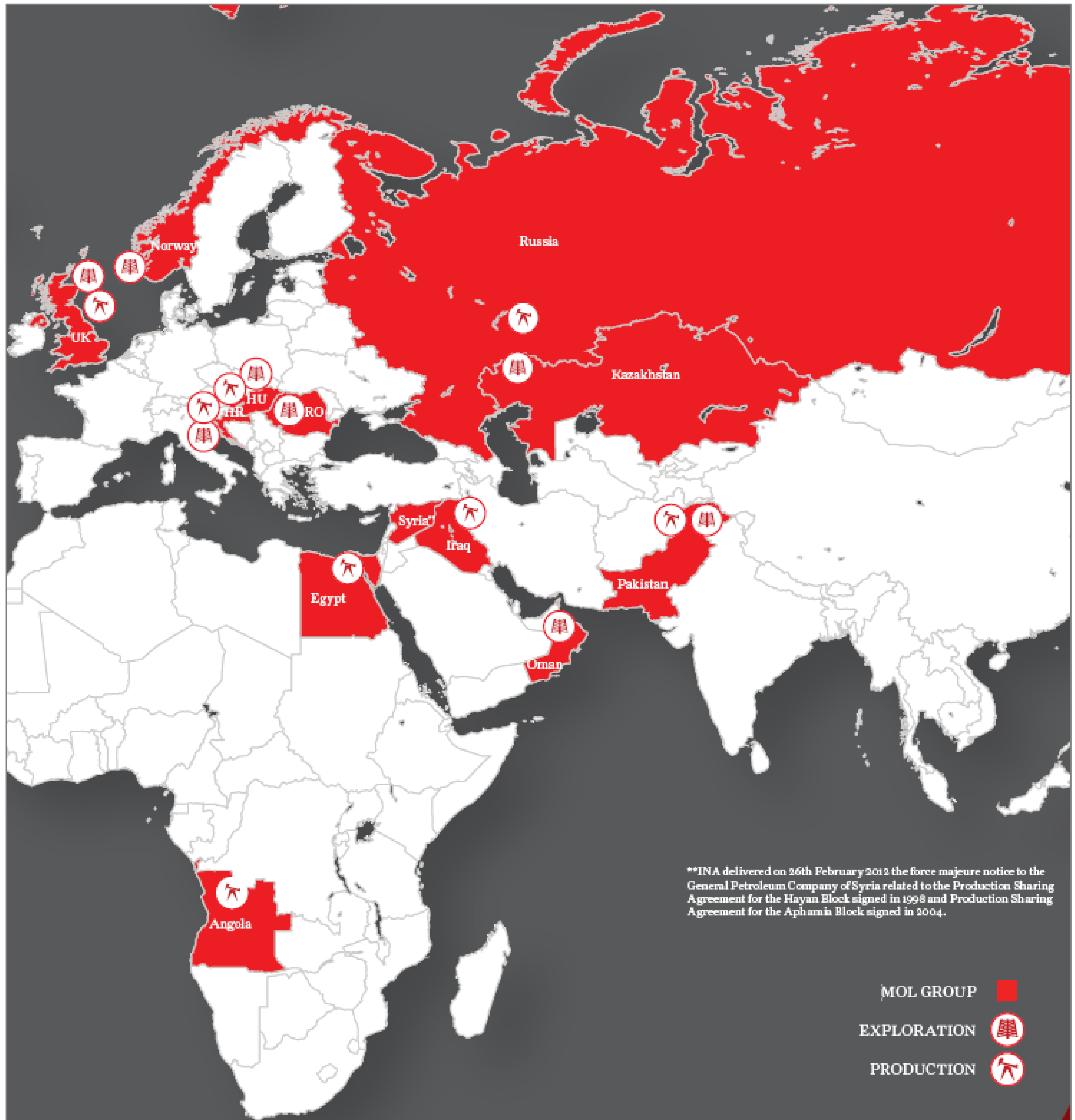
What have been the most important tasks for MOL Group Upstream recently?

"I am very proud to say that we doubled our free cash flow in 2017 due to the CAPEX/ OPEX efficiency and PO initiations of the New Upstream Program launched in 2016. In 2018 we will put strong focus on reserve replacement, while we maintain our highly efficient and cash positive operation."

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

[1] Pure CAPEX, excluding JV's and associates.

3.3.2 Upstream map



3.3.3 Key achievements

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

The Central Eastern European region

In 2017 CEE production decreased by 3% driven by lower offshore volumes in Croatia, and lower production in Hungary. The Production Optimization Program continued in both countries and added more than 3.2 mboepd on an annualized basis, which partly offset the negative effects of natural decline.

In Hungary three exploration wells were drilled and tested. Kunágota-5 and Tóalmás North-2 wells were proved to be dry, extended well test (EWT) is ongoing on Mezősas-SouthWest-2. MOL was awarded three new hydrocarbon exploration licences in the 5th bid round in the areas of Őrség, Somogybükkösd, Somogyvámos. The licences are within one of MOL's core areas in western Hungary. One tie-in and one development drilling started in 2017 and implementation of three inert gas projects progressed with well interventions, tests and surface facility preparation.

MOL successfully continued its Production Optimization (PO) Program, with an annualized production uplift of 2.1 mboepd. In the frame of PO project 15 fracks, 49 well workovers (including ALS optimization and acid jobs) were completed.

MOL continuously pursues higher efficiency. In the frame of the well cost optimization project ~20% cost reduction was delivered through the improvement in well design and activity rationalization. The program will be continued next year. In 2017 installation of Algyő Power Plant was completed, which will bring substantial cost savings from 2018.

In 2017 several measures were implemented in Hungary in order to avoid spills and leakages, including pipeline reconstruction, system modernization and technology improvement of equipment.

In Croatia exploration program started on Drava-02 exploration area with one drilling and preparation works on the second well. Two development wells were drilled and a 3D development seismic survey was completed in 2017.

Production Optimization Program continued in Croatia, contributing to the 2% increase of onshore production (year-on-year). 45 well workovers and 20 well stimulations were performed as part of Full Field Optimization (FFO), WWO and Well Stimulation campaigns which together resulted in a total of 1.1 mboepd additional production on an annualized basis. Within the EOR Project, injection of CO_2 and water continued throughout the year on Ivanić and Žutica North fields. Lower offshore volumes were driven by the natural decline and increasing water cuts.

INA achieved significant CO_2 emission decrease by the EOR projects at Ivanić and Žutica fields in 2017. The rehabilitation and replacement of critical pipelines' sections have resulted in a multi-year trend of reduction in total number of environmental pollution incidents.

In Romania exploration activity started with preparation and permitting procedures for seismic acquisition on EX-1 while magnetic survey was completed on EX-5.

The North Sea

The delivery of the FPSO on the Catcher field and reaching first oil in December 2017 were the key achievements in the region. The key challenge remains to find a permanent solution to the wax build-up in Scolty and Crathes pipeline system. In 2017 MOL Norge successfully participated in the APA (Norwegian Awards in Predefined Areas) licensing round adding three new licences. MOL Norge's licence portfolio is currently comprises 17 licences of which 6 are operated.

In the UK FPSO construction and installation was completed on Catcher Field, and the first oil was achieved on Catcher in December 2017. The project was delivered with outstanding HSE results. Circa 20 million man hours have been spent on Catcher with industry leading safety performance, utilizing the workforce based on multiple locations including Singapore, Korea, Japan, Indonesia and the UK.

Production of Scolty and Crathes was significantly below expectations in 2017 due to wax build up in the pipeline system, which was treated with chemical solvents as an interim solution.

Effective February 2017, MOL Norge was awarded operatorship of one licence and partnership in three other North Sea licences in the 2016 APA in Norway. MOL Norge submitted four applications for new licences in the 2017 APA licencing round, and has been offered operatorship for two licences and partnership in one licence. In 2017 Hyrokkin (PL 677) well was drilled and completed within planned schedule and significantly below budget but the well proved to be dry. Preparations for Raudasen (PL790) well was completed in 2017, the well will be spudded in Q1 2018. The first MOL operated drilling in Oppdal/ Driva (PL 860) is planned for 2018.

The Middle East

In Pakistan the MOL Group-operated TAL Block production exceeded 85 mboepd (gross) as a result of several tie-ins completed in 2017.

In Pakistan, MOL Group has interests in 5 blocks and operates the TAL Block, one of the largest hydrocarbon producing blocks of the country.

In 2017 tie-in of the Makori Deep-1 and Maramzai-4 wells were completed. Tolanj Processing Facility was established by relocating the Makori Early Production Facility and equipment. Tolanj West-1 and Tolanj X-1 wells were tied in to the new facility. As for field development Makori East-6 development well and Mardankhel-2 & 3 appraisal wells were drilled in 2017. Construction works of Mamikhel Well Head Compression were completed, and Central Front End Compression Facility on Makori East Field progressed. In 2017 exploration program continued, drilling of the Tolanj East-1 and Mamikhel Deep wells started. In the Karak Block, Kalabagh well was put into production through a rental Production Facility in 2017. Exploration program continued in the other blocks.

MOL continuously pursues improved safety management. In Pakistan road transportation has been carrying the highest risk in terms of safety in recent years, therefore HAZMAT[2] Transportation Program was launched in 2017.

MOL Pakistan carried on several programs in order to improve community relations including investment in local renewable energy projects, establishment of a local school and provision of technical scholarships.

In the Kurdistan Region of Iraq, production was stable on both non-operated blocks developed by Shaikan PSC (Shaikan field) and Pearl Petroleum Company (Khor Mor and Chemchemal fields).

In Oman, geological work continued in the Block 66, and the company decided to enter the second phase of exploration with involving a partner. The commitment includes one exploration drilling within two years.

The CIS region

MOL Group has presence in the region for more than twenty years. Baitugan field's contribution to the international portfolio's production is significant. As a result of the drilling program Baitex delivered 8% (year-on-year) ramp up in production during 2017. In the Fedorovsky Block in Kazakhstan, field development program was started in partnership with KMG and FIOC.

In the MOL-operated Baitugan Block in Russia focus has been on production volumes enhancement via the High Density Drilling Campaign and workovers. In the frame of the program, 53 wells were drilled within schedule and budget, and 94 workovers and one frack job were completed. In 2017 infrastructure development program was carried out, including pipeline integrity project, telemetry program, new oil and water pipeline, powerline and road construction. The program aims to reduce the number of pipe leakages and the inherent environmental impact, strives to prevent the scaling and corrosion problems and pursues utilization of formation water.

In Baitugan, HSE programs were extended, and good progress was achieved in spill prevention via pipeline integrity program and associated gas usage in power generation. Several Health and Safety projects were launched, related to production process, road safety and health promotion.

In the Fedorovsky Block in Kazakhstan, Trial Production Project (TPP) preparation progressed, Geological Static and Dynamic model building was completed. Licence extension was requested for the Fedorovsky exploration program.

[2] Hazardous materials

3.3.4 Financial overview of 2017

Segment IFRS results (HUF bn)	FY 2017	FY 2016	Ch %
EBITDA	232.5	183.7	27
EBITDA excl. spec. items[(1)]	**234.8**	**190.3**	**23**
Operating profit/(loss)	74.5	37.0	101
Operating profit/(loss) excl. spec. items[(1)]	**95.2**	**43.6**	**118**
CAPEX and investments	**87.0**	**114.4**	**(24)**
o/w exploration CAPEX	11.7	15.9	(26)
o/w organic CAPEX	87.0	114.4	(24)

Hydrocarbon Production (mboepd)	FY 2017	FY 2016 Restated	Ch %
Crude oil production	**37.6**	**40.9**	**(8)**
Hungary	12.8	13.3	(4)
Croatia	12.2	11.9	3
Russia	0.0	1.3	(100)
Kurdistan Region of Iraq	3.7	3.6	3
United Kingdom	5.4	6.6	(18)
Pakistan	1.1	1.1	0
Other International	2.4	3.1	(23)
Natural gas production	**54.2**	**56.0**	**(3)**
Hungary	26.3	26.9	(2)
Croatia	21.3	22.4	(5)
o/w. Croatia offshore	*7.7*	*9.3*	*(17)*
United Kingdom	0.8	1.7	(53)
Pakistan	5.7	5.0	14
Condensate	**7.1**	**7.6**	**(7)**
Hungary	3.7	4.2	(12)
Croatia	1.8	1.9	(5)
Pakistan	1.7	1.5	13
Average hydrocarbon production of fully consolidated companies	**98.8**	**104.5**	**(5)**
Russia (Baitex)	6.2	5.8	7
Kurdistan Region of Iraq (Pearl Petroleum)*	2.4	2.3	4
Average hydrocarbon production of joint ventures and associated companies	**8.6**	**8.1**	**6**
Group level average hydrocarbon production	**107.4**	**112.6**	**(5)**

* excluding gas

Main external macro factors	FY 2017	FY 2016	Ch %
Brent dated (USD/bbl)	54.3	43.7	24
HUF/USD average	274.4	281.5	(3)

Average realized hydrocarbon price	FY 2017	FY 2016 Restated	Ch %
Crude oil and condensate price (USD/bbl)	48.8	38.9	25
Average realized gas price (USD/boe)	30.5	27.7	10
Total hydrocarbon price (USD/boe)	**39.1**	**33.3**	**17**

Production cost	FY 2017	FY 2016 Restated	Ch %
Average unit OPEX of fully consolidated companies	**6.7**	**6.3**	**7**
Average unit OPEX of joint ventures and associated companies	1.7	1.3	31
Group level average unit OPEX (USD/boe)	6.1	5.7	7

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

Summary of 2017 results

Upstream EBITDA, excluding special items, rose 23% year-on-year in 2017 and amounted to HUF 235bn. The financial performance was primarily driven by:

(+) Average realized hydrocarbon prices increasing by 17% (or by 6 USD/boe) to 39 USD/boe. This was driven by a 25% increase in realized crude prices (as Brent crude price advanced by also 24%) and a 10% rise in realized gas prices.

(+) Exploration expenses fell by HUF 3bn in 2017 compared to the previous year on continued strong scrutiny of all projects.

(-) Total group production (including JVs and associates) declined by 5% year-on-year to 107 mboepd.

(-) Group-level average direct production cost, excluding DD&A, increased slightly, by 7%, to 6.1 USD/boe, primarily reflecting lower production, but remained at very competitive levels.

Reported EBIT reached HUF 75bn in 2017, while EBIT excluding special items amounted to HUF 95bn, both more than doubling year-on-year. A total of HUF 21bn special items affected reported EBIT including year-end impairment of exploration and development assets, the disposal of North Karpovsky in Kazakhstan and the settlement of a legal dispute partly offset by the provision release in Angola.

Oil and gas production in 2017

Total average daily hydrocarbon production (including JVs and associates) reached a 107 mboepd in 2017, representing a 5%, or 5 mboepd decline year-on-year. The lower production was primarily due to the declining contribution of the UK (-2 mboepd), affected by the wax build-up in the pipeline problems at Scolty & Crathes, and CEE (-2.5 mboepd) mainly due to natural decline.

CAPEX

FY 2017 HUF bn	Hungary	Croatia	Kurdistan Region of Iraq	Pakistan	United Kingdom	Norway	Other	Total - FY 2017	Total - FY 2016
Exploration	8.3	1.2	0.0	1.5	0.0	0.7	0.0	11.7	15.9
Development	18.8	18.5	0.4	1.3	24.7	0.0	0.9	64.6	88.0
Acquisition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	5.2	5.1	0.0	0.0	0.4	0.0	0.0	10.7	10.5
Total - FY 2017	32.3	24.8	0.4	2.8	25.1	0.7	0.9	87.0	
Total - FY 2016	27.4	25.3	0.6	3.6	46.1	1.4	10.0		114.4

In 2017, Upstream CAPEX amounted to HUF 87bn, declining 24% year-on-year, primarily due to lower development spending in the UK as the 2016 spending was inflated by concluding development activities in the Scolty & Crathes field . CEE continued to be the biggest user of CAPEX spending with HUF 57bn, nearly two-third of the total mostly driven by production optimisation initiatives. UK saw CAPEX declining to HUF 25bn in 2017, while other regions had small investments in 2017.

Changes in the Upstream regulatory environment

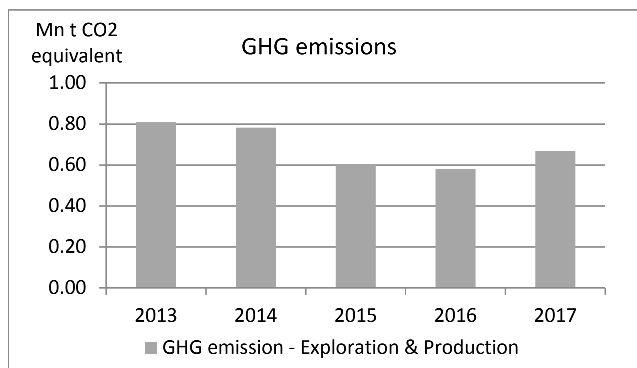
Croatia: As of 1 April 2017 there is no regulatory price applied for upstream activities.

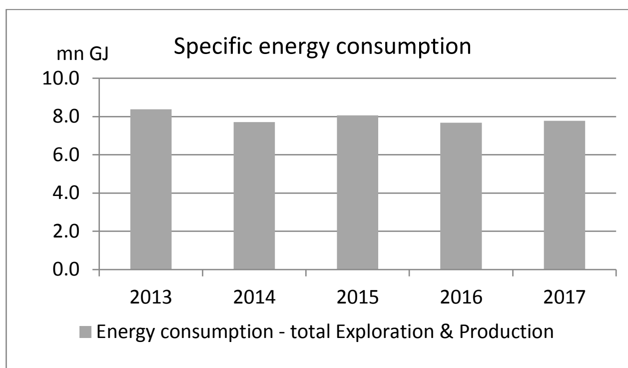
Norway: The corporate income tax rate was reduced to 23% (from 24%) with a corresponding increase of the special petroleum tax (ST) rate to 55%. The uplift (an investment-based additional depreciation for ST purposes only) reduces from 5.4% to 5.3%. The new regulation is effective from 1 January 2018.

Russia: Changes in the Mineral Extraction Tax (MET) calculation were introduced at the end of 2016, having direct implications on royalty payments both in 2017 and in following years. According to the new regulations, the MET was raised by 306 RUB/t for 2017, 357 RUB/t for 2018, 428 RUB/t for 2019. Furthermore, in 2017 the parliament approved that the oil MET for 2020 will increase by 428 RUB/t. The increases were put in place in order to compensate the deficit of the state budget.

3.3.5 Upstream sustainability highlights 2017

Climate change





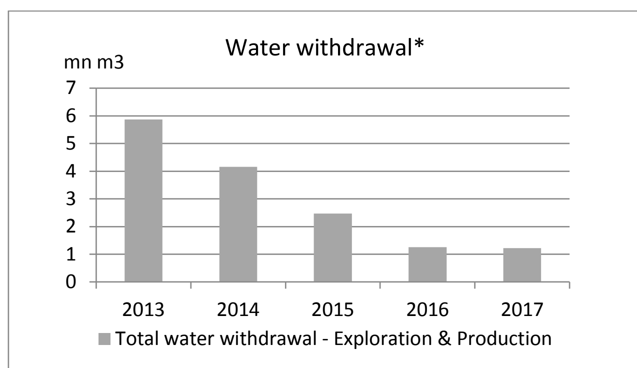
Strategic goal:

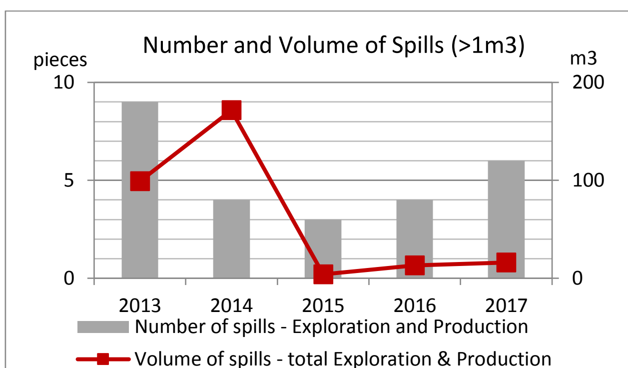
Contribute to the overall GHG emission reduction targets of MOL Group.

Performance:

The GHG emissions have increased in 2017 as compared with 2016 due to several reasons: increase production in Croatia in one of the field, more drilling activities in Pakistan and a change in the calculation model at the Russian operations. Energy consumption remained stable.

Water and spills





*Excluding produced water

Strategic goal:

By 2020 reduce the number of spills by 30% compared to 2015 level.

Performance:

Water withdrawal has remained at a stable level as compared with 2016. The number and volume of spill is still on ascending trend, due to the aging infrastructure in CEE countries.

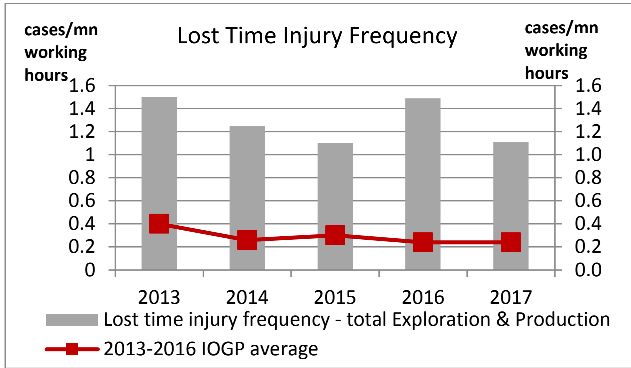
Reserves and R&D

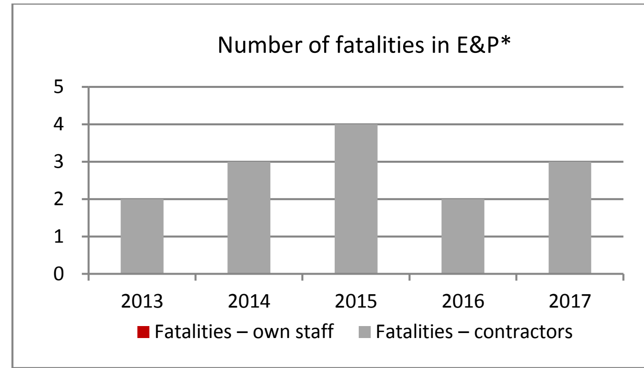
	2012	2013	2014	2015	2016	2017
Reserve Life Index (years) (SPE 2P)	15	15	16	14	12	9
R&D Expenditures (HUF mn)	730	486	286	1,164	1,627	1,500

Comment:

Reserve Life saw a considerable decrease y-o-y caused by a stable level of production of around 40 million barrels for 2017, combined with reserves reconciliation in Kazakhstan, as well as reserves in Syria being re-classified into contingent resources.

Safety





*Excluding third party fatalities

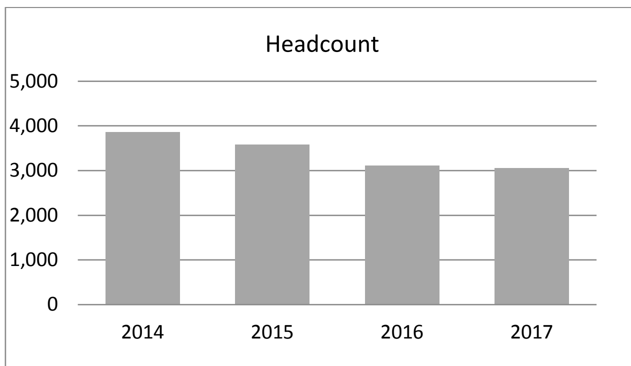
Strategic goal:

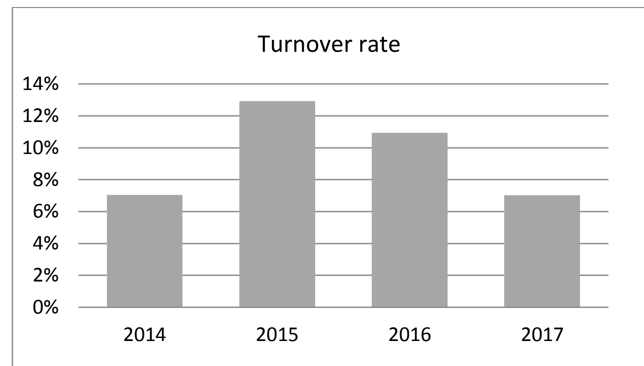
Implement programs aiming for zero incidents.

Performance:

In 2017, despite a 10% decrease in working hours, the number of lost time injuries by own staff decreased by a third, resulting in 25% improvement in the Lost time injury frequency (LTIF).During 2017 MOL suffered 3 contractor fatalities. 2 occurred in Baitex (Russia) as a result of violation of Life Saving Rules during maintenance activities. One fatality occurred in Pakistan, which was linked to HAZMAT (Hazardous material) transportation. Multiple HSE awareness sessions and meetings were conducted with local contractors throughout the year to enhance capacity building.

Human capital





Strategic goal:

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

Performance:

Headcount continued to remain stable after previous year's decline following the implementation of efficiency measures. Furthermore, the turnover rate continued to decline for a second consecutive year running, a highly positive development as increasing employee engagement and career ladder programs have helped increased retention of staff despite an increasing competition for talent.

Communities

	2012	2013	2014	2015	2016	2017
Community investments in international E&P* (HUF mn) (Total MOL Group without INA Group)	191	354	205	601	279	231

* Covering social spending in 2017 in the following operations: Kurdistan, Pakistan.

Comment:

Community investments continued its decline driven by the continued optimization of budgets and constant revision of actions.

3.4 DOWNSTREAM

3.4.1 Overview of 2017

2017 Highlights

- In 2017 Downstream generated HUF 324bn (USD 1.18bn) Clean CCS EBITDA, slightly above last year's performance, primary due to the exceptionally strong refining macro (the complex margin averaged at USD 7.1 USD/bbl). Organic CAPEX spending came in at USD 478mn as a result the Downstream business delivered a cash-pile of USD 700mn representing 50% of the total group cash-flow.
- Next Downstream Program, the three-year efficiency program was completed and delivered USD 440mn improvement in the 2015-2017 time horizon.
    - Efficiency actions were executed according to our expectations in the amount of USD 350mn.
    - The fulfillment of Strategic Projects was somewhat lagging behind initial targets.
- In November 2017 DS2022, a five-year transformational program has been announced, which is the first milestone of the long-term "MOL Group 2030 Enter Tomorrow" strategy.
- Significant milestones were achieved in the Polyol project: key contracts of technology licenses were signed with Evonik and thyssenkrupp during 2017. Additionally the European Commission endorsed a EUR 131mn regional investment aid for the project that is to be built adjacent to MOL Petrochemical's existing facilities in Tiszaújváros.
- Development of organizational culture started in 2017 as part of the Culture2030 Program Roadmap.

Outlook

- DS2022 represents a major milestone towards achieving MOL's 2030 Strategy. The program aims at enhancing the cash-flow generation ability of the business ('Cash Engine') and supports the gradual "fuel to chemicals transformation" ('Rise of Chemicals'). DS2022 is aiming to transform not only our business but also the culture and the way we operate to become the best choice of customers, employees and investors.
- The DS2022 Program aims to add a total of USD 500mn to Downstream EBITDA by 2022, the program rests on three pillars:
    - "Efficiency gains" mainly intend to improve asset availability and market position improvement with a USD 180mn EBITDA increment target.
    - "Strategic projects": USD 180mn EBITDA is expected to be added from large capex projects.
    - "Growth": the polyol project shall deliver a further USD 140mn EBITDA gain.
- In DS2022 soft and enabler actions are as important as the ones that bring a measurable financial benefit.

QUOTES

"One year ago, we formulated our vision how we imagine the future in 2030, and we created an answer for the challenge in the form of the Enter Tomorrow Strategy. With DS2022 Program we make the first big step toward our Strategy. The successful delivery of New and Next DS Programs provide us a strong basis and credit, however DS2022 is not just another efficiency program. While New and NxDSPs targeted mainly a more efficient and extended operation of our Core activity, DS2022 is a transformational program: both the large investments and the enabler actions (incl. Cultural Development and how to value People) target a new operation of our activities. I firmly believe that all the DS2022 goals are equally important and transforming us into a company, where we are the leaders in employee's engagement, customer satisfaction as well as operational and financial performance." **(Ferenc Horváth – Executive Vice President, Downstream)**

"We are continuously developing safety culture and HSE leadership engagement, and improving our process safety status. Long-term forecasts for transportation fuels market in Europe show decline and therefore efficiency is prerequisite for being competitive. On top of our costs, main contribution for our competitiveness and high net cash margin will come from developments of our yield structure and flexibility. We put significant efforts and support to decision making process on our strategic growth directions to go deeper to propylene value chain - namely polyols. For this purpose we have as well reshaped our organization and to further strengthen and develop technical capabilities in Downstream we have launched career ladder programs for both engineers and front line employees." **(Miika Eerola – Group Downstream Production SVP)**

"In 2017 we reorganized ourselves and created the Downstream Commerce & Optimisation organization. We have set up a new operating model where three business units: Fuel, Petrochemicals and Special Products and three service units: Asset, Supply & Trading and Business and subsidiary support were established. Together, our role is to connect customers with DS capabilities in order to maximize MOL Group-level margin. As customer oriented organisation we know that they are the most important people for us therefore we focus to continuously meet and fulfil their needs." **(Zsolt Pethő – Group Downstream Commerce & Optimization SVP)**

„The Logistics team focused on meeting customer expectations, reducing costs and strengthening HSE performance, while embracing various new technologies to further enhance visibility of products and assets across the Downstream region. Logistics provided the critical link between Production, Sales, Supply, Trading and Retail." (**Howard Lamb – Group Logistics VP)**

Competitive advantage

MOL Group's Downstream operates 6 production units, 4 refineries and 2 petrochemical sites, and an extended regional logistics and wholesales network as an integrated value chain. This value chain turns crude oil into a range of refined products, which are moved and marketed for household, industrial and transport use. In addition, MOL produces and sells petrochemicals worldwide and holds a leading position in the petrochemical sector in the Central Eastern Europe region.

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

3.4.2 Downstream map

3.4.3 Key achievements

Closing of Next Downstream Program

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

For the Core DS and Retail altogether an ambitious USD 500mn EBITDA improvement target was set in the program on the three year time horizon. Benefits were mostly expected from extended margin capture building on two main pillars of program:

- Asset and Market Efficiency Improvements
- Strategic Growth Projects

In 2017 the Next Downstream Program added around USD 100mn to the Group result above the USD 340mn already delivered in the initial two years. The NxDSP delivered USD 440mn improvement from internal actions to

Group Downstream (together with Retail) over the full lifetime of the program. More than 300 efficiency actions contributed to the successful delivery of the original USD 350mn target, while benefits of strategic projects somewhat lagged behind, mainly because reaching smooth operation in the new LDPE4 unit in Slovakia lasted longer than anticipated. Delivered internal benefit of the program was partially offset by lower inland premium versus 2014 due to higher import pressure and higher operating expenses.

Production

Crude oil processing reached 15,6 Mtons in 2017 same level as in 2016. In line with strategic targets the seaborne, alternative crude processing ratio increased significantly, primarily in the Danube Refinery, where it reached 25% of import crude, 1,5 Mtons level.

Successful turnarounds were executed in Danube and Bratislava refineries, together with several technology improvement and revamp projects. Preparation of transformational projects of DS2022 proceeded according to the plans.

In order to successfully answer challenges of the labor market as part of a comprehensive strategy 'Pay for competence' and 'Technical Career Ladder' programs we initiated in the Group.

Commerce & Optimization

Total refined and petrochemical product sales reached 19.5 Mtons level in 2017, 2% above the base period.

In May 2017, building on a strong expert and management base, as well as by responding to market trends, Commerce & Optimization organization has been established with a new operating model and focus on customers need along three business lines: Fuel, Petrochemicals and Special Product.

After the ramp-up of the new Butadiene Unit of the Group MOL successfully entered and built its strong presence on the butadiene market in 2017.

Fuel and Petrochemical segments strategies were updated and expanded in line with MOL2030 "Enter Tomorrow" Program.

Logistics

Volumes handled increased by more than 5% to over 22 Mtons, while overall transportation unit cost dropped by more than 2%.

Visibility of our products throughout the downstream region and of our assets in transit are areas of increased focus for improved optimization and efficiency, for which significant investments have been made in IT technology with roll-outs already implemented or underway in 2018.

Investment in our people continues to be a key focus area, with successful launch of a technical career ladder and a blue collar career ladder in our key markets.

DS2022 transforms Downstream towards 2030 vision

MOL Group has launched its new Downstream program, DS2022, a major milestone in the implementation of the MOL 2030 strategy. The program is based on the following pillars: strategic transformational projects; efficiency initiatives; increasing customer satisfaction, safety and employee engagement in order to become the best choice of employees, customers and investors in line with the vision of MOL Group 2030 strategy. The program once again aims to deliver USD 500mn EBITDA improvement similarly to its predecessors the New Downstream Program (2012-2014) and the Next Downstream Program (2015-2017).

DS2022 is not just another efficiency program, it is rather the first milestone on the way towards the 2030 transformation. Both large investments and smaller enabler actions target a new operation of business activities.

During the development of the DS2022 program, nearly 450 mid- and long-term actions were designed by hundreds of Downstream colleagues, deployed in 20 subprograms by field of action. Each subprogram targets specific areas of improvement and contribute to the 7 'Lighhouse targets'. The 7 'Lighthouse' are all integral part of the Program encompassing Financial, Customer, People, HSE and Strategic Roadmap related targets.

With a USD 2.1 bn investment the program targets USD 500mn incremental EBITDA. The DS2022 program includes 12 large CAPEX projects such as the construction of a Delayed Coker unit in the Rijeka Refinery, the revamp of the Danube refinery's Fluid Catalytic Cracker and the refurbishment of the Hydrocracker in the Bratislava refinery), which will deliver nearly 65% of targeted EBITDA improvements and consumes nearly 85% of CAPEX.

With the DS2022 transformation program Downstream is expected to deliver above USD 1.5bn EBITDA even in mid-cycle environment, which shows the robust growth potential of the division. However, DS2022 is not only about financials, soft and enabler actions are as important as the ones that bring a measurable financial benefit.

Main targets – 7 Lighthouses

1. Employee engagement best in the region: Culture development, capability development and employee experience are in the focus.

2. Increase customer satisfaction to 95%: We are proactively listening to customers' needs and feedback and then acting accordingly in order to be their first choice.

3. 1st quartile safety: HSE is a top priority for us and we aim to be the leading HSE performer among our peers.

4. Polyol project (USD 140mn): Polyol is the biggest downstream project in the history of MOL Group, through which we widen our chemical product portfolio entering into a growing market and deliver substantial financial benefit.

5. Efficiency and strategic projects / development (USD 360mn): Through 11 transformational projects and more than hundred efficiency actions we deliver further benefit from our existing high performing assets and in the meantime adjusting our Cash engine to strategic challenges

6. USD 1.5bn+ DS EBITDA: Delivering DS2022 will increase the EBITDA to minimum USD 1.5 bn, which shows the robust growth potential of the division even in a normalizing external environment.

7. Roadmap 2030: DS2022 is not only about actions till 2022. A detailed strategic, technological and commercial roadmap will be worked out to prepare for the next investment cycle to reach 2030 strategic goals.

Chemical transformation: POLYOL investment

2017 Highlights

With a USD 1bn investment by 2021 MOL Group is aiming to establish a new polyol product line, which will move the Company further along the Downstream value chain towards semi-commodity and specialty chemicals products. MOL intends to produce polyols from own produced propylene and enjoy the benefits of forward integration. By completing the project MOL will be able to access the attractive regional polyol market, which faces a regional product shortage. Additionally well-established customer relationship channels in petrochemicals would further support the profitability of the project.

In July 2017, MOL has secured the main licenses and process design packages for the HPPO (hydrogen peroxide to propylene oxide) technology of propylene oxide production. The licensor of the hydrogen-peroxide unit for captive use is Evonik IP GmbH, while a consortium formed by Evonik and tyssenkrupp Industrial Solutions licenses the propylene oxide unit. Propylene oxide production is a key technology for producing polyether polyols.

In October 2017, MOL has signed another contract pertaining to the Polyol Project with tyssenkrupp Industrial Solutions (Thailand) Ltd covering the technological steps following the propylene-oxide production. This contract concerns the purchase of technology licenses, process design packages and front-end engineering design of the production units that convert propylene-oxide into polyether polyols and propylene glycols.

In the same month, the European Commission has authorized EUR 131mn of regional investment aid, which the Hungarian authorities intended to grant to MOL for the construction of the Polyol complex in Tiszaújváros. The investment aid would take the form of a corporate tax allowance – to be utilized following the commissioning of the new plant – and to a smaller extent a direct cash grant of EUR 37.7mn (HUF 11.7bn). The cash grant would be provided by the Hungarian Investment Promotion Agency (HIPA), based on the decision of the Ministry of Foreign Affairs and Trade.

A dedicated Petrochemical Strategic Project organization was established in 2017, which is in charge of the implementation through the whole lifecycle of the projects. Additionally MOL Group has selected Fluor as Project Management Consultant (PMC) for the front end engineering design and engineering, procurement and construction phases.

Outlook

The front end engineering design of the hydrogen-peroxide, propylene oxide, polyether polyol and propylene glycols units, along with that of the related offsite and utility facilities is expected to be finalized in Q2 2018.

Simultaneously, MOL is negotiating the EPC (detailed engineering, procurement and construction) contracts for the Project's implementation phase (final investment decision) which may start after the closure of FEED.

3.4.4 Operating review of 2017

Segment IFRS results (HUF bn)	FY 2017	FY 2016 Restated	Ch %
EBITDA	326.5	348.0	(6)
EBITDA excl. spec. items(1)	**331.2**	**348.0**	**(5)**
Clean CCS-based EBITDA(1) (2)	**324.3**	**323.5**	**0**
o/w Petrochemicals(1) (2)	126.8	144.3	(12)
Operating profit/(loss) reported	226.8	247.6	(8)
Operating profit/(loss) excl. spec. items(1)	**231.6**	**252.0**	**(8)**
Clean CCS-based operating profit/(loss)(1) (2)	**224.7**	**227.5**	**(1)**
CAPEX	**128.9**	**110.3**	**17**
o/w organic	128.9	110.3	17
MOL Group Without INA			
EBITDA excl. spec. items(1)	318.7	343.8	(7)
Clean CCS-based EBITDA(1) (2)	**319.3**	**328.3**	**(3)**
o/w Petrochemicals clean CCS-based EBITDA(1) (2)	126.8	144.3	(12)
Operating profit/(loss) excl. spec. items(1)	236.3	264.3	(11)
Clean CCS-based operating profit/(loss)(1) (2)	**236.9**	**248.8**	**(5)**
INA Group			
EBITDA excl. spec. items(1)	12.5	4.2	197
Clean CCS-based EBITDA(1) (2)	**5.0**	**(4.8)**	**n.a.**
Operating profit/(loss) excl. spec. items(1)	(4.7)	(12.3)	(61)
Clean CCS-based operating profit/(loss)(1) (2)	**(12.2)**	**(21.3)**	**(43)**

Refinery margin	FY 2017	FY 2016	Ch %
Total MOL Group refinery margin (USD/bbl)	**6.5**	**5.7**	**14**
Complex refinery margin (MOL+Slovnaft) (USD/bbl)	7.1	6.3	13
NEW MOL Group petrochemicals margin (EUR/t) (9)	504	543	(7)

External refined product and petrochemical sales by country (kt)	FY 2017	FY 2016	Ch %
Hungary	4,660	4,532	3
Slovakia	1,756	1,809	(3)
Croatia	1,956	1,923	2
Italy	1,928	1,931	0
Other markets	9,153	8,861	3
Total	**19,453**	**19,056**	**2**

External refined and petrochemical product sales by product (kt)[3]	FY 2017	FY 2016	Ch %
Total refined products	**18,040**	**17,811**	**1**
o/w Motor gasoline	3,820	3,816	0
o/w Diesel	10,044	9,724	3
o/w Fuel oil	581	509	14
o/w Bitumen	468	541	(13)
Total petrochemicals products	**1,413**	**1,245**	**13**
o/w Olefin products	210	190	11
o/w Polymer products	1,122	1,001	12
o/w Butadiene products	81	54	50
Total refined and petrochemicals products	**19,453**	**19,056**	**2**

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

[3] Retail segment sales are shown in chapter 3.5.4. ("Consumer services operating review").

Annual performance

MOL Group Downstream results were similarly strong in 2017 as was the case a year before. The clean CCS EBITDA contribution increased marginally to HUF 324bn. R&M contributed slightly above 60% of the total clean CCS EBITDA, while Petrochemicals made up the rest. The external Downstream environment remained supportive, both the refining and petrochemicals margins averaged well above mid-cycle levels so the business continued to generate excess simplified cash-flows of HUF 195bn. The results came on the back of:

(+) Exceptionally strong refining macro (complex refinery margin at 7.1 USD/bbl from 6.3 USD/bbl) with the highest annual average margin over the past years;

(-) Normalizing petrochemical margins, a decrease of 40 EUR/t to 504 EUR/t.

(-) Rising operating expenses mainly affected by higher energy costs in line with rising oil prices, an increasing maintenance bill and higher personal costs on the back of the regional wage pressure.

Regional demand / Market trends and sales analysis

Demand evolution in the CEE countries was heavily influenced by strong underlying economic performance as well as the continuation of relatively low end-user prices. Substantial increases in demand was recorded in both Slovakia and Hungary with growth rates reaching 4% and 3% respectively, while Croatian demand levelled out compared to the base year.

Change in regional motor fuel demand	Market*			MOL Group sales		
FY 2017 vs. FY 2016 in %	Gasoline	Diesel	Motor fuels	Gasoline	Diesel	Motor fuels
Hungary	4	3	4	5	3	3
Slovakia	1	4	3	(3)	1	0
Croatia[4]	(4)	2	0	(2)	2	1
Other	2	9	7	(19)	4	(2)
CEE 10 countries	2	8	7	(8)	3	0

**Source: Company estimates*

CAPEX

CAPEX by type (in HUF bn)	FY 2017	FY 2016 Restated	Ch %
Total	128.9	110.3	17
Strategic projects	15.0	3.3	353
Normalized CAPEX	113.9	107.0	6

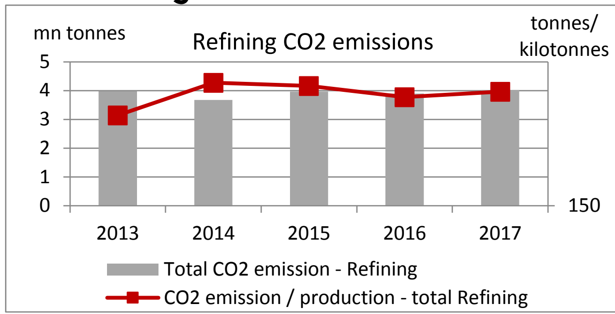
CAPEX (in bn HUF)	FY 2017	FY 2016 Restated	YoY Ch %	Main projects in FY 2017
R&M CAPEX and investments	98.8	77.5	27	MOL: Turnaround, Catalyst, Inline Blending, Compliance with future air pollution regulation and Hydrogen Plant efficiency improvement SN: Turnaround, Catalyst and Desalter replacement projects INA (Rijeka): Preparations for Delayed Coker project, Revitalization of WWTP and Port Bakar modernization
Petrochemicals CAPEX	28.4	30.3	(6)	MOL: Polyol, Steam Cracker and Waste water projects SN: Ethylene Storage Tank, Steam Cracker reconstruction and LDPE4
Power and other	1.7	2.5	(32)	
Total	128.9	110.3	17	

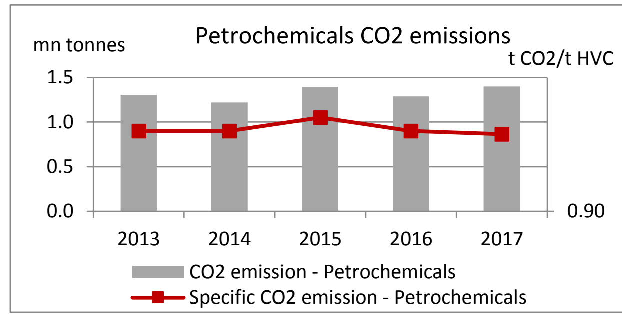
Downstream investments grew by 17% versus the 2016 base. The increase was entirely driven by growing refining and marketing capital expenditures and was mainly attributable to more maintenance related activity and the preparations for the Delayed Coker project in INA's Rijeka refinery. In 2017 polyol project related investments were recorded as the engineering activities commenced.

[4] Regional diesel and gasoline figures do not reflect full year in the case of Croatia; because of data availability the average of January-November YoY figure is presented.

3.4.5 Downstream sustainability highlights 2017

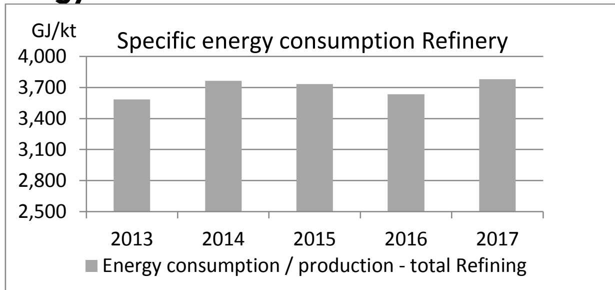
Climate change

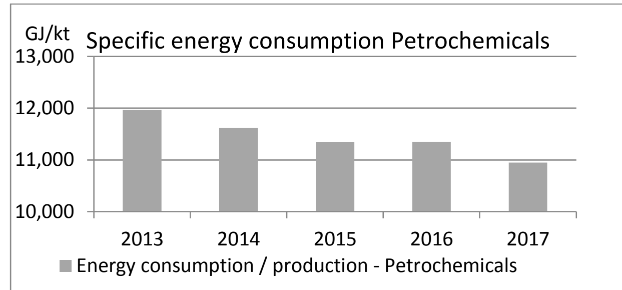




Strategic goal:
By 2020 decrease direct and indirect GHG emissions by 200 thousand tonnes of CO_2 equivalent through energy efficiency initiatives.
Performance:
Rijeka Refinery energy efficiency gains were not able to offset the increasing usage of fuel gas in Sisak and the fact that this unit operates in an on/off mode. Increasing CO_2 likewise occurred due to increasing production in Hungarian petrochemicals operations.

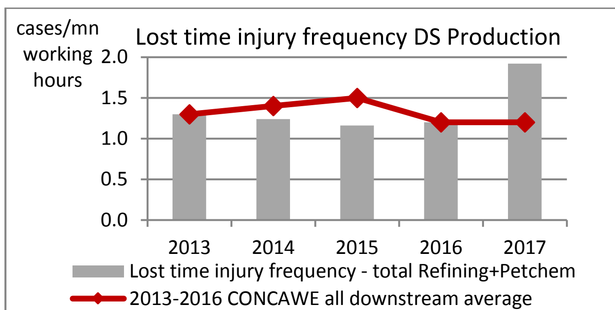
Energy

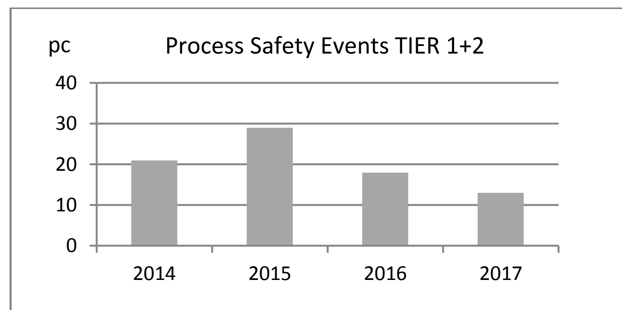




Strategic goal:
Decrease downstream production energy consumption by min. 5%.
Performance:
Energy consumption per kt continued to decline in petrochemicals, as the growth in processed materials for both sites exceeded energy consumption. The increase in energy consumption per kt at the refineries was mainly driven by a combination of increasing energy usage at the Danube refinery combined with stable production, as well as from both Croatian refineries where the growth in energy consumption exceeded the growth in processed materials, especially Sisak.

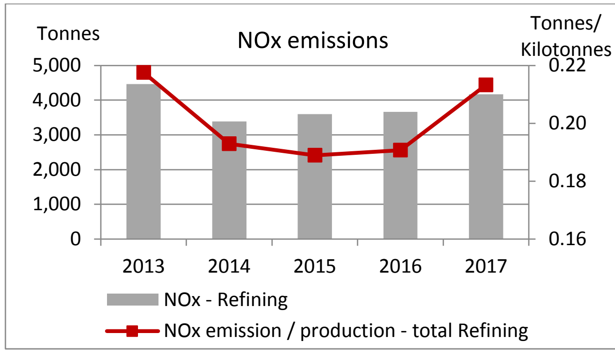
Safety

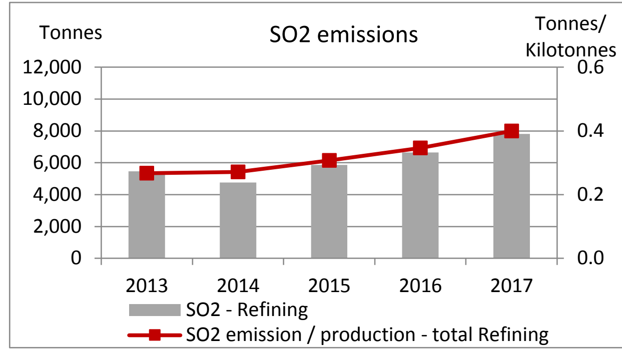




Strategic goal:
Zero lost-time injury frequency (LTIF) for both MOL employees and contractors by 2020.
Performance:
2017 saw a decrease in TIER1-2 Process safety events (PSEs) in line with previous years, whilst LTIF recorded a significant increase driven by own staff lost time injury numbers in 2017 compared to last year's (14 vs. 9), as worked hours decreased by 3 percent.

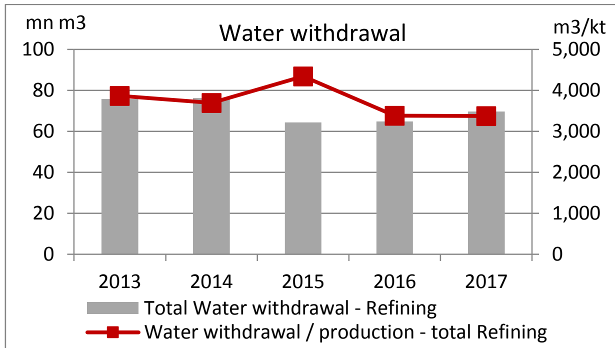
Air emissions

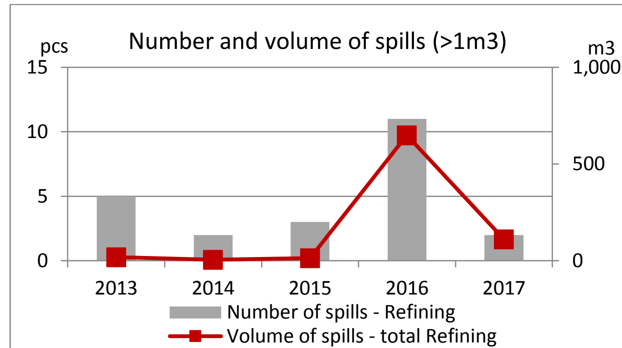




Strategic goal:
By 2020 decrease NOX & SO2 emissions by 15%.
Performance:
NOx and SO2 emissions increased for the third consecutive year in 2017. The main factor behind the increase was the acquisition of CMEPS (power plant supplying the Slovnaft refinery). Other contributing reasons were increased flaring due to unplanned shutdowns in the Slovnaft refinery (Slovakia), as well as increased secondary processing combined with different fuel quality in the Sisak refinery (Croatia).

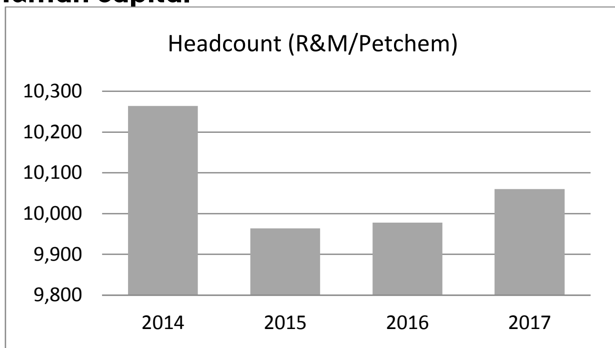
Water and spills

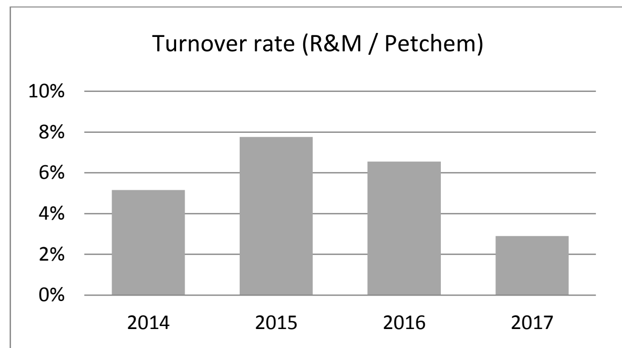




Performance:
2 spills occurred in Slovakia, whilst one spill, although initiating in late 2016, continued into the first weeks of 2017 in Croatia. The increase in water withdrawal was mainly due to a combination of the acquisition of the CEMPS Plant in Slovakia and overall increase in production.

Human capital





Strategic goal:
Increase employee engagement level and Develop Technical Career Ladder in Downstream.
Performance:
Headcount continued to remain stable after previous year's efficiency measures. Furthermore, the turnover rate continued to decline for a second consecutive year running, a highly positive development as increasing employee engagement and career ladder programs have helped increase retention of staff despite an increasingly tight labour market in the region.

3.5 INNOVATIVE BUSINESSES AND SERVICES

3.5.1 Overview of 2017

2017 Highlights

Consumer Services

- 2017 was a strong year overall with all-time high financial performance
- Consumer Services has delivered record high HUF 97 bn (USD 358 mn) consolidated EBITDA
- After the successful integration of networks acquired from ENI in Hungary and in Slovenia, 1,881 strategically located service stations in 9 countries can fulfil the needs of customers on the go from Bucharest to Adria and from Belgrade to Prague
- 447 Fresh Corner stations operated by end of the year
- 41 mn cups of coffee sold at service stations in 2017
- All the proposed mobility initiatives – B2B fleet solutions, B2C car sharing platform and EV-charger deployment – have been launched
- On the basis of own car pool, MOL Fleet Solutions have successfully entered the external fleet management market, by the end of 2017
- By the end of the year, the number of managed cars by MOL Fleet Solution was roughly 1,000

Industrial Services[5]

- More than 25% overhead cost reduction was achieved at oilfield service companies
- Maintenance service companies increased the scope of works they cover at our core businesses, resulting in a more cost efficient and reliable asset operation

Outlook

Consumer Services

- Deliver an average 7% year-on-year EBITDA growth rate over the upcoming years in order to reach the target of USD 450 mn by 2021
- Bring closer to our customers the Fresh Corner coffee concept, by doubling the number of stations where premium coffee will be offered as the best coffee experience to our customers
- Setting up 253 EVCS[6]'s in CEE in cooperation with other partners within the framework of NEXT-E program funded by INEA, EC
- Extend MOL Limo's service area and increase the fleet number year by year
- Enter other markets with MOL Fleet Solution in the neighbouring countries, like Slovakia and Croatia

Industrial Services

- Further optimize operations, utilize synergies between the service companies, invest in our existing asset base and by that improve service level towards internal customers
- Increase business development efforts to expand service portfolio and enter into new markets

[5] Internal corporate governance and external reporting structure of Innovative Businesses and Services are different, thus the financial result of the Industrial Services and new Ventures unit of the Innovative Businesses and Services segment is reported within „Corporate and other" segment.
[6] EVCS – Electric Vehicle Charging Stations

In the MOL Group 2030 Enter Tomorrow Strategy it has been decided that MOL will separate its service type businesses from its core, industrial operations as these two types of segments require different management approaches. Also, MOL declared its intention to manage any new, non-core business initiative that is not closely linked to its existing businesses within the frame of the new organisation. In line with this direction, as of 1st December, 2016, Innovative Businesses and Services (hereinafter IBS) department has been established. The new organisation is founded for those business activities and initiatives which are not directly connected to the traditional oil and gas industries but serve the individual consumers (B2C – Consumer Services) and the industrial customers (B2B – Industrial Services) as well. The long-term vision of IBS is driven by customers and their behaviour and needs. MOL Group would like to become a connected and innovative solution provider building upon its extensive customer and network base. Today's actions and existing key foundations enable it to start understanding its customers as individuals and be able to provide complex tailor-made solutions in line with their rapidly changing habits.

QUOTES:

"In 2017 we have developed the new corporate identity of MOL which aims to get closer to the customer and to focus on providing internal and external services. The last year's activities were characterized by building up the fundamentals to reach our long-term strategic targets and to be a successful profit centre. The benefits of these steps are expected to be visible even in 2018. Our long-term goal is to be the engine of the rapidly developing new world and to play an active role in the business environment on the basis of service orientation." **(dr. Oszkár Világi – Group Innovative Businesses and Services EVP)**

„In 2017 we increased our EBITDA by double digits as both our fuel and non-fuel earnings continued to grow. As a result of the further rollout of "Fresh Corners" the growth of non-fuel margin continued to outpace fuel margin growth. We also made decisive steps in the implementation of our ground-breaking and innovative strategy to drive the revolution of transportation in CEE. As the first building blocks of our mobility services, we have launched our fleet management subsidiary and have started to ramp up our alternative fuel presence and have introduced our new car sharing service, MOL LIMO. In 2018 we will maintain strong financial delivery with further scrutiny on costs, while at the same time we will continue on our transformational journey to become a leading 360° service provider by gearing up our digital capabilities." **(Péter Ratatics – Group Consumer Services EVP)**

"By the formation of the new Group Industrial Services organization our aim is to improve quality level and to provide competitive services towards internal customers. Besides that we are already on our way, starting with oilfield services, to generate EBITDA from external markets. We are determined to continuously improve and simplify our internal processes. " **(Imrich Tomasek – Group Industrial Services VP)**

3.5.2 Consumer services map

3.5.3 Consumer services key achievements

Consumer services

In 2017 Consumer Services delivered all financial targets in line or above the expectations, meaning a +17% EBITDA (USD 358 mn) increase compared to last year's performance (USD 307 mn). The segment consists of two main business lines: "Retail" includes both fuel and non-fuel retailing, while "Mobility" is comprised of all otherservices provided for people "on-the-go".

Retail

Retail completed more than 400 reconstruction projects, including the installation of the new non-fuel concept, Fresh Corner at the stations. In 2017 the main focus was on rebranding and successful integration of the newly acquired ex-ENI stations in Hungary (100) and Slovenia (11) as well as on the implementation of COCA (Company Owned – Commission Agent) operating model in the Slovakian network. MOL Group maintained a leading position on the Hungarian, Croatian and Slovakian markets, became second largest market player on the Romanian and Czech markets, and third largest market player on the Slovenian market. Productivity Excellence project has been kicked-off across the group with the aim to identify improvement possibilities in our daily working efficiency, first results are expected to come in 2018.

One of our most important values is putting our people first, therefore we are continuously working on the organisation capability. Last year we have built up competencies in terms of innovation, negotiation and category management, and filled some strategically important positions within Retail. On service station level we started

this journey a few years ago when we started to think about how we can move from the attendant behaviour to a more genuine and host behaviour. Our unique SMILE program is not only a project or a training programme, but an entire movement, it is a driver of our cultural transformation. During 2017 altogether almost 400 Area and Service Station Managers, more than 2,000 Hosts and over 100 Management colleagues took part in the SMILE training across the group.

By the end of 2017 MOL Group completed close to 450 Fresh Corner service stations across the region with zero lost time injuries. Retail has moved to industry tier one in terms of consumer acceptance and becoming the number one brand in our region, while reaching the highest net promoter score ever in Hungary. We managed to increase our active customer base by 15% YoY by optimized loyalty strategy which is based on life cycle management and digitalization. In Slovakia we have opened Pristavna, our first future service station with the latest innovations in digital consumer friendly solutions and fresh food offers. In Hungary we have opened our first pilot drive-through station on Szentendre Street 100, offering a various number of coffee and food for our customers "on the drive".

MOL Group has always been striving for to offer fuels of outstanding quality to its customers, thus from June 2017, we came out with an upgraded offering at our service stations. As of now, main grade and premium fuels are called MOL EVO / INA Class and our renewed fuel range is proved to clean the engine and thanks to the special additives, they remove existing deposits, prevent deposit formation and provide protection against corrosion. Our new generation of MOL EVO and INA Class products are going to outperform the European standard quality expectations of their categories, with outstanding results in the area of engine cleaning.

We believe that we drive the change that shapes our future, therefore in Group Retail we aim to make sure that we are always relevant in all aspects of our business. Within store format development projects we are focusing on connecting the location based consumer potential with right offers and services. As an important milestone Retail digital strategy and roadmap has been aligned and agreed. Over the next years, we will put a great amount of effort to deliver this roadmap and achieve the three goals that we set out: personalize interactions with our customers via leveraging data and artificial intelligence, enhance convenience via introducing digital channels and improve internal operations via increased and real-time access to relevant transaction and customer information.

MOL Group's new long-term strategy sees Retail aiming to become the customer's first choice in fuel and convenience retailing and being a power brand in our core markets. In 2018 we are continuing to deliver our business plan and especially focus on the non-fuel categories relevant strategic directions, while shaping further our group wide operation under the newly established organisational setup within Retail. We expect to deliver an average 7% YoY EBITDA growth over the years in order to reach Retail 2021 target of USD 450 mn, while non-fuel margin expectedly will outpace fuel in 2018 in terms of growth. Our vision is to invest in new initiatives and store formats, we are continuously evaluating new business concepts out of the service station network. In 2018 we aim to bring closer to our customers our Fresh Corner coffee concept, by doubling the number of stations where our premium coffee concept will be offered as the best coffee experience to our customers.

In terms of SD&HSE we are continuing with the initiative of collecting used cooking oil at our stations, and reached 232 tons of used oil in Hungary during 2017. We have started a Consumer Safety Awareness campaign and address HSE aspects related to car sharing, charging & other new activities at service stations. Additionally as a proud HSE achievement, thanks to the readiness and prevention of our service station employees, our locations were not endangered due to high number of forest fires in Croatia.

Mobility

E-mobility

Group E-Mobility has been established in order to develop and provide the charging infrastructure for Electric Vehicles (EVs or Battery Electric Vehicles - BEVs) in the region. Group E-Mobility will create the possibility of EV owners to freely travel across the countries. MOL Group is aiming to become a market leader on the e-mobility market and to differentiate the company itself in the operation of the electric charging network with state of the art service level. In 2017, the team achieved to deploy several EV charging points in order to serve our internal car sharing solution and cover as much area as we can within Budapest.

In July 2017, the NEXT-E project was selected by the European Commission for co-financing through the Connecting Europe Facility (CEF). The NEXT-E consortium will be granted 18.84 mn EUR to implement the project, which is the largest CEF grant ever awarded to an EV project. Besides MOL Group, the consortium consists of companies of E.ON Group, HEP in Croatia, PETROL (in Slovenia and Croatia), as well as Nissan and BMW. The project includes installation and operation of more than 250 ultra chargers (at least 150 kW) and fast chargers (50 kW) along main highways. The NEXT-E project is another milestone in the implementation of MOL Group's long-

term strategy, which is built on the premise that fossil fuel will eventually lose its monopolistic dominance in transportation. MOL Group will implement 55 EVCS across the region till the end of 2018.

MOL Fleet Solution

MOL Fleet Solution has been established as part of MOL Group new mobility strategy at the spring of 2017. The main target was to finance and manage vehicles owned and used by MOL Group, and external clients, like multinational or Hungarian companies, and fleets of small-, medium- or big- size businesses. Providing excellent and flexible services, MOL Fleet Solution would like to become a dominant player in the fleet management market.

In 2017, MOL Fleet Solution have successfully entered the external fleet management market and by the end of the year, the number of financed and managed cars by MOL Fleet Solution were roughly 1,000. MOL Fleet Solution have to continue the vehicle fleet building, the target is minimum 2,000 financed and managed cars and the ratio of the external fleet should be over 25%. The main target is to increase the number of electric cars, to be the number one electric car fleet owner and to enter other markets in the neighbouring countries, like in Slovakia and Croatia.

MOL LIMO

Based on the 2030 strategic directions MOL has established a separate legal entity for shared mobility. MOL Limitless Mobility Ltd. is responsible for launching car sharing service in MOL Group countries. In 2017 the preparation for entering the new market segment were completed, including the purchase and equip the fleet for Budapest, which consist of 100 BEV VW eUp! and 200 ICE VW Up! The launch of the service was scheduled for January 2018 in Budapest with a 60 square kilometre service area in a free-floating model.

For 2018 the MOL Limo service will be extended to 80 square kilometres and the fleet number will be increased by 100 vehicle reaching a total number of 400. The main goals for 2018 are to capture a significant market share and to become the market leader. Preparation for international expansions will also begin in 2018. Midterm plans include the launch of the service in all the capitals and some major cities in CEE and the expansion of the service in Budapest to 600 only BEV cars and enlarging the service are to 150 square kilometres. In the first month of operation the 2018 target registration number has been already reached and on the daily level more than 1,000 individual customers are already using the MOL Limo service.

3.5.4 Consumer services operating review of 2017

Consumer Services IFRS results (HUF bn)	FY 2017	FY 2016	Ch %
EBITDA	97.3	86.3	13
EBITDA excl. spec. items[1]	**97.3**	**86.3**	**13**
Operating profit/(loss) reported	72.1	53.0	36
Operating profit/(loss) excl. spec. items[1]	**72.1**	**58.9**	**22**
CAPEX	**39.7**	**61.8**	**(36)**
o/w organic	39.7	31.1	28

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

Annual performance

2017 Consumer Services EBITDA jumped by 13% and reached HUF 97bn in 2017 representing the best ever performance of the segment. The increase was mainly driven by a combination of strong sales growth on the back of increasing CEE fuel consumption and continued fuel margin expansion. Earnings growth was additionally supported by the continued growth of non-fuel as the roll-out of the Fresh Corner concept accelerated also driving the 28% uplift in organic capital expenditures. The increases of the statutory minimum wage in Hungary and Romania on the other hand had a downward effect on earnings for the year, as a result higher salaries affected the performance of around a third of the network.

Retail sales

Total retail sales (kt)	FY 2017	FY 2016	Ch %
Hungary	1,199	1,059	13
Croatia	1,068	1,060	1
Slovakia	664	617	8
Romania	717	662	8
Czech Republic	484	468	3
Other(8)	367	380	(3)
Total retail sales	4,499	4,246	6

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

Retail sales continued to rise at 6% as CEE fuel consumption continued its ascent. Like-for-like[7] sales in the 2017 were up by 4% against last year.

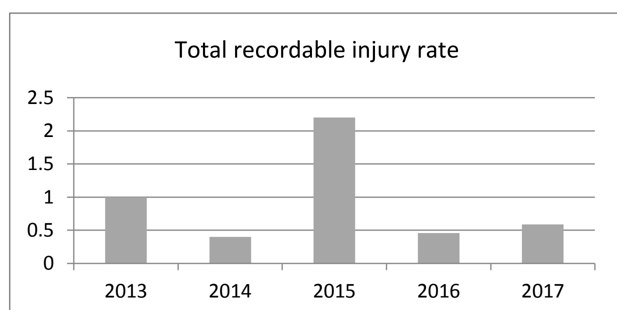
Non-fuel

Non-fuel indicators	FY 2017	FY 2016
Non-fuel margin	24.6%	23.6%
Number of Fresh corner sites	447	248

The implementation of the non-fuel concept accelerated, almost 200 Fresh corners were added across the network taking the average Fresh Corners number to 447. Consequently the non-fuel margin continued to increase at a higher pace than fuel margin, leading to a one percentage point increase within the total margin compared to last year.

3.5.5 Consumer services sustainability highlights 2017

Safety



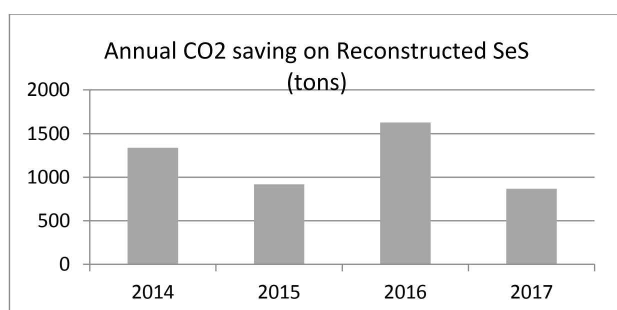
Strategic goal:

Continuous improvement in the TRIR with the ultimate aim of zero accidents.

Performance:

The 2017 Consumer Services target was set at 1.0, and the overall number came in at 0.6 in line with previous years' results. For 2018 MOL targets a TRIR of 0.9 for Consumer Services in line with the strategic goal of continuous improvements.

Climate change

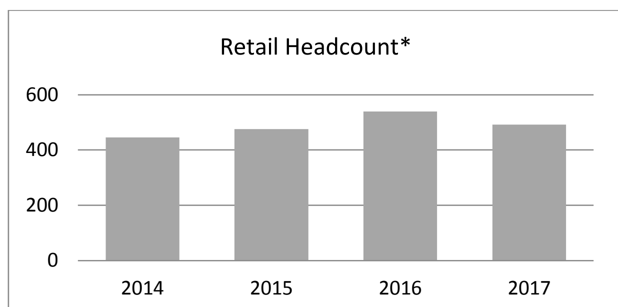


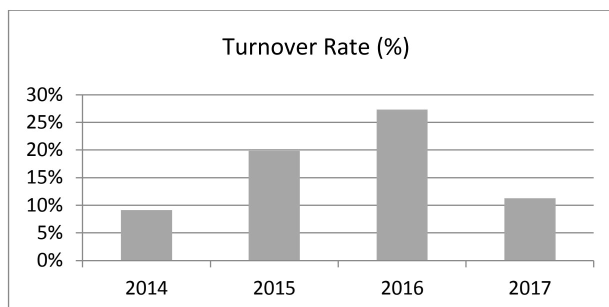
Performance:

In 2017 MOL achieve a reduction in CO2 emissions of 868 tons mostly driven by the continuous installation of LED lighting technology of reconstructed service stations.

[7] Correcting for the effect of increasing network size.

Human capital





* Headcount data reflects only to retail head offices (white collar). Headcount of SeS workers is approximately 17.000 on group level, of which 4500 are employed under COCO model.

Strategic goal:

In Retail, the focus will be on major competency development to build internal FMCG knowledge supported by different KPIs and target setting reviews.

Performance:

Consumer Services, as well as IBS organization were established during 2017, including the formation of entirely new organizations and businesses, as well as the transformation of traditional ones.

Retail headcount, as part of CS, remained stable on Group Level. The slight increase in terms of Consumer Services is driven by new business areas such as mobility and digital experience. Total HQ retail headcount was reduced following further efficiency measures at HQ level during 2017.Turnover Rate decreased considerably during 2017 following an increasing trend in the period of 2014-16.

3.5.6 Industrial services and Open Innovation HUB

Industrial Services

Industrial Services was established with the aim to provide services for MOL Group internal customers covering oil field services and maintenance services with the clear intention to create value by providing these services to other third party companies as well. The strategic aim of Industrial Services is thus twofold: to further increase the quality and level of services provided to internal customers as well as to utilize our vast knowledge and provide our services to third party customers. Non-HC procurement is also part of Industrial Services as a professional commercial function, fully embedded into the business value chain. During 2017 extensive cost rationalization and operation optimization programs were launched at oilfield service companies, resulting in a more than 25% overhead cost reduction. In the meantime there was a significant increase in third party engagements. As a result of these efforts, oilfield service companies managed to turn their negative EBITDA into positive, exceeding initial expectations.
Maintenance service companies increased the scope of works they cover at our core businesses, resulting in a more cost efficient and reliable asset operation.

In 2018 the main focus of Industrial Services will be to further optimize operations, utilize synergies between the service companies, invest in existing asset base and by that improve service level towards internal customers. Business development efforts to expand service portfolio and enter into new markets are to be further increased.

Open Innovation HUB

Our ambitious, transformational MOL Group 2030 Enter Tomorrow Strategy is built on the premise that advancements in technology, coupled with environmental consciousness and new consumer habits are fundamentally changing the entire oil & gas industry. At MOL, we see embracing an open innovation culture as the right response to these challenges, and reaching out to innovation ecosystem is an important step for us. We believe that partnering up with the players of the innovation community such as incubator houses, VC founds, universities and other research institutions as well as startups, SME's and corporates could support our goals that we would like to achieve. The aim of the new Group level organisation is to have one source of market view of highly innovative and most promising solutions and ideas available today and in the near future. By investigating and connecting these solutions with the goals of the business units, supporting units we can reach our aim faster and in a more efficient way.

3.6 GAS MIDSTREAM

3.6.1 Overview of 2017

Highlights

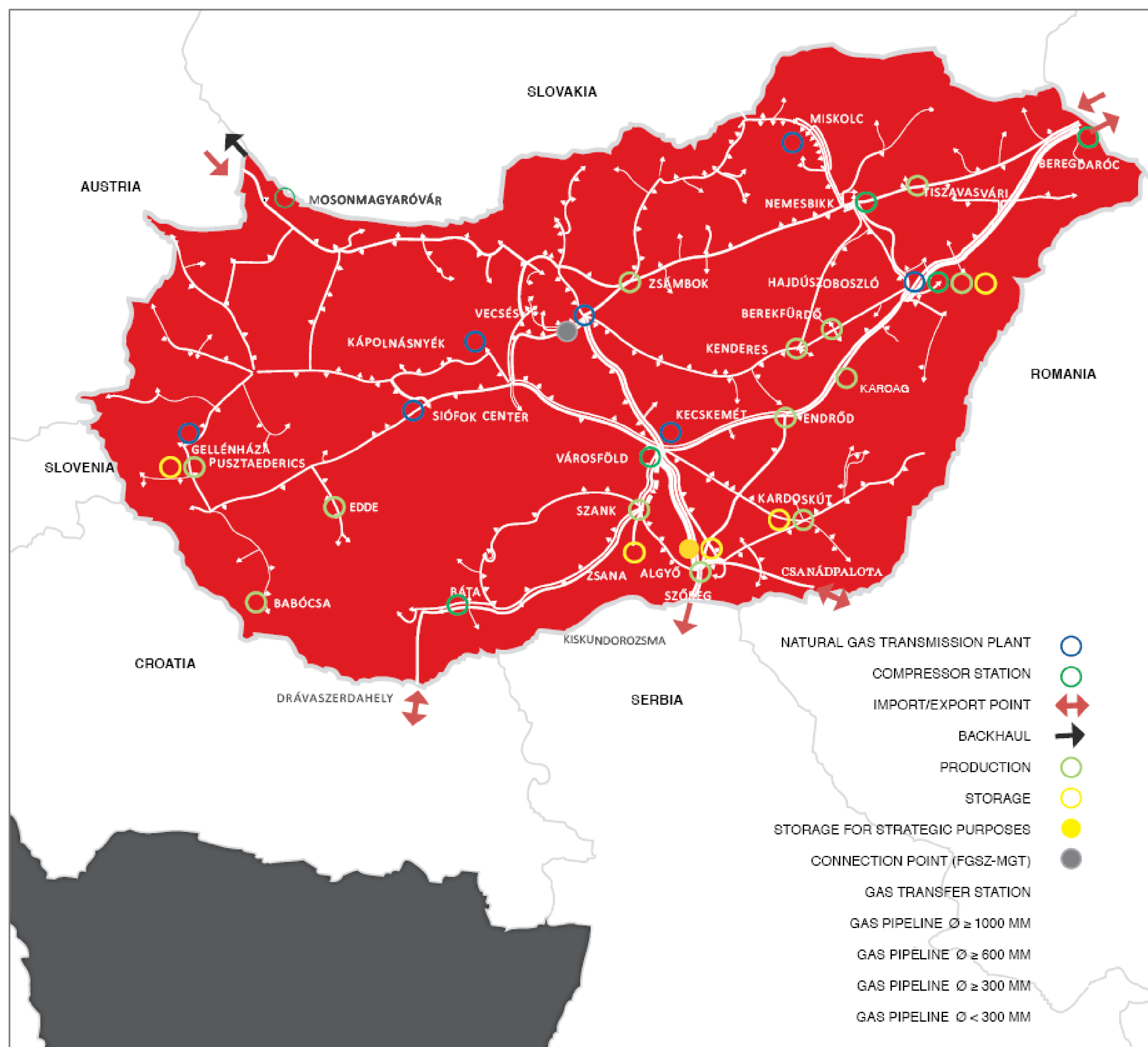
- 5782 km long pipeline system
- 25 entry points, nearly 400 gas exit points
- 3 regional centres with 2-2 plants, 6 compressor stations
- High technical class control centre in Siófok

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

The Regional Booking Platform (RBP) of FGSZ is an IT application developed in accordance with the EU network code governing the capacity allocation mechanisms used in natural gas transmission networks and with other relevant EU and Hungarian legislation[8]. The capacity allocation application enables the conduct of capacity allocation procedures not only at the cross-border and domestic pipeline nodes located on the network of FGSZ, but even at pipeline nodes independent from the cooperating domestic natural gas transmission network. The customer base of RBP is expanding continuously as a result of the previous years' consistent work; today – beyond FGSZ – seven further transmission system operators use it throughout the EU: Eustream (Slovakia), Transgaz (Romania), Plinacro (Croatia), MGT (Hungary), Bulgartransgaz (Bulgaria), DESFA (Greece) and Gas Connect Austria (Austria).

[8] Commission Regulation (EU) No 2017/459 on capacity allocation, Commission Regulation (EU) No 2017/460 on tariff, Regulation (EU EB) 2012/490 (contractual congestion management), Regulation (EU) No 1227/2011 (REMIT), Regulation (EU) No 703/2015 (interoperability), Directive 2000/31/EC (electronic commerce), Regulation (EU) No 910/2014 (eIDAS)

3.6.2 Gas midstream map



3.6.3 Operating review of 2017

Segment IFRS results (HUF bn)	FY 2017	FY 2016	Ch %
EBITDA	61.4	54.5	13
EBITDA excl. spec. items(1)	**61.4**	**54.5**	**13**
Operating profit/(loss) reported	48.2	41.4	16
Operating profit/(loss) reported excl. spec. items(1)	**48.2**	**41.4**	**16**
CAPEX and investments	**4.9**	**7.5**	**(36)**
o/w organic	4.9	7.5	(36)

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

Adverse regulatory changes off-set by higher volumes and focus on cost

Following a cost and asset review procedure regulated tariffs are significantly lower than those applied so far both for capacity and volumetric fees as of January 2017. The tariff adjustment came on the back of a 25% reduction of the regulated asset base.

However colder winter weather conditions, higher level of gas storage activities and export transmission demands had a favourable effect on operating revenues and resulted in significant additional capacity bookings.

Domestic transmission and transmitted volumes to gas storages rose by 22% compared to 2016, while regulated export volumes (to Ukraine and Croatia) increased threefold from a very low base. Transmission volumes to Serbia and Bosnia and Herzegovina were higher by 17% in 2017 compared to prior year.

As a result the unfavourable effect of changes in domestic regulatory environment and higher operating expenditures were overcompensated by increased transmission demand and significant additional capacity bookings. Consequently FGSZ's EBITDA totalled HUF 61bn in 2017, 13% above the prior year's figure.

3.6.4 Outlook

European dimensions

FGSZ's intends to create a more efficient gas market, which rests on several pillars. Therefore, in the 10-year period between 2018 and 2027 it wishes to participate in comprehensive infrastructure developments at both Hungarian and international level to promote the creation of a gas distribution hub and a liquid domestic gas market. The transformation of the gas market makes it possible for the domestic consumers to gain access to competing gas sources.

The transformation of the Transdanubian central odourization facility was successfully implemented in 2016, facilitating the increasing of the entry capacity in the Austria-Hungary direction. As a result of this development there is a great increasing in the flexibility of the transmission system in Western-Hungary.

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

For the purpose of security of supply, FGSZ aims to ensure the inward transmission possibility of natural gas from every possible direction. FGSZ also strives to become an integral part of the surrounding region by making the established cross-border interconnections reversible. In this regard, the establishment of the possibility for transmitting natural gas from and to Romania was an important step. The initial set-up increased entry capacities to a smaller extent only; however, FGSZ and its Romanian partner (Transgaz) work together to achieve a significant capacity expansion. The business rationale of the investment decision is based by the result of the capacity booking procedure (open season) launched in October 2017. The transmission capacity of both flows from Romania to Hungary and from Hungary to Romania will reach 4.4 billion m3/year, provided the successful bidders do not exercise their exit right by December 2018. The possibility to deliver natural gas from the Black Sea sources could mean actual diversification for Hungary and countries of the region.

4. APPENDICES

APPENDIX I

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

Special items - operating profit (HUF mn)	FY 2017	FY 2016	Ch %
OPERATING PROFIT EXCLUDING SPECIAL ITEMS	383,920	330,873	16
Upstream	(20,655)	(6,578)	214
Matjushkinskaya Vertical divestment	-	(3,234)	100
Kalegran inventory impairment	-	(3,344)	100
North Karpovsky divestment	(5,920)	-	n.a.
Angola provision release	10,528	-	n.a.
CEOC arbitration	(6,874)	-	n.a.
Hungarian year-end impairments	(18,389)	-	n.a.
Downstream	(4,755)	(4,471)	6
HCK (HydroCracker) impairment	-	(4,471)	100
INA environmental provision	(4,755)	-	n.a.
Consumer services	-	(5,982)	100
IES Impairment (Asset held for sale IFRS 5)	-	(5,982)	100
Corporate and other	(4,142)	(5,937)	30
Impairment in INA Group	-	(5,937)	100
Labin platform	(4,142)	-	n.a.
TOTAL IMPACT OF SPECIAL ITEMS ON OPERATING PROFIT	(29,553)	(22,968)	(29)
OPERATING PROFIT	354,367	307,905	15

Special items - EBITDA (HUF mn)	FY 2017	FY 2016	Ch %
EBITDA EXCLUDING SPECIAL ITEMS	679,605	629,966	8
Upstream	(2,266)	(6,578)	66
North Karpovsky divestment	(5,920)	-	n.a.
Angola provision release	10,528	-	n.a.
CEOC arbitration	(6,874)	-	n.a.
Matjushkinskaya Vertical divestment	-	(3,234)	100
Kalegran inventory impairment	-	(3,344)	100
Downstream	(4,755)	-	n.a.
INA environmental provision	(4,755)	-	n.a.
TOTAL IMPACT OF SPECIAL ITEMS ON EBITDA	(7,021)	(6,578)	(7)
EBITDA	672,583	623,388	8

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

Special items - operating profit (USD mn)	FY 2017	FY 2016	Ch %
OPERATING PROFIT EXCLUDING SPECIAL ITEMS	1,391	1,179	18
Upstream	(79)	(23)	(246)
Matjushkinskaya Vertical divestment	-	(12)	100
Kalegran inventory impairment	-	(11)	100
North Karpovsky divestment	(22)	-	n.a.
Angola provision release	38	-	n.a.
CEOC arbitration	(27)	-	n.a.
Hungarian year-end impairments	(69)	-	n.a.
Downstream	(18)	(15)	(19)
HCK (HydroCracker) impairment		(15)	100
INA environmental provision	(18)	-	n.a.
Consumer services	-	(20)	100
IES Impairment (Asset held for sale IFRS 5)	-	(20)	100
Corporate and other	(16)	(21)	27
Impairment in INA Group	-	(21)	100
Labin platform	(16)	-	n.a.
TOTAL IMPACT OF SPECIAL ITEMS ON OPERATING PROFIT	(113)	(80)	(42)
OPERATING PROFIT	1,278	1,099	16

Special items - EBITDA (USD mn)	FY 2017	FY 2016	Ch %
EBITDA EXCLUDING SPECIAL ITEMS	2,472	2,240	10
Upstream	(10)	(23)	57
North Karpovsky divestment	(22)	-	n.a.
Angola provision release	38	-	n.a.
CEOC arbitration	(27)	-	n.a.
Matjushkinskaya Vertical divestment	-	(12)	100
Kalegran inventory impairment	-	(11)	100
Downstream	(18)	-	n.a.
INA environmental provision	(18)	-	n.a.
TOTAL IMPACT OF SPECIAL ITEMS ON EBITDA	(28)	(23)	(21)
EBITDA	2,444	2,217	10

APPENDIX II

Notes

Number of footnote	
(1)	Special items that affected operating profit and EBITDA are detailed in Appendix I.
(2)	As of Q2 2013 our applied clean CCS methodology eliminates from EBITDA/operating profit inventory holding gain / loss (i.e.: reflecting actual cost of supply of crude oil and other major raw materials); impairment on inventories; FX gains / losses on debtors and creditors; furthermore adjusts EBITDA/operating profit by capturing the results of underlying commodity derivative transactions. Clean CCS figures of the base periods were modified as well according to the improved methodology.
(3)	Both the 2016 and 2017 figures have been calculated by converting the results of each month in the period on its actual monthly average HUF/USD rate.
(4)	Net gearing: net debt divided by net debt plus shareholders' equity including non-controlling interests.
(5)	Brent dated price vs. average Ural MED and Ural ROTT prices
(6)	Net external sales revenues and operating profit includes the profit arising both from sales to third parties and transfers to the other business segments. Upstream transfers domestically produced crude oil, condensates and LPG to Downstream and natural gas to the Gas Midstream segment. The internal transfer prices used are based on prevailing market prices. The gas transfer price equals the average import price. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.
(7)	This line shows the effect on operating profit of the change in the amount of unrealised profit deferred in respect of transfers between segments. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. Unrealised profits arise principally in respect of transfers from Upstream to Downstream and Gas Midstream.
(8)	From 2016 Austrian retail operations were reclassified into wholesale.
(9)	As of January 2018 an updated formula for calculating the „MOL Group petrochemicals margin" was introduced, replacing the previous „Integrated petrochemical margin". The purpose of the new formula is to better reflect the petchem product slate of the group.
(10)	CIF Med parity
(11)	FOB Rotterdam parity
(12)	FOB Med parity

Statement of responsibility

Undersigned, authorized representatives of MOL Hungarian Oil and Gas Public Limited Company (MOL Plc.) the issuer of MOL ordinary shares, hereby declare that MOL Plc. takes full responsibility for the announced Annual Report of MOL Plc. for the year ended on 31 December 2017, which has been prepared to the best of our knowledge in accordance with International Financial Reporting Standards, and give a true and fair view of the assets, liabilities, financial position, and profit of MOL Plc. and presents a fair review of the position, development and performance of MOL Plc. with a description of principal risks and uncertainties.

Budapest, 12 April 2018

József Molnár
Group Chief Executive Officer

József Simola
Group Chief Financial Officer

MOL Hungarian Oil and Gas Public Limited Company
H-1117 Budapest, Októberhuszonharmadika u. 18.