MOL Hungarian Oil and Gas Plc.

Consolidated financial statements prepared in accordance with International Financial Reporting Standards together with the independent auditors' report

31 December 2011

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Independent Auditors' Report

To the Shareholders of MOL Hungarian Oil and Gas Plc.

Report on financial statements

1.) We have audited the accompanying 2011 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2011 - showing a balance sheet total of HUF 4,992,801 million and a profit for the year of HUF 185,019 million -, the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

2.) Management is responsible for the preparation and presentation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

3.) Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Hungarian National and International Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

4.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

ERNST & YOUNG

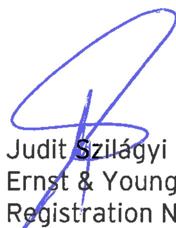
Opinion

6.) We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of MOL Hungarian Oil and Gas Plc. in accordance with Hungarian National and International Auditing Standards and have gained sufficient and appropriate evidence that the consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by EU. In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of MOL Hungarian Oil and Gas Plc. as at 31 December 2011 and of the results of its operations for the year then ended.

Other reporting requirement - The consolidated business report

7.) We have reviewed the consolidated business report of MOL Hungarian Oil and Gas Plc. for 2011. Management is responsible for the preparation of the consolidated business report in accordance with the Hungarian legal requirements. Our responsibility is to assess whether the consolidated business report is consistent with the consolidated financial statements for the same financial year. Our work regarding the consolidated business report has been restricted to assessing whether the consolidated business report is consistent with the consolidated annual financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the consolidated business report of MOL Hungarian Oil and Gas Plc. for 2011 corresponds to the disclosures in the 2011 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc.

Budapest, 21 March 2012



Judit Szilágyi
Ernst & Young Kft.
Registration No.: 001165

Judit Szilágyi
Registered Auditor
Chamber membership No.: 001368

MOL Hungarian Oil and Gas Plc. and Subsidiaries

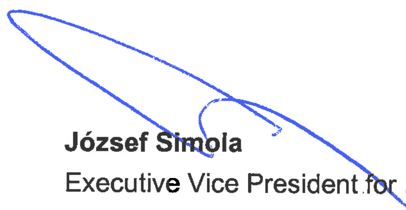
Consolidated financial statements

prepared in accordance with International Financial Reporting Standards

31 December 2011

Budapest, 21 March 2012

Zsolt Hernádi
Chairman of the Board of Directors
Chief Executive Officer



József Simola
Executive Vice President for Finance

The notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

31 December 2011

	Notes	2011	2010 Restated
ASSETS		HUF million	HUF million
Non-current assets			
Intangible assets	4	338,552	318,158
Property, plant and equipment, net	5	2,824,917	2,685,785
Investments in associated companies	10	104,797	73,004
Available-for-sale investments	11	20,649	21,501
Deferred tax assets	30	43,315	12,682
Other non-current assets	12	36,948	42,104
Total non-current assets		**3,369,178**	**3,153,234**
Current assets			
Inventories	13	545,234	408,538
Trade receivables, net	14	619,723	463,672
Other current assets	15	125,134	141,508
Prepaid taxes		22,399	5,611
Cash and cash equivalents	16, 37	311,133	313,166
Total current assets		**1,623,623**	**1,332,495**
TOTAL ASSETS		**4,992,801**	**4,485,729**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	79,202	79,202
Reserves	18	1,419,026	1,251,910
Profit for the year attributable to equity holders of the parent		153,674	103,958
Equity attributable to equity holders of the parent		1,651,902	1,435,070
Non-controlling interests		591,203	539,407
Total equity		**2,243,105**	**1,974,477**
Non-current liabilities			
Long-term debt, net of current portion	19	862,149	947,910
Provisions	20	314,315	280,535
Deferred tax liabilities	29	118,802	118,312
Other non-current liabilities	21	51,046	46,110
Total non-current liabilities		**1,346,312**	**1,392,867**
Current liabilities			
Trade and other payables	22	1,008,780	800,958
Current tax payable		37,184	10,672
Provisions	20	37,227	43,842
Short-term debt	23	136,288	160,863
Current portion of long-term debt	19	183,905	102,050
Total current liabilities		**1,403,384**	**1,118,385**
TOTAL EQUITY AND LIABILITIES		**4,992,801**	**4,485,729**

The notes are an integral part of these consolidated financial statements

Consolidated income statement

31 December 2011

	Notes	2011	2010 Restated
		HUF million	HUF million
Net revenue	3, 24	5,343,234	4,299,654
Other operating income	25	24,955	24,894
Total operating income		**5,368,189**	**4,324,548**
Raw materials and consumables used		4,248,949	3,253,448
Personnel expenses	26	255,927	271,968
Depreciation, depletion, amortisation and impairment		349,840	280,560
Other operating expenses	27	381,304	368,524
Change in inventories of finished goods and work in progress		(78,867)	(50,932)
Work performed by the enterprise and capitalized		(42,146)	(44,498)
Total operating expenses		**5,115,007**	**4,079,070**
Operating profit		**253,182**	**245,478**
Financial income	28	80,148	24,731
Of which: Fair valuation difference of conversion option	28	10,548	-
Financial expense	28	135,000	110,208
Of which: Fair valuation difference of conversion option	28	-	5,381
Financial expense, net	**28**	**54,852**	**85,477**
Income from associates		20,066	12,013
Profit before tax		**218,396**	**172,014**
Income tax expense	30	33,377	63,297
Profit for the year		**185,019**	**108,717**
Attributable to:			
Equity holders of the parent		153,674	103,958
Non-controlling interests		31,345	4,759
Basic earnings per share Attributable to ordinary equity holders of the parent (HUF)	32	**1,766**	**1,231**
Diluted earnings per share Attributable to ordinary equity holders of the parent (HUF)	32	**1,538**	**1,209**

The notes are an integral part of these consolidated financial statements

Consolidated Statement of comprehensive income

31 December 2011

	Notes	2011	2010 Restated
		HUF million	HUF million
Profit for the year		**185,019**	**108,717**
Other comprehensive income			
Exchange differences on translating foreign operations including net investment hedge, net of tax	29	107,569	42,875
Available-for-sale financial assets, net of deferred tax	29	(2,860)	(1,423)
Cash-flow hedges, net of deferred tax	29	1,160	351
Share of other comprehensive income for associates	29	14,938	7,672
Other comprehensive income for the year, net of tax		**120,807**	**49,475**
Total comprehensive income for the year		**305,826**	**158,192**
Attributable to:			
Equity holders of the parent		221,197	145,599
Non-controlling interest		84,629	12,593

The notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

31 December 2011

	Share capital	Share premium	Fair valuation reserve	Translation reserve	Equity component of debt and difference in buy-back prices	Retained earnings	**Total reserves**	Profit for the year attributable to equity holders of the parent	**Equity attributable to equity holders of the parent**	Non-controlling interests	**Total equity**
	HUF million	**HUF million**	**HUF million**	**HUF million**	**HUF million**	**HUF million**	**HUF million**	**HUF million**	**HUF million**	**HUF million**	**HUF million**
Closing balance											
31 December 2009	**79,202**	**(325,669)**	**8,347**	**111,209**	**(8,074)**	**1,333,932**	**1,119,745**	**95,058**	**1,294,005**	**535,647**	**1,829,652**
Retained profit for the year	**-**	-	-	-	-	-	**-**	103,958	**103,958**	4,759	**108,717**
Other comprehensive income for the year	**-**	-	(813)	42,454	-	-	**41,641**	-	**41,641**	7,834	**49,475**
Total comprehensive income for the year	**-**	-	(813)	42,454	-	-	**41,641**	103,958	**145,599**	12,593	**158,192**
Transfer to reserves of retained profit for the previous year	**-**	-	-	-	-	95,058	**95,058**	(95,058)	**-**	-	**-**
Dividends to non-controlling interests	**-**	-	-	-	-	-	**-**	-	**-**	(8,729)	**(8,729)**
Net change in balance of treasury shares held, net of tax	-	-	-	-	-	(4,534)	**(4,534)**	-	**(4,534)**	-	**(4,534)**
Transactions with non-controlling interests	**-**	-	-	-	-	-	**-**	-	**-**	(104)	**(104)**
Closing balance											
31 December 2010	**79,202**	**(325,669)**	**7,534**	**153,663**	**(8,074)**	**1,424,456**	**1,251,910**	**103,958**	**1,435,070**	**539,407**	**1,974,477**
Retained profit for the year	**-**	-	-	-	-	-	**-**	153,674	**153,674**	31,345	**185,019**
Other comprehensive income for the year	**-**	-	(1,916)	59,519	-	9,920	**67,523**	-	**67,523**	53,284	**120,807**
Total comprehensive income for the year	-	-	(1,916)	59,519	-	9,920	**67,523**	153,674	**221,197**	84,629	**305,826**
Transfer to reserves of retained profit for the previous year	**-**	-	-	-	-	103,958	**103,958**	(103,958)	**-**	-	**-**
Dividends to non-controlling interests	**-**	-	-	-	-		**-**	-	**-**	(17,620)	**(17,620)**
Net change in balance of treasury shares held, net of tax	-	-	-	-	-	5,307	**5,307**	-	**5,307**	-	**5,307**
Transactions with non-controlling interests	**-**	-	-	-	-	(9,672)	**(9,672)**	-	**(9,672)**	(15,213)	**(24,885)**
Closing balance											
31 December 2011	**79,202**	**(325,669)**	**5,618**	**213,182**	**(8,074)**	**1,533,969**	**1,419,026**	**153,674**	**1,651,902**	**591,203**	**2,243,105**

Consolidated cash flow statement

31 December 2011

	Notes	2011 HUF million	2010 Restated HUF million
Profit before tax		*218,396*	*172,014*
Depreciation, depletion, amortisation and impairment		349,840	280,560
Write-off of inventories, net		4,587	(138)
Increase / (decrease) in provisions		(3,212)	17,650
Net (gain) / loss on sale of property, plant and equipment		(6,286)	(2,228)
Write-off / (reversal of write-off) of receivables		15,115	(11,836)
Unrealised foreign exchange (gain) / loss on trade receivables and trade payables		4,530	563
Net gain on sale of subsidiaries		-	(756)
Interest income		(9,389)	(7,437)
Interest on borrowings		41,171	34,536
Net foreign exchange (gain) / loss excluding foreign exchange differences on trade receivables and trade payables		(55,642)	46,722
Fair valuation difference of conversion option (see Note 28)		(10,548)	5,381
Other financial (gain) / loss, net		75,651	(9,945)
Share of net profit of associate		(20,066)	(12,013)
Other non cash items		5,539	1,278
Operating cash flow before changes in working capital		*609,686*	*514,351*
Decrease / (increase) in inventories		(108,264)	(63,032)
Decrease / (increase) in trade receivables		(113,815)	(16,339)
Decrease / (increase) in other current assets		1,231	(2,553)
(Decrease) / increase in trade payables		18,357	5,874
(Decrease) / increase in other payables		18,508	(21,902)
Income taxes paid		*(52,753)*	*(37,513)*
Net cash provided by operating activities		**372,950**	**378,886**
Capital expenditures, exploration and development costs		(224,751)	(305,401)
Proceeds from disposals of property, plant and equipment		6,911	3,558
Acquisition of subsidiaries and non-controlling interests, net cash	37	(25,314)	(541)
Acquisition of associated companies and other investments		(1,695)	(2,102)
Net cash inflow / (outflow) on sale of subsidiary undertakings (see Note 8)		805	(1,513)
Proceeds from disposal of associated companies and other investments		-	630
Changes in loans given and long-term bank deposits		12,545	13,488
Changes in short-term investments		209	(5)
Interest received and other financial income		27,247	8,052
Dividends received		5,334	4,359
Net cash used in investing activities		**(198,709)**	**(279,475)**

The notes are an integral part of these consolidated financial statements

	Notes	2011 HUF million	2010 Restated HUF million
Issuance of long-term notes		11,000	200,921
Long-term debt drawn down	37	191,222	442,134
Repayments of long-term debt		(304,725)	(580,699)
Changes in other long-term liabilities		(768)	(319)
Changes in short-term debt		(8,513)	19,986
Interest paid and other financial costs		(60,204)	(48,513)
Dividends paid to shareholders		(23)	(19)
Dividends paid to non-controlling interest		(16,892)	(8,727)
Minority shareholders contribution		-	-
Issuance of treasury shares		-	-
Repurchase of treasury shares		-	-
Net cash provided by / (used in) financing activities		**(188,903)**	**24,764**
(Decrease) / increase in cash and cash equivalents		**(14,662)**	**124,175**
Cash and cash equivalents at the beginning of the year		313,166	178,703
Exchange differences of cash and cash equivalents of consolidated foreign subsidiaries		12,190	9,650
Unrealised foreign exchange difference on cash and cash equivalents		439	638
Cash and cash equivalents at the end of the year	37	311,133	313,166

1 General

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 olefins and polyolefins. The number of the employees in the Group as of 31 December 2011 and 2010 was 31,471 and 32,394, respectively. 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 quoted on the International Order Book in London and other over the counter markets in New York, Berlin and Munich.

2.1 Authorization, statement of compliance and basis of preparation

i) Authorization and Statement of Compliance

These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 21 March 2012.

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 International Financial Reporting Interpretations Committee (IFRIC).

Effective 1 January 2005, the change in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements in accordance with IFRS that have been adopted by the EU. Currently, due to the endorsement process of the EU and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS that have been adopted by the EU.

Presentation of the financial statements complies with the requirements of the relevant standards. With respect to the conversion option embedded in the perpetual exchangeable capital securities issued in 2006, the revaluation difference arising on this option has been presented as a separate line item on the face of the income statement. The management believes that by separating this non-cash item improves the transparency of the financial statements, since the gain or loss recognized thereon is not affected by the operations of the Group or any relevant factors of the external business environment influencing these operations. For further details on the conversion option see Note 17.

ii) Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued and effective on 31 December 2011.

MOL Plc. prepares its statutory unconsolidated financial statements in accordance with the requirements of the accounting regulations contained in Law C of 2000 on Accounting (HAS). Some of the accounting principles prescribed in this law differs from IFRS.

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.

The financial year is the same as the calendar year.

iii) Principles of Consolidation

Subsidiaries

The consolidated financial statements include the accounts of MOL Plc. and the subsidiaries that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. As required by IAS 27, immediately exercisable voting rights are taken into account when determining control.

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 date of obtaining control. The cost of an acquisition is measured at the aggregate of the consideration transferred and the amount of any non-controlling interest (formerly known as minority interest) in the acquiree. 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.

Non-controlling interests represent the profit or loss and net assets not held by the Group and are shown separately in the consolidated balance sheet and the consolidated income statement, respectively. For each business combination, 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 choice of measurement basis is made on an acquisition-by-acquisition basis. 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. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a negative balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the company.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the Group jointly controls with its fellow venturers.

The Company's interests in its joint ventures are accounted for by the proportionate consolidation method, where a proportionate share of the joint venture's assets, liabilities, income and expenses is combined with similar items in the consolidated financial statements on a line-by-line basis. The financial statements of the joint ventures are prepared for the same reporting year as the parent company, using consistent accounting policies. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the venture.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. Losses on intragroup transactions are recognised immediately if the loss provides evidence of reduced net realisable value of current assets or impairment loss.

When the joint control is lost, the Group measures and recognises its remaining investment at its fair value unless the joint control does not become a subsidiary or associate. The difference between the carrying amount of the joint entity and the fair value of the remaining investment together with any proceeds from disposal is recognised in profit or loss.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee, but which is not a subsidiary or a jointly controlled entity.

The Group's investments in its associates are accounted for using the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investments in associates are assessed to determine whether there is any objective evidence of impairment. If there is evidence that the recoverable amount of the investment is lower than its carrying value, then the difference is recognised as impairment loss in the income statement. Where losses were made in previous years, an assessment of the factors is made to determine if any loss may be reversed.

When the significant influence over the associate is lost, the Group remeasures and recognises any retaining investment at its fair value. The difference between the carrying amount of the associate and the fair value of the retaining investment together with any proceeds from disposal is recognised in profit or loss.

2.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those applied in the previous financial years, apart from some minor modifications in the classification of certain items in the balance sheet or the income statement, none of which has resulted in a significant impact on the financial statements except for reclassifying costs related to bank loans from Operating to Financial expenses. While the comparative period has been restated, an opening balance sheet has not been included as the reclassifications made were not considered material.

Starting from 1 January 2011, the Group has revised its operational segments to reflect changes in organizational responsibilities as well as the approach of the Group's chief operating decision making bodies with respect to resource allocation and performance analysis. As a consequence,

- Petrochemical segment ceased to report separately and is included in Downstream
- Heating operations have been reclassified to Downstream from former Gas and Power
- INA' gas wholesale trading subsidiary has been reclassified to Gas Midstream from Upstream

As a result of this resegmentation, the Group has the following three reporting segments: Upstream, Downstream, Gas Midstream. Comparative periods have been restated accordingly.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Except as noted below, adoption of these standards and interpretations did not have any effect on the financial statements of the Group. They did, however, give rise to additional disclosures.

- *IAS 24 Related Party Disclosures (amendment) effective 1 January 2011*
- *IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010*
- *IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011*

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

- *Improvements to IFRSs (May 2010)*

The principal effects of these changes are as follows:

IAS 24 Related Party Transactions (Amendment)

The amendments to IAS 24 Related Party Disclosures become effective for financial years beginning on or after 1 January 2011 and must be applied retrospectively. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party. As a result, such a reporting entity is exempt from the general disclosure requirements in relation to transactions and balances with the government and government-related entities.

IAS 32 Financial Instruments: Presentation (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and requires that rights, options and warrants to acquire a fixed number of an entity's own equity instruments for a fixed price of any currency are equity instruments if certain criteria are met.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment to IFRIC 14 Prepayments of a minimum funding requirement was issued to remove the unintended consequence in IFRIC 14 that in some cases entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. The amendment becomes effective 1 January 2011.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation addresses the accounting by an entity that issues equity instruments to settle financial liability. The equity instrument is measured at fair value and the financial liability is derecognized, fully or partly, based on the "consideration paid". The interpretation is effective for annual periods beginning on or after 1 July 2010.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The annual improvements to IFRS 1 include: a) accounting policy changes in the year of IFRS adoption - if a first-time adopter changes its accounting policies or the use of exemptions in IFRS 1 after it has published its interim financial report in accordance with IAS 34 but before its first IFRS financial statements, it should explain those changes; b) revaluation basis as

deemed cost – clarifies that a first-time adopter is permitted to use event-driven fair value as deemed cost during the first IFRS period and c) use of deemed cost for operations subject to rate regulation for certain items of property, plant and equipment or intangibles.

IFRS 3 Business Combinations:

Amendment to IFRS 3 specifies that the option to measure non-controlling interests either at fair value or at proportionate share of the acquiree's net identifiable assets applies only to non-controlling interests that are present ownership interests. All other components of non-controlling interests should be measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

IFRS 3 specifies that requirements to measure awards of the acquirer that replace acquiree share-based payment transactions with regards to IFRS 2 applies also to such transactions of the acquiree that are not replaced. The amendment also clarifies that market-based measurement of replacement awards applies to all replacement awards regardless of whether the acquirer is obliged to replace the awards or does so voluntarily.

The last amendment to IFRS 3 clarifies that IAS 32, IAS 39 and IFRS 7 do not apply to contingent consideration from a business combination which occurred before the effective date of the revised standard IFRS 3 in 2008.

All amendments to IFRS 3 are effective for annual period beginning on or after 1 July 2010.

IFRS 7 Financial Instruments — Disclosures:

The improvement to IFRS 7 clarifies disclosure requirements regarding credit risk and collateral held in order to enable users better to understand the nature and extent of risks arising from financial instruments.

IAS 1 Presentation of Financial Statements:

The amendment to IAS 1 clarifies that the entity may elect to present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 Consolidated and Separate Financial Statements

The amendment to IAS 27 clarifies that amendments made to IAS 21, IAS 28, and IAS 31 as a result of IAS 27 revisions in 2008 should be applied prospectively with some exceptions. The amendment is effective 1 July 2010.

IAS 34 Interim Financial Statements

Amendments to IAS 34 clarify how significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report.

IFRIC 13 Customer Loyalty Programmes

Amendment to IFRIC 13 specifies that fair value of award credits should consider the discount or incentives that customers who have not earned award credits would otherwise received as well as any expected forfeitures.

2.3 Summary of significant accounting policies

i) 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).

ii) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. This involves assessing all assets and liabilities assumed for appropriate classification in accordance with the contractual terms and economic conditions and recognising identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value as at the acquisition date. Acquisition-related costs are recognised in profit or loss as incurred.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date and the resulting gain or loss is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are adjusted against the cost of acquisition, only if they qualify as period measurement adjustments and occur within 12 months from the acquisition date. All other subsequent changes in the fair value of contingent consideration are accounted for either in profit or loss or as changes to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognised.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the consideration transferred is lower than the fair value of the net assets of the acquiree, the fair valuation, as well as the cost of the business combination is re-assessed. Should the difference remain after such re-assessment, it is then recognised in profit or loss as other income. 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. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than a segment based on the Group's reporting format determined in accordance with IFRS 8 Operating Segments.

Where goodwill forms part of a cash-generating unit (or group of cash generating units) and part of the operation within that unit (or group) is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the

operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and un-amortised goodwill is recognized in the income statement.

iii) Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it.

Purchases and sales of investments are recognized on settlement date which is the date when the asset is delivered to the counterparty.

The Group's financial assets are classified at the time of initial recognition depending on their nature and purpose. Financial assets include cash and short-term deposits, trade receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized as finance income or finance expense in the income statement.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. Such financial assets are recorded as current, except for those instruments which are not due for settlement within 12 months from the balance sheet date and are not held with the primary purpose of being traded. In this case all payments on such instruments are classified as non-current. As at 31 December 2011 and 2010, no financial assets have been designated as at fair value through profit and loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments, have fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortisation process.

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. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

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. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recorded as other comprehensive income is recognized in the income statement.

After initial recognition available-for-sale financial assets are evaluated on the basis of existing market conditions and management intent to hold on to the investment in the foreseeable future. In rare circumstances when these conditions are no longer appropriate, the Group may choose to reclassify these financial assets to loans and receivables or held-to-maturity when this is in accordance with the applicable IFRS.

Fair value

For investments that are actively traded in organised financial markets, fair value 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.

iv) Classification and Derecognition of Financial Instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and cash equivalents marketable securities, trade and other accounts receivable and payable, long-term receivables, loans, borrowings, investments, and bonds receivable and payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The 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.

v) Derivative Financial Instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year as financial income or expense.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and the risks of the embedded derivative are not closely related to the economic characteristics of the host contract,

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and

- a hybrid (combined) instrument is not measured at fair value with changes in fair value reported in current year net profit.

vi) Hedging

For the purpose of hedge accounting, hedges are classified as

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

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. 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 and 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 highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

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 income statement.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement 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 income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The changes in the fair value of the hedging instrument are also recognized in the income statement.

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 a hedge 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 income statement. 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 income statement.

Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. 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 equity are transferred to the income statement. 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 income statement.

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 income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized as other comprehensive income is transferred to the income statement.

vii) 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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the 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 original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognized in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 income statement, 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 income statement, is transferred from other comprehensive income to the income statement. 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 income statement; 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 income statement.

viii) Cash and Cash Equivalents

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 with maturity less than three months from the date of acquisition and that are subject to an insignificant risk of change in value.

ix) Trade Receivables

Receivables are stated at face value less provision for doubtful amounts. Where the time value of money is material, receivables are carried at amortized cost. 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 debts 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. If not, they are presented as non-current assets.

x) Inventories

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. Unrealisable inventory is fully written off.

xi) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost (or the carrying value of the assets determined as of 1 October 1991) less accumulated depreciation, depletion and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.

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 decommissioning and site restoration costs are capitalized upon initial recognition or, if decision on decommissioning is made subsequently, at the time of the decision. Changes in estimates thereof adjust the carrying amount of assets. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs (except form periodic maintenance costs), are normally charged to income statement in the period in which the costs are incurred. Periodic maintenance costs are capitalized as a separate component of the related assets.

Construction in progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant asset is available for use.

The policy for accounting for exploration and development costs of oil and gas reserves is described in xv) below.

xii) Intangible Assets

Intangible assets acquired separately are capitalized at cost and from a business acquisition are capitalized at fair value as at the date of acquisition. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably.

Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these 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 amortisation period and the amortisation method are reviewed annually at each financial year-end. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against income in the year in which the expenditure is incurred. Intangible assets are tested for impairment annually either individually or at the cash generating unit level.

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. Costs in development stage can not be 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.

The policy for accounting for exploration and development costs of oil and gas reserves is described in xv) below.

xiii) Depreciation, Depletion and Amortisation

Depreciation of each component of an intangible asset and property, plant and equipment 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 – 20 years
Gas and oil storage and transmission equipment	7 – 50 years
Petrol service stations	5 – 30 years
Telecommunication and automatisation equipment	3 – 10 years

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. 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 life and depreciation methods are reviewed at least annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment, and, if necessary, changes are accounted for in the current period.

xiv) Impairment of Assets

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 income statement 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.

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.

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 (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.

Intangible assets with indefinite useful lives are monitored for impairment indicators throughout the year and are tested for impairment at least annually as of 31 December either individually or at the cash generating unit level, as appropriate.

xv) Oil and natural gas exploration and development expenditures

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

Licence and property acquisition costs

Exploration and property acquisition costs 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 determination of economically recoverable reserves (‘proved reserves’ or ‘commercial reserves’), amortization ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within intangible assets. When development is approved internally, the relevant expenditure is transferred to property, plant and equipment, among land and buildings.

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.

xvi) Interest-bearing loans and borrowings

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. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in net in the income statement when the liabilities are derecognized as well as through the amortisation process, except to the extent they are capitalized as borrowing costs.

xvii) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of the provision to be reimbursed; the reimbursement is recognised as a separate asset but only when the reimbursement is actually certain. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as discount rate. 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.

Provision for Redundancy

The employees of the Group are eligible, immediately upon termination, for redundancy payment pursuant to the Hungarian law and the terms of the Collective Agreement between MOL and its employees. The amount of such a liability is recorded as a provision in the consolidated balance sheet when the workforce reduction program is defined, announced and the conditions for its implementation are met.

Provision for Environmental Expenditures

Environmental expenditures that relate to current or future economic benefits are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for environmental costs are recognized when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

Provision for Decommissioning

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. 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. 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 Retirement Benefits

The Group operates three long term defined employee benefit programmes. None of these schemes requires contribution to be made to separately administered funds. The cost of providing benefits under those plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

xviii) Greenhouse gas emissions

The Group receives free emission rights in Hungary and Slovakia as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. The Group has adopted a net liability approach to the emission rights granted. A provision is only recognized when actual emissions exceed the emission rights granted and still held. Where emission rights are purchased from other parties, they are recorded at cost, and treated as a reimbursement right, whereby they are matched to the emission liabilities and remeasured to fair value.

xix) Share-based payment transactions

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').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by applying generally accepted option pricing models (usually by the binomial model). In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the parent company ('market conditions').

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 recognized 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.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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 remeasured at each balance sheet date up to and including the settlement date to fair value with changes therein recognized in the income statement.

xx) Leases

The determination whether an arrangement contains or is a lease depends on the substance of the arrangement at inception date. If fulfilment of the 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, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, 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. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Initial direct costs incurred in negotiating a finance lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

xxi) Government grants

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. When the grant relates to an expense item, it is recognized as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

xxii) Reserves

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.

Translation reserves

The translation reserve represents translation differences arising on consolidation of financial statements of foreign entities. Exchange differences arising on a monetary item 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 translation reserves 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 (see also iv).

xxiii) 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 share premium.

xxiv) Dividends

Dividends are recorded in the year in which they are approved by the shareholders.

xxv) Revenue Recognition

Revenue is recognized 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.

Interest is recognized on a time-proportionate basis that reflects the effective yield on the related asset. Dividends due are recognized when the shareholder's right to receive payment is established. Changes in the fair value of derivatives not qualifying for hedge accounting are reflected in income in the period the change occurs.

xxvi) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

xxvii) Income Taxes

The income tax charge consists of current and deferred taxes.

The current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are never taxable or deductible or are taxable or deductible in other years. The Group’s current income tax is calculating using tax rates that have been enacted or substantively enacted by the end of the reporting year.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and tax losses when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

At each balance sheet date, the Company re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Company recognises a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity, including an adjustment to the opening balance of reserves resulting from a change in accounting policy that is applied retrospectively.

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.

xxviii) Sales taxes

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, 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 statement of financial position

xxix) Foreign Currency Transactions

Foreign currency transactions are recorded in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognized in the consolidated income statement in the period in which they arise. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences on trade receivables and payables are included in operating profit, while foreign exchange differences on borrowings are recorded as financial income or expense.

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

Financial statements of foreign entities are translated at year-end exchange rates with respect to the balance sheet and at the weighted average exchange rates for the year with respect to the income statement. All resulting translation differences are included in the translation reserve in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation shall be recognized in the income statement. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In case of a partial disposal of a subsidiary without any loss of control in the foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other disposals such as associates or jointly controlled entities not involving a change of accounting basis, the proportionate share of accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

xxx) Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year 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 while giving effect to all dilutive potential ordinary shares that were outstanding during the period, that is:

- 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.

xxxi) Segmental Disclosure

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

xxxii) Contingencies

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.

2.4 Significant accounting judgments and estimates

Critical judgments in applying the accounting policies

In the process of applying the accounting policies, which are described in note 2.3 above, management has made certain judgments that have significant effect on the amounts recognized in the financial statements (apart from those involving estimates, which are dealt with below). These are detailed in the respective notes, however, the most significant judgments relate to the following:

<u>Revenue recognition for oil and gas activities in Syria</u>

Consequent to the recent political turmoil and the sanctions posed by US and EU on Syria, treatment of revenues from operations therein requires judgement. Having assessed the probability of receiving economic benefits from sales activities in

INA Group's Syrian operations, including counterparty risk associated with GPC, the Syrian National Oil Company, the management decided that criteria set out in IAS 18 – Revenue Recognition are not met. Therefore, beginning from early 2011, revenue is recognized only once cash is received from GPC. These circumstances also give rise to an impairment indicator with respect to the Group's Syrian assets (being a separate cash generating unit).

Scope of environmental and field abandonment provision

The Group recognised significant amount of provisions in connection with its operations having environmental impact. Regulations, especially environmental legislation do not exactly specify the extent of remediation work required or the technology to be applied. Furthermore, since INA Group became part of MOL in 2009, the extent to which such remediation requirements are identified is also limited. Management uses its previous experience and its own interpretation of the respective legislation to determine the scope of environmental and field abandonment provisions. The amount of environmental provision is HUF 76,171 million and HUF 70,027 million, while field abandonment provision amounts to HUF 210,311 million and HUF 184,792 million as of 31 December 2011 and 2010, respectively (see Note 20).

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

Management uses judgment when capitalized exploration and evaluation assets are reviewed to determine capability and continuing intent of further development. Carrying amount of exploration and evaluation assets is HUF 214,266 million and HUF 171,791 million as of 31 December 2011 and 2010, respectively (see Note 4).

Sources of estimate uncertainty

The preparation of 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 detailed in the respective notes, however, the most significant estimates relate to the following:

Calculation the fair values of financial instruments

Fair valuation of financial instruments (especially the conversion option embedded in the perpetual exchangeable capital securities issued by a special purpose entity, Magnolia Finance Ltd, see Note 17) is performed by reference to quoted market prices or, in absence thereof reflects the market's or the management's estimate 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 and MOL's call option on the 7% shareholding owned by CEZ, volatility of MOL share prices and dividend yield. Considering the worldwide financial crisis in the near past, current difficulties of the euro-zone and risks attributed to Central-Eastern-European economies, such fair value measurements contain an increased uncertainty. In case of the conversion option embedded in MOL's perpetual exchangeable capital securities, valuation was performed with reference to prices on the market of convertible instruments. Further details of financial instruments are described in Note 34.

Quantification and timing of environmental and field abandonment liabilities

Management estimates the future cash outflow associated with environmental and decommissioning liabilities using comparative prices, analogies to previous similar work and other assumptions. Furthermore, the timing of these cash flows reflects managements' current assessment of priorities, technical capabilities and urgency of such obligations. Both the amounts and the timing of these future expenditures are reviewed annually, together with expectations on the rates used to discount these cash flows. Long-term real discount rates are expected to be 3.7% (2010: 4.8%). Consequently, the carrying amount of these obligations (in case of environmental liabilities HUF 76,171 million and HUF 70,027 million, in case of field abandonment provision HUF 210,311 million and HUF 184,792 million as of 31 December 2011 and 2010, respectively, see Note 20) is exposed to uncertainty.

Impairment of non-current assets, including goodwill

The impairment calculation requires an estimate of the recoverable amount of the cash generating units, that is, the higher of fair value less costs to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. The most significant variables in determining cash flows 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. While such cash flows for each non-current asset or investment reflects the management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the economic difficulties experienced worldwide, in the euro-zone and also in the Central-Eastern European region where the Group operates. In addition, recent turmoil in North-African and Middle-East countries add a further uncertainty to the recoverability assumptions of non-current assets therein. Discount rates were derived from the USD-based weighted average cost of capital for the Group (2011: 7.9%, 2010: 8.4%). In each case these rates are adjusted for segment-, country- and project-specific risks, as applicable. Impairment recorded in the consolidated income statement amounts to HUF 50,925 million and HUF 17,548 million in 2011 and 2010, respectively. These charges include an impairment loss of HUF 34,828 million on goodwill allocated to the refining and wholesale activities of IES, an impairment loss HUF 10,107 million on other intangible assets (2010: HUF 15,074 million on other intangible assets), an impairment loss of HUF 15,546 million (2010: HUF 10,017 million) and a reversal of impairment of HUF 9,556 million (2010: HUF 7,543 million) on property, plant and equipment. Carrying amount of goodwill is HUF 42,850 million and HUF 71,031 million as of 31 December 2011 and 2010, respectively (see Note 4).

Availability of taxable income against which deferred tax assets can be recognized

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of such recognized deferred tax assets was HUF 38,213 million and HUF 10,290 million as of 31 December 2011 an 2010, respectively (see Note 30).

Actuarial estimates applied for calculation of retirement benefit obligations

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation 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. Provision for retirement benefit is HUF 16,804 million and HUF 15,144 million at 31 December 2011 and 2010, respectively (see Note 20).

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. Management uses judgement when probability of future outflow of economic benefits is determined and estimations when the most likely outcome of these actions is assessed and provision is recognized on a consistent basis. Provision for legal claims is HUF 24,484 million and HUF 20,067 million at 31 December 2011 and 2010, respectively (see Note 20 and 35).

2.5 Issued but not yet effective International Financial Reporting Standards

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

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012 and will have no impact on the Group.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as recognition of unvested past service cost and transferring the remeasurement component of the defined benefit cost to Other comprehensive income to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments but expects those not to be material. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements prepared in accordance with IFRS. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Financial instruments: Presentation and IFRS 7 Financial Instruments: Disclosures - Clarification on asset/liability offsetting

The IAS 32 amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position, i.e. that the right of set-off must be available today and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. Consequent change to IFRS 7 intends to enhance current offsetting disclosures. The amendments become effective for annual periods beginning on or after 1 January 2014 and 1 January 2013, respectively.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will also address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary evaluation of the Group, the amendment will have no material impact. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidation of jointly controlled entities (see note 9) meeting the definition of joint ventures in IFRS 11 to equity accounting for these investments. Based on the preliminary evaluation of the Group such impact will not be significant. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping costs in the production phase of a surface mine

The interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine and becomes effective from 1 January 2013.

3 Segmental information

2011	Upstream	Downstream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Net Revenue						
Sales to external customers	358,800	4,547,765	397,715	38,954		5,343,234
Inter-segment sales	436,505	259,415	32,469	126,044	(854,433)	-
Total revenue	**795,305**	**4,807,180**	**430,184**	**164,998**	**(854,433)**	**5,343,234**
Results						**-**
Profit/(loss) from operations	321,639	(74,230)	61,905	(44,510)	(11,622)	253,182
Net finance costs						54,852
Income from associates				20,066		20,066
Profit before tax						218,396
Income tax expense/(benefit)						33,377
Profit for the year						185,019

2010	Upstream	Downstream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million
Net Revenue						
Sales to external customers	308,206	3,558,800	399,493	33,155	-	4,299,654
Inter-segment sales	403,887	591,191	298,854	131,331	(1,425,263)	-
Total revenue	**712,093**	**4,149,991**	**698,347**	**164,486**	**(1,425,263)**	**4,299,654**
Results						
Profit/(loss) from operations	236,519	31,586	48,387	(62,891)	(8,123)	245,478
Net finance costs						85,477
Income from associates				12,013		12,013
Profit before tax						172,014
Income tax expense/(benefit)						63,297
Profit for the year						108,717

2011 Assets and liabilities	Upstream	Downstream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Property, plant and equipment, net	1,119,479	1,267,913	414,006	93,901	(70,382)	**2,824,917**
Intangible assets, net	234,902	73,174	6,260	24,474	(258)	**338,552**
Inventories	34,286	481,806	32,513	13,211	(16,582)	**545,234**
Trade receivables, net	125,984	511,863	61,296	40,132	(119,552)	**619,723**
Investments in associates				104,797		**104,797**
Not allocated assets						**559,578**
Total assets						**4,992,801**
Trade payables	52,469	433,280	97,312	51,358	(119,552)	**514,867**
Not allocated liabilities						**2,234,829**
Total liabilities						**2,749,696**
2011 Other segment information						
Capital expenditure:	105,577	110,621	17,878	8,342		**242,418**
Property, plant and equipment	67,437	108,793	16,217	5,129	-	**197,576**
Intangible assets	38,140	1,828	1,661	3,213	-	**44,842**
Depreciation and amortization	154,254	160,019	19,939	17,738	(2,110)	**349,840**
From this: impairment losses recognized in income statement	14,112	44,949	691	796	-	**60,548**
From this: reversal of impairment recognized in income statement	(5,725)	(3,898)	-	-	-	**(9,623)**

2010 Assets and liabilities	Upstream	Downstream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million
Property, plant and equipment, net	1,065,969	1,185,565	403,193	96,268	(65,210)	2,685,785
Intangible assets, net	192,560	99,140	9,170	20,332	(3,044)	318,158
Inventories	25,358	357,967	29,072	9,965	(13,824)	408,538
Trade receivables, net	140,480	401,221	54,501	32,237	(164,767)	463,672
Investments in associates				73,004		73,004
Not allocated assets						536,572
Total assets						**4,485,729**
Trade payables	51,069	384,415	121,891	45,113	(169,540)	432,948
Not allocated liabilities						2,078,304
Total liabilities						**2,511,252**

2010 Other segment information	Upstream	Downstream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
Capital expenditure:	109,324	125,122	78,261	7,237	-	319,944
Property, plant and equipment	79,590	122,604	76,543	3,556	-	282,293
Intangible assets	29,734	2,518	1,718	3,681	-	37,651
Depreciation and amortization	127,639	119,444	18,893	18,038	(3,454)	280,560
From this: impairment losses recognized in income statement	19,128	5,277	448	238	-	25,091
From this: reversal of impairment recognized in income statement	(5,727)	(1,816)	-	-	-	(7,543)

Impact of the crisis tax on the profit from operations was HUF 28,960 million and HUF 25,754 million in 2011 and 2010 respectively. The portion of the crisis tax in 2011 by reporting segments of the Group were as follows: HUF 2,599 million at Upstream segment, HUF 25,549 million at Downstream segment, HUF 252 million at Gas Midstream segment, and HUF 560 million recorded at Corporate segment.

There was a non-recurring HUF 30,387 million retroactively paid mining royalty according to the declaration of the European Committee in 2010 (see Note 27). The HUF 30,387 mining royalty paid retroactively has been recorded at Upstream segment in 2010.

The operating profit of the segments includes the profit arising both from sales to third parties and transfers to the other business segments. Upstream transfers crude oil, condensates and LPG to Downstream and natural gas to the Gas Midstream segment. The subsidiaries of Corporate segment provide maintenance, insurance 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.

Geographic information

Assets by geographic areas

At 31 December, 2011	**Intangible assets**	**Property, plant and equipment**	**Investment in associated companies**
	HUF million	HUF million	HUF million
Hungary	64,727	833,879	13,693
Croatia	114,875	1,036,299	-
Slovakia	7,376	425,939	1,031
Rest of European Union	33,640	207,740	3,560
Rest of Europe	36,274	143,923	-
Rest of world	81,660	177,137	86,513
Total	**338,552**	**2,824,917**	**104,797**

31 December, 2010	**Intangible assets**	**Property, plant and equipment**	**Investment in associated companies**
	HUF million	HUF million	HUF million
Hungary	49,225	831,295	3,721
Croatia	113,178	982,385	-
Slovakia	5,820	381,607	788
Rest of European Union	64,531	189,422	3,638
Rest of Europe	27,813	109,209	-
Rest of world	57,591	191,867	64,857
Total	**318,158**	**2,685,785**	**73,004**

Sales by geographical area

	2011 HUF million	2010 HUF million
Hungary	1,440,160	1,236,270
Croatia	658,930	625,515
Italy	632,856	461,627
Austria	470,066	362,909
Slovakia	408,827	312,401
Czech Republic	330,948	238,241
Romania	256,092	186,008
Poland	221,828	166,807
Switzerland	124,607	136,332
Germany	134,737	115,372
Bosnia-Herzegovina	145,289	97,541
Serbia	105,197	61,454
Slovenia	56,967	46,775
Russia	42,190	29,818
United Kingdom	30,065	15,369
Rest of Europe	91,738	71,747
Rest of Central-Eastern Europe	24,735	13,684
Rest of the World	168,002	121,784
Total	**5,343,234**	**4,299,654**

The Group had no single major customer the revenue from which would exceed 10% of the total net sales revenues in the years ended 31 December 2011 and 2010.

4 Intangible assets

	Rights	Software	Exploration and evaluation assets	Goodwill	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
At 1 January, 2010					
Gross book value	77,861	73,012	212,753	74,744	438,370
Accumulated amortization and impairment	(20,094)	(48,041)	(9,789)	(4,618)	(82,542)
Net book value	**57,767**	**24,971**	**202,964**	**70,126**	**355,828**
Year ended 31 December, 2010					
- additions	3,709	3,838	30,104	-	37,651
- divestition of subsidiary	(29)	-	-	-	(29)
- amortization for the year	(5,925)	(8,753)	(192)	-	(14,870)
- impairment	(5,350)	(50)	(9,674)	-	(15,074)
- disposals	-	-	-	-	-
- exchange adjustment	2,988	224	7,016	905	11,133
- transfers and other movements	-	1,946	(58,427)	-	(56,481)
Closing net book value	**53,160**	**22,176**	**171,791**	**71,031**	**318,158**
At 31 December, 2010					
Gross book value	83,951	77,697	187,355	73,200	422,203
Accumulated amortization and impairment	(30,791)	(55,521)	(15,564)	(2,169)	(104,045)
Net book value	**53,160**	**22,176**	**171,791**	**71,031**	**318,158**
Year ended 31 December, 2011					
- additions	18,580	4,372	37,404	-	60,356
- amortization for the year	(8,520)	(5,281)	(240)	-	(14,041)
- impairment	(709)	(32)	(8,632)	(35,630)	(45,003)
- reversal of impairment	67	-	-	-	67
- disposals	(2,511)	(18)	-	-	(2,529)
- revaluation of emission quotas	(6,460)	-	-	-	(6,460)
- exchange adjustment	4,707	625	19,246	6,954	31,532
- transfers and other movements	9,357	(8,077)	(5,303)	495	(3,528)
Closing net book value	**67,671**	**13,765**	**214,266**	**42,850**	**338,552**
At 31 December, 2011					
Gross book value	135,420	51,244	239,266	85,407	511,337
Accumulated amortization and impairment	(67,749)	(37,479)	(25,000)	(42,557)	(172,785)
Net book value	**67,671**	**13,765**	**214,266**	**42,850**	**338,552**

Exploration and evaluation assets

Impairment in 2011 related to exploration activities qualified unsuccessful in Hungary, India and Pakistan. Impairment in 2010 related partly to exploration activities qualified unsuccessful in Hungary and partly to certain Russian fields in the exploration and development phase. Impairment for those cash generating units has been triggered by the combined effect of the unfavourable changes in the Russian oil and gas tax regime and the delayed scheduling of future development capital expenditures due to more stringent resource allocation policy.

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 (see Note 2.3 *xv.*).

In addition to these exploration and evaluation assets, a further HUF 2,267 million and HUF 6,486 million exploration expenses were incurred in 2011 and 2010, respectively, 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 income statement as incurred.

Goodwill

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 had been allocated as follows:

			2011			**2010**
	Net book value before impairment	Impairment	**Net book value**	Net book value before impairment	Impairment	**Net book value**
	HUF million	HUF million	**HUF million**	HUF million	HUF million	**HUF million**
Downstream	*74,377*	*34,828*	***39,549***	*67,298*	-	***67,298***
- Roth Group	7,918		**7,918**	6,644	-	**6,644**
- Romanian retail network	4,732		**4,732**	4,273	-	**4,273**
- IES Group	44,607	34,828	**9,779**	40,664	-	**40,664**
- Croatian retail network	15,354		**15,354**	14,045	-	**14,045**
- I&C Energo	1,196		**1,196**	1,102	-	**1,102**
- TVK	477		**477**	477	-	**477**
- TVK Polska	93		**93**	93	-	**93**
Upstream	4,103	802	**3,301**	3,733	-	**3,733**
- Rotary (former DrillTrans)	*4,103*	*802*	***3,301***	*3,733*	-	***3,733***
Total goodwill	**78,480**	**35,630**	**42,850**	**71,031**	**-**	**71,031**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable value of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make

an estimate of the expected future cash flows from the cash-generating unit during its estimated remaining useful life and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and gross margins during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Gross margins are based on past practices and expectations of future changes in the market.

Roth Group

At 31 December 2011 goodwill of HUF 7,918 million (2010: 6,644 million) was allocated to the wholesale activities of Roth Group operating mainly on the Austrian wholesale market, forming a separate cash generating unit within Downstream business segment. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolates cash flows for the following years based on an estimated growth rate of 1%. This rate does not exceed the average long-term growth rate for the relevant Austrian markets. The rates used to discount the forecast cash flows reflecting risks specific to the Downstream segment vary between 8% and 9% in the years considered.

For the wholesale activities of Roth Group, there are reasonably possible changes in key assumptions which could cause the carrying value of the unit to exceed its recoverable amount. The actual recoverable amount for the wholesale activity of Roth Group exceeds its carrying amount by HUF 1,789 million. The implications of the key assumptions on the recoverable amount are discussed below:

- Discount rate assumptions – Management assessed discount rates based on the current and expected risk-free interest rate and the risks specific to the current activities of the unit. An increase of approximately 1.2 percentage points in this rate would give a value in use equal to the carrying amount of Roth Group's wholesale activities.

Romanian retail network

At 31 December 2011 goodwill of HUF 4,732 million (2010: 4,273 million) was allocated to the Romanian retail network of the Group. For goodwill allocation purposes, the Romanian filling stations' network as a whole (being a group of cash generating units) is considered. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the whole network and extrapolates cash flows for the average residual useful life of the filling stations assuming no growth rate in gross margin, reflecting a competitive position. The rates used to discount the forecast cash flows reflecting risks specific to retail activities vary between 10% and 13% in the years considered.

With regard to the assessment of value in use of the Romanian retail network, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

IES Group

At 31 December 2011 goodwill of HUF 44,607 million (2010: 40,664 million) was allocated to the Italian refining and wholesale activities of the Group, prior to testing for impairment. For goodwill allocation purposes, the Mantova refinery and its wholesale activity (being a single cash generating unit) is considered. The Group prepares cash flow forecasts derived from the most

recent financial budgets approved by management and extrapolates cash flows for the average residual useful life of the refining assets. Crude oil prices and crack spreads take into consideration benchmark industry forecasts; wholesale margins used in the calculations represent management's assumptions applicable for MOL Group and for the specific Italian wholesale market, respectively. Rates used to discount the forecast cash flows reflecting risks specific to refining and wholesale activities vary between 9% and 10% in the years considered. As a result of the annual impairment test, an impairment loss of HUF 34,828 million was recognised on goodwill due to the combined effect of decreased crack spreads and increased discount rates reflecting the overall uncertainty regarding the economic slowdown. Any further changes in these key assumptions may result in further impairment in the future.

Croatian retail network

At 31 December 2011 goodwill of HUF 15,354 million (2010: 14,045 million) was allocated to the Croatian retail network comprising of filling stations under INA and Tifon brands. For goodwill allocation purposes, the Croatian filling stations' network as a whole (being a group of cash generating units including the Tifon and INA brands) is considered. For the network cash flow forecasts are prepared which are derived from the most recent financial budgets approved by management and extrapolated cash flows for the average residual useful life of the filling stations based on an estimated growth rate which varies between 2% and 4% in the long-term. The rates used to discount the forecast cash flows reflecting risks specific to the Retail segment vary between 9% and 11% in the years considered.

With regard to the assessment of value in use of the Croatian retail network, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Rotary

Subsequent to an impairment test performed at the end of 2011 an impairment of HUF 802 million (2010: nil) has been recognized on the goodwill relating to the activities of Rotary, drilling subsidiary of INA d.d., due to decreased profitability outlook of the related activities. Discounted cash flow was calculated using a pre-tax discount rate of 10.76% (2010: 13%).

Intangible assets with indefinite useful life

In addition to goodwill, MOL Group has acquired the INA brand in 2009 which has an indefinite useful life, since practically the entire population in Croatia knows it and is perceived as a market leader with an extensive network of filling station. The Group does not intend to terminate this brand in the foreseeable future. The carrying amount of the INA brand was HUF 14,201 million as of 31 December 2011. Since the brand is an integral part of the Croatian filling station network, it has been included in the carrying value of the group of cash generating units to which the corresponding goodwill has been allocated and has been tested for impairment accordingly (see above).

5 Property, plant and equipment, net

	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 January, 2010					
Gross book value	2,049,830	1,458,394	118,856	425,584	4,052,664
Accumulated depreciation and impairment	(569,205)	(844,205)	(75,043)	(186)	(1,488,639)
Net book value	**1,480,625**	**614,189**	**43,813**	**425,398**	**2,564,025**
Year ended 31 December, 2010					
- additions and capitalizations	94,346	101,018	8,140	282,293	485,797
- depreciation for the year	(138,372)	(98,045)	(11,725)	-	(248,142)
- impairment	(3,502)	(5,566)	(421)	(528)	(10,017)
- reversal of impairment	6,244	1,008	279	12	7,543
- disposals	(1,025)	(199)	(63)	(93)	(1,380)
- exchange adjustment	27,389	9,837	545	5,148	42,919
- transfer and capitalizations	52,609	7,358	(24)	(214,903)	(154,960)
Closing net book value	**1,518,314**	**629,600**	**40,544**	**497,327**	**2,685,785**
At 31 December, 2010					
Gross book value	**2,276,114**	**1,569,842**	**122,670**	**497,667**	**4,466,293**
Accumulated depreciation and impairment	(757,800)	(940,242)	(82,126)	(340)	(1,780,508)
Net book value	**1,518,314**	**629,600**	**40,544**	**497,327**	**2,685,785**
Year ended 31 December, 2011					
- additions and capitalizations	214,211	247,100	8,319	197,575	667,205
- depreciation for the year	(158,881)	(115,604)	(10,389)	-	(284,874)
- impairment	(6,946)	(964)	(7,124)	(511)	(15,545)
- reversal of impairment	9,035	281	227	13	9,556
- disposals	(1,166)	(65)	(20)	(54)	(1,305)
- exchange adjustment	129,733	61,766	2,704	19,235	213,438
- transfer and capitalizations	4,988	183	520	(455,034)	(449,343)
Closing net book value	**1,709,288**	**822,297**	**34,781**	**258,551**	**2,824,917**
At 31 December, 2011					
Gross book value	2,660,147	1,923,766	122,728	259,257	4,965,898
Accumulated depreciation and impairment	(950,859)	(1,101,469)	(87,947)	(706)	(2,140,981)
Net book value	**1,709,288**	**822,297**	**34,781**	**258,551**	**2,824,917**

When capital projects are completed the carrying value is transferred out of construction in progress and treated as an addition in the respective asset category.

Changes in estimates

In 2011 based on the requirements of IAS 16 the Group has performed an annual revision of useful lives of property, plant and equipment and intangibles, having no significant impact on the consolidated profits.

Impairment, net of reversal

Impairment test of non-current assets in Syria

Changes in revenue recognition in Syria (see Note 2.4 on critical judgements) are considered as an impairment indicator, therefore the Group performed an impairment test on its Syrian non-current assets (including exploration and evaluation assets, see Note 4), qualifying as a cash generating unit. Such impairment calculation requires an estimate of the recoverable amount of the Syrian cash generating unit, that is, the higher of fair value less costs to sell and value in use. Value in use has been determined on the basis of discounted estimated future net cash flows. The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the amount and timing of cash inflows and outflows, including crude oil and natural gas prices (considering the price formulae set out in the respective Production Sharing Agreement), operating expenses and future annual production volumes. While such cash flows reflect the management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the political, security and economic conditions in Syria. Asset-specific discount rates were derived from the USD-based weighted average cost of capital for the Group and are adjusted for project-specific risks, as applicable. Discount rate applied was 15%. Based on these calculations the management did not record any impairment since carrying amount of non-current assets in Syria (HUF 179,511 million as of 31 December 2011) are recoverable based on the net present value of discounted future cash flows, and the management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of these assets to materially exceed its recoverable amount.

The management regularly monitors and, if needed, re-assesses impairment calculations based on latest developments in the country.

Other impairment expenses

Reversal of impairment expense of HUF 22 million and HUF 284 million were recorded with respect to the revision of field abandonment provision of maturing and suspended oil and gas producing fields in 2011 and 2010, respectively. Reversal of impairment expense of HUF 856 million in 2011 and impairment expense of HUF 1,688 million were recorded with respect to filling stations and retail sites in 2010. In 2011, no material impairment expense was recognised related to refineries, in 2010 an impairment expense of HUF 1,042 million was recognised as a result of expired catalysts and closure of certain facilities at the Danube and Bratislava refineries. Additional impairment expenses of HUF 668 million and of HUF 356 million were recorded for certain gas transmission assets of FGSZ Földgázszállító Zrt. in 2011 and 2010, respectively. Impairment expense of HUF 6,058 million was recorded with respect to used propane-butane gas cylinders of Proplin, physical recoverability of which is not probable. Other individually non-material impairment losses of HUF 141 million and reversal of impairment losses of HUF 328 million have been recognized in 2011 and 2010, respectively.

Leased assets

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

	2011 HUF million	2010 HUF million
Cost	8,256	8,072
Accumulated depreciation	(3,816)	(2,951)
Net book value	**4,440**	**5,121**

Borrowing Costs

Property, plant and equipment include borrowing costs incurred in connection with the construction of certain assets. Additions to the gross book value of property, plant and equipment include borrowing costs of HUF 17,506 million and HUF 18,058 million in 2011 and 2010, respectively. In 2011 and 2010 the applicable capitalisation rates (including the impact of foreign exchange differences) were 7.5% and 5.5%, respectively.

Government Grants

Property, plant and equipment include assets with a value of HUF 13,264 million financed from government grants (See Note 21). The total amount reflects mainly the assets of FGSZ, which were 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. which were financed by the grant received from Slovakian government in order to serve State Authorities in case of state emergencies.

Pledged Assets

Assets with an aggregate net book value of HUF 126,096 million have been pledged by the Group of which HUF 10,565 million as collateral for loans utilized by TVK-Erőmű Kft. and Tisza WTP Kft. as of 31 December 2011, HUF 2,888 million at SLOVNAFT a.s., HUF 1,277 million at Rossi Biofuel Zrt., HUF 103,657 million at IES S.p.A., HUF 1,859 million at I&C Energo and HUF 5,850 million at INA d.d. As of 31 December 2010 the net book value of pledged assets was HUF 120,527 million.

6 Subsidiaries and jointly controlled entities

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2011	Ownership 2010
Integrated subsidiaries				
INA-Industrija nafte d.d.	Croatia	Integrated oil and gas company	49%	47%
Upstream				
Adriagas S.r.l.	Italy	Pipeline project company	49%	47%
BHM OIL-Invest Ltd.	Cyprus	Exploration investment management	100%	100%
Surgut Trading Ltd.	Russia	Trade of crude oil	50%	50%
BMN Investment Ltd.	Cyprus / India	Exploration and production activity	100%	100%
CEGE Közép-európai Geotermikus Energia Termelő Zrt. (joint venture)	Hungary	Geothermal energy production	50%	b)
Crosco Naftni Servisi d.o.o.	Croatia	Oilfield services	49%	47%
CorteCros d.o.o.	Croatia	Production of anticorrosion products	29%	28%
Crosco B.V.	Netherlands	Oilfield services	49%	47%
Nordic Shipping Ltd.	Marshall Islands	Platform ownership	49%	47%
Crosco International d.o.o. (Slovenia)	Slovenia	Oilfield services	49%	47%
Crosco International d.o.o. (Tuzla)	Bosnia and Herzegovina	Oilfield services	49%	47%
Crosco International Ltd.	United Kingdom	Oilfield services	49%	47%
Crosco S.A. DE C.V	Mexico	Maintaining services	49%	47%
Geotechnika International LLC	United Arab Emirates	Oilfield services, drilling wells	24%	23%
Mideast Integrated Drilling & Well Services Company LLC	Oman	Integrated drilling and completion services	24%	23%
Rotary Zrt.	Hungary	Oilfield services	49%	47%
Sea Horse Shipping Inc.	Marshall Islands	Platform ownership	49%	47%
Geoinform Kft.	Hungary	Hydrocarbon exploration	100%	100%
GES Kft.	Hungary	Geophysical surveying and data processing	100%	100%
Geophysical Services Middle-East LLC	Oman	Geophysical surveying and data processing	70%	70%
Hawasina GmbH	Switzerland / Oman	Exploration and production activity	100%	100%
INA Naftaplin International Exploration and Production Ltd	United Kingdom	Exploration and production activity	49%	47%
Kalegran Ltd.	Cyprus / Iraq	Exploration investment management / Exploration and production activity	100%	100%
MOL Caspian Oil and Gas Ltd	Cyprus / Kazakhstan	Exploration investment management	100%	100%
Ural Group Ltd. (joint venture)	British Virgin Island	Exploration and production activity	28%	28%
Ural Oil Group Ltd. (joint venture)	Kazakhstan	Exploration and production activity	28%	28%
MOL Oman Ltd. (former Lamorak Enterprises Ltd.)	Cyprus / Tunisia	Exploration and production activity	100%	100%
MOL Central Asia Oil and Gas Co. B.V.	Netherlands / Syria / Kazakhstan	Exploration and production activity	100%	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 Yemen Oil and Gas (Cyprus) Ltd	Cyprus / Yemen	Exploration and production activity	100%	100%
Panfora Oil and Gas s.r.l.	Romania	Exploration and production activity	100%	c)
Platounko Investments Ltd.	Cyprus	Exploration financing	100%	100%
Pronodar Ltd.	Cyprus / Cameroon	Exploration and production activity	100%	100%
Pyrogol Ltd.	Cyprus	Exploration and production activity	100%	100%
RUSI Services Ltd	Cyprus	Exploration financing	100%	100%
Theathola Ltd.	Cyprus	Exploration investment management	100%	c)
Greentrade Ltd.	Cyprus	Exploration investment management	100%	100%
Matjushkinskaya Vertical LLC	Russia	Exploration and production activity	100%	100%
MOL CIS Oil and Gas Ltd.	Cyprus	Exploration investment management	100%	100%
ZMB Ltd (joint venture)	Russia	Exploration and production activity	50%	50%
SHM Seven Investments Ltd.	Cyprus	Exploration investment management	100%	100%
MOL Western Siberia LLC	Russia	Exploration and production activity	100%	100%
USI Ltd.	Cyprus	Exploration investment management	100%	100%
BaiTex LLC	Russia	Exploration and production activity	100%	100%
UBA Services Ltd.	Cyprus / Russia	Exploration investment management	100%	100%

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2011	Ownership 2010
Gas Midstream				
FGSZ Földgázszállító Zrt.	Hungary	Natural gas transmission	100%	100%
MMBF Földgáztároló Zrt.	Hungary	Strategic natural gas storage	72%	72%
Prirodni plin d.o.o.	Croatia	Natural gas trading	49%	47%
Downstream				
CM European Power International B.V. (joint venture)	Netherlands	Power plant investment management	50%	50%
CM European Power International s.r.o. (joint venture)	Slovakia	Power plant investment management	50%	50%
CM European Power Slovakia s.r.o.	Slovakia	Operation of thermo-power plant	50%, a)	50%, a)
MOL-CEZ European Power Hungary Kft. (joint venture)	Hungary	Steam and hot water supply, electricity production	50%	50%
Energopetrol d.d.	Bosnia and Herzegovina	Retail trade	50%	49%
FPC Ltd.	United Kingdom	Trading of oil products	49%	47%
Holdina (Guernsey) Ltd	United Kingdom	Trading of oil products	49%	47%
Inter Ina (Guernsey) Ltd	United Kingdom	Trading of oil products	49%	47%
Holdina (Cyprus) Ltd	Cyprus	Intermediate holding company	49%	47%
Holdina (Ireland) Ltd	Ireland	Supply of technical services	e)	47%
Holdina d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	47%
IES SpA	Italy	Refinery and marketing of oil products	100%	100%
Greengas S.r.l.	Italy	Hydrogen plant operation	49%, a)	49%, a)
Nelsa S.r.l.	Italy	Marketing of oil products	74%	74%
Panta Distribuzione S.r.l.	Italy	Marketing of oil products	100%	100%
INA d.o.o.	Serbia	Trading of oil products	49%	47%
INA BH d.d.	Bosnia and Herzegovina	Trading of oil products	49%	47%
INA BL d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	47%
INA Crna Gora d.o.o	Montenegro	Trading of oil products	49%	47%
INA Hungary Kft.	Hungary	Trading of oil products	49%	47%
INA Kosovo d.o.o	Kosovo	Trading of oil products	49%	47%
INA-Osijek – Petrol d.d.	Croatia	Trading of oil products	38%	36%
Interina d.o.o. Ljubljana	Slovenia	Trading of oil products	49%	47%
Interina d.o.o. Skopje (under liquidation)	Macedonia	Trading of oil products	49%	47%
Inter Ina Ltd (under liquidation)	United Kingdom	Trading of oil products	49%	47%
Intermol d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
Maziva Zagreb d.o.o.	Croatia	Lubricants production and trading	49%	47%
MOL Austria GmbH.	Austria	Wholesale trade of lubricants and oil products	100%	100%
MOL Tankstellen GmbH.	Austria	Retail trade	f)	100%
Roth Heizöle GmbH.	Austria	Trading of oil products	100%	100%
Rumpold Festbrennstoffe GmbH.	Austria	Trading of solid fuels and other products	100%	100%
MOL Commodity Trading Kft.	Hungary	Financial services	100%	100%
MCT Slovakia s.r.o	Slovakia	Financial services	100%	c)
MOL Germany GmbH (former MK Mineralkontor GmbH)	Germany	Trade 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%	c)
MOL Romania PP s.r.l.	Romania	Retail and wholesale trade of fuels and lubricants	100%	100%
MOL Slovenija d.o.o.	Slovenia	Retail trade of fuels and lubricants	100%	100%
Moltrans Kft.	Hungary	Transportation services	100%	100%
MOLTRADE-Mineralimpex Zrt.	Hungary	Importing and exporting energetical products	100%	100%
Petrol d.d.	Croatia	Trading of oil products	41%	39%
Polybit d.o.o. (under liquidation)	Croatia	Production and trading	49%	47%
Proplin, d.o.o.	Croatia	Production and LPG trading	d)	47%
Rossi Biofuel Zrt. (joint venture)	Hungary	Biofuel component production	25%	25%

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2011	Ownership 2010
SLOVNAFT a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	98%	98%
Apollo Rafinéria s.r.o.	Slovakia	Wholesale and retail trade	98%	98%
Meroco a.s. (joint venture)	Slovakia	Production of bio-diesel component (FAME)	25%	25%
MOL Slovensko spol s.r.o.	Slovakia	Wholesale and retail trade	98%	98%
Slovnaft Polska S.A.	Poland	Wholesale and retail trade	98%	98%
Slovnaft Trans a.s.	Slovakia	Transportation services	98%	98%
SWS s.r.o.	Slovakia	Transport support services	50%	50%
Zväz pre skladovanie zásob a.s.	Slovakia	Wholesale and retail trade, warehousing	98%	98%
Slovnaft VÚRUP a.s.	Slovakia	Research & development	98%	98%
Slovnaft Petrochemicals s.r.o.	Slovakia	Petrochemical production and trading	98%	98%
Slovnaft Ceska Republika s.r.o.	Czech Republic	Wholesale and retail	100%	100%
Terméktároló Zrt.	Hungary	Oil product storage	74%	74%
Tifon d.o.o.	Croatia	Retail trade of fuels and lubricants	100%	100%
TVK Plc.	Hungary	Petrochemical production and trading	95%	95%
Tisza-WTP Kft.	Hungary	Feed water and raw water supply	0%, a)	0%, a)
TVK-Erőmű Kft.	Hungary	Electricity production and distribution	25% a)	25%, a)
TVK France S.a.r.l.	France	Wholesale and retail trade	95%	95%
TVK Inter-Chemol GmbH	Germany	Wholesale and retail trade	g)	95%
TVK Polska Sp.Zoo.	Poland	Wholesale and retail trade	95%	95%
TVK UK Ltd	United Kindgom	Wholesale and retail trade	95%	95%
TVK Ukrajna t.o.v.	Ukraine	Wholesale and retail trade	95%	95%
TVK Italia Srl.	Italy	Wholesale and retail trade	100%	95%
Corporate and other				
Balatongáz Kft. (under liquidation)	Hungary	Gas-utility development and management	77%	77%
EMS Management Services Ltd.	Cyprus	Management services	100%	100%
FER Tűzoltóság és Szolgáltató Kft.	Hungary	Fire service, ambulance service	92%	92%
Hermész Tanácsadó Kft.	Hungary	Consultancy	100%	100%
Hostin d.o.o.	Croatia	Tourism	49%	47%
I&C Energo a.s.	Czech Republic	Power plant engineering	100%	100%
ITR d.o.o.	Croatia	Car rental	49%	47%
Magnolia Finance Ltd.	Jersey	Financial services	0%, a)	0%, a)
MOL Reinsurance Ltd.	Cyprus	Captive insurance	100%	100%
MULTIPONT Program Zrt.	Hungary	Marketing agent activity	81%	c)
Petrolszolg Kft.	Hungary	Maintenance services	100%	100%
Sinaco d.o.o.	Croatia	Security	49%	47%
Slovnaft Montáže a opravy a.s.	Slovakia	Repairs and maintenance	98%	98%
STSI integrirani tehnički servisi d.o.o.	Croatia	Technical services	49%	47%
Top Računovodstvo Servisi d.o.o.	Croatia	Accounting services	49%	c)
TVK Ingatlankezelő Kft.	Hungary	Real estate management	95%	95%

a) Consolidated as required by SIC-12 Consolidation - Special Purpose Entities
b) Consolidated from 2011.
c) Established in 2011.
d) Merged into INA d.d. in 2011.
e) Divested in 2011.
f) Merged into MOL Austria GmbH. in 2011.
g) Merged into MOL Germany GmbH (former MK Mineralkontor Gmbh.) in 2011.

7 Business combinations, transactions with non-controlling interests

Acquisitions in 2011

INA Group

In 2011 MOL has increased its ownership in INA to 49.1% by acquiring shares from minority shareholders in consideration of HUF 24,921 million. As MOL has already obtained control over INA, the increase in ownership qualifies as transaction with non-controlling interests.

Roth Group

In June, 2011 MOL paid an additional HUF 393 million contingent consideration for the acquisition of Roth Group pursuant to obtaining the remaining 25% minority shareholding in 2009. This subsequent consideration has been accounted for as an adjustment to goodwill.

Analysis of net cash outflow on acquisition of subsidiaries and non-controlling interests

	2011 HUF million	2010 HUF million
Cash consideration	(25,314)	(277)
Cash at bank or on hand acquired	-	-
Net cash outflow on acquisition of subsidiaries and non-controlling interests	**(25,314)**	**(277)**

Acquisitions in 2010

No major acquisition took place in 2010.

8 Disposals

Disposals in 2011

No major disposal took place in 2011.

Disposals in 2010

Crobenz

The transaction of selling INA's 100% ownership in Crobenz d.d. ("Crobenz") to LUKOIL Croatia d.o.o. ("Lukoil") was completed on 30 September 2010. The sale process was initiated based on INA's obligation under the decision of the Croatian Competition Agency ("the Agency") of 9 June 2009. Following the signing of the First Amendment to the Shareholders Agreement between the Croatian Government and MOL on 30 January 2009, MOL's gaining the operational control over INA had been investigated by the Croatian Competition Agency, upon which the Agency passed its final Decision on 9 June 2009 approving the transaction under certain conditions including the sale of INA's 100% ownership in Crobenz. On 21 July 2010, INA d.d. signed a sale agreement with LUKOIL for the disposal of its 100% interest in Crobenz. As decided by the Croatian Market Competition Agency ("the Agency"), the sale was conducted by a trustee. At a meeting held on 29 July 2010 the Agency decided to approve the transaction implementing the mandate from its Resolution on the conditional approval of the MOL/INA concentration and it also granted the necessary clearance for the Lukoil/Crobenz concentration.

Carrying amount of disposed assets and liabilities of Crobenz as of 30 September 2010 and analysis of cash outflow on sale of the subsidiary is the following:

	HUF million
Intangible assets	29
Deferred tax asset	79
Inventories	289
Trade receivables	2,778
Other current assets	17
Cash and cash equivalents	46
Total assets	**3,238**
Long-term debt, net of current portion	1,778
Provisions and contingent liabilities	199
Trade and other payables	1,451
Current tax payable	86
Short-term debt	2,225
Current portion of long-term debt	401
Total liabilities	**6,140**
Net liabilities sold	(2,902)
Net gain realized on disposal (see Note 25)	756
Compensation of inter-company loan	1,414
Unsettled sales price payable by Lukoil	(735)
Cash consideration paid	**(1,467)**
The *analysis of cash outflow on sale of Crobenz:*	
Net cash disposed of during the sale	(46)
Cash consideration paid	(1,467)
Cash outflow	**(1,513)**

9 Joint ventures

The Group's share of the assets, liabilities, revenue and expenses of the joint ventures

The Group's share of the assets, liabilities, revenue and expenses of ZMB and all the other joint ventures (see Note 6), which are included in the consolidated financial statements, are as follows at 31 December 2011 and 2010 and for the years then ended:

			2011			2010
	ZMB	Other	Total	ZMB	Other	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Current assets	6,815	14,307	21,122	4,469	9,018	13,487
Non-current assets	15,535	18,781	34,316	16,531	13,671	30,202
	22,350	**33,088**	**55,438**	**21,000**	**22,689**	**43,689**
Current liabilities	3,008	5,395	8,403	2,730	4,685	7,415
Non-current liabilities	2,388	5,003	7,391	1,183	977	2,160
	5,396	10,398	15,794	3,913	5,662	9,575
Net assets	**16,954**	**22,690**	**39,644**	**17,087**	**17,027**	**34,114**
Net sales	51,290	24,910	76,200	49,750	16,497	66,247
Cost of sales	(9,744)	(23,553)	(33,297)	(10,318)	(15,472)	(25,790)
Other expenses	(31,357)	(672)	(32,029)	(17,123)	(336)	(17,459)
Financial (expense) / income, net	(451)	(66)	(517)	(217)	170	(47)
Profit before income tax	9,738	619	10,357	22,092	859	22,951
Income tax expense	(2,795)	(366)	(3,161)	(5,715)	(127)	(5,842)
Net profit / (loss)	**6,943**	**253**	**7,196**	**16,377**	**732**	**17,109**

10 Investments in associated companies

Company name	Country	Range of activity	Ownership 2011	Ownership 2010	Net book value of investment 2011 HUF million	Net book value of investment 2010 HUF million
Pearl Petroleum Ltd.	Iraq	Exploration of gas	10%	10%	86,513	64,856
MET Zrt.	Hungary	Natural gas trading	50%	50%	13,273	3,307
Mazzola & Bignardi S.r.l.	Italy	Retail trade	50%	50%	1,620	1,630
Mazzola & Bignardi Commerciale S.r.l.	Italy	Marketing of oil products	40%	40%	1,080	1,217
Messer Slovnaft s.r.o	Slovakia	Production of technical gases	49%	49%	997	758
Batec S.r.l.	Italy	Bitumen production	50%	50%	712	699
Other associated companies					602	537
Total					**104,797**	**73,004**

Pearl Petroleum Company Limited

On 15 May 2009 MOL signed an agreement to acquire 10% stake in Pearl Petroleum Company Limited (Pearl) from Crescent Petroleum and Dana Gas PJSC. Pearl 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 grant MOL a significant influence on Pearl's operations, the company is treated as an associated company and is consolidated using the equity method accordingly.

The Group's interest (10%) as of 31 December 2011 in Pearl was as follows:

	2011 HUF million	2010 HUF million
Share of the associate's balance sheet:		
Non-current assets	86,204	75,259
Current assets	16,461	7,199
Non-current liabilities	(15,488)	(16,320)
Current liabilities	(664)	(1,282)
Net assets	**86,513**	**64,856**
Share of the associate's income statement:		
Net sales	11,362	4,265
Profit from operations	9,926	3,989
Net income attributable to equity-holders	9,769	4,095
Carrying amount of the investment	**86,513**	**64,856**

The financial data representing the Group's interest in Pearl above has been prepared in accordance with IFRS, using accounting policies which conform to those used by the Group for like transactions and events in similar circumstances.

MET Zrt.

The Group's interest (50%) as of 31 December 2011 in MET Zrt. was as follows:

	2011	2010
	HUF million	HUF million
Share of the associate's balance sheet:		
Non-current assets	148	189
Current assets	55,912	25,649
Non-current liabilities	420	-
Current liabilities	41,147	19,906
Net assets	**14,493**	**5,932**
Share of the associate's income statement:		
Net sales	168,351	106,148
Profit from operations	15,611	10,354
Net income attributable to equity-holders	10,374	7,723
Carrying amount of the investment	**13,273**	**3,307**

11 Available-for-sale investments

	Net book value of investment 2011	Net book value of investment 2010
	HUF million	HUF million
Quoted - Jadranski Naftovod d.d.	10,938	13,460
Nabucco Gas Pipeline International GmbH	4,220	2,453
Other ordinary shares – unquoted	5,491	5,588
Total	**20,649**	**21,501**

MOL Group's investment in Jadranski Naftovod d.d. (JANAF), operator of Adria pipeline represents 12% of JANAF's outstanding shares. The value of the equity share in JANAF was determined by reference to the market value of the shares as quoted on the Zagreb Stock Exchange as of 31 December 2011. Investments in other unquoted equity instruments of certain non-core entities are carried at cost less accumulated impairment losses, since determination of fair value is not practicable at this stage.

12 Other non-current assets

	2011	2010
	HUF million	HUF million
Loans given	22,762	23,431
Prepaid mining royalty	6,759	8,498
Net receivable from currency risk hedging derivatives as cash- flow hedge (see Note 33 and 34)	2,955	4,116
Advance payments for assets under construction	2,265	2,852
Long-term receivables from operating agreements	1,211	1,126
Advance payments for intangible assets	495	1,450
Net receivable from currency risk hedging derivatives as fair value hedge (see Note 33 and 34)	214	155
Other	287	476
Total	**36,948**	**42,104**

Loans given primarily contain the HUF 15,488 million shareholder loan acquired with respect to Pearl Petroleum Company (see Note 10), the purpose of which is to finance the field exploration and development activities of the associate. The loan has a market-based interest rate of LIBOR + 2%. Mining royalty of HUF 20,000 million in 2005 was prepaid for fixing the level of mining royalty payable in the future and for the extension of exploration rights at certain Hungarian upstream concessions. The prepayment is amortized to the income statement beginning from January 2006 based on the expected production level of the fields until 2020. Amortization in 2011 and 2010 was HUF 1,739 million and HUF 2,209 million, respectively, and is expected to maintain a similar pattern in the forthcoming years.

13 Inventories

	2011 At cost	2011 Lower of cost or net realisable value	2010 At cost	2010 Lower of cost or net realisable value
	HUF million	HUF million	HUF million	HUF million
Work in progress and finished goods	356,018	347,505	253,521	248,935
Other raw materials	55,138	47,817	59,521	53,059
Purchased crude oil	115,442	111,741	73,064	71,007
Other goods for resale	30,105	29,739	26,072	25,975
Purchased natural gas	11,393	8,432	12,727	9,562
Total	**568,096**	**545,234**	**424,905**	**408,538**

Impairment of 4,587 million HUF was recorded in 2011 and reversal of impairment of HUF 138 million was recorded in 2010.

It is required by law to maintain a certain level of obligatory stocks of crude oil and oil products by IES, the Italian subsidiary. The value of these stocks represents an amount of HUF 45,508 million and HUF 20,198 million at 31 December 2011 and 2010.

Due to the national legislation, Slovnaft Polska, a Polish subsidiary is required to maintain a certain level of obligatory stocks of crude oil and liquid fuels. This level is determined from the volumes imported during the preceding calendar year and was an equivalent of HUF 17,359 million and HUF 16,176 million at 31 December 2011 and 2010, respectively.

INA d.d., the Croatian subsidiary of MOL was obliged by the national government to maintain a defined level of compulsory stocks of crude oil and oil products. The value of these stocks represents an amount of HUF 3,600 million at 31 December 2010. Pursuant to the Decision on quantity and structure of compulsory stocks of oil and oil derivates for 2011 dated 17 March 2011, the Croatian Compulsory Oil Stocks Agency (HANDA) is obligated to keep oil derivatives of 502,000 ton, so INA has no further obligation to keep compulsory stocks as at 31 December 2011.

14 Trade receivables, net

	2011	2010
	HUF million	HUF million
Trade receivables	644,438	477,660
Provision for doubtful receivables	(24,715)	(13,988)
Total	**619,723**	**463,672**

Trade receivables are non-interest bearing and are generally on 30 days' terms.

Movements in the provision for doubtful receivables were as follows:

	2011	2010
	HUF million	HUF million
At 1 January	13,988	28,779
Additions	17,982	7,631
Reversal	(4,687)	(24,798)
Amounts written off	(6,027)	(167)
Currency differences	3,459	2,543
At 31 December	**24,715**	**13,988**

As at 31 December 2011 and 2010 the analysis of the recoverable amount of trade receivables that were past due is as follows:

	2011	2010
	HUF million	HUF million
Neither past due nor impaired	568,930	415,375
Past due but not impaired	50,793	48,297
Within 90 days	37,397	33,251
91 - 180 days	6,724	5,450
Over 180 days	6,672	9,596
Total	**619,723**	**463,672**

15 Other current assets

	2011	2010
	HUF million	HUF million
Prepaid and recoverable taxes and duties (excluding income taxes)	68,611	60,471
Prepaid expenses and accrued income	12,591	13,055
Receivables from joint venture partners	11,436	7,697
Receivables from commodity hedging derivatives as cash flow hedge (see Note 33 and 34)	7,927	-
Advances paid	4,891	4,261
Margining receivables	1,810	725
Current portion of loans given	1,755	1,143
Interest receivable	1,398	1,360
Net receivables from closed, but not settled derivative transactions	1,154	-
Net receivables from commodity price transactions (see Note 33 and Note 34)	337	21
Fair value of firm commitments as hedged item under commodity price transactions (see Note 33 and Note 34)	185	61
Receivables from currency risk hedging derivatives as fair-value hedge (see Note 33 and 34)	74	29
Security deposits	10	10,637
Fair value of the option on MOL shares transferred to CEZ (see Note 17 and Note 34)	-	28,858
Unsettled sales price on Crobenz divestiture payable by Lukoil	-	717
Receivables from foreign exchange forward transactions (see Note 33 and Note 34)	-	8
Other	12,955	12,465
Total	**125,134**	**141,508**

Analysis of loans given

	2011	2010
	HUF million	HUF million
Current portion of loans given	2,086	1,473
Provision for doubtful loans receivable	(331)	(330)
Total	**1,755**	**1,143**

Movements in the provision for doubtful loans receivable were as follows:

	2011	2010
	HUF million	HUF million
At 1 January	330	3,042
Additions	-	-
Reversal	-	-
Amounts written off	-	-
Reclassification between short-term and long-term	-	(2,712)
Acquisition / (sale) of subsidiaries	-	-
Currency differences	1	-
At 31 December	**331**	**330**

16 Cash and cash equivalents

	2011	2010
	HUF million	HUF million
Cash at bank – EUR	39,552	50,527
Cash at bank – USD	12,928	5,758
Cash at bank - HRK	11,258	9,382
Cash at bank – RON	9,179	10,573
Cash at bank – CZK	7,664	4,711
Cash at bank – RUB	5,638	2,126
Cash at bank – HUF	4,732	7,409
Cash at bank – PLN	2,814	1,537
Cash at bank – other currencies	17,679	5,348
Short-term bank deposits – EUR	91,410	143,984
Short-term bank deposits – HUF	51,719	25,893
Short-term bank deposits – USD	36,795	31,409
Short-term bank deposits – RON	5,765	-
Short-term bank deposits – CZK	4,972	1,401
Short-term bank deposits – PLN	1,762	-
Short-term bank deposits - RUB	1,345	7,561
Cash on hand – other currencies	3,477	3,399
Cash on hand – HUF	1,754	1,072
Cash equivalents	690	1,076
Total	**311,133**	**313,166**

In case of cash at bank (current accounts) and short term bank deposits in different currencies the usual ranges of interest rates were the following:

	2011	2010
Current accounts		
EUR	0,1194% - 1,305%	0.100% - 0.707%
USD	0,01 - 0,05%	0 - 0.076%
HUF	4,33% - 5,71%	3.78% - 6.38%
Short-term bank deposits		
EUR	0,10 % - 4,00 %	0.05% - 6.01%
USD	0,01 % - 4,00 %	0.01% - 2.35%
HUF	4,70 % - 7,53 %	4.25% - 7.00%

17 Share capital

As of 31 December 2011, the issued share capital was HUF 104,519 million, consisting of 104,518,484 series “A”, one series “B” and 578 series “C” shares. As of 31 December 2010, the issued share capital is HUF 104,519 million, consisting of 104,518,484 series “A”, one series “B” and 578 series “C” shares. Outstanding share capital as of 31 December 2011 and 2010 is HUF 79,202 million and HUF 79,202 million, respectively.

Ordinary shares of the series “A” have a par value of HUF 1,000 and ordinary shares of the series “C” have a par value of HUF 1,001. Every “A” class share with a par value of HUF 1,000 each (i.e. one thousand 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 one and one 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” share is a voting preference share with a par value of HUF 1,000 that entitles the holder thereof to preferential rights as specified in the present 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 one vote 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 share, 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 share is required to adopt decisions on any proposal not supported by the Board of Directors int he 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 Articles of Association the Board of Directors is entitled to increase the share capital until April 23, 2014 in one or more instalments by not more than HUF 30 billion in any form and method provided by the Company Act.

Treasury share transactions

Option agreements with ING Bank and UniCredit

On 11 March 2010 MOL exercised its American call option with cash-settlement method regarding 5,220,000 'A' series MOL ordinary shares held by ING with conditions specified in the agreement. At the same time, MOL and ING signed a share option agreement and as a result of these transactions, ING received a European put option with respect to its 5,220,000 'A' series MOL shares and MOL received an American call option regarding those shares. The maturity for both options is 1 year. The strike price for the call and put options is EUR 75.4 per share.

On 4 January 2011 MOL exercised its American call option right arising from the share option agreement signed on 11 March 2010 with ING Bank N.V. ("ING") regarding 5,220,000 MOL Series "A" Ordinary shares with cash-settlement method, in respect of all shares. The strike price was EUR 75.4 per share. Settlement took place on 7 January 2011.

Simultaneously, MOL and ING signed a share option agreement on 4 January 2011. As a result of the transactions, MOL received an American call option and ING received a European put option regarding 5,220,000 MOL Series "A" Ordinary shares owned by ING. The maturity for both options is one year. The strike price for both call and put options is EUR 78.6 per share.

Based on the agreement between MOL and ING the options are exercised on 30 November 2011 with cash settlement method. Settlement took place on 5 December 2011, strike price was EUR 78.6 per share.

Simultaneously, MOL and ING signed a share option agreement on 30 November 2011. As a result of the transactions, MOL received an American call option and ING received a European put option regarding 5,220,000 MOL Series "A" Ordinary shares owned by ING. The maturity for both options is one year. The strike price for both call and put options is EUR 59.52 per share.

MOL entered into a share sale and a share option agreement with UniCredit Bank A.G. („UniCredit") on 8 February 2011. As a result of this transaction, UniCredit owns a total number of 2,914,692 MOL Series "A" Ordinary shares. Under the share option agreement MOL has an American call option and UniCredit a European put option in relation to such shares. Both options mature in one year, such maturity being subject to yearly extensions with one year, up to a maximum total tenor of three years. The strike price for both the call and the put options is EUR 85.8 per share which has been later amended to EUR 86.7.

Since all shares held by these entities had put options attached, they were treated as financial liabilities in the consolidated balance sheet. Upon exercising the call or put options, the corresponding liability has been settled.

Strategic Alliance with CEZ

On 20 December 2007 CEZ and MOL signed an agreement to create a joint venture. To strengthen the strategic alliance, CEZ purchased 7,677,285 pieces of "A" series MOL shares (7% stake) at HUF 30,000 which was financially closed and settled on 23 January 2008. MOL also purchased an American call option for the shares with a strike price of EUR 78.7 per share which can be exercised until 2014. The transaction became unconditional upon approval by the relevant competition

offices on 18 June 2008. The call option has been recorded as a derivative financial asset, measured at its fair value, determined by applying the binomial valuation model.
Fair value of the option as of 31 December 2011 was HUF 16,864 million financial liability (see Note 22), determined by applying the binomial valuation model. Spot market price (HUF 17,469 per share), implied volatility (41%) and an expected dividend yield of 3.3% have been used as input to the model.

Fair value of the option as of 31 December 2010 was HUF 28,858 million (see Note 15), determined by applying the binomial valuation model. Spot market price (HUF 20,870 per share), implied volatility (48%) and an expected dividend yield of 1.3% have been used as input to the model.

Share swap agreement with OTP

After the lending of 5,010,501 pieces of MOL shares to OTP has been terminated on 16 April 2009, MOL and OTP entered into a share – exchange and a share swap agreement. Under the agreements MOL transferred 5,010,501 "A" series MOL ordinary shares to OTP in return for 24,000,000 pieces OTP ordinary shares. The expiration of the share-swap agreements is on 11 July 2012 until that time each party can initiate a cash or physical settlement of the deal. Fair value of the share swap agreement amounted to HUF 4,585 million as at 31 December 2011 which has been recorded as derivative financial liability (see Note 22 and 34). As at 31 December 2010 the fair value of the swap was HUF 227 million which has been recorded as derivative liability (see Note 22 and 34).

Issuance of exchangeable capital securities

On 13 March 2006, MOL signed a share purchase agreement to sell 6,007,479 Series "A" Ordinary Shares of MOL held in treasury to Magnolia Finance Limited ("Magnolia"), incorporated in Jersey, which thereby acquired 5.58% influence in MOL.

Magnolia issued EUR 610 million of perpetual exchangeable capital securities (the "Capital Securities"), exchangeable into the Series "A" Ordinary Shares of MOL between March 20, 2011 and March 12, 2016 ("Exchange Period"), to international financial investors outside the United States, Canada, Jersey, Japan, Hungary and Poland. Capital Securities were sold at nominal value and with a fixed coupon payment of 4.00% per annum for the first ten years, based on an exchange rate of HUF 26,670 per share.

MOL, concurrently with the sale of ordinary shares, entered into a swap agreement with Magnolia that gave MOL a call option to buy back all or some of the Series "A" Ordinary Shares of MOL, in certain limited circumstances at a volume - weighted average price during a certain period before exercising the option right, and in case the Capital Securities holders did not or partially exercised their conversion right, upon expiration of the Exchange Period and quarterly afterwards for the Series "A" ordinary shares which have not been exchanged yet. In case Magnolia redeems the Capital Securities after 2016 and the market price of ordinary MOL shares is below EUR 101.54 per share, MOL will pay the difference.

MOL does not have any direct or indirect equity interest in or control rights over Magnolia, but consolidates Magnolia for IFRS purposes in line with the requirements of SIC 12 – Consolidation: Special Purpose Entities.

The issuance of Capital Securities by Magnolia resulted in an increase of equity attributable to non-controlling interest of HUF 121,164 million, net of transaction costs. Holders of the capital securities of Magnolia received a total coupon payment of HUF 6,921 million and HUF 6,702 million in 2011 and 2010, respectively. Coupon payments have been recorded directly against equity attributable to non-controlling interest.

The conversion option of the holders of Capital Securities has been recorded as Other non-current liability (see Note 21), the fair valuation of which is recognized in income statement. The fair value of the conversion option is determined on the basis of the fair value of the Capital Securities, using investment valuation methods (market values), and depends principally on the following factors:

- Quoted MOL share prices denominated in HUF
- HUF/EUR exchange rate
- Implied volatility of MOL share prices (calculated on EUR basis)
- Investor's dividend expectations on MOL shares
- EUR-based interest rate
- Subordinated credit spread

The fair value of this derivative financial liability upon inception has been HUF 37,453 million. The fair value of the conversion option as of 31 December 2011 and 2010 was HUF 14,532 million and HUF 25,079 million (see Note 21 and Note 34).

The fair valuation impact of the option was HUF 10,548 million gain and HUF 5,381 million loss in 2011 and 2010, respectively, recorded as financial gain / expense in the accompanying consolidated income statement.

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
31 December 2009	**104,518,485**	**(7,434,737)**	**(17,882,552)**	**79,201,196**	**134,519,063**
Settlement of the option agreement with ING Bank N.V.	-	(5,220,000)	5,220,000	-	-
New option agreement with ING Bank N.V	-	5,220,000	(5,220,000)	-	-
31 December 2010	**104,518,485**	**(7,434,737)**	**(17,882,552)**	**79,201,196**	**134,519,063**
Settlement of the option agreement with ING Bank N.V.	-	(5,220,000)	5,220,000	-	-
New option agreement with ING Bank N.V	-	5,220,000	(5,220,000)	-	-
Option agreement with UniCredit Bank A.G.	-	2,914,692	(2,914,692)	-	-
Treasury shares call back from MFB Invest Zrt.	-	(1,273,271)	1,273,271	-	-
Settlement of the option agreement with ING Bank N.V.	-	(5,220,000)	5,220,000	-	-
New option agreement with ING Bank N.V	-	5,220,000	(5,220,000)	-	-
31 December 2011	**104,518,485**	**(5,793,316)**	**(19,523,973)**	**79,201,196**	**134,519,063**

There were no movements in the number of issued ordinary shares of series "C". All of the 578 shares are held as treasury stock and included in the total of the authorized number of shares.

18 Dividends

The shareholders at the Annual General Meeting in April 2011 approved to pay no dividend in respect of 2010. The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Plc. is HUF 1,456,854 million and HUF 1,254,362 million as of 31 December 2011 and 2010, respectively.

19 Long-term debt

	Weighted average interest rate	Weighted average interest rate	Maturity		
	2011	2010		2011	2010
	%	%		HUF million	HUF million
Unsecured bonds in EUR				*475,007*	*424,982*
Eurobond 1	3.96	3.96	2015	234,861	210,216
Eurobond 2	6.15	6.15	2017	240,146	214,766
Unsecured bank loans in USD	*1.74*	*1.07*		*282,920*	*361,227*
825 MEUR syndicated			2013	87,014	143,360
700 MEUR syndicated			2012	-	20,748
150 MEUR EIB			2018	47,492	41,172
1000 MEUR club loan			2016	18,292	-
1000 MUSD syndicated			2012-2013	91,272	121,917
210 MEUR EBRD			2017	38,795	33,952
other unsecured loans in USD			2012	55	78
Unsecured bank loans in EUR	*2.79*	*2.23*		*233,316*	*202,765*
825 MEUR syndicated			2013	-	6,969
200 MEUR EBRD			2017	53,337	55,750
1000 MEUR syndicated			2012-2013	141,883	85,875
210 MEUR EBRD			2017	27,193	24,255
other unsecured loans in EUR			2012-2017	10,903	29,916
Unsecured bank loans in HRK	5.20	5.10	2019	3,330	3,388
Unsecured bonds in HUF	6.65	6.10	2012 - 2014	16,574	5,099
Secured bank loans in EUR	2.30	1.79	2013 - 2018	19,971	11,475
Secured bank loans in HUF	8.88	8.05	2014	82	30,115
Financial lease payable	8.18	4.81	2014 - 2026	3,388	3,951
Other	1.84	0.53	2013 - 2015	11,466	6,958
Total				**1,046,054**	**1,049,960**
Current portion of long-term debt				183,905	102,050
Total long-term debt net of current portion				**862,149**	**947,910**

	2011	2010
	HUF million	HUF million
Maturity one to five years	594,517	690,852
Maturity over five years	267,632	257,058
Total	**862,149**	**947,910**

Unsecured bonds in EUR

The EUR 750 million fixed rate bond was issued by MOL Plc. in 2005. The notes are due on 5th October 2015, pay an annual coupon of 3.875% and are in the denomination of EUR 50,000 each. In 2010 MOL has also issued EUR 750 million fixed rate Eurobond notes. The notes have a 7-year maturity, pay an annual coupon of 5.875% and were priced at 315 bps above mid-swap rates. Both notes are listed on the Luxembourg Stock Exchange.

Unsecured bank loans

Main elements of unsecured bank loans at MOL Plc. are the EUR 825 million syndicated multi-currency revolving loan facility maturing in July 2013 and the EUR 1 billion as well as EUR 500 million club facilities maturing in 5 and 3 years, respectively. Tenor of the EUR 1 billion club loan can be extended by 1 plus 1 year. As the EUR 500 million loan agreement provided extension option, in September 2011 an amount of EUR 470 million was extended by one additional year until 10 September 2014. The EUR 700 million revolving credit facility with expiry in May 2012 has been cancelled simultaneously with executing the EUR 1 billion credit agreement. In order to finance the strategic and commercial gas storage project MOL signed an 8-year loan agreement with EBRD (European Bank for Reconstruction and Development) on 17 June 2009. Besides these, INA Group has a USD 1 billion syndicated multi-currency revolving loan facility, maturing partially in 2012 and partially in 2013, and it concluded a 7-year loan agreement with EBRD in an amount of EUR 210 million in September 2010 for refinery modernisation (this credit facility is co-financed by ICF debt Pool and Cordiant Capital Fund).

Unsecured bonds in HUF

In April 2011 - following the issue of HUF 5 billion in October 2010 - MOL Plc issued a fixed rate bond in amount of HUF 11 billion under its domestic bond programme. The notes have 3 years maturity and pay an annual coupon of 7%.

Secured bank loans in EUR

Secured loans were obtained for specific capital expenditure projects and are secured by the assets financed from the loan.

Financial lease payable

The Group has finance leases or other agreements containing a financial lease element for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Minimum lease payments and present values of payments as of 31 December 2011 and 2010, respectively are as follows:

	2011 Minimum lease payments HUF million	2011 Present value of payments HUF million	2010 Minimum lease payments HUF million	2010 Present value of payments HUF million
Maturity not later than 1 year	764	655	788	674
Maturity two to five years	2,680	2,090	2,811	2,197
Maturity over five years	814	643	1,452	1,080
Total minimum lease payments	**4,258**		**5,051**	
Less amounts representing financial charges	(870)		(1,100)	
Present values of financial lease liabilities	**3,388**	**3,388**	**3,951**	**3,951**

20 Provisions for liabilities and charges

	Environ-mental HUF million	Redundancy HUF million	Long term employee retirement benefits HUF million	Field operation suspension HUF million	Legal claims HUF million	Other HUF million	Total HUF million
Balance as of 31 December 2009	**69,563**	**3,330**	**14,416**	**188,348**	**18,161**	**21,740**	**315,558**
Acquisition / (sale) of subsidiaries	-	-	-	-	(127)	(67)	(194)
Additions and revision of previous estimates	(157)	1,912	2,417	(15,717)	3,256	11,929	3,640
Unwinding of the discount	3,697	-	419	12,103	-	-	16,219
Currency differences	975	(392)	191	2,035	466	144	3,419
Provision used during the year	(4,051)	(645)	(2,299)	(1,977)	(1,689)	(3,604)	(14,265)
Balance as of 31 December 2010	**70,027**	**4,205**	**15,144**	**184,792**	**20,067**	**30,142**	**324,377**
Acquisition / (sale) of subsidiaries	-	-	-	-	-	-	-
Additions and revision of previous estimates	591	4,245	2,879	6,112	3,812	(1,844)	15,795
Unwinding of the discount	2,675	-	817	10,116	-	-	13,608
Currency differences	6,131	321	860	9,595	1,104	577	18,588
Provision used during the year	(3,253)	(3,584)	(2,896)	(304)	(499)	(10,290)	(20,826)
Balance as of 31 December 2011	**76,171**	**5,187**	**16,804**	**210,311**	**24,484**	**18,585**	**351,542**
Current portion 2010	4,957	1,460	1,697	457	9,844	25,427	43,842
Non-current portion 2010	65,070	2,745	13,447	184,335	10,223	4,715	280,535
Current portion 2011	5,466	2,235	2,203	2,470	11,746	13,107	37,227
Non-current portion 2011	70,705	2,952	14,601	207,841	12,738	5,478	314,315

Environmental Provision

As of 31 December 2011 provision of HUF 76,171 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 audit team. In 2006, an independent environmental auditor firm has reviewed MOL's internal assessment policies and control processes and validated those. 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 2011 also includes a contingent liability of HUF 19,009 million recognized upon acquiring INA Group, representing its present environmental obligations and a further HUF 15,717 million environmental contingent liability regarding the acquisition of IES (see Note 35).

Provision for Redundancy

As part of a continuing efficiency improvement project, MOL Plc., SLOVNAFT a.s., INA d.d. 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 recognized a provision for the net present value of future redundancy payments and related tax and contribution. The closing balance of provision for redundancy is HUF 5,187 million and HUF 4,205 million as of 31 December 2011 and 2010, respectively.

Provision for Field Operation Suspension Liabilities

As of 31 December 2011 provision of HUF 210,311 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 5% of these costs are expected to be incurred between 2012 and 2016 and the remaining 95% between 2017 and 2060. 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 judgment 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 Long-term Employee Retirement Benefits

As of 31 December 2011 the Group has recognized a provision of HUF 16,804 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 TVK and SLOVNAFT provide a maximum of 2 and 8 months of final salary respectively, depending on the length of service period. 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 and are in line with those incorporated in the business plan of the Group. Principal actuarial assumptions reflect an approximately 2% difference between the discount rate and the future salary increase.

	2011 HUF million	2010 HUF million
Present value of total defined benefit obligation at the beginning of the year	**16,567**	**15,957**
Past service cost not yet recognized at the beginning of the year	1,423	1,541
Balance as of the beginning of the year	**15,144**	**14,416**
Acquisitions / (disposals)	-	-
Past service cost	104	598
Current service cost	3,755	2,166
Interest costs	817	419
Provision used during the year	(2,896)	(2,299)
Net actuarial (gain)/loss	(980)	(347)
Exchange adjustment	860	191
Balance as at year end	**16,804**	**15,144**
Past service cost not yet recognized at year end	1,166	1,423
Present value of total defined benefit obligation at year end	17,970	16,567

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

	2011 HUF million	2010 HUF million
Current service cost	3,755	2,166
Net actuarial (gain)/loss	(980)	(347)
Past service cost	104	598
Net benefit expense (See Note 26)	**2,879**	**2,417**

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

	2011	2010
Discount rate in %	2.5-4.1	2.0-4.3
Average wage increase in %	0.5-2.1	0-2.3
Mortality index (male)	0.02-0.84	0.06 – 3.45
Mortality index (female)	0.01-0.35	0.02 – 1.50

Legal and Other Provisions

Legal and other provisions include provision for emission quotas and for cost of unutilised holiday and for other minor future payment obligations. As of 31 December 2011 provision of HUF 24,484 million has been made for estimated total costs of litigations. As of 2011 MOL Group has been granted 6,348,847 emission quotas by the Hungarian, Slovak and Italian authorities. The total use of emission quotas amounted to 5,894,318 in 2011. In 2009 MOL Group sold a major part of the quotas granted free of charge on the market and concurrently recognised a provision of HUF 13,513 million in 2010 for the shortage of emission quotas. In 2011 the amount of such provision decreased to HUF 8,479 million.

21 Other non-current liabilities

	2011 HUF million	2010 HUF million
Government grants received (see Note 5)	13,264	6,753
Conversion option of exchangeable capital securities issued by Magnolia Finance Ltd (see Note 17 and 34)	14,532	25,079
Trade payable to exploration partners	6,601	2,516
Deferred income	5,716	5,109
Liabilities to Government of Croatia for sold apartments	2,840	2,827
Compensation for property plant and equipments	4,467	-
Long term advances	1,281	1,656
Payable from currency risk hedging derivatives as fair value hedge (see Note 34)	748	205
Other	1,597	1,965
Total	**51,046**	**46,110**

Long-term liabilities to the government relates to obligation arising on the sale of housing units to employees under the government program of Croatia. According to the local law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the state at such time as the proceeds were collected by INA. According to the Croatian law, INA has no liability to remit the funds unless and until they are collected from the employee.

22 Trade and other payables

	2011 HUF million	2010 HUF million
Trade payables	514,867	432,948
Taxes, contributions payable (excluding corporate tax)	188,927	147,738
Shares sold with put and call options attached (see Note 17 and Note 34)	171,140	108,959
Amounts due to employees	25,514	25,861
Fair value of the option on MOL shares transferred to CEZ (see 17 and Note 34)	16,864	-
Advances from customers	13,321	14,068
Custom fees payable	12,676	11,100
Discount payable to customers	7,165	6,901
Accrued expenses	6,832	9,623
Fee payable for strategic inventory storage	6,643	6,090
Payables from commodity hedging derivatives as cash flow hedge (see Note 33 and 34)	5,457	-
Fair value of MOL - OTP share swap (see Note 17 and Note 34)	4,585	227
Bank interest payable	4,396	3,761
Strategic capacity booking fee	3,881	4,594
Net payables from closed, but not settled derivative transactions	2,932	857
Penalty payable to the Antimonopoly Office of the Slovak Republic	2,809	2,517
Liabilities to joint venture partners	2,617	5,002
Margining liability	2,530	146
Purchase price difference payable on Tifon and IC Energo acquisitions	365	340
Net payables from commodity price transactions designated as fair value hedge (see Note 33 and Note 34)	185	61
Payables from currency risk hedging derivatives as fair value hedge (see Note 34)	164	53
Accrual due to E.ON price revision	-	2,739
Other	14,910	17,373
Total	**1,008,780**	**800,958**

Trade payables are non-interest bearing and are normally settled on 30-day terms. Contributions payable mainly include mining royalty, contributions to social security, value added tax and custom duties.

23 Short-term debt

	2011	2010
	HUF million	HUF million
Secured bank loans in EUR	28,480	21,749
Secured bank loans in HUF	-	1,285
Unsecured bank loans in EUR	67,750	95,930
Unsecured bank loans in USD	34,979	27,838
Unsecured bank loans in HRK	2,544	10,514
Unsecured bank loans in PLN	2,296	3,541
Other	239	6
Total	**136,288**	**160,863**

24 Sales by product types

Sales by product types	2011	2010
	HUF million	HUF million
Sales of oil products	3,486,645	2,645,366
Sales of petrochemicals	809,750	679,480
Sales of natural gas and gas products	603,125	569,777
Sales revenue of services	250,537	244,965
Sales of crude oil	100,622	72,100
Sales of other products	92,555	87,966
Total	**5,343,234**	**4,299,654**

25 Other operating income

	2011	2010
	HUF million	HUF million
Penalties received	8,197	6,285
Gain on sales of intangibles, property, plant and equipment	6,286	2,228
Discounts received	1,704	2,288
Allowances and subsidies received	1,335	2,358
Government grants released	795	957
Settlement of joint venture partner claim by natural gas transfer	-	3,591
Net gain realized on disposal of subsidiaries	-	756
Other	6,638	6,431
Total	**24,955**	**24,894**

26 Personnel expenses

	2011 HUF million	2010 HUF million
Wages and salaries	180,863	184,798
Social security	45,389	48,837
Other personnel expenses	29,998	33,151
Pension costs and post-employment benefits (see Note 20)	2,879	2,417
Expense (reversal of expense) of share-based payments (See Note 39)	(3,202)	2,765
Total	**255,927**	**271,968**

27 Other operating expenses

	2011 HUF million	2010 HUF million
Mining royalties	149,918	166,156
Rental costs	42,918	42,978
Taxes and contributions	40,914	38,904
Crisis tax for Hungarian energy suppliers and retail activities	28,960	25,754
Contribution to strategic inventory storage	27,004	17,667
Other services	20,964	19,253
Provision for doubtful receivables	15,115	(11,836)
Exchange loss of trade receivables and payables	10,529	18,308
Advertising expenses	6,723	5,846
Insurance	6,676	7,297
Consultancy fees	6,540	6,147
Revaluation of emission quotas	6,460	-
Cleaning costs	5,451	5,187
Bank charges	3,894	2,507
Site security costs	3,725	3,692
Outsourced bookkeeping services	3,366	3,378
Environmental protection expenses, net	1,814	1,202
Environmental levy	675	707
Late payment penalties	602	4,672
Environmental provision made during the year	591	(157)
Damages	167	200
Provision for legal and other claims	(1,828)	8,626
Provision for greenhouse gas emission over quota allocated free of charge	(5,015)	757
Provision for field abandonment	(5,700)	(5,372)
Other	10,841	6,651
Total	**381,304**	**368,524**

Mining royalties in 2010 include a one-off HUF 30,387 million reimbursement to the Hungarian state due to the decision of the EU Commission. An additional interest of HUF 4,840 million has been paid with respect to this reimbursement (see Note 28). Crisis tax of HUF 28,960 million (2010: 25,754 million) has been imposed on various domestic energy supplying members of the Group (including the parent company) and the Hungarian retail shop selling activities of MOL Plc. by the Hungarian state from 2010. The base of the tax charge is sales revenues of legal entities engaged in such activities. According to the relevant legislation, crisis tax remains effective up until 2012 and is expected to have a similar magnitude in the forthcoming year.

28 Financial (income) / expense

	2011 HUF million	2010 HUF million
Foreign exchange gain on borrowings	55,495	-
Fair valuation gain on conversion option (see Note 17)	10,548	-
Interest received	9,389	7,437
Net gain on derivative transactions	-	7,710
Net gain on sales of investments	-	313
Dividends received	2,751	714
Other financial income, net	1,965	8,557
Total financial income	**80,148**	**24,731**
Net loss on derivative transactions	74,579	-
Foreign exchange loss on borrowings	-	42,231
Interest on borrowings	41,171	29,696
Interest on provisions	13,608	16,219
Fair valuation loss on conversion option (see Note 17)	-	5,381
Interest on mining fee reimbursement (see Note 27)	-	4,840
Other financial expenses, net	5,642	11,841
Total financial expenses	**135,000**	**110,208**
Total financial expense, net	**54,852**	**85,477**

Net loss on derivative transactions in 2011 contain HUF 60,798 million loss on the fair valuation of the call option held by the Group on the MOL shares representing 7% of its share capital owned by CEZ (for details see Note 17). In 2010 fair valuation difference on CEZ option was HUF 10,149 million gain, recorded as financial income.

29 Components of other comprehensive income

	2011 HUF million	2010 HUF million
Exchange differences on translating foreign operations including net investment hedge, net of tax		
Gains / (losses) arising during the year	97,649	42,875
Reclassification adjustments for gains and losses included in the income statement	-	-
Income tax effect	9,920	-
	107,569	42,875
Available-for-sale financial assets		
Gains / (losses) arising during the year	(3,515)	3,995
Reclassification adjustments for gains and losses included in the income statement	-	(5,257)
Income tax effect	655	(161)
	(2,860)	(1,423)
Cash-flow hedges		
Gains / (losses) arising during the year	1,309	(23)
Reclassification adjustments for gains and losses included in the income statement	-	-
Income tax effect	(149)	374
	1,160	351
Share of other comprehensive income for associates		
Gains / (losses) arising during the year	14,145	7,180
Reclassification adjustments for gains and losses included in the income statement	1,058	589
Income tax effect	(265)	(97)
	14,938	7,672

30 Income taxes

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2011 and 2010 include the following components:

	2011	2010
	HUF million	HUF million
Current corporate income taxes	55,896	31,780
Local trade tax and innovation fee	12,878	12,992
Deferred corporate income taxes	(35,397)	18,525
Total income tax expense/(benefit)	**33,377**	**63,297**

The Group's current income taxes are determined on the basis of taxable statutory profit of the individual companies of the Group. The applicable corporate income tax rate on the taxable income of the companies of the Group operating in Hungary was 19% in 2011 and in 2010 also. In addition, a further, temporary surplus tax of 8% applicable for domestic energy supplier entities until 2012. As per the Hungarian tax legislation effective in 2010, corporate tax rate was to decrease to 10% from 1 January 2013, however, the Hungarian Government withdrew this decrease in late 2011. Slovakian and Croatian tax rates were 19% (2010: 19%) and 20% (2010: 20%), respectively. Italian tax rate was increased following the crisis and government change, total tax rate applicable for 2011 is 41.9%, being an aggregate of a corporate income tax of 27.5%, a temporarily increased surcharge tax on energy sector of 10.5% and local tax rate of 3.9% (in 2010 the total tax rate was 37.9%). Enacted changes in tax rates are considered when calculating deferred tax assets and liabilities.

Local trade tax represents another revenue-based tax for Hungarian subsidiaries, payable to local municipialities. Tax base is calculated by deducting certain production costs from sales revenue. Tax rates vary between 1-2% dependent on the resolution of local governments where the entities have their business activities.

There is no dividend withholding tax in Hungary on dividends paid to foreign tax resident legal entities. As regards dividend paid to private individuals, a 16% personal income tax liability arises also withheld at source.

Income tax recognised in other comprehensive income

	2011 HUF million	2010 HUF million
Deferred and current tax recognised in other comprehensive income:		
Revaluations of available-for-sale financial assets	655	(161)
Revaluations of financial instruments treated as cash flow hedges	(149)	374
Net gain/ (loss) on hedge of a net investment and foreign exchange differences of loans given	9,920	-
Revaluations of financial instruments of associated companies	21	122
	10,447	**335**
Reclassifications from equity to profit or loss:		
Relating to available-for-sale financial assets	-	-
Relating to cash flow hedges	-	-
Relating to hedges of net investments	-	-
Relating to associated companies	(286)	(219)
	(286)	**(219)**
Total income tax recognised in other comprehensive income	**10,161**	**116**

The deferred tax balances as of 31 December 2011 and 2010 in the consolidated balance sheet consist of the following items:

	Balance sheet		Recognized in income statement	
	2011	2010	2011	2010
	HUF million	HUF million	HUF million	HUF million
Breakdown of net deferred tax assets				
Unrealized gains on intra-group transfers	15,139	28,281	(13,902)	(6,072)
Provisions	10,620	6,995	3,442	(2,643)
Depreciation, depletion and amortization	(494)	(16,706)	16,329	(2,218)
Differences in accounting for domestic oil and gas exploration and development	(8,808)	(4,622)	(4,187)	1,315
Capitalization of certain borrowing costs	(2,925)	(4,661)	1,749	(1,422)
Embedded derivatives	-	(412)	-	-
Foreign exchange differences	8,074	1,739	(294)	478
Valuation of financial instruments	(1,131)	(522)	(610)	207
Capitalized periodic maintenance costs	(1,155)	(975)	(180)	135
Statutory tax losses carried forward	22,187	2,519	19,513	(11,919)
Receivables write off	961	378	564	(2,957)
Other	847	668	140	(17)
Deferred tax assets	**43,315**	**12,682**		
Breakdown of net deferred tax liabilities				
Fair valuation of assets on acquisitions	(119,376)	(111,756)	4,649	11,529
Depreciation, depletion and amortization	(57,447)	(27,638)	(26,999)	(3,576)
Provisions	8,432	7,591	169	1,593
Statutory losses carried forward	16,026	7,771	7,629	(6,089)
Elimination of inter-company transactions	17,377	(98)	17,471	29
Receivables write off	11,381	507	10,567	(310)
Capitalization of borrowing costs	(3,578)	(504)	(3,008)	(44)
Embedded derivatives	(561)	-	-	-
Foreign exchange differences	(66)	(59)	-	(93)
Inventory valuation difference	6,637	5,788	121	1,901
Valuation of financial instruments	4,745	2,524	2,026	1,228
Other	(2,372)	(2,438)	208	420
Deferred tax liabilities	**(118,802)**	**(118,312)**		
Net deferred tax asset / (liability)	**(75,487)**	**(105,630)**		
Deferred tax (expense) / income			**35,397**	**(18,525)**

Analysis of movements in net deferred tax assets and liabilities during the year

	2011	2010
	HUF million	HUF million
Net deferred tax asset / (liability) at 1 January	**(105,630)**	**(85,521)**
Recognized in income statement	35,397	(18,525)
Recognized directly in fair valuation reserve	7,135	213
Sale of subsidiaries (see Note 8)	-	(79)
Exchange difference	(12,389)	(1,718)
Net deferred tax asset / (liability) at 31 December	**(75,487)**	**(105,630)**

The unrealized gains on intra-group transfers contain primarily the results of the gas unbundling. Due to the fact that this gain increased the tax base of the assets, but has been eliminated in the consolidation, the increase in the future depreciation gives rise to a deferred tax asset.

Significant tax losses arose in 2011 at MOL Plc. as a result of tax-deductible losses on certain investments and treasury share transactions under local accounting standards. Prior (2008) tax losses have been fully used by the parent company in 2010. Additional tax losses arose at INA (in 2009), at IES S.p.a. (in 2009 and 2010) and at TVK Plc. and some of TVK's subsidiaries (in 2009, 2010 and 2011). Since the Group estimates that these companies will have taxable profits available in the future to offset with these tax losses, a deferred tax asset of HUF 38,213 million and HUF 10,290 million has been recognized as of 31 December 2011 and 2010, respectively.

No deferred tax assets have been recognized in respect of such losses elsewhere in the Group as they may not be used to offset taxable profits and they have arisen in subsidiaries that have been loss-making for some time. The amount of such tax losses was HUF 6,155 million and HUF 4,116 million in 2011 and 2010, respectively.

From the unused tax losses at the end of the period, HUF 173,408 million has no expiry, while HUF 48,740 million can be utilized between 2012 and 2016.

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

	2011 HUF million	2010 HUF million
Profit before tax per consolidated income statement	218,396	172,014
Tax at the applicable tax rate (19%, 2010: 19%)	41,495	32,683
Tax holiday available	(1,903)	-
Surplus taxes and local trade tax	15,360	16,400
Differences not expected to reverse	(14,316)	3,800
Effect of different tax rates	(6,697)	(4,889)
Adjustment to the period of realisation	(683)	-
Losses of subsidiaries not recognized as an asset	6,155	7,357
Non-taxable income	1,447	(1,783)
Revaluation of deferred tax assets and liabilities	(5,884)	3,147
Impact of changes in Hungarian tax legislation	-	6,082
Other	(1,597)	500
Total income tax expense / (benefit) at the effective income tax rate of 15% (2010: 37%)	**33,377**	**63,297**

Differences not expected to reverse primarily include the tax impact of loss on treasury share transactions (see Note 17) which have been realized under Hungarian accounting standards and included in current year tax base. Under IFRS, however these have not and will never be recognized in the consolidated income statement.

31 Discontinued operations and disposal groups

Disposal Groups

Considering the requirements of the conditional approval of the Anti-Monopoly Office of Croatia on the Amendment to the Shareholders' Agreement signed by and between MOL and the Government of Croatia retail activities of Crobenz d.d. a 100% subsidiary of INA d.d. had to be sold. The sale obligation has been met in September, 2010, see Note 8.

32 Earnings per share

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.
Diluted earnings per share is calculated considering the dilutive effect of the convertible bonds and the potentially dilutive effect of the conversion option embedded in the Perpetual Exchangeable Capital Securities in the number of outstanding shares and by excluding the fair valuation difference of the conversion option from the net income attributable to equity holders of the parent.

	Income (HUF million)	Weighted average number of shares	Earnings per share (HUF)
Basic Earnings Per Share 2010	103,958	84,421,196	1,231
Diluted Earnings Per Share 2010	109,339	90,428,675	1,209
Basic Earnings Per Share 2011	153,674	87,032,441	1,766
Diluted Earnings Per Share 2011	143,126	93,039,920	1,538

	2011 HUF million	2010 HUF million
Net profit attributable to ordinary shareholders for basic earnings per share	153,674	103,958
Fair value of conversion option	(10,548)	5,381
Net profit attributable to ordinary shareholders for diluted earnings per share	**143,126**	**109,339**

	2011	2010
Weighted average number of ordinary shares for basic earnings per share	87,032,441	84,421,196
Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities	6,007,479	6,007,479
Adjusted weighted average number of ordinary shares for diluted earnings per share	**93,039,920**	**90,428,675**

33 Financial risk management objectives and policies

As financial risk management is a centralized function in MOL Group, it is possible to integrate and measure all risks at group level in a model using Value at Risk approach. A monthly 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 actively manages its commodity exposures for the following purposes only:

- Corporate Level Objectives – maintenance of financial ratios and targeted financial results, protection against large cash transaction exposures etc. ,

- Business Unit Objectives – To reduce the exposure of a Business Unit's cash flow to market price fluctuations in case of changes from the normal course of business (e.g.: planned refinery shutdowns)

MOL follows two different strategies based on the level of Net Gearing. In the two scenarios, Risk Management focuses on the followings:

- In a High Gearing situation, the primary objective of risk management is to reduce the probability of breaching debt covenants, where a breach would seriously impair the company's ability to fund its operations.

- In Low Gearing status, the focus of risk management shall be directed more toward to the protection of shareholder value by maintaining discipline in CAPEX spending, ensuring risk-aware project selection.

The Group is currently in Low Gearing status.

In line with MOL's risk management policy, no speculative transactions are allowed. Any derivative transaction the company may enter is under ISDA (International Swaps and Derivatives Association) agreements.

MOL Commodity Trading Limited was established in 2009 with the purpose to centralize and manage MOL's needs in oil and oil products derivatives, to optimize the Group-level CO2 quota position and to manage the procurement of electricity. In order to improve control over the resulting market and credit risks, risk limits are applied and monitored on an on-going basis. Continuous stress-tests and scenario analyses provide additional cushion for the safety in the trading book.

Key Exposures

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

Commodity Price Risk Management

MOL Group as an integrated oil and gas company is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks stem from long crude oil position to the extent of its Group level production, long refinery margin position to the extent of the refined product volumes and long petrochemical margin position.

MOL can enter into hedging transactions for the above mentioned Corporate Level Objectives and Business Unit Objectives purposes only.

In 2011 MOL concluded short term commodity swap transactions. These transactions are mainly dealt for inventory hedging purposes in order to mitigate the effects of the potential price movements during the non-business-as-usual refinery activities (e.g. maintenance periods), and they are also related to crude oil procurement and other trading possibilities. As of 31 December 2011 the fair value of open commodity derivative transactions designated as fair value hedge was a net payable of HUF 185 million (see Note 22). The fair value of accompanying firm commitments as hedged items under commodity derivative transaction designated as fair value hedges was a net receivable of HUF 185 million (see Note 15).

At the end of 2011 MOL concluded swap deals on a significant volume of crude oil purchases and unleaded diesel sales forecasted for the next year (on a quarterly basis) with the economic purpose of capturing a favourable crack spread on this product during 2012. As of 31 December 2011 the fair value of open transactions designated as cash flow hedge was a receivable of HUF 7,927 million with respect to diesel swap (see Note 15) and a payable of HUF 5,457 million with respect to crude swap (see Note 22), with a corresponding adjustment of the fair valuation reserve in other comprehensive income. Deals will be settled subsequent to each quarter in the next year.

As of 31 December 2011 and 2010 the fair value of open commodity derivative transactions not designated as hedges were a net receivable of HUF 337 million and HUF 21 million (see Note 15), respectively.

Foreign Currency Risk Management

At group level, the Group has a net long USD, EUR, RON, and net short HUF, HRK, RUB operating cash flow position from economic point of view.

When MOL is in high gearing status, the Group follows the basic economic currency risk management principle (‘natural hedge’) that the currency mix of the debt portfolio should reflect the net operating cash flow position of the Group.

The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of 31 December 2011 and 2010, there were no open cross currency transactions.

The Group has two long-term international gas transit agreements (expiring in 2017 and 2019) under which consideration is calculated in SDR. The contractual provisions prescribing price calculation in SDR have been identified as a SDR/USD swap, being an embedded derivative under IAS 39, as the Group considers USD price setting to be closely related to the host contract. This derivative has been separated from the host contract and designated as a cash flow hedge to the host gas transit contract. The fair value of the embedded SDR derivative is a net receivable of HUF 2,955 million (HUF 2,394 million net of deferred tax) as of 31 December 2011 (see Note 12). The corresponding figure as of 31 December 2010 was HUF 4,116

million net receivable (HUF 3,704 million net of deferred tax). The decrease in the fair value of this instrument has been recognized in other comprehensive income.

INA has concluded certain long-term contracts on gas and crude- oil storage and transport which contain embedded derivatives as defined by IAS 39. These derivatives has been separated from the host contracts and designated as fair value hedge to the host gas and crude- oil contracts. The fair value of the embedded derivatives is a net receivable of HUF 288 million as of 31 December 2011 (see Note 12 and Note 15). The corresponding figure as of 31 December 2010 was HUF 184 million net receivable.

The Group classifies its forward exchange contracts and currency exchange options either as fair value hedges, in case of debts, either as cash-flow hedges in case a designated hedging relationship exist or as stand-alone derivatives and carries them at fair values.

As of 31 December 2011 there were no open foreign exchange forward transactions. As of 31 December 2010 the fair value of open foreign exchange forward transactions was a net of receivable of HUF 8 million (see Note 15).

Hedge of net investments in foreign operations

Certain facilities of the Group's long-term debt (USD 1,177 million and EUR 2,155 million) has been designated from 1 July 2011 as hedging instruments in a net investment hedge of foreign operations denominated in USD and EUR. These borrowings are used to hedge the Group's exposure to the spot USD and EUR foreign exchange retranslation risk of these investments. Losses of HUF 111,267 million incurred on retranslating these borrowings are recorded in other comprehensive income to offset corresponding gains on translating the hedged net investments in foreign operations.

Interest rate risk management

As an energy company, MOL has limited interest rate exposure. The ratio of fix/floating interest debt is determined by the Board of Directors on the basis of the suggestion of Group Risk Management from time to time, based on international best practice.

As result of the 750M EUR Bond transaction in 2005, 750M EUR Bond transaction in 2010 and HUF 16 billion Hungarian retail bond transaction also in 2010-2011, the fixed portion of the total debt increased substantially. As of 31 December 2011 and 2010, 36.3% and 32.6% of the Group's debt was at fixed rates respectively.

The Group may use interest rate swaps to manage the relative level of its exposure to cash flow interest rate risk associated with floating interest-bearing borrowings.

As of 31 December 2011 and 2010, there was no open interest rate swap transaction.

Sensitivity analysis for key exposures

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 profit from operations	2011 HUF billion	2010 HUF billion
Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin)		
Downstream	+ 9.6 / - 9.6	+ 9.5 / - 9.5
Upstream	+ 17.8 / - 17.5	+ 24.3 / - 21.3
Gas Midstream	+ 1.1 / - 1.0	+ 1.0 / - 2.0
Crack spread (change by +/- 10 USD/t)		
Downstream	+ 40.5 / -40.5	+ 42.3 / - 42.3
Upstream	+ 1.8 / - 2.1	+ 2.4 / -1.5
Integrated petrochemical margin (change by +/- 10 EUR/t)		
Downstream	+ 3.2 / - 3.2	+ 3.0 / - 3.0
Brent - Ural Spread (+/- 1 USD/bbl)		
Downstream	+ 18.4 / - 18.4	+ 18.0 / - 18.0
Upstream	- 0.7 / + 0.7	- 0.2 /+ 0.2
Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads)		
Downstream	- 0.9 / + 0.9	+ 3.5 / - 3.5
Upstream	+ 22.3 / - 22.3	+ 15.6 / - 15.7
Gas Midstream	- 1.9 / + 1.9	- 1.9 / + 1.8
Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin)		
Downstream	+ 13.5 / - 13.5	+ 14.4 / - 14.4
Gas Midstream	+ 0.6 / - 0.6	+ 1.1 / - 1.3

Other Exposures

Credit risk

The Group provides a variety of customers with products and services, none of whom, based on volume and creditworthiness, present significant credit risk. Group procedures ensure that sales are made to customers with appropriate credit history and do not exceed an acceptable credit exposure limit.

Customers are allocated to 12 segments in order to provide better transparency and to achieve more conscious diversification. The different characteristics of the segments support the mitigation of credit risk.

For segments with higher risk profile the ratio of secured credit limits is also higher. Credit insurance, collateral, bank guarantee, letter of credit and lien are the most preferred insurance types.

As a result of being a major player in the Central-Eastern European region, approximately 70% of our customers are situated in that region; nevertheless our customer portfolio is very diversified from geographical point of view.

Group procedures ensure that sales are made to customers with appropriate credit history and do not exceed an acceptable credit exposure limit.

Individual credit limits are calculated and defined after external and internal assessment of customers. Information on existing and possible customers is gathered from well-known and reliable Credit Agencies. Internal assessment shall be done on the basis of information obtained, where individual credit limits are calculated by pre-defined algorithms. The internal semi-automated assessment shall be considered as an international best practice with conservative credit management approach.

Sophisticated software solutions (SAP, CRM, Endur) ensure online monitoring of credit exposures, breach and expiry of credit limits and also overdue receivables. When such credit situations occur, shipments shall be blocked. Decisions on the unblocking of the shipments shall be made by authorized managers both on Financial and on Business side. The level of the Managerial decisions is regulated in Group policies.

Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to cover the liquidity risk in accordance with its financing strategy. The amount of undrawn major committed credit facilities as of 31 December 2011 consists of the following:

	HUF million
Long - term loan facilities available (general corporate purpose)	537,852
Short - term facilities available	100,972
Total loan facilities available	**638,824**

MOL Group's diversified, long-term funding portfolio consists of renewable, revolving, syndicated and club loans, issued bonds and of loan facilities concluded with multilateral financial institutions.

The stabilizing capital markets environment during the first half of 2011 allowed MOL to conclude a new EUR 1 billion club loan facility maturing in 2016, with an extension option of 1 plus 1 year. Furthermore on 23 September 2011, out of the 500 million club facility an amount of EUR 470 million has been extended by one additional year until 10 September 2014.

To further diversify the funding portfolio of MOL Group, MOL under its 100 billion HUF bond programme for 2010-2011 - following the issue of HUF 5 billion in October 2010 - has issued a fixed rate bond in amount of HUF 11 billion with 3-year tenor in April 2011.

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted payments.

31 December 2011	On demand HUF million	Less than 1 month HUF million	1 to 12 months HUF million	1 to 5 years HUF million	Over 5 years HUF million	**Total HUF million**
Interest-bearing loans and borrowings:						
Obligations under financial leases	-	41	723	2,680	814	**4,258**
Floating rate long-term bank loans	-	66,881	111,564	350,886	38,685	**568,016**
Floating-rate other long-term loans	-	17	358	6,616	-	**6,991**
Floating-rate short-term bank loans	-	26,335	109,133	-	-	**135,468**
Floating-rate other short-term loans	-	-	4,923	-	-	**4,923**
Fixed rate bonds	-	-	28,724	327,851	247,057	**603,632**
Other	-	-	-	-	-	**-**
Non-interest bearing long-term liabilities	-	22	237	4,130	5,012	**9,401**
Transferred “A” shares with put and call options attached	-	-	175,302	-	-	**175,302**
Maximum exposure under financial guarantees (see Note 35)	11,409	-	-	-	-	**11,409**
Trade and other payables (excluding Transferred “A” shares with put and call options attached and taxes and contributions)	76,261	304,283	252,691	-	-	**633,235**
Total	**87,670**	**397,579**	**683,655**	**692,163**	**291,568**	**2,152,635**

31 December 2010	On demand HUF million	Less than 1 month HUF million	1 to 12 months HUF million	1 to 5 years HUF million	Over 5 years HUF million	**Total HUF million**
Interest-bearing loans and borrowings:						
Obligations under financial leases	-	45	743	2,811	1,452	**5,051**
Floating rate long-term bank loans	1,097	54,657	34,698	474,340	92,133	**656,925**
Floating-rate other long-term loans	-	10	109	4,653	-	**4,772**
Floating-rate short-term bank loans	-	24,101	114,038	-	-	**138,139**
Floating-rate other short-term loans	-	-	24,210	-	-	**24,210**
Fixed rate bonds	-	-	20,687	295,799	233,627	**550,113**
Other	-	-	-	-	-	**-**
Non-interest bearing long-term liabilities	-	20	796	5,286	5,096	**11,198**
Transferred “A” shares with put and call options attached	-	-	109,659	-	-	**109,659**
Maximum exposure under financial guarantees	10,087	-	-	-	-	**10,087**
Trade and other payables (excluding Transferred “A” shares with put and call options attached and taxes and contributions)	15,480	270,744	242,090	-	-	**528,314**
Total	**26,664**	**349,577**	**547,030**	**782,889**	**332,308**	**2,038,468**

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 (see Note 17) are also used for such purposes. No changes were made in the objectives, policies or processes during the years end 31 December 2011 and 31 December 2010.

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

	2011 HUF million	2010 HUF million
Long-term debt, net of current portion	862,149	947,910
Current portion of long-term debt	183,905	102,050
Short-term debt	136,288	160,863
Less: Cash and cash equivalents	311,133	313,166
Net debt	**871,209**	**897,657**
Equity attributable to equity holders of the parent	1,651,902	1,435,070
Non-controlling interest	591,203	539,407
Total equity	**2,243,105**	**1,974,477**
Capital and net debt	**3,114,314**	**2,872,134**
Gearing ratio (%)	*28.0%*	*31.3%*

34 Financial instruments

Financial instruments in the balance sheet include investments, other non-current assets, trade receivables, other current assets, cash and cash equivalents, short-term and long-term debt, other long-term liabilities, trade and other payables. Derivatives are presented as other non-current assets, other non-current liabilities, other current assets and trade and other payables. Fair value of fixed rate bond which is carried at amortized cost is based on market prices.
Types and fair values of financial assets (excluding trade receivables, other current assets and cash and cash equivalents) and financial liabilities (excluding trade and other payables) are the following:

	2011 HUF million	2010 HUF million
Cash flow hedges		
Net receivable from currency risk hedging derivatives as cash-flow hedge (see Note 12)	2,955	4,116
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,927	-
Total cash flow hedges	**10,882**	**4,116**
Financial instruments at fair value through profit or loss		
Derivatives designated as hedges		
Receivable from currency risk hedging derivatives as fair-value hedge (see Note 12) - non current	214	155
Receivables from currency risk hedging derivatives as fair-value hedge (see Note 15) - current	74	29
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	185	61
Derivatives not designated as hedges		
Fair value of the option on MOL shares transferred to CEZ (see Note 15 and 17)	-	28,858
Net receivables from commodity price transactions (see Note 15)	337	21
Receivables from foreign exchange forward transactions (see Note 15)	-	8
Total financial instruments at fair value through profit or loss	**810**	**29,132**
Loans and receivables		
Loans given, net of current portion (see Note 12)	22,762	23,431
Current portion of loans given (see Note 15)	1,755	1,143
Total loans and receivables	**24,517**	**24,574**
Available for sale investments (see Note 11)		
Quoted equity shares – Jadranski Naftovod d.d.	10,938	13,460
Unquoted equity shares	9,711	8,041
Total available for sale investments	**20,649**	**21,501**
Total financial assets	**56,858**	**79,323**
Total non-current	**46,580**	**49,203**
Total current	**10,278**	**30,120**

	2011 HUF million	2010 HUF million
Cash flow hedges		
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	5,457	-
Total cash flow hedges	**5,457**	**-**
Financial liabilities at fair value through profit or loss		
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	14,532	25,079
Derivatives designated as hedges		
Net payables from commodity price transactions designated as fair value hedge (see Note 22)	185	61
Payables from currency risk hedging derivatives as fair value hedge (see Note 21)	748	205
Payables from currency risk hedging derivatives as fair value hedge (see Note 22)	164	53
Derivatives not designated as hedges		
Fair value of the option on MOL shares transferred to CEZ (see Note 17 and 22)	16,864	-
Fair value of MOL-OTP share swap (see Note17 and 22)	4,585	227
Total financial liabilities at fair value through profit or loss	**37,078**	**25,625**
Financial liabilities at amortized cost		
Non-current interest bearing loans and borrowings	1,041,182	1,044,492
Current interest bearing loans and borrowings	136,288	160,863
Transferred “A” shares with put and call options attached (see Note 17 and 22)	171,140	108,959
Non-interest bearing long-term liabilities	4,872	5,468
Total financial liabilities at amortized cost	**1,353,482**	**1,319,782**
Total financial liabilities	**1,396,017**	**1,345,407**
Total non-current	**1,061,334**	**1,075,244**
Total current	**334,683**	**270,163**

Carrying amounts and fair values of the financial instruments are the following:

	Carrying amount		Fair value	
	2011	2010	2011	2010
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Net receivable from currency risk hedging derivatives (see Note 12)	2,955	4,116	2,955	4,116
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,927	-	7,927	-
Available-for-sale investments (see Note 11)	20,649	21,501	20,649	21,501
Loans given (see Note 12 and 15)	24,517	24,574	24,517	24,574
Trade receivables (see Note 14)	619,723	463,672	619,723	463,672
Receivable from currency risk hedging derivatives as fair-value hedge (see Note 12 and 15)	288	184	288	184
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	185	61	185	61
Receivables from foreign exchange forward transactions (see Note 15)	-	8	-	8
Net receivables from commodity price transactions (see Note 15)	337	21	337	21
Fair value of the option on MOL shares transferred to CEZ (see Note 15 and 17)	-	28,858	-	28,858
Other current assets (excluding derivatives, Loans given and prepaid and recoverable taxes, see Note 15)	46,245	50,917	46,245	50,917
Cash and cash equivalents (see Note 16)	311,133	313,166	311,133	313,166
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under financial leases	3,388	3,951	3,388	3,951
Floating rate long-term bank loans	539,619	608,970	539,619	608,970
Floating rate other long-term loans	6,594	1,490	6,594	1,490
Floating rate short-term bank loans	136,049	160,857	136,049	160,857
Floating-rate other short-term loans	239	6	239	6
Fixed rate bonds	491,581	430,081	408,504	383,154
Non-interest bearing long-term liabilities	4,872	5,468	4,872	5,468
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	5,457	-	5,457	-
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	14,532	25,079	14,532	25,079
Transferred “A” shares with put and call options attached (see Note 17 and 22)	171,140	108,959	171,140	108,959
Fair value of the option on MOL shares transferred to CEZ (see Note 17 and 22)	16,864	-	16,864	-
Fair value of MOL-OTP share swap (see Note 17 and 22)	4,585	227	4,585	227
Payables from currency risk hedging derivatives as fair value hedge (see Note 21 and 22)	912	258	912	258
Net payables from commodity price transactions designated as fair value hedge (see Note 22 and Note 33)	185	61	185	61
Trade and other payables (excluding derivatives, Transferred “A” shares with put and call options attached and taxes and contributions, see Note 22)	595,449	519,619	595,449	519,619

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices in active markets for identical assets and liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The financial assets and liabilities measured by the Group at fair value as at 31 December 2011 are categorised as follows:

	31 Dec 2011	Level 1	Level 2	Level 3
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Available for sale investment in JANAF d.d. (see Note 11)	10,938	10,938	-	-
Net receivable from currency risk hedging derivatives (see Note 12)	2,955	-	2,955	-
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,927	-	7,927	-
Receivables from currency risk hedging derivatives (see Note 12 and 15)	288	-	288	-
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	185	-	185	-
Net receivables from commodity price transactions (see Note 15)	337	-	337	-
Financial liabilities				
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	5,457	-	5,457	-
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	14,532	-	14,532	-
Fair value of the option on MOL shares transferred to CEZ (see Note 17 and 22)	16,864	-	16,864	-
Fair value of MOL-OTP share swap (see Note 17 and 22)	4,585	-	4,585	-
Net payables from commodity price transactions designated as fair value hedge (see Note 22 and Note 33)	185	-	185	-
Payable from currency risk hedging derivatives as fair value hedge (see Note 21 and 22)	912	-	912	-

	31 Dec 2010 HUF million	Level 1 HUF million	Level 2 HUF million	Level 3 HUF million
Financial assets				
Available for sale investment in JANAF d.d. (see Note 11)	13,460	13,460	-	-
Net receivable from currency risk hedging derivatives (see Note 12)	4,116	-	4,116	-
Receivables from currency risk hedging derivatives (see Note 12 and 15)	184	-	184	-
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	61	-	61	-
Net receivables from commodity price transactions (see Note 15)	21	-	21	-
Receivables from foreign exchange forward transactions (see Note 15)	8	-	8	-
Fair value of the option on MOL shares transferred to CEZ (see Note 15 and 17)	28,858	-	28,858	-
Financial liabilities				
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	25,079	-	25,079	-
Fair value of MOL-OTP share swap (see Note 22)	227	-	227	-
Net payables from commodity price transactions designated as fair value hedge (see Note 22 and Note 33)	61	-	61	-
Payable from currency risk hedging derivatives as fair value hedge (see Note 21 and 22)	258	-	258	-

35 Commitments and contingent liabilities

Guarantees

The total value of guarantees undertaken to parties outside the Group is HUF 11,409 million.

Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2011 is HUF 45.4 billion, of which HUF 12.5 billion relates to capital and contractual commitments of INA, HUF 18.2 billion relates to capital and contractual commitments of SLOVNAFT, a.s. and HUF 5.6 billion relates to MOL Plc. (the majority of which will arise in 2012).

Gas Purchases Obligation, Take or Pay Contract

MOL Group has concluded a long-term gas purchase contract with MET Zrt. in order to ensure the continuous natural gas supply of the Group's plants. According to the agreement, contracted volumes have been set for each year for the period ending in 2015 but the volumes for the actual period are subject to annual renegotiation with the supplier. The major part of the renegotiated yearly contracted volumes are under take-or-pay commitment (94 mcm as of 31 December 2011)**.** Starting

from 1 January, 2011 Prirodni plin d.o.o. concluded a new import contract with ENI Italy for procurement of app 2,250 million cubic meters of natural gas until 31 December 2013.

Operating leases

Operating lease liabilities are as follows:

	2011	2010
	HUF million	HUF million
Due not later than 1 year	6,509	6,806
Due two to five years	7,534	12,226
Due over five years	150	214
Total	**14,193**	**19,246**

Out of the outstanding operating lease liabilities as of 31 December 2011 HUF 2,702 million were contracted by SLOVNAFT, a.s., HUF 3,403 million were contracted by INA and HUF 4,381 million were contracted by MOL Plc.

Authority procedures, litigation

CREDITOR procedures

CREDITOR GAMA s.r.o. („CREDITOR GAMA") has submitted a compensation claim against MOL Plc.("MOL") which was served to MOL by Bratislava I. Court on 12 January 2011. In its pleading CREDITOR GAMA claims compensation 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. CREDITOR GAMA alleges that the buying offer of MOL for the SLOVNAFT a.s. shares was in breach of the Slovak Bonds and Investment Services Act, because the lawful price per share should have been higher. MOL refuses the claim of CREDITOR GAMA with special regard to the fact that the buying offer was approved by the Slovak financial authority (Úrad pre financny trh). The first hearing was held on 20 September 2011 on which the court ordered taking of evidences without setting the date of the next hearing.

In its claim submitted to the Bratislava I. Court the claimant CREDITOR BETA s.r.o. („CREDITOR BETA") 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 court of first instance accepted the claimant's arguments and awarded the claim. MOL filed an appeal against this judgment. The court of second instance set aside the appealed judgment and referred the case back to the court of first Instance. The court of first instance ordered for appointing an expert. Preparation of the expert's opinion is ongoing; the court has not set the date of the next hearing yet.

Paraffin cartel infringement

The European Commission started an investigation in April 2005, based upon the alleged cartel activity of paraffin producers and traders in Europe. The investigation affected some 10 major paraffin producers and traders throughout Europe. The decision was adopted in October 2008 and stated that the companies harmonized their commercial activities on the European (European Economic Area) paraffin market and participated in a continuous cartel infringement. In case of MOL the amount of fine was set in EUR 23.7 million which was paid by MOL in early 2009.

In relation to the above described EU Commission decision the former paraffin customers may have the right to claim private damages from the paraffin cartel participants, i.e. from MOL, too. Currently a proceeding is going on against the decision of the European Commission before the European Court of Justice; accordingly for the time being and in the current phase MOL is not in the position to make any legal or fiscal estimation about the potential claims, if any.

Upon the possibility above, several former paraffin customers claimed their private damages before an English (2010) and a Dutch (2012) court. In these procedures the above-mentioned buyers claim for all damages suffered by them as a consequence of the activity pr practice which was considered as cartel infringement according to the not final decision of the European Commission since they were able to purchase the product only on an increased price. As regards the basis and the extent of the damages claim there are many argued factors on the table, so MOL is not in the position to make estimation regarding the length of the procedures.

Proceedings with respect to SLOVNAFT a.s.

The Anti-Monopoly Office of the Slovak Republic, Abuse of Dominance Department notified SLOVNAFT a.s. in a letter dated 21 November 2005 on the commencing of administrative proceedings against SLOVNAFT a.s. due to a possible breach of the Act No. 136/2001 on the Protection of Competition. Such administrative proceedings were focused on the investigation of SLOVNAFT's price and discount policy on the diesel and gasoline market. In the decision issued on 22 December 2006 the Abuse of Dominance Department of the Anti-Monopoly Office stated that SLOVNAFT a.s. had abused its dominant position in the relevant diesel and gasoline wholesale markets by applying the discounts in a discriminative manner against its individual customers and imposed a fine of SKK 300 million on SLOVNAFT. SLOVNAFT a.s. filed an appeal against the decision. The Council of the Antimonopoly Office adopted its final decision on 7 December, 2007 and confirmed the obligation of SLOVNAFT a.s. to pay the fine, which was paid by SLOVNAFT a.s. according to this decision on February 25, 2008.

In January 2008 SLOVNAFT a.s. filed an action against the decision of the Anti-Monopoly Office of the Slovak Republic with the Regional Court in Bratislava for reviewing the lawfulness of the decision of the Council of the Anti-Monopoly Office and the procedure precedent to that decision including the first instance decision of the Anti-Monopoly Office. That action was accompanied by a motion to suspend the enforcement of the decision of the Council of the Anti-Monopoly Office. The obligation of SLOVNAFT a.s. has been suspended until a final and legally binding court decision on the merits of the case and full amount of the penalty was transferred by the Anti-Monopoly Office back to SLOVNAFT a.s. on 8 April 2008.

On 15 December 2009 the Regional Court in Bratislava set aside the first and second instance decisions and referred the case back to the Anti-Monopoly Office for new proceedings, since the court found several serious defects in the proceedings held by the Anti-Monopoly Office and stated that the calculation of the imposed penalty was excessive, incorrect and inappropriate relative to the alleged breach of competition law by SLOVNAFT a.s.

The first instance decision in the new proceedings has been issued by the Anti-Monopoly Office on 10 December 2010. The Office held that SLOVNAFT a.s. violated the Competition Act in relation to the market of gasoline wholesale in year 2006 and in relation to the market of diesel wholesale in years 2005 and 2006. The penalty imposed by the Office represents an amount of EUR 9 million. As SLOVNAFT a.s. does not agree with the findings and the conclusions of the Office, on 29 December 2010 it filed an appeal with the Council of the Anti-Monopoly Office challenging the first instance decision. The result of that proceeding is uncertain.

The Council of the Anti-Monopoly office adopted a final decision on merit of the case on July 8, 2011 upon which fully dismissed the Appeal lodged by the Company challenging decision of the first instance decision the Office dated on December 12, 2010 and confirmed the first instance decision as well as the amount of the imposed penalty.

Upon the last decisions of the Office adopted on first instance (2010) and second instance (2011) the merit of the abusing is given by the fact that the discounts and surcharges to the wholesale list price of gasoline in 2006 and diesel in 2005 - 2006 provided by the Company to its customers were discriminatory and due to that fact the company allegedly acquired an unjust enrichment of approximately SKK 203 million (EUR 6.7 million). The discriminatory practise of the company has been evaluated by the Anti-Monopoly office as practise not to excluding the competitors, or restricting or prejudicing the competition but rather the practise maximising the profit of the company (discrimination as an exploitative rather than expulsive practice). The exploitation practise of the company was allegedly realised by application of discrimination of individual customers, however at the same time the Anti-Monopoly office is stating that this practise is not considered as a serious breach of competition law.

As far as the Company do not agree with findings and decisions of the Office again challenged both of the last decisions of the Office by lodging of a new court complaint to the Regional Court of Bratislava, which was delivered to the court on September 2, 2011. Together with the court complaint the Company submitted to the court its request to suspend its obligation to pay the imposed penalty until the final and legally binding court decision on the merit of the case will be adopted. Based on that the full amount of the penalty was transferred by the Anti-Monopoly office back to the bank account of SLOVNAFT a.s. on October 3, 2011.

The litigation on the regional Court of Bratislava is open, the result is still very uncertain. The first hearing shall be held on March 22, 2012.

The International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation (Moscow Arbitration Court) imposed upon SLOVNAFT a.s. as defendant, a duty to pay Mende-Rossi, a Russian company which claimed that it entered into a contract with SLOVNAFT a.s. in 1993, an amount of USD 15.7 million together with 16% default interest per annum on the amount of USD 9 million from 24 June 1994 until payment and the costs related to the court proceedings for failing the consideration of the alleged crude oil supplies as per the resolution of the court of arbitration issued in April 1996 (“Receivable”).

Mende-Rossi applied for the enforcement of the decision of the Moscow Arbitration Court first in Slovakia and then in Austria in 1997. After the applications for enforcement was refused by final and binding decisions in both countries, in 2005 Mende-Rossi sought enforcement in the Czech Republic.

On September 2005 Ashford Technologies Corporation (“Ashford”) initiated enforcement proceedings against the Company in territory of Czech Republic. Ashford claimed that the Receivable at issue had been assigned to it by Mende-Rossi. Ashford

was a company registered in British Virgin Islands. In year 2010 SLOVNAFT a.s. was noticed that the company changed its business name to PCM Limited and transferred its registered seat to Seychelles. Later, in 2011 SLOVNAFT a.s. received another notification that starting from June 6, 2011 the alleged receivable was transferred from company PCM Limited to the company PROPERTY PROFFESIONAL INVESTMENT LIMITED with registered seat in Great Britain (PPI).

Upon the successful negotiation between companies SLOVNAFT a.s. and PPI (as a new party entitled from the Receivable) an Out Of Court Settlement (“Settlement”) was signed on October 20, 2011 subject matter of which was the final settlement of mutual rights and obligations pertaining to Receivable. Based on the Settlement obligation of PPI is to perform all of the legal actions necessary for halting the ongoing distrainment by the court appointed distrainor. On the other side upon the Settlement SLOVNAFT a.s. is obliged to pay to PPI CZK 500,000 and USD 2,330,000 together with interest of 10% p.a. for the period of June 1, 2011 till final settlement, whereas the sum in amount of USD 2,330,000 shall be used as the basis for interest calculation.

The court appointed distrainor accepted demand of PPI to halt the distrainment against company and on October 25, 2011 halted the distrainment proceeding against the Company, which came into legal force on November 19, 2011.

The settlement payment in favor of PPI has been realized in February 2012 and the execution proceeding against SLOVNAFT a.s. in territory of Czech Republic had been finally and definitely closed.

Proceedings with respect to MOL Romania s.r.l.

MOL has been informed on 10 January, 2012 that the Romanian Competition Council’s Plenum has made a decision in relation with the alleged breach of the competition law by companies active in the fuels market. The alleged breach of antitrust regulations refers to the common withdrawal of the unleaded gasoline pre-mixed, called Eco Premium, from the Romanian fuel market, in 2008.

According to the minutes of the deliberations of the Romanian Competition Council’s Plenum, based on the applicable antitrust regulations, MOL Romania has been fined with RON 80.3 million (i.e. approximately EUR 18.5 million), that is 3% of the company’s turnover registered in the fiscal year 2010.

MOL Romania s.r.l. has got the decision of the Romanian Competition Council. They have filed with the Bucharest Court of Appeal applications for the suspension of execution and annulment of the decision.

MOL Romania states that withdrawing ECO Premium from its fuels portfolio was an individual business decision and not the result of an anticompetitive agreement/concerted practice.

Court proceedings at INA Group:

LJUBLJANSKA BANKA

A court procedure is being conducted before the Commercial Court in Zagreb for the collection of monetary claims of HRK 60.5 million with default interest.

The claims have arisen from two contracts of 1982 on the use of short-term foreign currency loan abroad which were concluded between INA- Rafinerija nafte Rijeka and Ljubljanska banka- Osnovna banka Zagreb.

The claims of Ljubljanska banka in the concerned dispute refer to default interest debt arising from the legally binding decision of the District Economic Court (the predecessor of Commercial Court) in Zagreb no. P-2969/87 which was rendered in the earlier court procedure conducted on the same, above-stated, legal grounds.

The procedure was initiated by motion for execution which was filed by Ljubljanska banka on 13 September 1995. The Commercial Court in Zagreb rendered the Decision on execution IV-17971/95, however INA filed an objection against the decision regarding the statute of limitations, the merits and the amount of the claims, so the procedure was continued as a civil procedure initiated by a lawsuit.

INA objected regarding the prematurity of lawsuit, since a procedure is already being conducted on the same legal grounds for the unlawfulness of execution (P-20434/93), which has in the meantime been ended by a legally effective decision, with the plaintiff requesting for a retrial. INA is also objecting in relation to the plaintiff's capacity to sue.

The Commercial Court rendered the Decision of 24 November 2008 whereby it dismissed the lawsuit. The plaintiff lodged an appeal against the afore-stated decision, which was adopted by the High Commercial Court and returned to the court of first instance for a retrial.

During the retrial, the plaintiff by its application of 3 May 2010, along with the above-stated objections, also filed a claim preclusion (res iudicata) objection with reference to the above-stated procedure finalized by a legally effective decision.

The court of first instance found that the claim preclusion is applicable and, by its Decision of 29 September 2010, no. P-1117/1996 again dismissed the plaintiff's lawsuit. Pursuant to the plaintiff's appeal, the High Commercial Court in Zagreb rendered Decision no. Pž-6625/10-3 whereby the above-stated Decision of the Commercial Court in Zagreb no. P-1117/1996 of 29 September 2010 was asserted, i.e. a legally effective decision was rendered in favour of INA by the court's dismissal of the lawsuit of Ljubljanska banka for the payment of HRK 60.5 million with default interest and its decision that the plaintiff shall pay the defendant's procedural costs of HRK 369,000.

The plaintiff has applied for a review.

The outcome of the procedure is still uncertain due to the complexity of the legal matter (claims for altered default interest), however it is now more probable that the Supreme Court will take the same standpoint as the High Commercial Court, therefore no provision has been made for this case in the accompanying consolidated financial statements.

GWDF

In the dispute initiated by GWDF PARTNERSHIP Gesellschaft buergerlicher Rechts and GWDF LIMITED, Cyprus against INA-INDUSTRIJA NAFTE d.d. and INA-NAFTAPLIN before the Commercial Court in Zagreb, under the case Number P-2597/06, concerning the amount of EUR 7.9 million, the plaintiff claims compensation for damage incurred owing to the loss of rights resulting from the Joint Venture Agreement made with the company Saknavtobi, and which allegedly occurred by virtue of the defendant's behaviour, i.e. due to its withdrawal from negotiations by which it should have become a party of the joint business venture. INA d.d. filed in September 2007 the answer to the claim, in which both, the foundation and the amount of the claim statement are being contested in their entirety, stating amongst the other that the defendants abandoned the negotiations because of a business decision, and that exactly the plaintiffs were those who had been negotiating contrary to the principle of consciousness and fairness. Furthermore, INA d.d. filed the objection to the lack of litigation capacity as regards GWDF Partnership, the objection to the misdirected passive personality in relation to INA d.d., stating also that the court is not competent as regards GWDF Limited Cyprus.

The court of first instance must first of all decide on the law applicable to this legal dispute as well as whether it is competent or not in this case. Up to now several hearings were held during the years 2008, 2009 and in 2010, and it was discussed upon the procedural issues (capacity of parties, jurisdiction, governing law).

At the last hearing, held on 8 February 2011, after the parties repeated their standpoints, the court decided to request from the German Republic and the Republic of Cyprus by diplomatic ways the text of the law relevant for making decisions in this case.

The status of INA d.d. has not changed even after the hearing held on 8 February 2011, delivery of the governing law shall for sure be lasting for a certain time, and only at the hearings to be determined following the acquisition of the governing law it will be clear in which direction the proceedings will be continued. Upon providing the text of the governing law, and after the hearing has been held, it will be possible to give a more precise estimation of the status of defendants in this dispute. The proofs derived up to now have not essentially changed the position of the parties in relation to their status at the beginning of the proceedings and it is assessed that the position of INA d.d. in dispute is about equal to the position of the plaintiffs, that is to say that at the moment the parties have equal chances for success in dispute.

EDISON INTERNATIONAL S.p.A

Edison International S.p.a initiated an arbitration procedure against INA-INDUSTRIJA NAFTE d.d. before the Vienna International Arbitral Centre for the amount of cca EUR 140 million plus unspecified compensation for lost profit.

The plaintiff seeks compensation for actual damage and lost profit due to INA's failure to comply with i.e. the breach of the provisions of Production Sharing Agreement. The subsidiary claim is that Senior Executives Minutes should be considered a binding arrangement for the sale of Edison's whole share of annual gas production. Unspecified damage compensation is claimed due to the afore-stated arrangement breach.

The plaintiff initiated the procedure on 29 June 2011, when INA d.d. received the Notice of Arbitration. INA d.d. filed a Response to the stated Notice on 19 July 2011, and also submitted a Counterclaim. The Arbitration Panel was formed on 23 September 2011, and an organizational teleconference was held on 17 November 2011. The Arbitration Panel adopted the Agreement between the parties and the arbitrator, Special Procedural Rules and Schedule by the means of the Procedural

solution no. 1 of 06 December 2011. The deadline for the filing of the claim is 20 February 2012, and an oral hearing has been scheduled for the period between 10 and 19 December 2012.

Procedure on the merit of the dispute has not been initiated yet, and the plaintiff is yet to file a claim whereby it would offer its response and specify its claims in more detail. Consequently, the outcome of this dispute is currently uncertain.

CONCESSIONS

On July 29, 2011 the Ministry of Economy, Labour and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA-INDUSTRIJA NAFTE, d.d. (hereinafter: INA) of the license to explore hydrocarbons in exploration areas “Sava”, “Drava” and “North-West Croatia”, due to INA’s non-compliance with its obligations regarding regular informing of the Ministry on performed exploration works.

Given that the complaint against stated Decisions was not allowed, on August 29, 2011, INA filed three administrative lawsuits against the Ministry’s Decisions.

In its lawsuits, INA claims that the reasons why the Ministry rendered the contested Decisions are neither factually nor legally grounded, since INA had regularly performed exploration works and duly informed the Ministry thereon. For the stated reason, INA requests that the Administrative Court of the Republic of Croatia annuls the stated Decisions on the suspension of licenses for the exploration of hydrocarbons rendered by the Ministry.

General

None of the litigations described above 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 affect on the financial condition, assets, results or business of the Group.

The value of litigation where members of the MOL Group act as defendant is HUF 34,725 million for which HUF 24,484 million provision has been made.

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 76,171 million for the estimated cost as at 31 December 2011 for probable and quantifiable costs of rectifying past environmental damage (see Note 20). 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 TVK and MOL’s Tisza refinery, where the Group has identified potentially

significant underground water and surface soil contamination. In accordance with the resolutions of the regional environmental authorities combined for TVK and MOL's Tisza Refinery, the Group is required to complete a detailed investigation and submit the results and technical specifications to the authorities. Based on these results the authorities are expected to specify a future environmental risk management plan and to bring a resolution requiring TVK and MOL to jointly perform this plan in order to manage the underground water contamination. The amount of obligation originating from this plan 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. 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 3-5 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 recent business combinations. As at 31 December, 2011, on Group level the aggregate amount of contingent liabilities recorded on the balance sheet as environmental liabilities was HUF 34.7 billion (HUF 30.7 billion at 31 December, 2010).

36 Events after the reporting period

Exercise of call option and share option agreement with Unicredit

Option rights under the share option agreement regarding 2,914,692 MOL Series "A" Ordinary shares concluded between UniCredit Bank AG and MOL on 8 February 2011 (see Note 17), were cash settled in respect of all the shares on 13 February 2012.

MOL and UniCredit concluded a share purchase agreement in respect of 646,361 shares and share option agreements in respect of 3,561,053 Shares. As a result of these transactions, MOL received an American call option and UniCredit received a European put option regarding 3,561,053 shares on 13 February 2012. The maturity of both options is one year, such maturity being subject to yearly extensions with one year, up to a total tenor of three years. The strike price of both call and put option is EUR 70.20 per share.

INA's "force majeure" notice regarding its Syrian operation

In compliance with the Croatian Government Decision dated 23 February 2012 on the implementation of the EU Council Decision concerning restrictive measures against the Syrian Arab Republic issued on 1 December 2011, INA delivered yesterday the force majeure notice to the General Petroleum Company of Syria related to the Production Sharing Agreement for the Hayan Block signed in 1998 and Production Sharing Agreement for the Aphamia Block signed in 2004. Based on the Croatian Government decision, as well as the overall security situation in Syria, INA is not able to continue performing its regular business operations and activities in Syria due to reasons which are beyond the control of the company. Therefore, the terms and conditions foreseen in the above stated Agreements have been met for announcing „force majeure", i.e. for temporarily suspending all business activities in Syria until further notice, i.e. until the „force majeure" circumstances cease to exist.

Force majeure is a legal term stipulated in the agreement that allows for suspension or temporary adjournment of obligations and activities coming due to the events which are beyond control of the agreement parties such as flood, earthquake, riots, unrests, state of war, etc. Announcing the "force majeure" is a regular mechanism and it doesn't mean termination of the agreement and the simultaneous exit from the project. It is a protection mechanism for the agreement parties in the event of unforeseeable circumstance with an aim of continuation of the Agreement execution after ceasing of these circumstances, without damages for the announcing party.

INA does not expect to receive any revenues neither to realize its production share from its Syrian project for the foreseeable future, i.e. until the termination of the "force majeure". Taking into consideration the difficulties with collection of receivables from the Syrian side in the last several months, the company used conservative calculations regarding revenues from Syria in its impairment test. INA, d.d. regularly performs impairment test so revision of impairment test is not needed.

The aim of this decision is to protect INA's contractual rights and obligations and to fully comply with decision of the Croatian Government.

37 Notes to the consolidated statements of cash-flows

Cash and cash equivalents comprise the following at 31 December

	2011	2010
	HUF million	HUF million
Cash and cash equivalents according to Balance Sheet	311,133	313,166
Cash and cash equivalents as part of Disposal Group	-	-
Total Cash and cash equivalents	**311,133**	**313,166**

Analysis of net cash outflow on acquisition of subsidiaries, joint ventures and non-controlling interest

	2011	2010
	HUF million	HUF million
Cash consideration	(25,314)	(541)
Cash at bank or on hand acquired	-	-
Net cash outflow on acquisition of subsidiaries, joint ventures and non-controlling interests	**(25,314)**	**(541)**

Issuance of long-term debt

	2011	2010
	HUF million	HUF million
Increase in long-term debts	206,845	454,515
Non cash-flow element: unrealised exchange gains / (losses)	(15,623)	(12,381)
Total issuance of long-term debt	**191,222**	**442,134**

38 Related party transactions

Transactions with associated companies in the normal course of business

	2011 HUF million	2010 HUF million
Trade and other receivables due from related parties	20,083	17,444
Trade and other payables due to related parties	8,518	5,763
Net sales to related parties	29,178	57,026

The Group purchased and sold goods and services with related parties during the ordinary course of business in 2011 and 2010. All of these transactions were conducted under market prices and conditions.

Remuneration of the members of the Board of Directors and Supervisory Board

Directors' total remuneration approximated HUF 117 million and HUF 158 million in 2011 and 2010, respectively. In addition, the non-executive directors participate in a long-term incentive scheme details of which are given below. Total remuneration of members of the Supervisory Board approximated HUF 83 million in 2011 and HUF 81 million in 2010.

Directors are remunerated with the following net amounts in addition to the profit sharing program:

- Executive and non-executive directors	25,000 EUR/year
- Chairman of the Board, Deputy Chairman of the Board	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 for 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.

Number of shares held by members of the Board of Directors and Supervisory Board and the management

	2011 Number of shares	2010 Number of shares
Board of Directors	239,574	306,017
Supervisory Board	63,300	380
Senior Management (except executive Board members)	119,508	109,566
Total	**422,382**	**415,963**

Transactions with the Officers and Management of the Company

Mr. Sándor Csányi, deputy chairman of the Board of Directors is also the Chairman-CEO of OTP Bank Plc. MOL Plc. and some of its subsidiaries have contractual relationship with the members of OTP Group, including having bank accounts and deposits, using credit card and brokerage services and obtaining loan financing. No transactions out of the usual conduct of business have been concluded with OTP in 2011 or 2010. All of these transactions are on an arm’s-length basis.

Mr. Martin Roman, member of the Board of Directors of the Company, is the Chairman of the Supervisory Board of ČEZ, a.s. MOL and CEZ have established a JV which operates the boiler park at the Danube Refinery and the thermo-power plant at the Bratislava refinery and through which the preparatory work of planned construction of CCGTs at the refineries of the Group in Bratislava and Százhalombatta is carried out. In addition to the cooperation presented above, in 2011 CEZ entered in the following business transactions with members of MOL Group:

- CEZ sold electricity to MOL Commodity Trading Kft. in the value of HUF 91 million (in 2010 HUF 589 million);
- I&C Energo a.s. provided various investments, service works and delivery of material to CEZ in the value of HUF 12,326 million (in 2010 HUF 7,375 million);
- AFRAS Energo s.r.o. supplied spare parts for technology units and services related to these spare parts to CEZ in the value of HUF 114 million (in 2010 HUF 478 million);
- Slovnaft Česká Republika, a.s. delivered oil and lubricants to CEZ in the value of HUF 101 million (in 2010 HUF 2 million).

Mr. Miklós Dobák, a member of the Board of Directors of the Company is an international partner in consulting company IFUA Horváth & Partners Kft. The company provided consulting services to the Group in 2011 and 2010 in the value of HUF 8 million and HUF 6 million, respectively.

Mr. Slavomír Hatina, member of the Supervisory Board has an indirect interest of a Slovakian company Granitol a.s. through Slovintegra a.s. The Group has sold polyethylene to this company in 2011 and 2010 amounted to HUF 4,789 million and HUF 4,668 million respectively, carried out on usual commercial terms and market prices. Additionally, Mr. Hatina has an indirect interest of a Slovakian company Real–H.M. s.r.o. through BIATEC Group a.s. The Group has sold goods to this company in amount of HUF 8 million and HUF 9 million carried out on usual commercial terms and market prices during 2011 and 2010, respectively.

Mr. Oszkár Világi, member of the Board of Directors of the Company and Slovnaft's Chief Executive Officer is a non-executive partner in legal firm Ruzicka Csekes s.r.o. The company provided legal services to the Group in the value of HUF 56 million and HUF 48 million in 2011 and 2010, respectively.

Key management compensation

The amounts disclosed contains the compensation of managers who qualify as a key management member of MOL Group. In order to consistently adopt this presentation method, amounts presented in the comparative period have been adjusted by excluding the compensation of managers who qualify as key managers only for SLOVNAFT a.s. or TVK Plc.

	2011 HUF million	2010 HUF million
Salaries and other short-term employee benefits	1,298	964
Termination benefits	497	-
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	994	3
Total	**2,789**	**967**

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

No loans have been granted to Directors or members of the Supervisory Board.

39 Share-based payment plans

The expense recognized for employee services received during the year is shown in the following table:

	2011 HUF million	2010 HUF million
Expense arising from equity-settled share-based payment transactions	-	-
Expense / (reversal of expense) arising from cash-settled share-based payment transactions	(3,202)	2,765
Total expense / (reversal of expense) arising from share-based payment transactions	**(3,202)**	**2,765**

The share-based payments are described below.

The share-based payments serve the management's long term incentive. The Complex long term managerial incentive system employs two incentive systems in parallel: profit sharing incentive – based on value added methodology – and the option based incentive.

Share Option Incentive Schemes for management

The incentive system based on stock options launched in 2006 ensures the interest of the management of the MOL Group in the long-term increase of MOL stock price.

The incentive stock option is a material incentive disbursed in cash, calculated based on call options concerning MOL shares, with annual recurrence, with the following characteristics.

- covers a 5-year period starting annually, where periods split into:
    - a 3-year waiting period and a 2-year redemption period in case of managers staying in the previous system for 2009,
    - a 2-year waiting period and a 3-year redemption period in case of managers choosing the new system already for 2009, and it is valid for all of the entitled managers from 2010.
- its rate is defined by the quantity of units specified by MOL job category
- the value of the units is set annually (in each year since the initiation of the scheme, 1 unit equals to 100 MOL shares).

According to the new system it is not possible to redeem the share option until the end of the second year (waiting period); the redemption period lasts from 1 January of the 3rd year until 31 December of the 5th year.

The incentive is paid in the redemption period according to the declaration of redemption. The paid amount of the incentive is determined as the product of the defined number and price increase (difference between the redemption price and the initial price) of shares.

Details of the share option rights granted during the year were as follows:

	Number of shares in conversion option units	Weighted average exercise price	Number of shares in conversion option units	Weighted average exercise price
	2011	2011	2010	2010
	share	HUF/share	share	HUF/share
Outstanding at the beginning of the year	740,269	17,465	658,112	18,410
Granted during the year	159,143	20,119	214,402	15,893
Forfeited during the year	(28,590)	19,522	(27,375)	17,506
Exercised during the year	(199,850)	15,140	(100,746)	20,170
Expired during the year	(66,973)	21,146	(4,124)	20,170
Outstanding at the end of the year	**603,999**	**18,428**	**740,269**	**17,465**
Exercisable at the end of the year	260,062	24,076	133,882	21,146

As required by IFRS 2, 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 2011 as a consequence of decreasing share prices, expenses recorded in preceding years has been reversed in a value of HUF 3,202 million. In 2010 HUF 2,765 million expenses was recorded as personnel-type expenses with a corresponding increase in Trade and other payables. Liabilities in respect of share-based payment plans amounted to HUF 2,174 million as at 31 December 2011 (31 December 2010: HUF 5,435 million), recorded in Other non-current liabilities and Other current liabilities.

Fair value as of the balance sheet date was calculated using the binomial option pricing model. The inputs to the model were as follows:

	2011	2010
Weighted average exercise price (HUF / share)	18,428	17,465
Share price as of 31 December (HUF / share)	17,470	20,870
Expected volatility based on historical data	46.42%	44.79%
Expected dividend yield	1.23%	1.26%
Estimated maturity (years)	2.59	2.72
Risk free interest rate	0.51%	1.46%

Profit sharing incentive

The profit sharing incentive relates to long-term, sustainable increase of profitability, based on the value added methodology, thus ensuring that the interest of the participants of the incentive system corresponds with that of shareholders of the Group.

It is a cash-settled annual net bonus calculated on the basis of increase in the value added. (Value added: recognises a profit performance generated on top of the cost of capital invested)

Since the basis of determining one unit of the profit-sharing incentive for any given year is the audited financial statement for that year approved by the Annual General Meeting of the parent company, the incentive should be disbursed subsequent to such Meeting closing the given year.

No payment is expected with respect to 2011 based on this new incentive system.