

# CORPORATE GOVERNANCE

MOL Hungarian Oil and Gas Public Limited Company (hereinafter: “MOL” or “Company”) has always been committed to implementing the highest standards of corporate governance structures and practices. This is not only with regard to national expectations but also with reference to the continually evolving and improving standards of good governance on an international level. As a result MOL is geared towards shareholders’ interests, whilst taking into account the interests of a broader group of stakeholders inevitably necessary to enhance the generation of exceptional value for MOL’s shareholders and people.

Among other things, the voluntary approval of the declaration on the Budapest Stock Exchange Corporate Governance Recommendations by the Annual General Meeting in 2006, before the official deadline, served as testament to the Company’s commitment to corporate governance. In addition, MOL made a declaration concerning the application of the corporate governance recommendations of the Warsaw Stock Exchange prior to the admission of its shares to the Warsaw Stock Exchange in December 2004. The Company submits its declaration on this topic to both stock exchanges each year.

MOL’s corporate governance practice meets the requirements of the regulations of the Budapest Stock Exchange and the relevant capital market regulations. MOL also subjects its policies to regular review to ensure that they take account of continually evolving international best practice in this area. MOL’s Corporate Governance Code containing the main corporate governance principles of the Company was adopted in 2006 for the first time and its last update was fulfilled in 2015. This Code summarises its approach to shareholders’ rights, main

governing bodies, furthermore remuneration and ethical issues. The Corporate Governance Code has been published on the homepage of the Company.

## BOARD OF DIRECTORS

MOL’s Board of Directors acts as the highest managing body of the Company and as such has collective responsibility for all corporate operations.

The Board’s key activities are focused on achieving increasing shareholder value with considerations onto other stakeholders’ interest; improving efficiency and profitability and ensuring transparency in corporate activities and sustainable operation. It also aims to ensure appropriate risk management, environmental protection and conditions for safety at work.

Given that MOL and its subsidiaries effectively operate as a single economic unit, the Board is also responsible for enforcing its aims and policies and for promoting the MOL culture throughout the entire Group.

The principles, policies and goals take account of the Board’s specific and unique relationship with MOL’s shareholders, the executive management and the Company. The composition of the Board reflects this with the majority (six of ten members) made up of non-executive directors. At present, 6 members of the Board of Directors qualify as independent on the basis of its own set of criteria (based on NYSE and EU recommendations) and the declaration of directors.

The members of the Board of Directors and their independence status in 2015 (professional CVs of the members are available on Company homepage):

NAME	STATUS	MANDATE
Zsolt Hernádi, Chairman-CEO	non-independent	Elected by the Annual General Meeting to be member of the Board of Directors from 24 February, 1999
Dr. Sándor Csányi, Deputy Chairman	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 20 October, 2000
József Molnár	non-independent	Elected by the Annual General Meeting to be member of the Board of Directors from 12 October, 2007
Zsigmond Járai	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 29 April, 2010
Dr. László Parragh	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 29 April, 2010
Dr. Martin Roman	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 29 April, 2010

NAME	STATUS	MANDATE
Dr. Oszkár Világi	non-independent	Elected by the Annual General Meeting to be member of the Board of Directors from 1 May, 2011
Dr. Anthony Radev	non-independent	Elected by the Annual General Meeting to be member of the Board of Directors from 30 April, 2014
Dr. Anwar al-Kharusi	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 30 April, 2014
Dr. Martonyi János	independent	Elected by the Annual General Meeting to be member of the Board of Directors from 1 July, 2014

## OPERATION OF THE BOARD OF DIRECTORS

The Board acts and adopts resolutions as a collective body.

The Board adopted a set of rules (Charter) to govern its own activities when the company was founded in 1991; these rules were updated in March, 2015 to ensure continued adherence to best practice standards.

The Board Charter covers:

- ▶ scope of the authority and responsibilities of the Board,
- ▶ scope of the committees operated by the Board,
- ▶ the scope of the information required by the Board and the frequency of reports,
- ▶ main responsibilities of the Chairman and the Deputy Chairman,
- ▶ order and preparation of Board meetings and the permanent items of the agenda, and
- ▶ decision-making mechanism and the manner in which the implementation of resolutions is monitored,
- ▶ rules on conflict of interest.

Members of MOL Board of Directors shall sign an Annual Declaration on Conflict of Interest in accordance with the form approved by the Board of Directors simultaneously assuming their membership, and in every calendar year 30 days prior to the date of the annual general meeting which is to be submitted to the Corporate Governance and Remuneration Committee. If any conflict of interest specified in the Charter of the Board of Directors occurs with respect to the member of the Board of Directors, such member shall report in Ad hoc Declaration on Conflict of Interest to the Corporate Governance and Remuneration Committee.

The Board of Directors prepares a formal evaluation of its own and its Committees' performance on a yearly basis and it continuously reviews its activity.

### Report of the Board of Directors on its 2015 activities

In 2015, the Board of Directors held 6 meetings with an average attendance rate of 95%.

Attendance to the Board of Directors meetings during 2015 is set out in the table below:

MEMBERS	NUMBER OF MEETINGS	ATTENDANCE RATIO
<b>TOTAL</b>	<b>6</b>	<b>95%</b>
Zsolt HERNÁDI	6	100%
Dr. Sándor CSÁNYI	4	67%
József MOLNÁR	6	100%
Zsigmond JÁRAI	6	100%
Dr. László PARRAGH	5	83%
Martin ROMAN	4	67%
Dr. Oszkár VILÁGI	6	100%
Dr. Anthony RADEV	6	100%
Dr. Anwar AL-KHARUSI	6	100%
Dr. János MARTONYI	6	100%

Alongside regular agenda items, such as reports by the Committees' chairmen on the activities pursued since the last Board meeting, the Board of Directors received updates on key strategic issues as well as an overview of capital market developments and individually evaluated the performance of each of the company's business units.

The Board of Directors respectively paid attention to the follow-up of the industry macro trends, the treatment of the challenges driven by the external environment, the financial, operational and efficiency improvement challenges regarding INA and the strategy update process.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Board operates committees to increase the efficiency of the Board's operations and to provide the appropriate professional background for decision-making. The Committees are bodies for preparation, advising, opinion-forming and proposal-preparing support concerning issues specified in the List of Decision-making Authorities, which sets out the division of authority and responsibility between the Board and the executive management.

The responsibilities and the order of procedure of the Committees are determined by the Board of Directors.

The Chairman of the Board of Directors may also request the Committees to perform certain tasks.

The members and chairmen of the Committees are elected by the Board of Directors. The majority of the committee members is non-executive and independent.

The Board allocates responsibilities to the various Committees as follows:

## Corporate Governance and Remuneration Committee:

Members and dates of appointment to the Committee (professional backgrounds of members are available on Company homepage):

- ▶ Dr. Sándor Csányi – chairman, 17 November, 2000
- ▶ Zsolt Hernádi, 8 September, 2000
- ▶ Dr. Martin Roman, 4 June, 2010
- ▶ Dr. Anthony Radev, 30 May, 2014
- ▶ Dr. János Martonyi, 1 July, 2014

The Chairman of the Board of Directors is a permanent member of the Corporate Governance and Remuneration Committee.

Responsibilities:

- ▶ Analysis and evaluation of the activities of the Board of Directors,
- ▶ issues related to Board / Supervisory Board membership,
- ▶ promoting the relationship between shareholders and the Board,
- ▶ procedural and regulatory issues,
- ▶ reviewing corporate processes, procedures, organisational solutions and compensation and incentive systems and making recommendations on the introduction of best practice standards.

## Report of the Corporate Governance and Remuneration Committee on its 2015 activities

In 2015 the Corporate Governance and Remuneration Committee held 4 meetings with a 100% average attendance rate. Attendance to the Committee meetings during 2015 is set out in the table below:

MEMBERS	NUMBER OF MEETINGS	ATTENDANCE RATIO
<b>TOTAL</b>	<b>3</b>	<b>100%</b>
Dr. Sándor CSÁNYI	3	100%
Zsolt HERNÁDI	3	100%
Dr. Martin ROMAN	3	100%
Dr. Anthony RADEV	3	100%
Dr. János MARTONYI	3	100%

In addition to the issues of corporate governance, remuneration and the composition of the management, the Committee discussed

a number of key strategic and results-related topics prior to their presentation to the Board of Directors for discussion.

## Finance and Risk Management Committee:

Members and dates of appointment to the Committee (professional backgrounds of members are available on Company homepage):

- ▶ Zsigmond Járαι – Chairman, 4 June, 2010
- ▶ Dr. László Parragh, 20 February, 2014
- ▶ Dr. Anthony Radev, 30 May, 2014
- ▶ Dr. Anwar al-Kharusi, 30 May, 2014

The Chairman of the Board of Directors is a permanent invitee to the meetings of Finance and Risk Management Committee.

The Chairman of the Supervisory Board and the Chairman of the Audit Committee are permanent invitees to the Finance and Risk Management Committee meetings.

Responsibilities:

- ▶ Review of financial and related reports,
- ▶ monitoring the efficiency of the internal audit system,
- ▶ review of planning, scope and results of the audit,
- ▶ oversight of the risk management,
- ▶ monitoring the liquidity position of the Company, the financial and operational risks as well as the methodology and strategy of management thereof, review of the operation of Enterprise Risk Management (ERM) system,
- ▶ ensuring the independence and objectivity of the external auditor.

## Report of the Finance and Risk Management Committee on its 2015 activities

In 2015, the Finance and Risk Management Committee held 5 meetings with a 100% average attendance rate. Attendance to the Committee meetings during 2015 is set out in the table below:

MEMBERS	NUMBER OF MEETINGS	ATTENDANCE RATIO
<b>TOTAL</b>	<b>5</b>	<b>100%</b>
Zsigmond JÁRAI	5	100%
Dr. László PARRAGH	5	100%
Dr. Anthony RADEV	5	100%
Dr. Anwar AL-KHARUSI	5	100%

In addition to the regular items on the agenda, including the audit of all public financial reports, providing assistance to the auditor's work and the regular monitoring of internal audit, the Committee reviewed the major risk factors of the Company, considering the changed international financial position and the status reports on risk management actions attached to these factors.

## Sustainable Development Committee:

Members and dates of appointment (professional backgrounds of members are available on Company homepage):

- ▶ Dr. László Parragh – Chairman, 30 May, 2014
- ▶ József Molnár, 5 September, 2013 (interim Chairman between 20 February and 30 May, 2014)
- ▶ Dr. Anwar al-Kharusi, 30 May, 2014
- ▶ Dr. János Martonyi, 1 July, 2014
- ▶ Dr. Oszkár Világi, 30 May, 2014

The Chairman of the Board of Directors is a permanent invitee to the meetings of Sustainable Development Committee.

The Chairman and the Deputy Chairman of the Supervisory Board are permanent invitees to the Sustainable Development Committee meetings.

Responsibilities:

- ▶ To review, evaluate and comment for the Board of Directors on all proposals related to sustainable development (SD),
- ▶ to monitor the development and implementation of all SD related policies (e.g. HSE, Code of Ethics, etc.) and discuss ethical issues,
- ▶ to supervise the progress on the strategic focus areas of SD in MOL Group,
- ▶ to request and discuss reports from business divisions and subsidiaries about their SD performance,
- ▶ to review sustainability related data and information of the external reports.

### Report of the Sustainable Development Committee on its 2015 activities

In 2015, the Sustainable Development Committee held 4 meetings with a 80% attendance rate. Attendance to the Committee meetings during 2014 is set out in the table below:

MEMBERS	NUMBER OF MEETINGS	ATTENDANCE RATIO
<b>TOTAL</b>	<b>4</b>	<b>80%</b>
Dr. László PARRAGH	3	75%
József MOLNÁR	3	75%
Dr. Anwar AL-KHARUSI	4	100%
Dr. János MARTONYI	4	100%
Dr. Oszkár VILÁGI	3	75%

The Committee evaluated the accomplishment of the actions

taken in 2015, formed opinion on Sustainable Development Report and decided on the approval of MOL Group's Sustainability Plan for 2016-2020. The Committee considered with highlighted attention the achieved results of the Dow Jones Sustainability Evaluation together with the necessary development actions as well as sustainable development reports of business units.

## RELATIONSHIP BETWEEN THE BOARD AND THE EXECUTIVE MANAGEMENT

The governance of the Company is carried out in line with standardised corporate governance principles and practice, and, within its framework, the Board of Directors will meet its liabilities for the integrated corporate governance by defining the responsibilities and accountabilities of the Executive Board ("EB"), established by the Board and securing the corporate operative activities, operating and organisational procedures, as well as standardised system for target-setting, reporting and audit (performance control system and business control system).

A consistent document prescribes the distribution of decision-making authorities between the Board of Directors and the company's organisations, defining the key control points required for efficiently developing and operating MOL Group processes.

Control and management of MOL Group will be implemented through business and functional organisations. The EB will be responsible for harmonising their activities.

The EB is a forum for decision preparation that has the role to provide a direct link between the Board of Directors and the Company's staff and at the same time canalize the matters submitted to the full Board. The EB renders preliminary opinions on certain proposals submitted to the Board and is also responsible for the oversight of the execution of the Board's resolutions.

On the EB meetings each member has an obligation to express their opinion, on the basis of which the final decision is made by the Chairman-CEO. In case of a difference of opinion between the Chairman-CEO, GCEO or GCFO, the decision shall be made by the Board of Directors.

## THE EXECUTIVE BOARD (EB) MEMBERS IN 2015:

Zsolt Hernádi	Chairman-CEO (C-CEO)
József Molnár	Group Chief Executive Officer (GCEO)
József Simola	Group Chief Financial Officer (GCFO)
Ferenc Horváth	Executive Vice President, Downstream
Zoltán Áldott	Executive Vice President, President of the Management Board, INA d.d.
Dr. Oszkár Világi	Executive Vice President, C-CEO, Slovnaft a.s.
Sándor Fasimon	Executive Vice President, MOL Hungary (COO)
Alexander Dodds*	Executive Vice President, Exploration and Production

\*until 30.09.2015

In 2015, the Executive Board held 29 meetings and discussed 10 issues on a meeting on average.

## ANNUAL REMUNERATION FOR THE MEMBERS OF THE BOARD OF DIRECTORS

As of January 1, 2009, the members of the Board of Directors have been entitled to the following fixed net remuneration after each AGM:

Members of the Board of Directors	25,000 EUR/year
Chairmen of the Committees	31,250 EUR/year

Directors who are not Hungarian citizens and do not have a permanent address in Hungary are provided with gross 1,500 EUR for each Board or Committee meeting (maximum 15 times) when they travel to Hungary.

## INCENTIVE SCHEME FOR THE MEMBERS OF THE BOARD OF DIRECTORS

To ensure uniformity and transparency, in addition to fixed remuneration, MOL operates an incentive scheme for the members of Board of Directors, which supports further commitment of the participants and takes the Company's profitability and long term growth into consideration. This can ensure that the interests of the participants in the compensation program coincide with the interests of the shareholders.

Main principles of the incentive scheme for the Board of Directors were approved by the Annual General Meeting (AGM) on April 26, 2012 and it has been effective since 2012.

## Incentive based on share allowance

From January 1, 2012 the Profit Sharing Incentive Plan based on the value added method has been replaced by the incentive based on share allowance as the long-term incentive for the members of the Board of Directors. Shares are granted first from 2013.

The aim of the new share based incentive is to ensure the interest of the long-term stock price growth and maintain motivation in addition to the dividend payment for which 1 year retention obligation (restraint on alienation) has been also determined for 2/3 of the shares (the retention obligation terminates at the date of the expiration of the mandate).

The incentive consists of two parts: share allowance and cash allowance related thereto.

### Share allowance

Number of shares:

- ▶ for the Members of the Board of Directors: 150 pieces of "A" series of MOL ordinary shares per month
- ▶ for the Chairman of the Board of Directors: additional 50 pieces of "A" series of MOL ordinary shares per month

If the Chairman is not a non-executive director, the deputy chairman (who is non-executive) is entitled to this extra remuneration (50 pieces / month).

The share allowance is provided once a year, within 30 days after the Annual General Meeting closing the given business year.

### Cash allowance

The incentive based on share allowance is a net incentive, that is the Company ensures to pay the taxes, contributions and other payables incurred upon acquisition of the shares in line with the relevant and effective laws. Such cash-based coverage of taxes and contributions does not include any further tax(es) or cost(s) incurred in relation with exercising rights attached to the shares or disposal of the shares (e.g. dividend tax, income tax); these shall be borne by the respective members of the Board of Directors. In line with these, there is a cash allowance part of the incentive system.

Rate of the cash allowance is the gross value of taxes, contributions and other payables incurred upon acquisition of the shares in line with the relevant and effective laws, including also the tax difference and contributions incurring in the country of tax-residence in case of non-Hungarian members of the Board of Directors.

### Other benefits

Other non-financial benefits include a life and accident, travel- and liability insurance. Besides that, as non-financial benefits,

an annual health screening and an exclusive healthcare package are also available for the members of the Board of Directors.

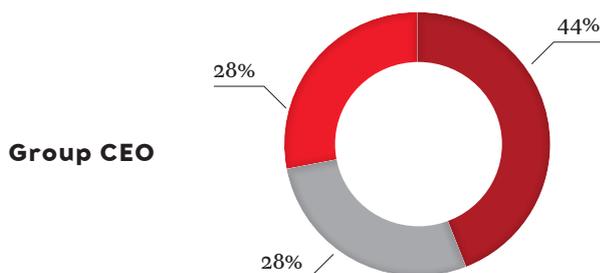
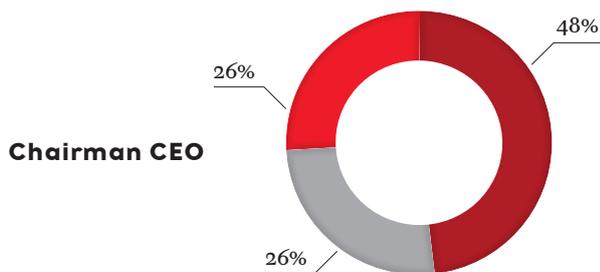
## INCENTIVE SYSTEM FOR THE TOP MANAGEMENT, MOL GROUP EXECUTIVE BOARD

The strategy behind MOL's remuneration is to provide incentives for executives and top management to perform in order to carry out the company's strategy, and reward them for the achievement of strategic goals through a combination of short-term and long-term incentives. The Corporate Governance and Remuneration Committee (CGRC) recognizes that remuneration plays an important role in supporting the achievement of the goals. Through the design of its incentive schemes, MOL wishes to ensure that executive remuneration is aligned with and supports the company's strategic objectives within a framework that closely aligns the interests of MOL executives to those of our shareholders.

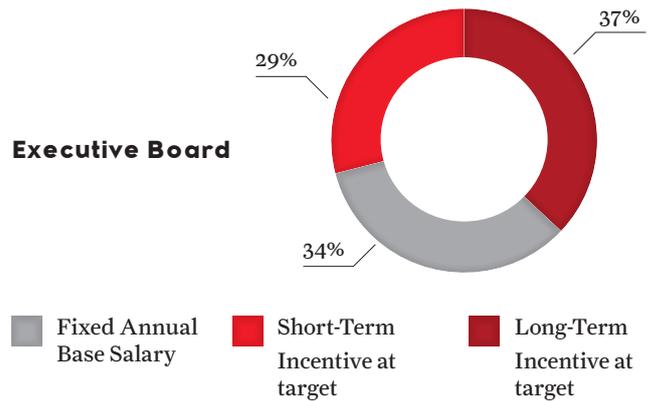
### 1. The MOL Group Executive Board (EB) Remuneration Matrix consists of three key pillars:

- ▶ Annual Base Salary (BS): fixed annual amount paid to the individuals
- ▶ Short Term Incentive (STI): annual bonus, based on individual and company performance
- ▶ Long Term Incentive (LTI): promotes performance driven culture and enhances the focus on the top management team to be aligned with the interests of shareholders

The Remuneration Mix of the Top Management:



### Executive Board



The incentive system for the top management in 2015 included the following elements:

### 2. Short Term Incentive (bonus)

The basis of the short term incentive is a target of 85-100% of the annual base salary. The amount thereof is defined in line with the performance evaluation of the given manager.

Based on MOL Group's decision making authorities the C-CEO and G-CEO annual performance is evaluated by the Corporate Governance and Remuneration Committee (CGRC) with final approval of the MOL Board of Directors (BoD).

### Choice of Performance Measures for the STI

The aim of the MOL STI scheme is to focus the participants on achieving stretching financial, operational and individual performance goals reflecting the delivery of key annual business priorities within the framework of the MOL Group's long term strategy. Furthermore, HSE measures are fully integrated into the incentive schemes, and fully aligned with the four-year public target as set out in MOL Group's Sustainability Plan 2020.

For 2015, the MOL Group Executive Board's STI framework was designed to include key focus areas in a mix of financial and non-financial KPIs in an effort to achieve the targets of the Group.

### Financial KPIs:

In 2015, the main focus for the executive Board was to deliver the EBITDA and CAPEX targets. These targets are represented in the C-CEO and G-CEO annual performance plans:

BUSINESS LINE	KPI
MOL Group	Clean CCS EBITDA
	CAPEX

Furthermore, Executive Board members with divisional responsibilities are assessed on a number of operational and financial measures reflecting annual priorities and the strategic

direction of each business division within the framework of the Group's long term strategy.

BUSINESS LINE	KPI
Group Downstream	Clean CCS EBITDA
	CAPEX
	NxDSP EBITDA Impact
Group Exploration & Production	2P Reserves
	CAPEX
	Production Unit Cost
	Production Volume

## Non-financial KPIs:

MOL Group Executive Board members are also held accountable to non-financial targets alongside financial ones. Safety is a Group priority, which is why the Corporate Governance and Remuneration Committee (CGRC) has consistently applied a divisional and a corporate HSE related performance indicator. For 2015, MOL Group used Total Reportable Injury rate (TRIR). The reason for the use of TRIR as the key leading indicator as opposed to the Lost Time Injury Frequency Rate (LTIF) is due to the priority of the Group to focus, not only on accidents that result in lost working days, but also on any workplace injury that requires medical attention. The inclusion of HSE measures reflects the Group's overarching priority for conducting safe, reliable and compliant operations at all times.

Challenging targets for these measures were set in order to continue the improving trend of the last years as MOL Group continues to reduce the number of safety events. The targets aim for a ~10% improvement compared to the previous year.

For 2015 HSE targets were:

BUSINESS LINE	KPI
Group Downstream	DS Total Reportable Injury Rate (TRIR)
Group Exploration & Production	US Total Reportable Injury Rate (TRIR)
MOL Group total	Group Total Reportable Injury Rate (TRIR)

## STI Outcome

The choice of the aforementioned performance measure reflects a desire from the CGRC to assess the participants based on a broad range of corporate and divisional measures that mirrors the corporate strategy and its related KPIs.

The outcome of the STI is not driven by a purely formulaic approach, as no specific weight has been assigned to each performance measure in order not to create an overemphasis on one at the expense of others. The CGRC will rigorously assess performance at the end of the period, and judge whether the

results against the performance measures are a reflection of the underlying performance of MOL Group.

## 3. Long Term Incentive system

The overarching purpose of the current long-term incentive systems is to drive and reward the delivery of sustainable value creation and to provide full alignment between MOL Group executive team and MOL shareholders.

The Long Term Incentive system at MOL Group consists of two elements: a Stock Option Plan and a Performance Share Plan.

The main characteristics of the two incentive schemes are as follows:

### a) Stock Option Plan

The Stock Option Plan is an option to hypothetically sell MOL shares granted on a past strike price at a spot price and so realizing a profit with the difference between the two prices. The incentive scheme has the following characteristics:

- ▶ It covers a 5-year period starting annually, with the period being split into a 1-year granting period, a 1-year vesting period (when exercising Stock Options is not possible) and a 3-year exercising period. The Stock Option lapses if not exercised by December 31st of the last year.
- ▶ The strike price for Stock Options is defined before the granting period begins. The strike price is the average MOL share price in HUF on the Budapest Stock Exchange weighted with turnover. Observation period is the last quarter of the year which precedes the granting period.
- ▶ The exercise price is the average price of MOL shares in HUF on the Budapest Stock Exchange on the day of exercising. The trading day is freely selected by the eligible senior manager albeit limited by applicable insider trading prohibitions.
- ▶ While the Stock Option entitlement is defined based on the position grade, the actual Stock Option unit number is granted each year to the eligible managers based on their individual short-term performance evaluation during the granting period.
- ▶ The individual performance evaluation is linked to the STI framework, as the individual short-term performance evaluation factor (between 0 and 2) acts as a multiplier of the grants defined by job categories.

Eligibility of stock option units is determined by the Individual Factor of the granting period:

INDIVIDUAL EVALUATION		% OF STOCK OPTIONS
0	→	x0%
Between 0 and 2	→	Multiplier according to individual evaluation
2	→	x200%

Managers who are entitled to the long-term incentive scheme are also eligible for an annual one-time payout, in case the Annual General Meeting decides that dividend payment shall be paid for the given year. The amount thereof is equal to the product of the dividend paid for one share and of the numbers of Stock Option awarded to the given the manager. The purpose is to balance the incentive in terms of share price movements after dividend payments of the Company.

## b) Performance Share Plan

The Performance Share Plan (PSP) is a 3-year cash based programme, using a comparative share price methodology with the following characteristics:

- ▶ The programme starts each year on a rolling scheme with a 3-year vesting period. Payments are due after the 3<sup>rd</sup> year.
- ▶ The target is the development of MOL's share price compared to relevant and acknowledged CEE regional and industry specific indexes: the CETOP20 Index and the Dow Jones Emerging Market Titans Oil & Gas 30 Index.
- ▶ MOL's share price performance is compared to the two abovementioned benchmark indices. Basis of the evaluation is the average difference in MOL's year-on-year (12 months) share price performance in comparison to the benchmark indices. Comparisons are made on a USD basis. There are defined payout ratios which are based on the measured difference in MOL's share price performance compared to the two indices, noticed in each year. Final payout ratio will be determined by the average of the three noticed payout ratios over the vesting period.
- ▶ The expected payout amount of the PSP is additionally linked to individual short-term performance, as the potential payout is based on three years' individual factors in the annual performance evaluation for each participant. This ensures that constant individual over-performance on a long-term basis is rewarded and the consequences of long term underperformance are managed.
- ▶ Therefore, the final payout amount is determined by the PSP payout ratio multiplied by the combination of individual payout multipliers of the 3-year vesting period.

## Choice of Performance Measures for the LTI

The choice of LTI awards being linked to the share price and dividend distribution reflects the Board's strategic priority on restoring value creation. Through its long term incentives schemes, MOL prioritizes to provide its shareholders with a return on their investment through both the appreciation of the share price as well as through the payment of dividends.

The choice of CETOP20 and Dow Jones Emerging Market Titans Oil & Gas 30 Index reflects the fact that MOL competes for investor flows on a regional basis (Central and Eastern

Europe) as well as with the global emerging market Oil & Gas sector. The choice of these two indexes is therefore consistent with the purpose of incentivizing and ultimately rewarding executives for providing competitive returns to current as well as future investors over the long-term relative to the broader regional and global oil & gas markets.

## Other Fringe Benefits

MOL Group is offering standard benefits in-line with market practice for Executives. These include:

- ▶ Dedicated status car for both business and private purposes
- ▶ Life and accident insurance
- ▶ Travel insurance
- ▶ Liability insurance
- ▶ Annual health check and upgraded healthcare services

## SUPERVISORY BOARD

The Supervisory Board is responsible for monitoring and supervising the Board of Directors on behalf of the shareholders (General Meeting). Members of the Supervisory Board shall be elected by the General Meeting for a definite period, but for a maximum of five (5) years, the present membership is nine. In accordance with Act V of 2013 on the Civil Code (Civil Code), 1/3 of the members shall be representatives of the employees, accordingly three members of the MOL Supervisory Board are employee representatives with the other six external persons appointed by the shareholders.

### THE MEMBERS OF THE SUPERVISORY BOARD AND THEIR INDEPENDENCE STATUS:

György Mosonyi, Chairman	non-independent
Dr. Attila Chikán, Deputy Chairman	independent
John I. Charody	independent
Slavomír Hatina	independent
Attila Juhász	non-independent (employee representative)
Dr.sc. Žarko Primorac	independent
Andrea Hegedűs	non-independent (employee representative)
Dr. Sándor Puskás	non-independent (employee representative)
István Töröcskei*	independent
Dr. Norbert Szivek**	independent

\* István Töröcskei's mandate expired on 28 April, 2015

\*\*Dr. Norbert Szivek was elected by AGM as member of the Supervisory Board from 29 April, 2015

The Chairman of the Supervisory Board is a permanent invitee to the meetings of the Board of Directors, Finance and Risk Management Committee and Sustainable Development Committee meetings.

Regular agenda points of the Supervisory Board include the quarterly report of the Board of Directors on company's operations and the reports of Internal Audit and Corporate Security and besides it is informed and is kept updated on other relevant issues, topics as well. In addition, the Supervisory Board reviews the proposals for the Annual General Meeting. The Supervisory Board reviews its annual activity during the year.

In 2015 the Supervisory Board held 5 meetings with a 91% attendance rate.

## Remuneration of the members of the Supervisory Board

Until May 1, 2015 the members of the Supervisory Board received remuneration of EUR gross 3,000/month, while the Chairman of the Supervisory Board received remuneration of EUR gross 4,000/month. From May 1, 2015 members receive EUR gross 4,000/month, while the Chairman receives EUR gross 6,000/month. In addition to this monthly fee, the Chairman of the Supervisory Board is entitled to receive gross EUR 1,500 for participation in each Board of Directors or Board Committee meeting, up to 15 times per annum. The Chairman of the Audit Committee is entitled to receive gross EUR 1,500 for participation in Board Committee meeting, up to 15 times per annum.

Besides the monthly remuneration the both Chairman of the Supervisory Board and the members are entitled to receive further EUR 1,500 for each extraordinary meeting that is held in addition to the scheduled annual meetings. This remuneration is provided maximum two times a year.

## Other benefits

The members of the Supervisory Board are entitled to receive further non-financial benefits, including life and accident insurance, travel- and liability insurance as non financial benefits. Besides that an annual health screening and an exclusive healthcare package are also available for the members of the Supervisory Board, also as non financial benefit.

## AUDIT COMMITTEE

In 2006, the general meeting appointed the Audit Committee comprised of independent members of the Supervisory Board. The Audit Committee strengthens the independent control over the financial and accounting policy of the Company.

The independent Audit Committee's responsibilities include the following activities among others:

- ▶ providing assistance to the Supervisory Board in super-

vising the financial report regime, in selecting an auditor and in working with the auditor;

- ▶ carrying out the tasks of the audit committees of its subsidiaries which are consolidated by the Company, operate as public limited companies or issue securities admitted to trading on regulated market, if the relevant laws allow that and the subsidiary in question does not operate a separate audit committee.

Members of the Audit Committee and dates of appointment (professional backgrounds of members are available on Company homepage):

- ▶ Dr. Attila Chikán - Chairman, 27 April, 2006
- ▶ John I. Charody, 27 April, 2006
- ▶ István Töröcskei 1 May, 2011\*
- ▶ Dr.sc. Žarko Primorac (as alternate member) – acting from 29 April, 2015\*\*

\* István Töröcskei's mandate expired on 28 April, 2015

\*\* As mandate of István Töröcskei expired on 28 April, 2015, Dr.sc. Žarko Primorac, as alternate Audit Committee member, has been invited to the Audit Committee until the AGM elects a new permanent Audit Committee member.

## Report of the Audit Committee on its 2015 activities

In 2015, the Audit Committee held 5 meetings with a 100% average attendance rate. In addition to the regular items on the agenda, including the audit of all public financial reports, providing assistance to the auditor's work and the regular monitoring of Internal Audit, the Committee reviewed the major risk factors of the Company, considering the changed international financial position and the status reports on risk management actions attached to these factors. The Audit Committee continuously monitored the Company's financial position. The Audit Committee reviewed the materials of the Annual General Meeting (i.e. financial reports, statements of the Auditor).

## INTEGRATED CORPORATE RISK MANAGEMENT FUNCTION

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

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

## The main risk drivers of the Group are the following:

- ▶ **Commodity price risk:** MOL is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks stem from 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. Investors buying oil companies' share are generally willing to take the risk of oil business so commodity price risk should not be fully eliminated from the cash flow. However, commodity hedge deals are considered to eliminate risks other than 'business as usual' risks or general market price volatility.
- ▶ **Foreign Exchange (FX) risk:** Business operation is economically driven mainly by USD. The overall operating cash flow exposure of the Group is net long USD, EUR, RON, and net short HUF, HRK, RUB from economic point of view. According to MOL's current FX risk management policy the long FX exposures of the operating cash flow are decreased by the short financing cash flow exposures.
- ▶ **Regulatory risk:** Due to the economic crisis the risk of potential government actions increased as well as potential impact of such decisions.
- ▶ **Country risks:** The internationally extending portfolio requires the proper management of country risk exposures. Country exposures are monitored to enhance the diversification effect in the investment portfolio.
- ▶ **Drilling risks:** The uncertainty related to drilling success is a typical business risk in the exploration activity.
- ▶ **Equipment breakdown:** Due to the high asset concentration in Downstream business it is a significant risk driver. The potential negative effects are mitigated besides comprehensive HSE activities through a Group wide insurance management program.
- ▶ **Market demand uncertainties:** External factors like drop in market demand can affect MOL's results negatively.
- ▶ **Reputation risk:** Reputation of energy industry players has been in the focus of media for the past years due to extreme negative events (e.g. BP oil spill, Fukushima nuclear accident). MOL as a major market player in the region operates under special attention from stakeholders.

Some of the risks are managed centrally, while some are dealt by affected MOL Group companies or within the Business Units or Functions, overseen always by nominated risk owners. Risk Management regularly controls the realization of these risk mitigation actions – in a form of quarterly reports.

### Main risk management tools

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

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

To ensure the profitability and the financial stability of the Group, **Financial Risk Management** is in place to handle short-term, market related risks. Commodity price, FX and interest rate risks are measured by using a complex model based on Monte Carlo simulation, and are managed – if necessary - with risk mitigation tools (such as swaps, forwards and options).

Transferring of excess operational risks is done by **Insurance Management**. Purchase of insurances represents an important risk mitigation tool used to cover the most relevant operational and liability exposures. The major insurance types are: Property Damage, Business Interruption, Liability and Control of Well Insurance, set around a yearly cycle (i.e. annual renewal of most insurance programs). Insurance is managed through a joint program for the whole MOL Group to exploit considerable synergy effects.

### Valuable synergies can be exploited when risk is approached in a comprehensive way

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

### Decision-making support of capital allocation

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

## EXTERNAL AUDITORS

The MOL Group was audited by Ernst & Young (“EY”) in both 2015 and 2014, excluding FGSZ Zrt. (audited by PwC) and some other non-significant subsidiaries.

Within the framework of the audit contract, EY performs an audit of statutory financial statements, including interim financial statements of MOL prepared in accordance with Act C of 2000 on Accounting (“Accounting Act”) and the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Audits of the above mentioned financial statements are carried out in accordance with the Hungarian National Standards on Auditing, the International Standards on Auditing (ISA), the provisions of Accounting Act and other relevant regulations. The auditors ensure the continuity of the audit by scheduling regular on-site reviews during the year, participating in the meetings of MOL’s governing bodies and through other forms of consultation. The auditors also review the stock exchange flash reports issued quarterly; however they do not perform an audit of or issue any opinion on such reports with regards to these.

EY also provided other services to MOL Group. Summary of the fees paid to them in 2015 and 2014 are as follows (HUF mn):

	2015	2014
Audit fee for MOL (including audit fees for interim balance sheets)	151	154
Audit fee for subsidiaries	577	524
Other audit related services	18	15
Other non-audit services	48	152
Tax advisory services	432	303
<b>Total</b>	<b>1 226</b>	<b>1 148</b>

The increase of Audit fee for subsidiaries was almost entirely resulting from the recent acquisitions (Eni, United Kingdom and Norway) and activities in connection with new legal entities. Other audit-related services includes primarily the assurance services relating to the Sustainable Development Report in both years. In 2015 other non-audit services were related to IT and transaction support services. In 2014 other non-audit services were charged due to the relocation of certain subsidiaries to Netherland. In both years tax advisory services include mainly personal income tax related services and also minor corporate income tax and VAT related services.

The Board of Directors confirms that non-audit services provided by EY complies with auditor independence rules and policies.

## RELATIONSHIP WITH THE SHAREHOLDERS, PROHIBITION OF INSIDER TRADING

The Board is aware of its commitment to represent and promote shareholders’ interests, and recognises that it is fully accountable for the performance and activities of the MOL Group. To

help ensure that the Company can meet shareholders’ expectations in all areas, the Board continually analyses and evaluates developments, both in the broader external environment as well as at an operational level.

Formal channels of communication with shareholders include the Regular Announcements, Annual Report, the Half-year Report and the Quarterly Interim Management Reports, and the Extraordinary announcements. Regular and extraordinary announcements are published on MOL’s homepage, on the Budapest Stock Exchange (primary exchange) and on the Warsaw Stock Exchange and on the Capital Market Information Disclosure System operated by the National Bank of Hungary (Magyar Nemzeti Bank). Moreover we send e-mail announcements to those who subscribed to the distribution list of e-mail announcements of the Investor Relations. In addition, presentations on the business, its performance and strategy are given to shareholders at the Annual General Meeting. Regular Roadshow visits are also made to various cities in the UK, the US and Continental Europe where meetings are held with representatives of the investment community, including MOL shareholders and holders of MOL’s Depository Receipts (DR). Furthermore, investors are able to raise questions or make proposals at any time during the year, including the Company’s General Meeting. Investor feedbacks are regularly reported to the Board of Directors.

MOL has an Investor Relations department which is responsible for the organisation of the above activities as well as for the day-to-day management of MOL’s relationship with its shareholders (contact details are provided in the “Shareholder Information” section at the end of Annual report). Extensive information is also made available on MOL’s website ([mol.hu/en/](http://mol.hu/en/)), which has a dedicated section for shareholders and the financial community. MOL has always given special care to provide a considerably wide range of information to the capital markets, in line with international best practice. Therefore Investor Relations Department of MOL is continuously renewing its website (direct link at: [molgroup.info/en/investor-relations](http://molgroup.info/en/investor-relations)). The aim of the development is to make the website even more user-friendly, in accordance with the intention to continuously improve our services, in order to meet the requirements of our shareholders, analysts and other capital market participants.

In 2015 MOL participated in 4 investor roadshows and 14 conferences (1 US and 13 European) having around 320 meetings with potential and existing shareholders. Moreover MOL participated on 3 dedicated conferences to bond investors.

MOL Group is committed to the fair marketing of publicly-traded securities. Insider trading in securities is also regarded as a criminal offence in most of the countries in which MOL Group carries out business. Therefore, we require not only full compliance with relevant laws, but also the avoidance of even the appearance of insider trading and consultancy.

In line with the laws and MOL's insider trading regulation:

- ▶ it is prohibited to conclude a transaction, directly or indirectly, using inside information involving financial instruments to which the inside information pertains, or to commission the services of others to transact such deals, to convey inside information to others, to make a suggestion to another person to engage in dealing with any financial instrument to which the inside information pertains;
- ▶ in case the inside information concerns another listed company, belonging to MOL Group, the trading prohibition shall be also applied to the related financial instruments of that company.

## EXERCISING THE SHAREHOLDERS' RIGHTS, GENERAL MEETING PARTICIPATION

Voting rights on the general meeting can be exercised based on the voting rights attached to shares held by the shareholders. Each "A" Series share entitles its holder to one vote. The actual voting power depends on how many shares are registered by the shareholders participating in the general meeting.

Condition of participation and voting at the general meeting for shareholders is that the holder of the share(s) shall be registered in the Share Register. The depository shall be responsible for registering the shareholders in the Share Register pursuant to the instructions of such shareholders in line with the conditions set by the general meeting invitation. According to Article 8.6 of the Articles of Association: "Each shareholder – at the shareholder's identification related to the closing of the share registry prior to the next general meeting –, shall declare whether he, or he and any other shareholder belonging to the same shareholder group as specified in Articles 10.1.1 and 10.1.2 holds at least 2% of the Company's shares, together with the shares regarding which he asks for registration." If the conditions described in the previous sentence are met, the shareholder requesting registration is obliged to declare the composition of the shareholder group taking into account the provisions of Articles 10.1.1 and 10.1.2.

Further, the shareholder shall, on the request of the Board of Directors, immediately identify the ultimate beneficial owner with respect to the shares owned by such shareholder. In case the shareholder fails to comply with the above request or in case there is a reasonable ground to assume that a shareholder made false representation to the Board of Directors, the shareholder's voting right shall be suspended and shall be prevented from exercising it until full compliance with said requirements.

According to Article 10.1.1 of the Articles of Association: „No shareholder or shareholder group (as defined in Article 10.1.2

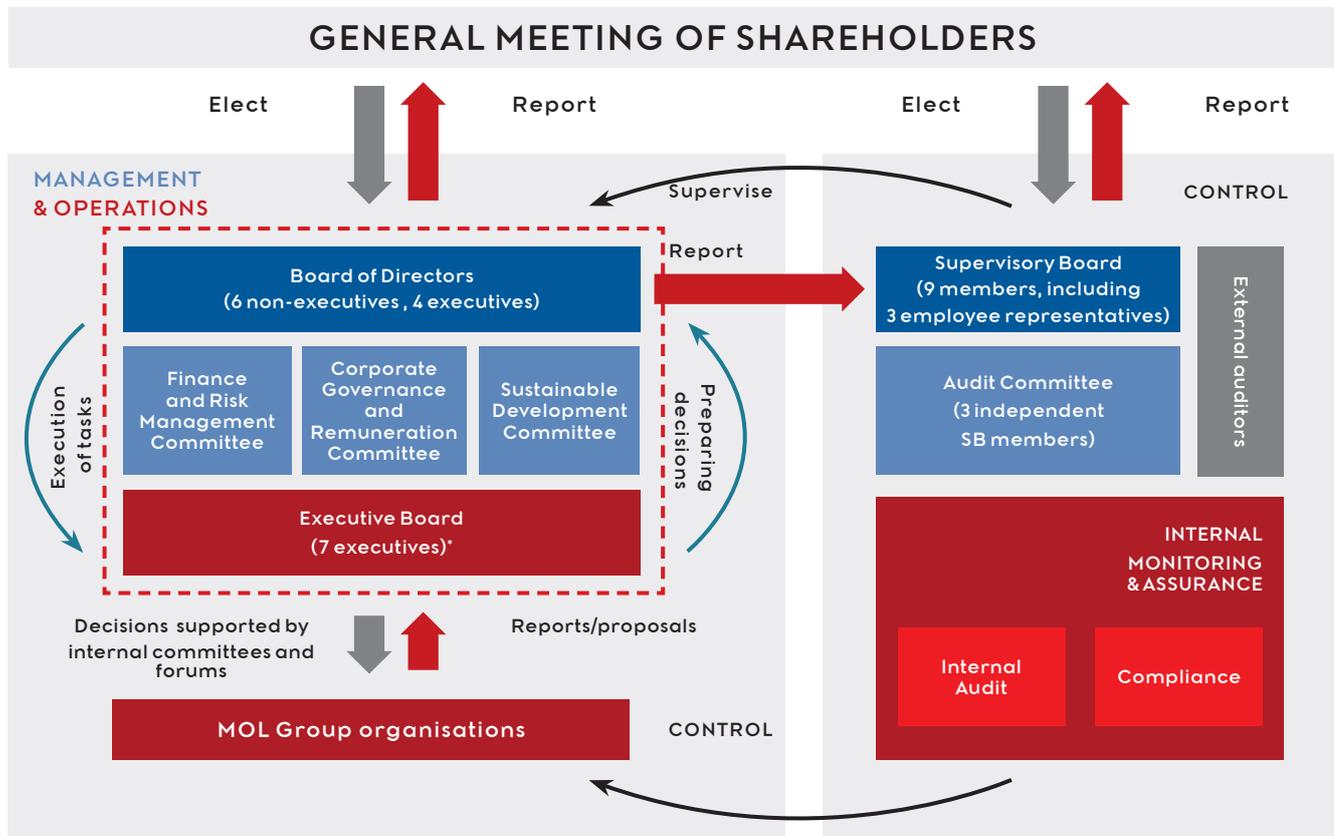
of Articles of Association) may exercise more than 10% of the voting rights with the exception of the organization(s) acting at the Company's request as depository or custodian for the Company's shares or securities representing the Company's shares (the latter shall be exempted only insofar as the ultimate person or persons exercising the shareholder's rights represented by the shares and securities deposited with them do not fall within the limitations specified here below)."

In accordance with the Civil Code the shareholders have the right to participate, to request information and to make remarks and proposals at the General Meeting. Shareholders are entitled to vote, if they hold shares with voting rights. The shareholders having at least one per cent of the voting rights may request the Board of Directors to add an item to the agenda of the General Meeting. Where a group of shareholders together controlling at least one per cent of the votes in the Company propose certain additions to the agenda in accordance with the provisions on setting the items of the agenda, or table draft resolutions for items included or to be included on the agenda, the matter proposed shall be construed to have been placed on the agenda if such proposal is delivered to the Board of Directors within eight days following the time of publication of notice for the convocation of the general meeting, and the Board of Directors publishes a notice on the amended agenda, and on the draft resolutions tabled by shareholders upon receipt of the proposal. The conditions to participate in the general meeting are published in the invitation to the general meeting. Invitations to the general meeting are published on company homepage according to the Articles of Association. The ordinary general meeting is usually held in April, in line with the current regulations.

The ordinary general meeting, based on the proposal of Board of Directors approved by the Supervisory Board, shall have the authority to determine profit distribution, i.e. the amount of the profit after taxation to be reinvested into the Company and the amount to be paid out as dividends. Based upon the decision of the general meeting, dividend can be paid in a non-cash form as well.

The starting date for the payment of dividends shall be defined by the Board of Directors in such way as to ensure a period of at least 10 working days between the first publication date of such announcement and the initial date of dividend distribution. Only those shareholders are entitled to receive dividend, who are registered in the share register of the Company on the basis of shareholders identification executed on the date defined by the Board of Directors and published in the announcement on the dividend payment. Such date relevant to the dividend payment determined by the Board of Directors may deviate from the date of the general meeting deciding on the payment of dividend.

**MOL GROUP GOVERNANCE FRAMEWORK**



\* As of 1 October 2015 it decreased from 8 to 7 due to the departure of Alexander Dodds.