MOLGROUP

MOL Group financial results

Q2 2014	Q3 2014	Q3 2013 restated	YoY Ch %	(IFRS), in HUF billion	Q1-Q3 2013 restated	Q1-Q3 2014	Ch. %
1,232.2	1,341.9	1,428.9	(6)	Net sales revenues	4,042.2	3,694.9	(9)
99.1	157.1	157.7	-	EBITDA	393.0	370.5	(6)
96.4	**150.7**	**152.2**	**(1)**	**EBITDA excl. special items[1]**	**384.0**	**348.6**	**(9)**
95.1	**163.9**	**138.5**	**18**	**Clean CCS-based EBITDA [1] [2] [15]**	**393.8**	**363.5**	**(8)**
32.7	90.9	(57.0)	n.a.	Profit from operation	23.1	170.0	635
30.0	**84.4**	**61.3**	**38**	**Profit from operation excl. special items[1]**	**138.0**	**148.2**	**7**
28.7	**97.6**	**47.7**	**105**	**Clean CCS-based operating profit [1] [2] [15]**	**147.8**	**163.0**	**10**
11.4	40.9	15.5	164	Net financial expenses/(gain)	44.6	72.4	62
24.0	**28.5**	**(30.0)**	**n.a.**	**Net profit for the period attributable to equity holders of the parent**	**16.7**	**73.4**	**338**
129.4	141.3	68.3	107	Operating cash flow	364.1	282.4	(22)
				EARNINGS PER SHARE			
245	294	(359)	n.a.	Basic EPS, HUF	128	747	484
233	252	449	(44)	Basic EPS excl. special items, HUF	954	542	(43)
				INDEBTEDNESS			
1.01	0.96	1.11		Simplified Net debt/EBITDA	1.11	0.96	
18.5%	17.2%	20.7%		Net gearing[22]	20.7%	17.2%	

Q2 2014	Q3 2014	Q3 2013 restated	YoY Ch %	(IFRS), in USD million	Q1-Q3 2013 restated	Q1-Q3 2014	Ch. %
5,523	5,699	6,351	(10)	Net sales revenues	17,941	16,209	(10)
444	667	701	(5)	EBITDA	1,744	1,619	(7)
432	**640**	**676**	**(5)**	**EBITDA excl. special items[1]**	**1,705**	**1,524**	**(11)**
426	**696**	**615**	**13**	**Clean CCS-based EBITDA [1] [2] [15]**	**1,748**	**1,589**	**(9)**
147	386	(253)	n.a.	Profit from operation	103	739	620
135	**359**	**273**	**32**	**Profit from operation excl. special items[1]**	**613**	**644**	**5**
129	**414**	**212**	**96**	**Clean CCS-based operating profit [1] [2] [15]**	**656**	**713**	**9**
51	172	69	151	Net financial expenses/(gain)	198	313	58
108	**122**	**(133)**	**n.a.**	**Net profit for the period attributable to equity holders of the parent**	**74**	**322**	**333**
580	615	304	103	Operating cash flow	1,616	1,246	(23)
				EARNINGS PER SHARE			
1.1	1.3	(1.6)	n.a.	Basic EPS, USD	0.6	3.3	481
1.1	1.1	2.0	(46)	Basic EPS excl. special items, USD	4.2	2.5	(42)

[1] *Special items of operating profit, EBITDA are detailed in Appendix VII. and IX.*
[2] [4] [15] [22] *Please see Appendix XV.*

Zsolt Hernádi, MOL Chairman & CEO, comments:

"This was a strong quarter for MOL with lots of good news. As forecasted, Upstream production reverted to growth and we see significant upside potential in the coming quarters as well. A major breakthrough supporting this assumption is the official approval of the Akri-Bijeel Block Field Development Plan.

As far as Downstream is concerned, I'm glad to say that MOL achieved one of its best ever quarterly results. This is not only the reflection of a seasonally better environment but also clearly demonstrates our successes in continuous efficiency improvements. During the quarter, we announced the expansion of our CEE Downstream coverage by acquiring the Lukoil network in the Czech Republic. We are still pursuing further organic and inorganic growth projects to lay the foundations of future value creation.

MOL confirmed its position within the MSCI Global Sustainability Indexes. Our membership in the MSCI Emerging Markets Index shows that the Group has high ESG (environmental, social and governance) performance compared to our sector peers.

Finally, in highly competitive conditions, MOL signed an over USD 1.5bn revolving credit facility agreement which extends our maturity profile and increase further our financial flexibility to execute our growth strategy."

Third quarter 2014 results

In Q3 2014, MOL Group generated a clean CCS EBITDA of HUF 164bn (or USD 696mn) exceeding the previous quarter's figure by 72%. This increase came mainly from a huge improvement in Downstream, while Upstream's contribution was also on the rise. Corporate clean CCS EBITDA is 63% higher in USD terms, due to the strengthening of the USD against the HUF in addition to the drivers described above.

In the Upstream business, we reversed the declining trend in production as the overall CEE contribution rose slightly and production from our Kurdistan projects was ramped up. The decreasing price of Brent prompted realized hydrocarbon prices to shrink but this was off-set by a significant weakening of the HUF. EBITDA, excluding special items, rose in line with lower exploration expenditure and a higher level of collected Egyptian receivables.

Downstream reached one of its best ever quarterly results. This exceptional performance came mainly on the back of an improving macro environment, however a close to threefold increase in clean CCS-based EBITDA to HUF 81bn is a clear sign of successfully implemented efficiency improvement measures. Seasonally higher sales volumes and improving margins boosted both Petrochemical and Retail performances.

Gas Midstream reported a slight drop in EBITDA compared to the prior quarter since both FGSZ's and Prirodni Plin's contributions were lower compared to Q2.

Operating cash flow, before working capital changes, amounted to HUF 156bn, significantly exceeding last quarter's performance. Low level of working capital changes resulted in HUF 141bn net cash flow provided by operations.

Q1-Q3 2014 results

In the first three quarters of 2014, MOL delivered a clean CCS EBITDA of HUF 364bn (or USD 1,589mn) which is an 8% decrease compared to the same period in 2013.

In Upstream the 23% lower clean result is mainly attributable to the natural decline of matured assets and significantly lower realized natural gas prices in the CEE due to adverse regulatory changes. Moreover, there were asset divestures in Russia (ZMB in Q3 2013 and 49% of Baitex in Q1 2014) and their effects were only partially mitigated by new asset purchases in the North Sea and intensified field development activities in our international operations.

The Downstream division's clean results are just as solid as they were a year ago. While the Brent-Urals spread widened, the gasoil crack spread narrowed implying a similar external environment to that of the base period. Planned and unplanned shut-downs as well as non-recurring costs related to the IES refinery conversion mitigated stronger contributions from Petrochemicals and Retail and, as mentioned, the impact of implemented efficiency improvement measures.

Gas Midstream's contribution is more than 50% lower than a year ago. This significant drop resulted by forced gas inventory sale due to regulatory changes in Croatia and lack of storage revenues following the sale of MMBF in Q4 2013.

In the first three quarters of 2014, MOL Group generated HUF 358bn operating cash flow, before working capital changes, which is 10% behind the same period's amount in 2013. Cash outflows related to a decrease in trade payables among working capital items trimmed net cash-flow of operating activities to HUF 282bn.

Q2 2014	Q3 2014	Q3 2013 restated	YoY Ch %	EBITDA Excluding Special Items (HUF bn) [1]	Q1-Q3 2013 restated	Q1-Q3 2014	Ch. %
60.6	66.2	82.7	(20)	Upstream	267.8	205.3	(23)
30.0	67.7	62.2	9	Downstream	124.3	121.7	(2)
28.6	80.8	48.5	67	CCS-based Downstream EBITDA [1] [15]	134.1	131.7	(2)
16.2	11.9	18.4	(35)	Gas Midstream	47.7	22.3	(53)
(2.7)	(1.8)	(6.1)	(71)	Corporate and other	(30.4)	(10.5)	(65)
(7.7)	6.7	(5.0)	n.a.	Intersegment transfers [14]	(25.4)	9.9	n.a.
95.1	**163.9**	**138.5**	**18**	**Total Clean CCS-based EBITDA [15]**	**393.8**	**363.5**	**(8)**
96.4	**150.7**	**152.2**	**(1)**	**Total EBITDA Excluding Special Items**	**384.0**	**348.6**	**(9)**

[1] *Special items of operating profit and EBITDA are detailed in Appendix VII. and IX.*
[14] [15] Please see Appendix XV.

- **Upstream:** The Upstream segment's EBITDA, excluding special items, reached HUF 205bn, lower than 2013's performance by 23%. This performance was negatively affected by (1) lower average realized hydrocarbon prices due to lower regulated natural gas prices in the CEE, (2) lower production from matured CEE assets and due to Russian divestures (ZMB in Q3 2013 and 49% of Baitex in Q1 2014), (3) higher exploration costs in relation to accelerated international work programmes and (4) the Q1 2013 Upstream performance being increased by HUF 8bn non-recurring revenue due to modification of the transfer parity of Croatian crude oil.
- **Downstream:** In Downstream, clean-CCS based EBITDA reached similar levels to the base period and amounted to HUF 132bn. Amid broadly neutral external conditions clean-CCS EBITDA declined by 2% and was also influenced by (1) less favourable INA R&M contribution due to unplanned events and gain on inventory transfer in the base period, (2) Slovnaft's major turnaround and related problems with unit start-ups in Q2, (3) non-recurring costs related to the IES refinery conversion and (4) lower sales volumes. These negative factors were mitigated by (1) efficiency gains achieved within the scope of the New Downstream Program, (2) improving petrochemicals performance and (3) stronger marketing contributions.
- **Gas Midstream:** in the first nine months of 2014, EBITDA, excluding special items, amounted to HUF 22bn, 53% lower compared to the base period. The Hungarian gas transmission business delivered solid results in light of a further cut in regulated returns in November, 2013. However, the Croatian gas trading business suffered heavy losses due to a forced gas inventory sale as a consequence of new gas regulations in Croatia. In addition, the Hungarian storage unit, divested in Q4 2013, made a strong contribution (HUF 16bn) in the base period.
- **Corporate and other** segment delivered an EBITDA improvement of HUF 19bn in first nine months of 2014 and amounted to HUF (11bn). Beyond cost-cutting measures in the corporate centre, this was mostly attributable to higher contributions from oil service companies due to a better utilization rate of rigs.
- **Net financial expenses** rose to HUF 72bn in Q1-Q3 2014, mainly as a result of the weakening HUF which mostly represented a non-realized increase in net foreign exchange losses on borrowings and payables.
- **CAPEX** spending stood at HUF 353bn in Q1-Q3 2014 of which HUF 98bn targeted inorganic investments mainly through the completion of North Sea acquisition in Q1 2014. Stripping off the latter, organic CAPEX spending was 67% higher than a year ago due chiefly to the increased focus on project implementation. In consistence with our strategy, organic CAPEX spending was skewed to Upstream with HUF 140bn spent in Q1-Q3 2014 (up 40% year-on-year). Downstream CAPEX more than doubled year-on-year and amounted to HUF 105bn mostly driven by the construction of the Butadiene plant, the reconstruction of Friendship I. crude oil pie and the LPDE4 project.
- Operating **cash flow before working capital changes** dropped by 10% to HUF 358bn mostly due to lower Upstream cash generation. Operating cash flow amounted to HUF 283bn (lower by 22% compared to the base period), reflected also the higher cash outflows in the working capital lines.
- The decreasing trend of **indebtedness ratio** changes continued**:** net gearing ratio stood at 17.2% at the end of the period decreasing by over 3% against the base period, while net/debt to EBITDA dipped below 1x by the end of the quarter.