

Hungary: A solid economic framework

Government and investors are confident of a fast recovery for the Central European country's dynamic economy

“COVID-19 is the biggest health challenge ever posed to Hungary or the world. Last year was an *annus horribilis*,” reflects Zoltán Kovács, Secretary of State for International Communication and Relations, and International Spokesman for the Cabinet Office.

In 2019, the second-fastest growing economy in the European Union (EU) increased its gross domestic product (GDP) by 4.9 percent to hit \$161 billion. “The Hungarian economy has been extremely dynamic in recent years. We’ve overperformed in growth and many other metrics, compared to the EU average,” notes Richárd Végh, CEO of the Budapest Stock Exchange, possibly the most developed capital market in Central and Eastern Europe. “Hungary was experiencing a boom—a dynamism that is reflected in the performance of our main index, BUX, which has almost doubled in five years.”

As the world starts looking to clearer skies ahead, how has this vibrant, open economy weathered the storm of the crisis? Very well, according to the Hungarian Central Statistical Office’s figures. Although it contracted by 5 percent in 2020, an impressive rebound was recorded in the last quarter of the year. As a result, some analysts now predict record GDP growth of 5-6 percent in 2021. Asked what lies behind this optimism, Kovács replies: “Having a solid economic framework was essential during the crisis, and we were among the first to introduce economic incentives and programs in response to COVID that amounted to almost a double-digit percentage of our GDP. Week by week, we have continued to announce new measures that are cumulatively contributing to our efforts. This is part of our philosophy, which I believe is outstanding in a European context, we are not only concentrating on the immediate effects of COVID, we are also looking at the broader picture.”

The Hungarian government’s strategy for spending the €7.2 billion it will receive from the Next Generation EU coronavirus recovery fund over the next two years illustrates this forward-focused attitude, Kovács believes. “We plan to use the revitalization funding on Hungary’s strategic goals: families, economic investments, growth and jobs. In addition, we will address the main EU objectives regarding the challenges of the 21st century, such as climate and innovation, social reinvigoration and greening the economy.”

Hungary’s latest economic statistics reveal which sectors are rebounding fastest. Firstly, investment inflows have continued throughout the crisis and



Zoltán Kovács
Secretary of State
for International
Communication and
Relations



Spring blossoms over the medieval royal palace of Buda Castle

grew by 4.4 percent in the final quarter. “2019 was a record year for foreign investments and 2020 also looks good. Projects worth billions were announced during the year, as the government has been running a major program helping international and domestic investors to take advantage of the pandemic situation,” he explains. Végh confirms that confidence in Hungary’s capital markets also remains firm. “External investors realize our good economic fundamentals. Nearly 50 percent of the trading volume and turnover generated on the Budapest Stock Exchange is related to international investors.”

The sector with the strongest growth in the last three months of 2020 was construction, which rose by 12.9 percent on the back of incentives for house building and massive transport infrastructure projects. “There has been spectacular development in our road and rail systems, which continues today. We believe that these investments will greatly contribute to the country’s position as a central transport and logistics hub in Europe,” states Kovács.

Hungary’s resilient, export-led manufacturing sector that is the backbone of its economy achieved 2.4 percent year-on-year growth in 2020, while the information, communication and technology sector rose by 6.3 percent in the same period. This is indicative of a move from low-cost manufacturing to value-added manufacturing and services, says Kovács. “We are implementing a paradigm shift, changing the structure and priorities of the Hungarian economy toward innovation and sustainability. To realize this, we are participating in international cooperation, inviting foreign investment and equipping our

“We are implementing a paradigm shift, changing the structure and priorities of the Hungarian economy toward innovation.”

Zoltán Kovács, Secretary of State for International Communication and Relations

small- and medium-sized businesses to meet the technological challenges.” The drive for innovation includes a changed approach to research, he adds. “We have a new structure in place that is directly connected to business. Our aim is that the hundreds of billions of Hungarian forints directed to research and innovation should produce more direct outcomes for business.”

Kovács shares the optimism of international investors and analysts about the potential in Hungary’s economy. “When you look at our performance over the past 10 years, and at the number of investors that are coming here from not only Europe and the West but also from Asia, one can only conclude that Hungary is a place with a good outlook.”

Banks successfully pass the COVID crash test

In 2020, Hungary's banking system proved its resilience, while digital specialists continued to forge ahead of the pack

Throughout the pandemic, Hungary's robust and modern financial sector has played a critical role in ensuring the economy continues to operate smoothly and by supporting its revitalization.

According to Mihály Patai, deputy governor of the central Magyar Nemzeti Bank (MNB): "The situation is completely different to the last financial crisis. Today's Hungarian banking system has more liquidity, a strong capital base and it has been extremely active in its response to COVID." László Bencsik, deputy CEO of the local OTP Bank, explains that "MNB and the government have proactively introduced policies to support the country and banks have been very good at channeling these into the real economy. One of the most remarkable is the Funding for Growth Scheme (FGS Go!): loans provided by MNB via banks to small- and medium-sized enterprises (SMEs)." Through this €7-billion scheme, as well as a further €1.4-billion worth of programs that include state-guaranteed loans, thousands of companies have been able to remain in business.

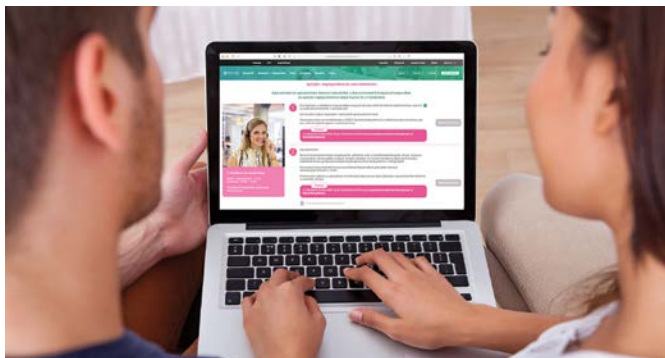
The nation also benefited from the fact that banks had invested in digitalization in the run up to the pandemic. In March 2020, for instance, the sector was sufficiently advanced to implement the world's first instant payment system, obligating every bank to enact electronic transfers below €3,000 in five seconds or less. When the impact of COVID began to be felt, this meant that leading operators were digitized enough to handle the rush to online banking.

"Our return on equity—currently €56.6 million—is over 10 percent. That's outstanding for a recently launched bank."

Éva Hegedüs, Chairperson and CEO, Gránit Bank

"The digital genie has been out of the box for a while, but COVID gave it a sense of immediacy. Digitalization isn't going to go back in its box now, that's for sure, and I think everyone realizes that's a good thing," claims Kevin A. Murray, CEO for Central Europe at Citibank.

The champion of the ongoing Hungarian digital-banking revolution is Gránit Bank. Established in 2010, Gránit was the first to offer Hungary a digital retail model that focused on serving customers through electronic channels. Today, Gránit has two physical branches in Budapest, but the two overriding pillars of its business remain innovative digital services and conservative lending to SMEs and corporates. "Those pillars have driven our success," states Gránit's chairperson and CEO, Éva Hegedüs. "We are the fastest-growing mid-sized Hungarian bank: our digital model has a significant cost advantage over traditional banks and attracts affluent customers, while prudent and high-quality



Gránit Bank is Hungary's digital banking champion



Éva Hegedüs
Chairperson and
CEO, Gránit Bank

SME portfolio building provides a strong and profitable foundation to our operation."

Gránit's record demonstrates just how rapidly successful its approach has been: it reached profitability in its fourth year, has grown its balance sheet by over 50 percent every year to hit €1.6 billion in 2020, its latest pre-tax profit amounted to €5.6 million and its non-performing loan ratio is 0.04 percent compared to Hungary's 5.3-percent average. "Also noteworthy is that our return on equity—currently €56.6 million—is over 10 percent. That's outstanding for a recently launched

bank," Hegedüs reveals.

About 72,000 account holders have moved to Gránit to date. "One reason is that our tailored products and services fulfill every financial need of our retail and business customers, while our expertise enables us to digitalize services faster and cheaper than other banks. We've introduced many innovations to the Hungarian market, such as end-to-end online account opening, our pioneering online video-chat-based customer service and we were the first in Europe to offer new-generation mobile payment services," she says.

As an innovator, Gránit wants to constantly introduce cutting-edge services that create value, security and convenience for its customers, which is why it has set up its own fintech and digital development company: GB Solutions, comments Hegedüs. "Last October, for example, new legislation made it possible to open a bank account by taking a selfie and comparing that with official ID using artificial intelligence. Gránit launched its in-house solution for this within two weeks and is still the only bank to provide it. Another major area of development for us in 2020 was the digitization of our mortgage processes."

Gránit's contribution to driving the sector forward is widely recognized by the industry. At MasterCard's 2020 Hungarian Bank of the Year event, it was garlanded with three top prizes for being the most innovative and sustainable bank with the best premium services. It also received a special award of excellence from MNB for the way it managed the SME loan program. "Due to our digital model, we adapted seamlessly to COVID-19 and, in the first month of FGS Go!, Gránit disbursed almost 25 percent of all loans as we very quickly released an online tool and made applying easy," she discloses.

Although banking digitalization has progressed dramatically, Hegedüs is confident there are still huge growth opportunities for agile and innovative players like Gránit. "Digitalization is reshaping the economy and ways of life. We need to utilize it to raise the economy to a whole new level of effectiveness and sustainability in order to secure a blissful future for the next generations."

From manufacturing to development hub

Hungary's central location, industrial expertise and vigorous innovation focus create an unbeatable environment for manufacturers



Bedding manufacturer Naturtex's production site in Szeged

COVID-19's impact on global supply chains taught manufacturers the value of sitting production within easy reach of key markets. That's one reason why investments have kept flowing into Hungary throughout the pandemic.

As well as being the ideal access point for all of Europe and the Middle East, there are other persuasive arguments for investing in the country. "For example, we offer highly developed transport and telecommunications infrastructure, the government has a strong policy of incentivizing investments and we have a well-educated, competitively priced workforce," says Hungarian Investment Promotion Agency CEO Róbert Ésik. "Our taxation is also very attractive, with the lowest corporate income tax rate in the European Union at 9 percent," notes András Szecskey, managing partner of leading legal firm Szecskey Attorneys At Law. To Joerg Bauer, president and CEO of Tungstram, the country's global force in lighting, "What's very important is that Hungary is the second-most industrialized country in Europe. Unlike others, it's not giving up on manufacturing. Instead, it can build on its expertise to embrace Industry 4.0 and is increasingly focusing on research and development (R&D)."

Ésik explains why the government is supporting the move toward innovation and industries of the future: "We have successfully positioned ourselves as Europe's manufacturing hub and created 800,000 jobs in just 10 years. That allowed us to shift our incentivizing focus from job creation to added value,

"Based on IBM's Global Location Trends report, we are now ninth globally for R&D investments."

Róbert Ésik, CEO, Hungarian Investment Promotion Agency

productivity gains through technology and R&D. Based on IBM's Global Location Trends report, we are now ninth globally for R&D investments."

The \$4.8 billion in foreign investments gained in 2020 illustrates this shift. E-mobility was the top sector, cementing Hungary's position as the European choice for manufacturers in that industry, says Ésik. "We've always been strong in the automotive sector, which represents about 30 percent of our manufacturing output and includes all three premium German brands. Now we are ensuring that the sector remains future-proof." As part of 2020's commitments, South Korea's Doosan is opening its second Hungarian plant and Semcorp is constructing its first factory outside China, with both making electric-vehicle battery components, while Daimler is putting over \$122 million into building an electric Mercedes-Benz in Hungary.

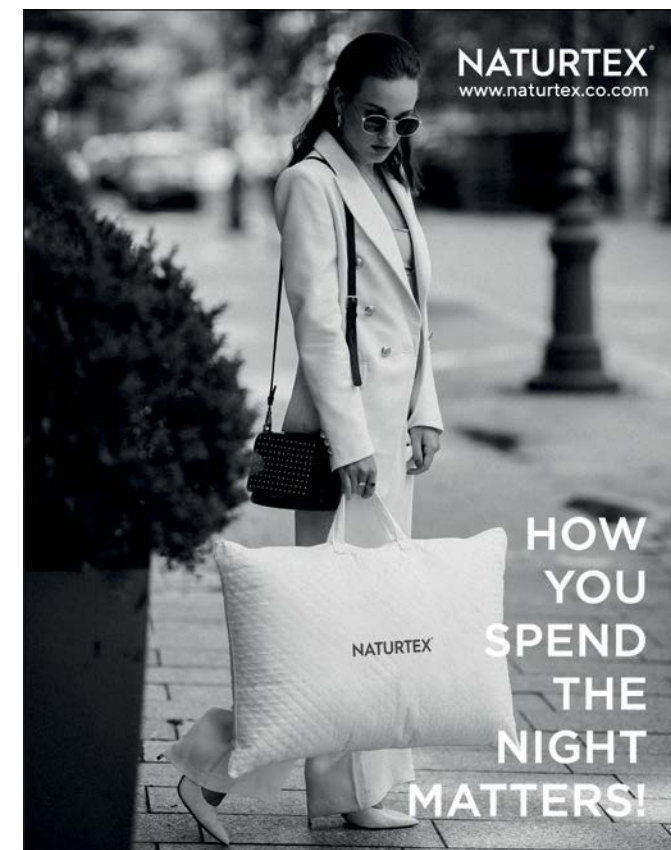
The second-biggest target for investors was information and communication technologies. Prominent projects are the first European plant for Chinese computer manufacturer Lenovo and U.S. software specialist Diligent's new

global product development center in Budapest. Chris Greentree, CEO of Hungary's NNG, a major provider of navigational software solutions, isn't surprised firms like Diligent are moving to the capital. "It's a city with tremendous energy where you can find the technical and innovative talent to create world-class organizations."

Diverse other sectors also attracted investments—including food and beverage, life sciences, renewable energy and luxury consumer goods—and all have potential for growth. "Manufacturing remains a good investment in Hungary," counsels Szecskey.



Róbert Ésik
CEO, Hungarian
Investment
Promotion Agency



Goose down: A global export and trademark

Abundant natural resources plus advanced production methods have made Hungary an export leader in quality bedding

Renowned the world over, Hungarian goose down is looked at by educated consumers as the ultimate bedding due to its unparalleled softness, warmth and lightweight properties that ensure a perfect night's sleep.

Much of that reputation is down to the work of family-firm Naturtex, which has been producing down- and feather-filled quilts, pillows and other bedding products since 1989. The company started its big growth journey in 2006, explains managing director Balázs Gellért. "Our turnover has quintupled since, our capacity has grown three to four times and our market share has jumped from about 10 to 45 percent. From exporting to around six countries in 2006, we now export to about 48 on all continents."

This market success has been achieved by prioritizing quality in all of its branded goods and those it manufactures on behalf of international clients, Gellért asserts. "Our strategy has always been to cover the mid- to high-end



Naturtex's state-of-the-art factory in Szeged in the south of Hungary

bedding sector by offering quality at affordable prices. We would never manufacture cheap bedding; we only make products that we would use ourselves in our homes—if it isn't good enough for us, it isn't good enough for our customers."

Naturtex's quality mantra extends to innovative production processes that foster sustainability. "We have a green mindset and are determined to be a responsible player. We are ahead of the curve in this and have certifications, such as ISO 1400, endorsing our eco-friendly credentials," he notes. For example, Naturtex washes its local and traceable goose down and feathers with natural thermal water and environmentally sound soap, a unique process that actually results in three-times better cleaning than the European average. "We've also designed a machine for reclaiming down from old jackets and other items. By washing and sorting this, we can reuse almost 99 percent, which is amazing," enthuses Gellért.

He adds that the firm never loses sight of the customer in its innovations. "As an illustration, we've created a treatment for our goods that prevents all types of viral transmission. We've also developed a product called Climate Control that helps regulate body temperature. Our products are not high tech as such, in fact they are as traditional as the need for good rest and sleep! But our manufacturing methods are extremely advanced."

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Balázs Gellért, Managing Director, Naturtex

Naturtex's bedding is all made in Hungary but global demand is rising to such an extent that exports now represent 80 percent of its turnover. Asia accounts for a large proportion of this, although there is also dynamic growth in markets such as the Middle East, Australia and, increasingly, the U.S. To meet the demand, the firm is constructing a third factory along with a solar-panel park, as it targets zero-carbon emissions by the end of 2021. According to Gellért: "The new factory represents an investment of €10 million and will expand our capacities by around 40 percent, allowing us to grasp more opportunities in the market. 2020's global lockdowns made the many of us stuck at home everyday realize the importance of feel-good items like great, comfortable bedding."



Balázs Gellért
Managing Director
Naturtex

A natural choice for car makers

Known as the City of Rivers, the dynamically developing city of Győr in Hungary's northwest is the right place to invest, live and visit, according to its mayor, Dr. András Csaba Dézsi

Győr celebrates its 750th anniversary this year. How has it turned into such a key center for manufacturing in Europe?

Győr has always been a strong industrial city. Its location is ideal: it is positioned at the confluence of four major rivers and is within the Budapest, Vienna and Bratislava golden triangle, so transport of goods was always easy. After Hungary's transition to democracy, many of our traditional factories closed. We had to reinvent ourselves and make the city attractive again. In 1992, we created the Győr industrial park. That 210-hectare hub now hosts around 120 companies from 13 countries with 7,000 employees. Audi Hungaria, for instance, has produced 35 million traditional and electric engines here since 1994, making it the world's biggest engine factory. Audi doesn't just have an assembly plant in the city, it has full-range vehicle production, research and development. Infrastructure has also developed alongside the park: a port has been built nearby and the Győr-Per airport, so we have excellent transport connections by air, water, road and rail.

Apart from its connectivity, why else does Győr attract international manufacturers?

It has a well-trained workforce. Our secondary schools are among the best in the country and Győr hosts the Széchenyi István University, which has 13,000 students from 54 countries and offers English-speaking programs. It provides practical education, and there is close cooperation between the university and companies. Our taxes are also very advantageous, with our industrial tax being the lowest in Hungary at 1.6 percent.

"Audi doesn't just have an assembly plant in the city, it has full-range vehicle production, research and development."

Dr. András Csaba Dézsi, Mayor, City of Győr

What sort of a city is it to live in or visit as a tourist?

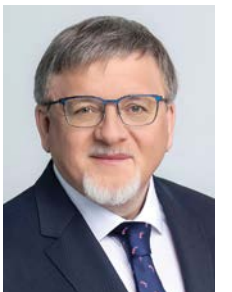
The industrial park is on the edge of the city; downtown Győr and its beautiful surroundings have superb attractions including three protected forests, a castle, riverside walks and safe bicycle routes. Here people can relax in a stunning natural environment, which is very rare nowadays. We also have one of Hungary's two most renowned philharmonic orchestras, a large theater, we hold the country's biggest free outdoor children's festival and the beloved Hungarian Dance Festival.

We are now focused on a new, environmentally aware strategy that will determine the development of the city for the next 20-40 years. We have several project ideas for our riversides that take inspiration from Paris, Venice



The beautiful city of Győr celebrates its 750th anniversary

or Amsterdam canals. And we must also rethink transportation; like many cities in Europe, we have too many cars downtown. Planning is ongoing for part of our main railway to go underground and another solution could be developing our suburban rail network; our old industrial railway lines makes this feasible. There are huge possibilities for a project on the banks of the Moson-Danube river as well. Our idea is to build a cultural center that would also function as a theater, conference center, concert hall and as the home of the Ballet of Győr. Overall, we have many ideas for the city and are very open to others.



Dr. András Csaba Dézsi
Mayor
City of Győr

Construction continues to revitalize Budapest

Landmark real estate developments are transforming the Hungarian capital

Between 2016 and 2019, construction was a major driver of the Hungarian economy, with the sector posting exponential growth rates of 20-30 percent a year.

“Due to many measures taken by the government, including a reduced VAT on newly built residencies, the housing sector especially boomed in those years. It seemed like an endless flow of work,” reflects Balázs Báthory, deputy CEO for innovation at Market Építő, whose annual turnover of around €500 million makes it Hungary’s biggest construction company and the tenth largest in Central and Eastern Europe (CEE).



Balázs Báthory
Deputy CEO
Innovation
Market Építő

When COVID-19 arrived at the same time as the preferential tax rate was removed, the sector overall slumped, he notes. “The industry’s new orders fell by a two-digit percentage in the first quarter of 2020 and output also fell.” At the start of 2021, however, Hungary’s cranes were swinging into action again: output had risen 11 percent year-on-year by the end of January, while new contracts were up 8 percent on the back of the reintroduction of 5-percent VAT on new housing and expansive government plans to revitalize the economy through construction generally. Market Építő was one of the few whose ongoing projects weren’t impacted by the recent ups and downs in the market, Báthory reveals. “We celebrated our 25th anniversary in January and over those years have delivered around 750 successful projects while the country has gone through various uncertain periods and a complete economic transition.”

Weaker, less experienced constructors have encountered more difficulties, he believes. “Market Építő has a loyal workforce of around 1,200 people, but others have been affected by a trend for construction workers to move to countries where the nominal wage is higher. We also invest heavily in relationship building with our trusted subcontractors and key contributors in order to make sure that we deliver everything on budget and on time.” In addition, the group went into 2020 financially secure, is renowned in the market for its professionalism, reliability and quality, plus it had a crisis strategy in place, he says. “We have concentrated on larger longer-term projects with stable partners to limit our risks and, with our strong management capabilities, have been carrying out around 30-35 projects simultaneously.”

The biggest of those is also the largest development to be seen in the Hungarian capital in modern times. “Some years ago, we established a real estate development subsidiary and invested in a site on which we are creating an entire new neighborhood for Budapest: BudaPart. When completed in five to seven years, it will provide accommodation and workplaces for up to 30,000 people,” he states. Altogether, 15 residential buildings containing nearly 3,000



Market Építő's BudaPart is a completely new neighborhood in Budapest

apartments and 13 office buildings offering 250,000 square meters of office space will be built at BudaPart. All are being constructed to the highest standards and incorporate environment-friendly and smart technologies. A number have already been completed and handed over to enthusiastic buyers. This is hardly surprising: the 54-hectare district benefits from a prestigious urban location on the banks of the River Danube, with Market Építő ensuring that almost half of the site remains as natural green space to be enjoyed by residents, employees and visitors. BudaPart will also offer them all the services they could ask for, including top-quality restaurants, shops, kindergarten, fitness center, doctor’s surgery and a hotel operated by the Radisson Hotel Group.

When it comes to its activities as a pure constructor, Market Építő works with a broad range of hotel and office developers, logistics companies, industrial players and public agencies. Asked what project he’s most proud of, Báthory replies: “We’ve built some beautiful public buildings, such as the Moholy-Nagy University of Art and Design, as well as Groupama Stadium, the first top-quality football ground in Hungary. If I had to name one of our hotels, it would probably be Hotel Clark, a beautiful jewelry box of a building. We are also very proud of industrial works, like the Apollo Tyres manufacturing factory.” Of Market Építő’s current projects, he singles out the new headquarters of oil and gas giant MOL Group. “Designed by Foster and Partners, it’s a 120-meters-tall tower and podium building. It’s a pace setter for the Hungarian market and will stand out for many years, not just because of its sheer size, but also the quality and innovation in our building work.” The multi-award winning group sees being innovative as its moral responsibility as sector leader, he claims. “The industry follows us; so if we don’t innovate, the whole sector will suffer. I’m sure there are only few construction companies

“We celebrated our 25th anniversary in January and over those years have delivered around 750 successful projects.”

Balázs Báthory, Deputy CEO Innovation, Market Építő

with a deputy CEO dedicated to innovation, which came about because we recognized the need to speed up innovation and digitalization for our group and the sector.” Looking to the future, Báthory says the company is considering an expansion into other CEE countries and its real estate development arm has started to invest in more development sites, mainly to pursue office and hotel projects. “Two or three significant sites in Budapest are already secured for this and we have been monitoring the Hungarian countryside as well. We must remain ahead of our competitors—that’s valid for our company, as well as for the whole construction industry and the country.”

Masters of complex building solutions

From Grand Bahama to Scandinavia, Weinberg 93 has been present in the world market for over 10 years

Due to be completed this year, the House of Hungarian Music is one of CNN’s eight “transformative buildings set to shape the world in 2021.”

The highly anticipated museum, music venue and education center was designed by Sou Fujimoto and is part of the Liget Budapest Project, Europe’s biggest urban-cultural development that is reinventing the capital’s main park. Among the largely translucent building’s unique features, its steel structure incorporating an undulated and perforated roof stands out in particular.

Founded in Sáropatak in Hungary’s wine-growing Tokaj region in 1993 by CEO István Derczó, the firm focuses on both general contracting and structural steel fabrication, having built nearly 500 buildings and processed over 100,000 tons of steel for clients around the world to date. “We offer complex, design-and-build solutions with high added value, providing comprehensive service from concept through design to turnkey delivery. Our prefabricated building and industrial steel structures are manufactured in our own 12,000-square-meter production hall, which is being extended by another 3,000 square meters,” explains Derczó.

But what makes Weinberg 93 so in demand for challenging projects? “Our expertise is paramount. In addition to our highly qualified employees, we put emphasis on training the specialists of the future by working closely with engineering students at Hungary’s University of Miskolc,” he states. At the same

“We are in the process of supplying steel structures to Norway for three towers and for a hospital.”

István Derczó, CEO, Weinberg 93

time, the business strives for cost efficiency in its projects, while technical innovation is routine for a company that embraces digitization and robotization. Weinberg 93’s innovative solutions have attracted widespread praise, Derczó notes. “In 2011, for example, we received a Master of Construction Award for a unique light-reflecting facade that we developed. We are dedicated to quality, as well as health and safety, information security and the environment.”

The House of Hungarian Music isn’t Weinberg 93’s only contribution to cultural development. “We are involved in another element of the Liget Budapest Project, the Museum of Ethnography, which won the World’s Best Public Service Architecture prize at the International Property Awards. We are working on the fabrication and assembly of its steel structure, which has to support the weight of a five-storey house at both ends,” he states. Mainly, however, the company is involved in complex industrial, logistics and sports facilities. Recently, it has worked for Swiss Crono, Syngenta, Continental Automotive, Festo, Mektec and Wing, among others, with 30 percent of its structural steel



The construction of Tatabánya Multifunctional Sports Center

servicing international projects. Weinberg 93 has also been helping to develop Budapest Airport for about 20 years, says Derczó. “At the moment, we are building a 8,000-square-meter hangar for Aeroplex, which will put Hungary at the forefront of aircraft maintenance in Europe.”

The firm also plays a part in social projects within its local region, such as supporting the building of the Gombos Hill Resurrection Chapel in Herceghút, a UNESCO World Heritage site. “We believe that besides constructing buildings, we need to build communities. In all our projects, we think we can be rightly proud of our unique solutions, and of the domestic and international recognition we have received,” he concludes.



István Derczó
CEO
Weinberg 93

OUR DAD IS
A ROAD WORKER.
HIS SAFETY IS
IN YOUR HANDS!

Hungarian Public Roads



SHUTTERSTOCK: SOOS JOZSEF

Modernizing upgrades are decreasing rail travel times



Hungary is expanding its system of motorways and highways

Revamping infrastructure to boost connections

Hungary plays a core role in the EU's ambitions for a Trans-European Transport Network

Prior to Hungary joining the European Union (EU) in 2004, the economic bloc had defined 10 Pan-European Transport Corridors that it saw as the continent's most strategically important cross-border trade routes. Hungary lies at the crossroads of four of them.

Specifically, the country is a node on the land corridors from Germany to Turkey, from Italy's Adriatic Sea ports to Russia and from the Baltic states to Greece, as well as being on the River Danube waterway that runs from Germany to Ukraine. By 2013, the EU had refined its corridor concept to create major infrastructure development plans for a Trans-European Transport Network (TEN-T), which will seamlessly link all member states through railways, roads, waterways, sea ports and airports. The backbone of TEN-T consists of nine Core Network Corridors that should be fully operational by 2030. Confirming its position as a vital hub for transport and logistics, Hungary is at the heart of three of these corridors.

Its government is, therefore, plowing investment into infrastructure. "We want to exploit the advantages provided by the country's geographical location and provide a bridging interface solution between western and eastern countries. Hungary would like to be at the forefront of connected transportation," Minister for Innovation and Technology László Palkovics said at a recent Asia-Europe Meeting event. The bulk of the government's plans for transport involve road and rail projects on which €15 billion could be spent by 2022 with much more to follow. According to Zoltán Kovács, Secretary of State for International Communication and Relations, and International Spokesman for the Cabinet Office: "Hungary's development over the past decade has been outstanding in terms of road building. However, the number of vehicles now crossing the country means that we have Europe's second- or third-highest transit traffic flow. Improving our infrastructure even further is imperative."

Hungary already has one of Europe's highest road densities, but new ones

are being constructed. "For example, we are undertaking a program for 22 cities to be connected by motorway or dual carriageway. New sections are also being built toward Croatia, there is renewal of the M1 motorway, which connects Budapest to the west of Europe, plus we are extending the motorway network to the Romanian border and the southeast of Hungary. In addition, we are improving the quality of roads in rural areas," states Kovács.

Rail investments are getting passengers and freight back on a system of over 7,400 kilometers of lines that have seen their usage almost halve in three decades. "Rail is the greenest form of transportation. It's our responsibility to do everything in our power to increase its market share," says Róbert Homolya, president and CEO of MÁV, the national railway operator and Hungary's biggest employer. "In the last 15 years, we have spent more than €4.4 billion on reconstructing and modernizing our network. Within the next three years, nearly 10 percent will operate at speeds of over 140 kilometers an hour," Homolya reveals. Hungary's biggest rail infrastructure development is a €1.6-billion line from Budapest to Belgrade in Serbia, part of a corridor linking the Balkans to southern Europe. Other key projects include a high-speed line connecting the capitals of Hungary, Poland, Czechia, Slovakia and Austria, and the reconstruction of routes to Romania, Austria and Croatia that are part of TEN-T. "We are also investing in excess of €2 billion in fleet modernization to meet the EU's targets for sustainability," he notes.

"Rail is the greenest form of transportation. It's our responsibility to do everything in our power to increase its market share."

Róbert Homolya, President and CEO, MÁV

Hungary has already accomplished the TEN-T Core Network requirements for its section of the River Danube and its three international airports also meet the needs of a connected country. The largest is Budapest's Liszt Ferenc International Airport, which welcomed 16.2 million passengers on direct flights to and from 153 destinations in 2019. Named best airport in the region seven times in a row by Skytrax, the facility has invested €167 million since 2019 alone to increase its role in passenger and freight transportation. These investments have focused on infrastructure, including a new air-cargo complex and baggage-sorting hall; capacity enhancement; and the digitalization and sustainability of its systems. The airport is now ready for the restart of traffic after the COVID-19 crisis, says Rolf Schnitzler, who oversaw the recent investment program as CEO, "A renewed and modern environment awaits the return of passengers."

Central to Europe's TEN-T network

Hungary invests in mega road and rail projects to boost connectivity, efficiency, sustainability and comfort

One of Hungary's largest public investment companies, the National Infrastructure Developing Private Company Limited (NIF Ltd.) is tasked with the development of railway lines, motorways and main roads to meet the country's goals for modernization and connectivity with, for example, the Trans-European Transport Network (TEN-T), the Europe-wide system of roads, railways, airports and water infrastructure. Could you illustrate the scale of NIF Ltd.'s investments?



Róbert Nagy
CEO, National Infrastructure Developing Private Company Limited

I would like to highlight two projects as these have important international implications. The first is the Békéscsaba-Lókösháza project. As part of the TEN-T, the last single track of railway line between the city of Békéscsaba, in the southeast of the country, and Lókösháza, on the border with Romania, is to be upgraded. The aim is to increase transport capacity and safety while decreasing travel times, so as to achieve efficient and competitive passenger and freight transport on the complete Hungarian section of the core TEN-T network corridor. Another aim is to establish a two-track international connection with Romania that is on par with European expectations. The project includes the renewal of the existing track, the construction of a second track, the modernization of the signaling equipment and the installation of European Train Control System (ETCS) Level 2. This will make it possible to increase speeds from 100 to 160 kilometers per hour and axle loads. Conditional public procurement procedures related to the works are in progress. According to our plans, construction will start in 2021 and the project is expected to be completed by 2026.

The second project that I need to highlight is a public road: the new section of Hungary's motorway M30 that goes between the city of Miskolc and the north-eastern settlement of Tornyosnémeti on our Slovakian border will be opened up to traffic this year. This is also connected to the TEN-T network. Furthermore, it is connected to the Mediterranean Corridor, which runs along Hungary's motorway M3 to the Ukrainian border. The section has two roles: on one hand, it connects Miskolc, the country's third-most populous city, and the industrial area of Sajóvölgy to the Hungarian network of express roads. On the other hand, it plays an important role in the European network as part of the express road corridor from Kosice in Slovakia to Thessaloniki in Greece. The M30 is a component of the transnational Via Carpatia road plan agreed with Poland, Lithuania and Slovakia. The new section of the motorway is approximately 56.8-kilometers long and it increases the service level of public road transport, it shortens travel times and increases transport safety.

Can you provide further insight into NIF Ltd.'s international cooperation?

As a result of bilateral professional cooperation with the public entities responsible for the development of Austrian and Polish roads and railways that NIF

Ltd. initiated in 2018, our companies regularly meet to exchange experiences. In addition, site visits ensure that all our experts become familiar with the operation, projects, technologies and practices of our partner organizations. So far, high-profile topics addressed include the future development of high-speed rail connections between our major cities, the novel track relocation solution used in Vienna's main terminal, the Warsaw motorway project that is combined with tunnels, the implementation of connecting motorway projects near borders, the construction of the Komárom Danube Bridge using a unique method, plus the use of drones during preparation and works. The technical standards and codes applied in each country have also been reviewed in detail. Based on feedback, the cooperation between us is seamless.

Another excellent example of cooperation between the Visegrád Four countries is the Monostor Bridge. As a result of collaboration between Hungary and Slovakia, this provides a new crossing opportunity across the River Danube. In addition, it takes load off the downtown Komárom Bridge and offers a bypass section around the town, thereby improving living conditions in the area and increasing traffic safety. Construction of the bridge started in 2017 and it was opened up to traffic in 2020. Also with regards to cooperation between Hungary and Slovakia, preparations for the development of a new north-south transport corridor started in 2020. A study plan is being created and will be completed by the second half of 2021.

NIF Ltd. is also focused on promoting sustainability in transportation. What are practical examples of this?

The Hungarian government has set the objectives of innovative industry development, vehicle-industry technology shift and autonomous-vehicle testing. As a result, Hungary's domestic test environment center, the Autóipari Próbapálya Zala, was born in Zalaegerszeg. The interest of vehicle developers has rapidly shifted to testing autonomous vehicles. Consequently, the high-speed smart-car road test section of Hungary's motorway M76 will be completed by the end of 2024 and will provide a unique opportunity for public road testing. When it comes to sustainability, I also need to mention bicycle investments. As of 2016, NIF Ltd. has been acting as the building promoter of independent bicycle projects, together with the non-profit company Hungarian Public Roads and specific municipalities, according to tasks assigned by the Ministry of Technology and Innovation. In order to protect the environment and reduce harmful emissions, significant demand

"The high-speed smart-car road test section of Hungary's motorway M76 will be completed by the end of 2024."

Róbert Nagy, CEO
National Infrastructure Developing Private Company Limited

has arisen in recent years for the construction of bicycle roads. Large investments delegated to NIF Ltd. include the bicycle facilities implemented in the vicinity of the Tokaj Hill between Budapest and Balaton, as well as on the Balaton "Bringakör", which translates as bicycle ring. The construction of over 60 kilometers of independent bicycle roads is currently in progress.

How will NIF Ltd.'s investments contribute to Hungary's development?

We believe that these mega projects and putting more effort into the transport sector were good decisions on the part of the government. We are going to reach our aims and that will be helpful for supporting the whole Hungarian economy as well as the country's citizens, as we are going to provide a more comfortable road and railway network system.

Safe, intelligent and sustainable road management

With road transportation contributing an estimated \$7.3 billion to Hungary's economy in 2020, maintaining a top-quality modern network is vital

Over the last two decades, domestic and transit traffic on Hungary's roads has grown dramatically, with the number of cars, trucks and other vehicles traveling on some of its routes doubling.

During that time, the country has invested significantly to ensure its 32,000 kilometers of national motorways, highways and rural secondary roads provide users with smooth, safe, quick and easy journeys, says József Szilvai, CEO of Hungarian Public Roads, the state-owned company tasked with their upkeep. "We maintain and operate this network and, most importantly, we constantly refurbish and renew it. Since 2010, we have upgraded 6,000 kilometers of national roads, while in 2021 alone, a further 1,000 kilometers will be fully improved through a total investment in excess of €1 billion, which is a record for us."

Hungarian Public Roads' operational responsibilities are also increasing, as the country continues to expand its transport networks. Within the last decade, over 1,000 kilometers of motorway have been built, along with 1,121 kilometers of other new roads and several hundred more are in progress or planned. Many of these additional highways act as connections to the mo-



József Szilvai
CEO
Hungarian Public Roads




Hungarian Public Roads will invest over €1 billion in 2021

torway system, he states. "Our aim is for every Hungarian town and village to be within 30 minutes of a motorway and that will be true for 80 percent of the country soon."


The company is now focused on making its network more sustainable and compatible with new forms of transport. It uses recycled materials in its road refurbishments, for example, and is developing intelligent traffic management systems. "We have a lot of data. If we connect those databases, we can use the insights to reduce accidents and congestion, which creates more greenhouse gases than fluid traffic. In addition, we are at a really interesting turning point in road transportation due to the emergence of e-mobility and autonomous vehicles. We need to prepare for these revolutions and, for that, it's important to have cutting-edge traffic management," Szilvai explains.

Hungarian Public Roads is currently looking to boost the number of electric chargers in rural areas and is carrying out pilot tests of roadside units that connect autonomous vehicles to 5G telecommunications infrastructure, he discloses. "We are trying to foresee where this industry will go and are gaining lots of experience from these pilots, as well as from our extensive cooperation with international partners. My vision is to digitally transform Hungarian Public Roads and for it to become Europe's leader in transformational transportation." To Szilvai, ensuring a top-quality road network is "the alpha and omega of everything. We want everyone who comes to Hungary to safely enjoy its roads."



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Strategically positioned for logistics

Capacity and competitiveness are growing in Hungary's logistics industry, with centrally located assets offering a prime advantage

Established in 1948, Masped was Hungary's first logistics company. As a leading player in the sector, how much potential does it offer?

Hungary has a strategic location that I believe it hasn't taken sufficient advantage of until now. Today, we have a chance to develop our infrastructure to increase our influence in Europe. At present, most of the warehousing capacity in Hungary is concentrated around Budapest and the vacancy rate is only 2 percent, less than the European average. I think the current capacity will be enlarged by 20 percent in the next five years. Two big investments are currently being rolled out: the first is a huge container terminal near the Ukrainian border. That will give Hungary a very big advantage as this rail terminal is part of the China-backed Silk Road. In the other large project, the Hungarian government has signed a contract with the Italian government for access to over 32 hectares of land and 300 meters of wharf at the harbor in Trieste. I think this is a great strategy for developing the country's connectivity and influence.

Turning to Masped, can you give us an overview of the group?

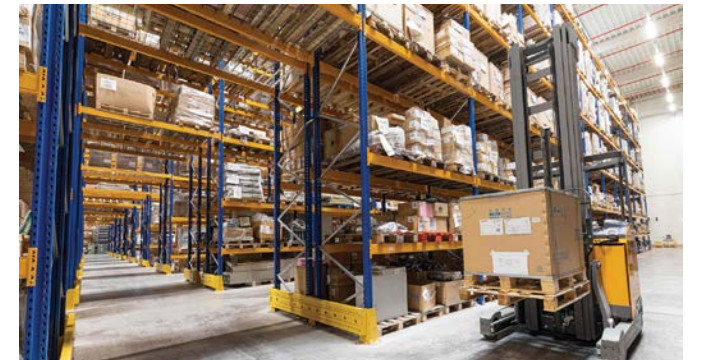
We have a diversified portfolio of more than 20 companies in various industries but our focus is on logistics and our two flagship companies are Masped Logistics and the Budapest Freeport and Logistics Park. Last year, the group achieved revenues of €51 million.

Budapest Freeport and Logistics Park is based around three commercial basins on the River Danube. Among other things, it offers a roll-on-roll-off port, 18 quay berths, container storage, warehouses and office space. What benefits does the facility provide to its users?

We acquired the majority share of this facility three years ago. It covers 153 hectares and is Hungary's only trimodal logistics terminal, which means it can combine water, rail and road transportation. It has its own railway line and access to a terminal with a yearly capacity of over 350,000 containers. Its biggest competitive advantage is that it's just seven kilometers from downtown Budapest, so it's very easy to reach and is connected to public transportation. All of the capital's other logistics terminals are further out from the center.

Masped Logistics' unique and complex services cover the whole supply chain, including warehousing, international shipping, domestic distribution and a customs agency. How was it impacted by COVID-19?

It was actually a very successful year for Hungary's logistics sector, with revenues increasing by 10 percent on average. The lessons from COVID were that you have to be flexible and digitalized. Masped Logistics is a very innovative company, which helped. For example, we utilize technology solutions that enhance the effectivity of our logistics and supply chain, such as self-designed



Warehousing at Budapest Freeport and Logistics Park


demand-planning software that uses artificial intelligence for replenishing shops.

How will Masped exploit the growing demand for logistics in Hungary?

There is an opportunity for us to increase Budapest Freeport and Logistics Park's city logistics activities and we have space available to construct over 120,000 square meters of new warehouse capacity. One of our approaches for growth is to build strategic partnerships with our clients and we are also looking at further acquisitions this year to jump speed our growth.



Ottó Cseh
CEO
Masped



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Pharmaceutical exports leapfrog ahead

Figures show the sector is increasingly contributing to Hungary's growth and global scientific progress

According to Prime Minister Viktor Orbán, "The pharmaceutical industry is one of the Hungarian economy's driving sectors and is also its most innovative area."

Dynamic pharma businesses contribute around 6 percent of the country's gross domestic product and saw their production value rise by 5 percent in 2019 to reach nearly \$3 billion. "The pharmaceutical industry boasts a long tradition and the country plays an outstanding role in the world's pharmaceuticals production," said Minister of Foreign Affairs and Trade Péter Szijjártó in October, stressing that 86 percent of the sector's products were exported to 129 countries. He noted that those exports had increased in value by 93 percent over the decade to 2019, when they were worth \$5.5 billion.

The minister was speaking at the inauguration of an extension to Gedeon Richter's biotechnology plant in Debrecen, a \$130-million production, research and development facility that has helped make the eastern city the unrivalled biotech hub for Central and Eastern Europe. Gedeon Richter is the country's largest domestic pharmaceutical company and one of the most successful in Europe, with over 90 percent of its revenues coming from exports. Many of the world's other pharma giants also have substantial Hungarian operations that employ a total of around 25,000 people. These include French

firm Sanofi, which invested about \$23 million last year to almost double capacity at a production base in northern Hungary. France is also represented through Servier's ownership of Egis Pharmaceuticals, another huge locally grown company.

In addition to these giants, the nation's extensive ecosystem of businesses targeting world health markets contains many smaller and younger Hungarian firms that are carving out successful niches. Key illustrations would be the growing international recognition of Diagon's in vitro diagnostics and Biopharma's natural dietary supplement Avemar. Innovation is also evident in the country's medtech companies, which include pioneers like RotaChrom that has developed the world's first industrial-scale centrifugal partition chromatography technology platform, a revolutionary purification process with applications in diverse areas such as the pharma, botanical and hemp industries.

The country's scientific excellence has received worldwide acclaim this year, with the Hungarian-born biochemist Katalin Karikó leading the research on the mRNA technology behind the Pfizer-BioNTech and Moderna COVID-19 vaccines. When asked about the game-changing innovation that looks like returning normality to the world, Karikó is quick to point out the vital contribution of other Hungarians on her team, including Norbert Pardi, Gábor Boros and Gábor Szabó. While Karikó must surely become Hungary's next Nobel Prize winner for her advance of pharmaceuticals, others may follow as the country looks to boost the sector's productive and research capacities even further. "The government will do everything in its power to keep Hungarian pharma among the best in the world," Szijjártó confirmed.



Special dietary supplements for cancer patients

A fund for Hungarian exporters to the U.S. is supporting health-technology firms like Biopharma, which can now improve the lives of more people undergoing cancer treatments

Biopharma has been producing high-quality herbal extracts, medicinal products, dietary supplements and pharmaceutical technologies for over 27 years, but it's best known for its flagship product, Avemar. Could you introduce this important brand to our readers?

Avemar was invented in the early 1990s and Biopharma was set up to produce it. Avemar is a natural dietary supplement. More precisely, it's made from fermented wheat-germ extract, and has been clinically proven to be an effective supplement to oncological treatments in the diets of cancer patients.



Dániel Szilágyi
Managing Director
Biopharma

Among other beneficial effects, Avemar has been shown to support cell metabolic regulation, control glucose metabolism and increase immune-system proficiency. How easy is it for patients outside Hungary to access these benefits and what are your global ambitions for the product? In Hungary we have around a 40-percent market share in this category and there is a lot of global interest toward Avemar. Currently, we are distributed in over 15 countries and are receiving requests from more locations every month. Biopharma has the support of the Columbus Private Equity Fund, which was created in 2019 by the export-import bank Exim and the Carion Group to support exports from Hungary. That's one reason why we are now more able to expand and increase our sales abroad.

We are active in North America and are focusing increasingly on South-east Asia, as we'll soon be launching Avemar in Malaysia, the Philippines and Bangladesh. However, the U.S. market is our number-one export priority. We have an ambitious goal to double our sales there in 2021 and also plan to set up operations in the U.S. this year. At the moment, we are establishing connections with U.S. healthcare professionals. We are also developing a website for them so that they can understand our products in greater depth: there are more than 40 peer-reviewed medical publications about Avemar that offer significant scientific background. Biopharma has been strengthening its e-commerce tools in general over the last year and we are now planning to take our presence on Amazon to the next level as well.

Avemar is available in film-coated tablets and as a granulate that can be dissolved in water or even in soft drinks, tea, kefir, yogurt, cocoa or milk.



Based on fermented wheat germ, Avemar has sold over a million bottles

Both forms are manufactured at Biopharma's Hungarian facility that is equipped with innovative and ultra-modern technology. How else does the firm ensure consistent quality?

Our factory has European Union certification for good manufacturing practice, which is mandatory if you want to produce drugs. Avemar is not a drug per se, but we still insist on maintaining the highest quality control in our factory. In addition, we have long-term relationships with designated suppliers that provide us with all our wheat germ. So, we control the whole process from end to end: from the fields of wheat to the finished product.

How does Avemar continue to innovate today, and what kind of new research and development efforts are you driving?

Our first priority is the consumer and solving needs that are currently unmet by our products. For example, we are developing a new version of Avemar that we hope to bring to market this year, which will help patients to consume our product more easily every day.

"We want to be more than just a product in our patients' lives; we want to be a true support to them."

Dániel Szilágyi, Managing Director, Biopharma

In addition, as a company we want to give back to our society. With that in mind, we are hoping to launch a new communications program within the next few months that helps patients by supporting their mental health. When people first learn that they have cancer, often they can't immediately process the facts they receive. We want to provide them with all the information they need in an understandable form to help them through this change in life. We want to be more than just a product in our patients' lives; we want to be a true support to them.

How do Hungarian pharmaceutical companies compete on the global market and how are local products received internationally?

Hungary stands out as a good brand in the pharmaceutical industry. It's a great place to invest, do business or buy high-quality health products—we are talented people and have a long heritage in this sector. Certainly, Biopharma has never received any doubts regarding the quality of our products from international markets.

Innovative solutions invented in Hungary to save lives

In less than three decades, Diagon has captured Hungary’s entrepreneurial spirit of invention to become a global player in cutting-edge blood diagnostic products and systems

Constant innovation and the pursuit of excellence have driven one Hungarian firm to revolutionize global hematology and in vitro diagnostic (IVD) practices.



Dr. József Kern
Managing Director
Diagon

“Diagon was founded in 1989 by two entrepreneurs, a pharmacist and a chemist. Since then, we’ve gone from being a simple reagent manufacturer to a world-leading systems provider,” says managing director Dr. József Kern. Today, Diagon supplies its branded products and services to over 75,000 laboratories in almost 150 countries through its subsidiaries and a worldwide network of distributors. With extensive factories in Hungary, Austria, Brazil and Indonesia, plus additional localized capacity in India, Russia and Belarus, Diagon also acts as a renowned contract manufacturer. In 2019 it reached a milestone turnover of €75 million, a figure that is growing by an average of 5-10 percent a year, while its value-added annual productivity per employee rounds out at an impressive €60,000.

“Diagon is recognized as the world’s fifth-largest manufacturer of IVD hematology reagents and among the top-five manufacturers of full range IVD hemostasis systems. Our broad product range covers three principal areas: comprehensive system solutions, generic reagents and quality control materials. We also provide specialist services and information-technology (IT) solutions to meet the needs of our wide customer base,” Kern outlines.

Within its three areas of focus, the firm’s innovative systems include fully integrated instrumentation, reagents, controls and calibrators for uses varying from point-of-care (POC) tests for clinical and veterinary use to automated systems for high-throughput laboratories. And when it comes to reagents and its quality control products that are developed and manufactured entirely in-house, Diagon is the only provider whose materials are compatible with the hematological and coagulation instruments of all major international suppliers.

One reason for Diagon’s growing status is its reputation for reliably offering premium quality at competitive prices, asserts Kern. “Our state-of-the-art production processes and strict quality control protocols fully comply with ISO 9001, 13485 and 14001. Everything manufactured by Diagon is registered in countries around the world and CE certified in line with European Union (EU) standards—a key priority for us is compliance with EU regulations. Additionally, in 2019 we received certification from



Diagon invests around 10-12 percent of its annual revenue on R&D

the international Medical Device Single Audit Program for our hemostasis products, a landmark achievement and the first step to our selling them in the U.S., Canada, Japan, Australia and Brazil.”

Another substantial reason for Diagon’s success is the constant stream of game-changing, patented inventions that emerge from the Hungarian company’s highly knowledgeable and creative researchers and engineers. “We spend about 10-12 percent of our annual revenue on research and development (R&D) but, more than that, innovation is naturally ingrained in all we do here. We use cutting-edge technologies, including recombinant gene technology and deep-learning artificial-intelligence (AI) programming. Our solutions have driven the latest developments in molecular biology and AI, and are focused on integrating clinical chemistry, hardware, software and IT platforms,” he explains.

As an illustration of how the firm is advancing technology in the sector, its flagship system, Coag XL, is a fully automated hemostasis testing solution that can be synced to the cloud, states Kern. “Most recently, we

“Diagon is recognized as the world’s fifth-largest manufacturer of IVD hematology reagents and among the top-five manufacturers of full range IVD hemostasis systems.”

Dr. József Kern, Managing Director, Diagon

have started to plan a rollout of our unique AI-powered digital-diagnostic Hemocular platform for the analysis of blood smears. We are launching a new system in our Cellagon automated hematology instrument line and, over the course of 2021, we will be adding three more specialty coagulation tests to analyse the causes of bleeding disorders and monitor treatment.”

Digital diagnostics are the future of the clinical IVD industry, he asserts. “Our Hemocular platform, for example, will offer small clinics, large labs, family and veterinary doctors alike faster and more accurate results at a significantly lower cost compared to traditional microscopic procedures. It is also well positioned for developing countries and will come with excellent training materials.” Asked to sum up why the company has made such an impact, Kern concludes: “Diagon is synonymous with the latest and the brightest technology in our field. Our products are invented in Hungary rather than just being made in Hungary—a value proposition born out of the entrepreneurial spirit that is so inherent in our native country.

VIA CARPATHIA INTERNATIONAL TRANSPORT NETWORK

We are connecting the Trans-European Transport Network (TEN-T) and the Mediterranean with the eastern EU-Ukrainian border through the construction of the M30 motorway.



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INVESTING IN YOUR FUTURE

Energy giant steps up its climate commitments

Hungary's MOL Group is shaping a future for the worldwide hydrocarbon industry by accelerating its plans for sustainable investments

In 2016, the vertically integrated Hungarian oil and gas giant MOL Group took a sector-leading position in the global shift to a greener economy when it introduced its MOL 2030 Strategy to transition from a traditional hydrocarbon operator to a sustainable lower-carbon business model.

Where other oil companies just talked about the need for change, Hungary's biggest enterprise took successful and credible actions across all of its activities. Over the last 18 months, however, European demand for fossil fuels has fallen even faster than anyone expected. Once again, MOL has been among the first to reposition itself for the future by launching its new "Shape Tomorrow" MOL 2030+ Strategy in February. According to György Bacsa, senior vice president of MOL Group



Viktor Sverla
Head of Group Strategy
MOL Group

"Our diversification of production from fossil fuels toward chemicals has proved to be progressive and valid."

György Bacsa, Senior VP Strategic Operations, MOL Group

Strategic Operations: "It's a comprehensive update of our 2030 strategy. Last year it became obvious that we had to thoroughly revise our targets and priorities as the green-energy transition is speeding up considerably. Our main strategic direction, namely our diversification of production from fossil fuels toward chemicals, has proved to be progressive and valid, but we realized that we have to accelerate our group's transformation. The economic and pandemic crises came as an additional challenge and push to change."

Overall, the MOL Group 2030+ Strategy is focused on efficiency, carbon-dioxide reduction and the circular economy: by 2030, 50 percent of MOL's new investments will be spent on sustainable projects, which will rise to 100 percent by 2050 or earlier if possible. The plan is also fully aligned with Hungarian and the European Union's environmental goals, with the group wanting to become a net-zero carbon emitter by 2050. "Achieving carbon neutrality is a strong ambition of MOL. We have set a challenging, firm target of 30-percent carbon-emission decrease in our operations by 2030 and have started preparation of the projects that will lead us there. Reaching net-zero carbon emissions by 2050 depends on several additional factors, including the speed of technology development and the actual demand for hydrocarbons, which will be heavily



Best-in-class consumer goods retailing at MOL service stations



György Bacsa
Senior VP Strategic Operations
MOL Group

affected by regulations," notes Viktor Sverla, head of Group Strategy.

The fuel-to-chemical transformation

MOL currently operates three refineries and two petrochemical plants in Hungary, Slovakia and Croatia that are among the most efficient and profitable in Europe. Over the next ten years, it aims to invest up to \$4.5 billion in two waves in order to reduce its motor fuel output in favor of petrochemical feedstocks, which should make MOL the leading sustainable chemicals company in Central and Eastern Europe (CEE). The firm's

largest investment so far in this direction has been \$1.5 billion in an environmentally friendly Hungarian production plant for polyol—the highly demanded organic base component of polyurethane—which is almost complete.

"We began getting ready for our fuel-to-chemicals transformation in 2016," Sverla explains. "We are now at the point of having a very short list of the best-fitting technologies to transform up to 2 million tons a year of fuel production into chemical products in a cost-efficient way. We want the plants built in our first investment wave to be operational by 2027 and we will make the final selection of the technologies for this in 2021. Before the end of the decade, we would like to finish the second investment wave as well. This is a significant acceleration of our downstream strategy."

MOL also owns almost 2,000 service stations across 10 CEE countries and is the biggest fuel retailer in four of those markets, with a substantial brand



MOL's refineries are among the most efficient in Europe

presence in the others. These outlets are undergoing transformation too, turning MOL into a best-in-class consumer goods retailer, plus greener fuel and complex mobility service provider for the region. For this, the group is investing in digitalization, says Bacsa. "To be dynamically in line with changing customer preferences and purchasing patterns, we need precise and relevant data plus advanced analytical tools. Digitalization enables us to offer more relevant products and services to our customers, through which we can increase their satisfaction. It also makes our operations more efficient and reduces waste."

Investing in the circular economy

At the other end of the value chain, MOL is engaged in hydrocarbon production activities in nine countries and has exploration assets in 14. As well as seeking greater efficiency from its upstream operations, MOL has committed to making them carbon-neutral in terms of Scope 1 and 2 emissions by 2030. It also intends to utilize its expertise in the geology of the Pannonian basin, which

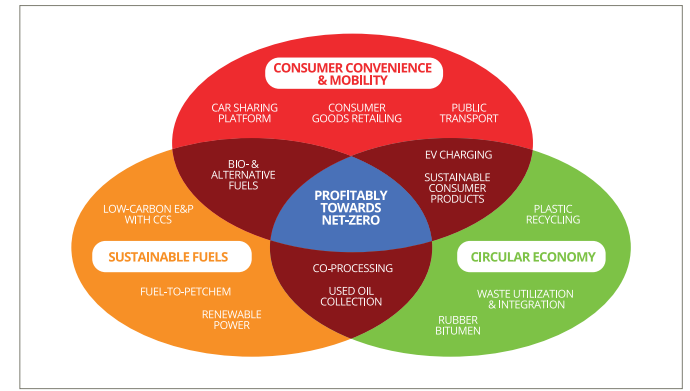
"We have set a challenging, firm target of 30-percent carbon-emission decrease in our operations by 2030."

Viktor Sverla, Head of Group Strategy, MOL Group

covers much of Hungary, to become a major player in carbon capture, utilization and storage (CCUS)—some of the vital emerging technologies that the world needs to embrace at scale if it is going to meet its climate-change goals. All together, MOL will invest \$1 billion in diversifying into new, low-carbon and sustainable businesses by 2025. "Several areas are competing for the funds. In addition to CCUS, waste integration and utilization, sustainable petrochemical investments, second-generation biofuels, low-carbon energy and hydrogen-related opportunities are all in the picture. How much will go to which area will be defined by several internal and external factors," Sverla states.

"On the one hand integrating new activities such as these into our operation is essential for reaching our vision: to be a regional leader of the low-carbon circular economy in CEE," adds Bacsa. "On the other hand, we have to be very focused and selective regarding new business opportunities, we shall prioritize only those investments that foster achieving our vision. We don't have much time to start decreasing our carbon footprint, so we will primarily focus on already available solutions that can be applied at commercial scale."

To ensure this happens at the urgent pace required, MOL has a dedicated investment team to identify, secure and manage acquisitions, partnerships, licenses



The pathway to profitability with net-zero carbon emissions

and technology transfers. This approach has helped the group take significant recent steps toward its circular economy goals. For instance, it has acquired Aurora and cooperates with Meraxis, two German compounding businesses that specialize in different types of plastic recycling; it has a strategic partnership with another German technology company, APK, for solvent-based recycling; and it has formed a joint venture with Japan's JSR to manufacture high-quality synthetic rubber in Hungary. Based on its own patented technology that was developed in collaboration with the local University of Pannonia, MOL has also invested over €11 million in a rubber bitumen facility that can convert about 500,000 used tires a year into road building materials.

As Bacsa points out: "In the longer run, further developments in technology are needed to achieve our net-zero emission and other long-term environmental and sustainability targets. Therefore, we are also involved in early phase research projects, startup incubations and we have created science parks with regional universities to support innovation. We run a venture capital fund to finance the growth of innovative companies as well." In addition to funding new sustainable business opportunities to the tune of \$1 billion, MOL plans at least another \$2.5 billion in transformational investments by 2025. Conservative analysis of its resilient and balanced business model suggests that, not only can the group easily fund this, but that its robust balance sheet will continue to allow the provision of predictable dividends to shareholders throughout this transformation.

But the MOL 2030+ Strategy goes beyond investing in assets, products and services. As the employer of more than 25,000 international staff in its 33 countries of operation, it sees accelerated investment in people and communities as an essential part of responsible leadership and its future success. "Our company is already very complex and the execution of MOL's "Shape Tomorrow" strategy will make it even more complex, while our external environment will also continue to change with unprecedented speed and to an unprecedented extent. We believe in our talent and it is paramount to focus on their capabilities and development, as well as to continuously attract fresh talent and involve the new generations so that we can shape our future together," Bacsa affirms.

In addition to valuing wellbeing, diversity and inclusion as an employer, MOL has always strived for the wellbeing of populations affected by its operations by having open pathways of communication with local community stakeholders. Now it believes that even stronger and wider cooperation is needed for the world to transition away from carbon, says Sverla. "Companies can deliver solutions to combat climate change, but they can't win the fight alone. For that, we need commitment from society as a whole. We need consciousness from consumers and effective policies from governments to set the right frame for companies, so we are able to develop and implement climate-friendly solutions."

New players set new standards

Hungary's domestic energy goals are attracting investors with innovative and sustainable solutions

Hungary imports most of its power and sees investment in energy independence as a priority.

It has also committed to becoming climate neutral by 2050. Together, those factors are opening up huge opportunities in sustainable energy and electricity that a variety of new entrants to the sector are snapping up.

A prime example is Alteo, which currently owns 26 renewable-energy and natural-gas-fired plants that have a total generation capacity of 192 MW in electricity and 880 MW in heat. The young firm has seen annual double-digit growth for the last 10 years and expects its earnings to reach around \$23 million by 2024. "Our strategy is based on security of supply, competitiveness in terms of cost efficiency and state-of-the-art solutions, plus climate protection," says CEO Attila Chikán Jr.



Attila Chikán Jr.
CEO
Alteo

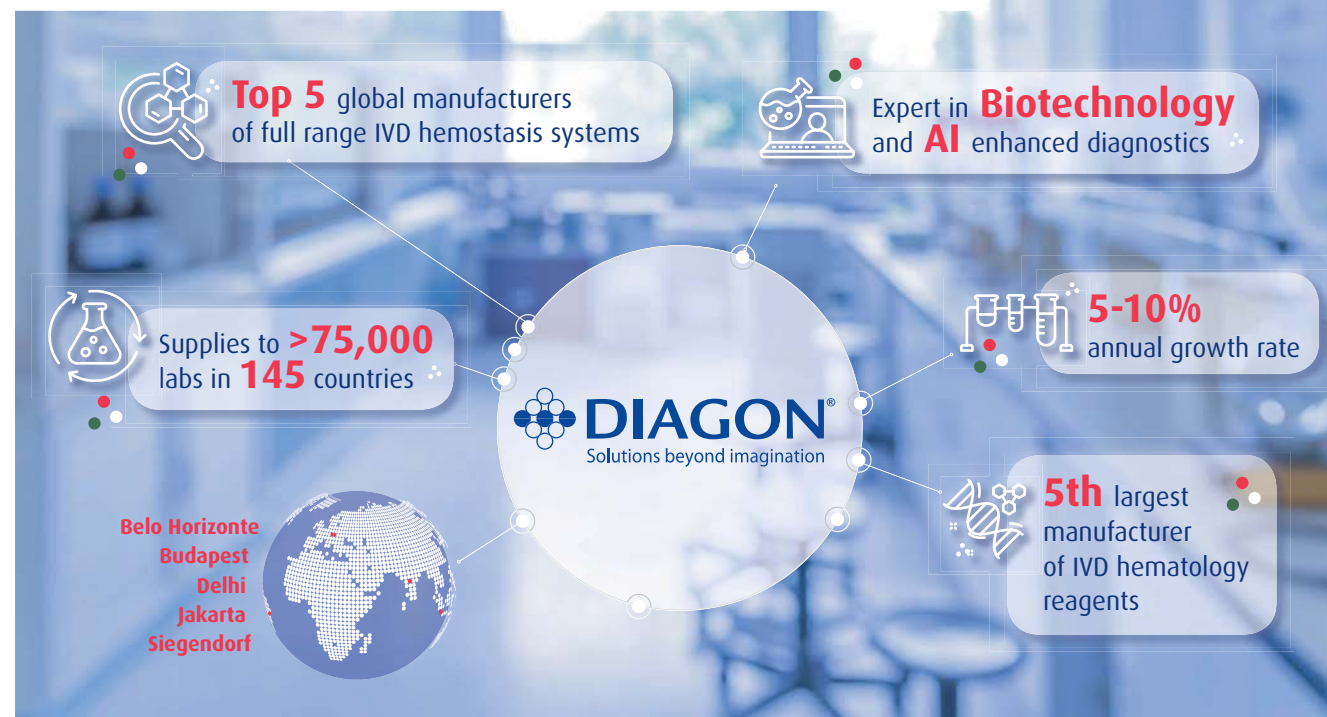


Alteo's portfolio includes two hydropower plants

Much of its renewables portfolio is based on solar and Alteo plans further investments in that area. "The government is strongly pushing for solar generation to reach 6,000 MW by 2030 and 12,000 MW by 2040," he explains. "Gas investments remain important as well. Weather-dependent renewables are hard to predict. You need flexible capacities to balance electricity demand and supply. For that, we use natural gas. The more balancing we can do, the more renewable capacity we can implement. There's huge synergy among all our assets and this is the soul of our whole concept."

Alteo's flexibility was boosted in 2019 by a 6 MW grid-connected battery, the first of its kind in Central and Eastern Europe. This was an important step toward combining its smaller plants into one large virtual power plant that has already made it one of the leading national providers of balancing services. Chikán believes that Alteo's sustainable and innovative business model will continue to succeed in Hungary. "We certainly have much to do in the next 10 years. Being sustainable is now a rational business decision and companies focused on sustainability in energy have great growth potential."

Quality IVD systems INVENTED IN HUNGARY



When businesses drive change

Domestic and multinational firms take responsibility for modernizing the country's agricultural, food and beverage industries

Forming alliances with large companies in order to create jobs has been a pillar of Hungary's economic strategy since 2010.

More recently, those businesses have been tasked with adding value to the economy by increasing innovation, productivity and sustainability, among other things. KITE, the country's biggest agricultural integrator, is one of those now playing a pioneering role in modernizing a sector. "A paradigm shift is taking place as agricultural subsidies are steered toward efficiency," says CEO Levente Szabó. "Within a decade, digitalization will be widespread in Hungarian agriculture's technological solutions and business processes." The new focus is also evident further up the food chain. In March, for example, Coca-Cola HBC Hungary renewed its 2012 strategic cooperation agreement with the government and announced investments that will make its Dunaharaszti plant near Budapest the largest Central European manufacturing hub in the Coca-Cola system. Within the agreement, the company asserted its commitment to collaborate on building a Hungarian food and beverage industry that is fit for the future. In the following interview, general manager László Békefi reveals how the drink giant is doing that.



László Békefi
General Manager
Coca-Cola HBC
Hungary

Coca-Cola HBC Hungary is part of Coca-Cola HBC, the Hellenic group that operates in 28 countries. How important is it to the country?

The first Coca-Cola bottles entered Hungary in 1968. Today, we are the largest soft-drink bottler in Hungary and one of the largest food processing companies. So far, we have invested around €400 million in the country. We have two factories: one in Dunaharaszti, where we produce soft drinks, ice teas, juices and energy drinks; and one in the west, where we produce our mineral water brands. We employ over 1,050 people and, indirectly through our production and supply chains, we provide jobs for nearly 13,000 in Hungary. We export our products to 26 different countries but nearly two-thirds of our production comes from domestic suppliers, so we very much support the local economy. In 2019, we generated €310 million from our portfolio of beverages and 79 percent of our payments to suppliers went to local business partners.

What are some ways in which you are contributing to Hungary's goals?

Innovation, investments, research and development are fully connected to our vision to be the leading 24/7 beverage partner for our customers. As an example of product innovation, in May 2020 we launched Costa Coffee with the ambition of achieving a 20-percent market share of the Hungarian premium coffee market within a year. Another recent innovation is AdeZ, our



Coca-Cola HBC Hungary is the country's largest soft-drink bottler

100-percent plant-based beverage with no added sugar that was launched in Hungary in 2018. In collaboration with the Hungarian Mineral Water, Fruit Juice and Soft Drinks Association, we have voluntarily pledged to reduce the sugar and calorie content of soft drinks sold in Hungary. As a result, they decreased by 43 percent between 2010 and 2020.

We also have a lot of innovation around sustainability. For instance, we are going to begin using the KeelClip solution for our cans, which is an innovative paperboard packaging that replaces shrink foil. This will save 2,000 metric tons of plastic and 3,000 metric tons of carbon dioxide annually. All our plastic bottles are recyclable and the amount of plastic used in our domestic production has decreased 15 percent overall in recent years. Additionally, The Coca-Cola Company's first-ever paper-bottle prototype will soon have a trial in Hungary. This is a step toward a much more sustainable way of operating and a circular economy. Hopefully it will be an inspiration to other companies.

We are also contributing to the digitalization of the Hungarian food industry through developments in line with Industry 4.0. In 2021, we will be the first country within Coca-Cola HBC to introduce robotic technology in production, which will support our warehouse operation. We will continue to invest in efficiency and modernization in our production plants and distribution. In terms of talent development, we have a strong relationship with Hungarian universities: we run collaborative projects, support and develop talented students, and recruit the best talents from higher education.

"In 2021, we will be the first country within Coca-Cola HBC to introduce robotic technology in production."

László Békefi, General Manager, Coca-Cola HBC Hungary

How did COVID-19 affect your activities?

Our three priorities were the health and safety of our employees, business continuity and supporting our communities. During the crisis, we could see how much Hungarian citizens were in need. There were several things that we did, including providing business developers to the Hungarian Red Cross to help with logistics. We also offered our advertising spaces, social media channels and marketing people to the Red Cross for public service announcements, and we put together a campaign to help the hospitality-sector reopening in summer 2020. We believe our business success depends on the wellbeing and strength of the communities where we are present. Our responsible operations demand that we react to their needs.