

Hungarian expertise in the service of secure energy supply



NATURAL GAS TRANSMISSION
MEMBER OF THE MOL GROUP

FGSZ LTD ANNUAL REPORT 2013



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KEY FINANCIAL AND BUSINESS DATA

(million HUF)

2013

	2012	2013	13/12 [%]
Net sales revenues	136 627	118 839	86,98
EBITDA	65 884	66 411	100,80
EBIT	47 047	47 376	100,70
Profit before tax	35 318	31 888	90,29
Profit after tax	34 730	31 493	90,68
Operating cash flow	58 688	58 379	99,47
Projects and investments	332 597	314 870	94,67



In addition to reliable operation, it is very important for us to play a proactive professional role in shaping the future of both the domestic and the European gas markets.

JÁNOS FEHÉR

Chief Executive Officer

CEO'S LETTER

DEAR PARTNER, DEAR READER,

"Make everything as simple as possible, but not simpler," said Einstein. This is a basic truth for us, the experts working at FGSZ Ltd too, since this is where in one of the most important secrets of our secure operation and balanced management lies, especially because natural gas transmission is a complicated and dangerous business. It is a complex system each of whose components has an impact on our entire

pipeline network, just like the efficiency of our company with its strategic role has a great impact on the entire national economy. So, a lot depends on the professionalism, expertise, and responsibility of our employees. Day

after day we are confronted with complex issues, unexpected situations or new challenges that affect the energy security of the country and the region. In order to ensure that we do not get involved in problems but rather in solutions, we really need to make everything as simple as possible, but never simpler.

All our partners and responsible decision-makers are aware that the transmission network operated by FGSZ plays a key role in maintaining a healthy circulation of energy in our country and the Central European region. Therefore, the success of our activities has a significance far beyond itself. This is why, in addition to reliable operation, it is so important for us to play a proactive professional role in shaping the future of both the domestic and the European gas markets.

Flexible adaptation to challenges and active participation in shaping the conditions that influence the security of supply are equally great tasks for us, which emerge simultaneously. The management of our company is aware of this when performing its tasks. It is a great feeling to be able to say that FGSZ Ltd's activity and professional initiatives are highly appreciated both in Hungary and in the European Union. We are proud that our partners view us as a reliable company that can hold out even in critical situations. However, the credit for this should by no means go only to the management. The respectable performance of our employees provides a stable

background for us in our everyday work which, in addition to responding to constant challenges, enables our Company to contribute in a competent way to the resolution of strategic issues the Hungarian and the European gas markets are facing today.

Building upon past traditions and the wisdom of our forefathers, our highly qualified and responsible colleagues, deeply loyal to FGSZ, form a corporate community that we can really trust. Nothing proves this better than the prestigious award for best employer that we received in November 2013, demonstrating for five consecutive years that FGSZ is the best among the best.

As FGSZ Ltd's chief executive office appointed a year ago, I am personally committed to the preservation and enrichment of our company's values. I thank all 800 employees for the great performance they showed in 2013 and I also thank our partners and the management of our exclusive owner, MOL Plc for their confidence. This highly stimulating confidence enables us to be able to provide a secure supply of gas for our country, working in close cooperation with our business and professional partners who are responsible for the future of the gas market, the public authorities of Hungary and the international organisations that are crucial for our future.

One of the key projects in 2013 that our company developed in accordance with our strategy for developing the opportunities of cooperation with the neighbouring countries and expanding our markets was the capacity allocation IT application with the working title Regional Booking Platform (RBP) under an

EU pilot project that fully meets the requirements of the European capacity allocation mechanism (CAM Network Code). The model, which fully complies with regulation No. 984/2013/EU that entered into force in November 2013, first went live in 2014 at the Hungarian–Romanian border.

Just as in the case of the CAM NC and other network codes, FGSZ is working on preparing for the introduction of the new EU rules on system use, which will be the greatest challenge in the near future for the entire regional gas market.

It is well-known that the economic challenges of the past year and the international developments in 2014 created a complex situation in the Hungarian and the European gas markets. However, our flexible adaptation and forward-looking development policy are not only demonstrated by our ability to maintain our great operating results, but also by the fact that in 2013 we made another step forward in leveraging the opportunities that ensure the diversification of natural gas sourcing and the expansion of the volume of transit supply. I believe that, based on this, we have every reason to declare with confidence that our expertise is in the service of secure energy supply both for Hungary and the region.



JÁNOS FEHÉR
Chief Executive Officer





OUR PLACE IN EUROPE

The opportunities inherent in the cooperation between the EU member states and the 21st century challenges emerging in the European gas market clearly mark the course of development our Company will have to follow in the future as well.

While one of the greatest challenges of our age is to provide local guarantees for sustainable growth, the key for the future of Europe and Central Europe is to provide secure energy supply. By now natural gas – which used to be just a byproduct of oil exploration and production utilised insufficiently at the beginning of the 20th century – has become critically important both for sustainable development and the security of energy supply in Hungary and Europe.

This source of energy, which can be used in many different ways and can be transported to long distances through today's modern piped transmission systems in an extremely economical, safe and environment-friendly way with control at the molecular level, plays an indispensable role today in the advancement of industrial development, the operation of natural gas-fired power plants and providing comfort for households as well as in the transit and export supplies that are strategically important for the Central European region. In Hungary, our Company provides these services along a high-pressure

modern pipeline system of nearly six thousand kilometres covering the entire country which, thanks to the investments of the last decade, is connected at several points directly to the natural gas pipeline of the neighbouring countries.

The opportunities inherent in the cooperation between the EU member states and the 21st century challenges emerging in the European gas market clearly mark the course of development our Company will have to follow in the future as well. Due to its geographical position, Hungary plays an extremely important role in the gas supply and trading of the Central European region. Time has shown that our efforts were not in vain, and the challenges of our age have confirmed that our Company should continue to make efforts to take advantage of our strategic role.

In the heart of Europe it is justifiable and necessary to make the gas pipelines of the region more interconnected and transparent both in the east-west and the north-south directions. Our important goals include increasing the volume of transit and export supplies and optimising the guarantees for energy security. Therefore, it is of key importance for our Company to perform all our activities in full compliance with applicable domestic regulations and EU norms. Equally important is the fact that FGSZ Ltd is the only Hungarian company which performs its tasks as a transmission system operator with an ITO (Independent Transmission Operator) certification in accordance with Directive 2009/73/EC.





PILLARS OF OUR OPERATIONS

It is a great responsibility and professional challenge for the management of our Company and all our employees that FGSZ Ltd is one of the companies which plays a key strategic role in maintaining and guaranteeing the security of energy supply in Hungary and the Central-Eastern European region. Our primary goal is to meet the expectations of the 21st century in every moment of our business operations.

company, MOL Plc, which has one-hundred-per-cent ownership in our Company. With close to 800 jobs requiring high level qualifications, successful business performance, high added value, unique infrastructure and technical potential, our Company represents a significant value for the national economy as well.

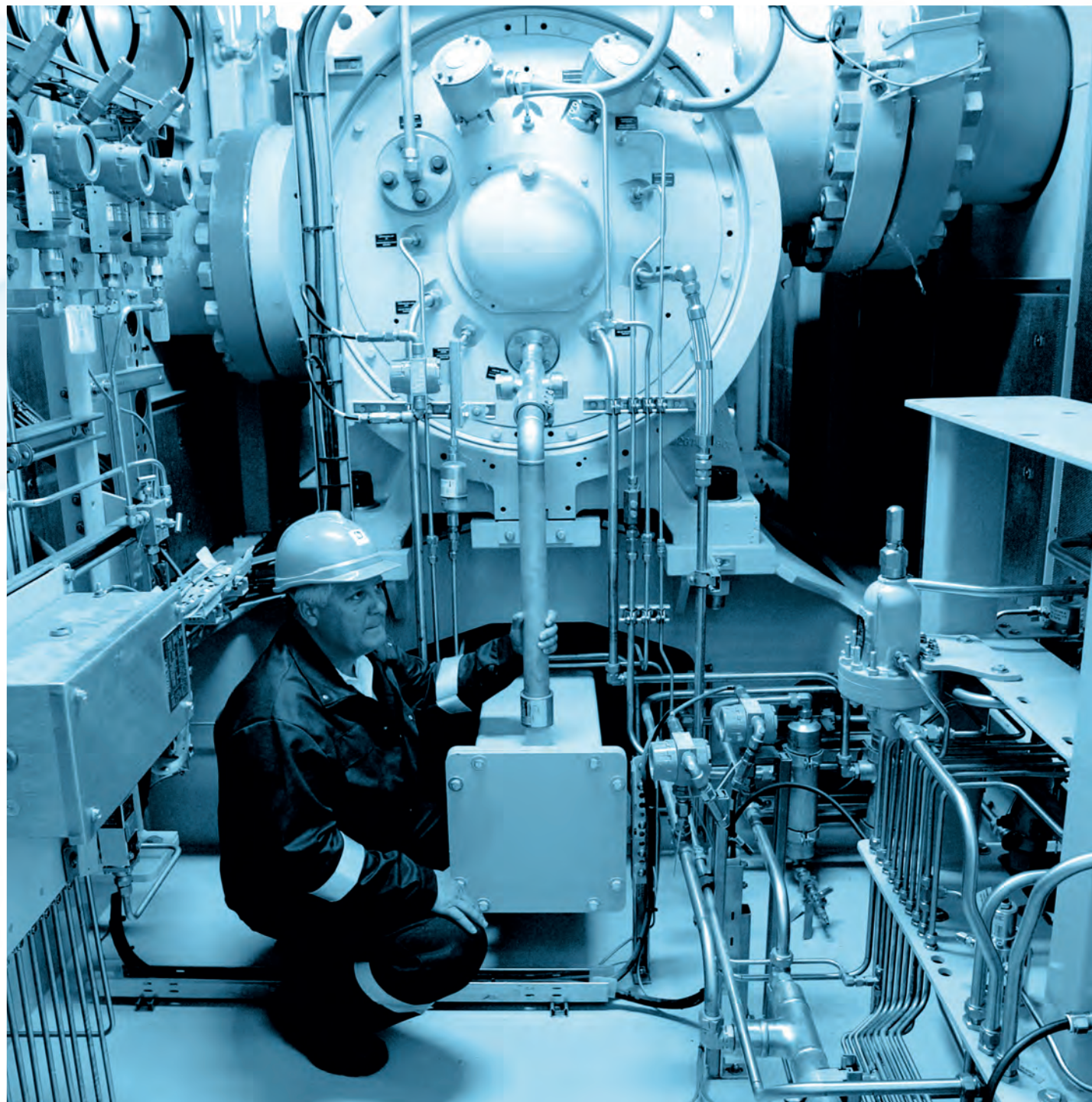
In addition to supplying natural gas for domestic gas service providers and power plants which are

crucial for the country's energy supply, as well as other large industrial consumers, our core activities also include continuously supervising the quality of transmitted natural gas as well as transparently measuring the gas transmitted to our partners in compliance with the most stringent international

Over 70 years of experience, the unique expertise, innovative approach and high level of working culture of our employees help us achieve our goals.

The seven most important pillars of our activities include over 70 years of experience, the unique expertise, innovative approach, high level of working culture and loyalty of our employees to our company, forward-looking and balanced management as well as the stable background provided by our parent

standards. Furthermore, it is our exclusive task to odourise the natural gas transmitted through our pipelines in accordance with the requirements, to provide continuous pressure control for our highly automated transmission system and to operate this system in a safe and optimised way.



SECURITY OF SUPPLY AND SUSTAINABLE PRICE CUTS

The quantity of natural gas produced in Hungary is much smaller than what is required for the continuous and secure supply of industrial players and households. Therefore, our country needs to import a significant amount of natural gas. Although the volume currently being sourced can ensure secure energy supply for our country, its composition represents significant source-side exposure. In order to mitigate prices in a sustainable way and ensure the security of supply, it is key for Hungary to diversify its sources as much as possible.

Achieving this can have a stimulating effect on market competition and also increase the security of supply in an appropriate way. An important precondition for that is to ensure that all the potential regional procurement sources are available for Hungary.

Due to its geographical position, Hungary plays an extremely important role in the gas supply and trading of the Central European region.

However, until this desirable goal is fully achieved, we believe every single step that may seem to be just a tiny one in a larger perspective is important if it can increase the security of supply for Hungary. For example, as a result of the changes in the regulatory environment we will soon be able to provide a system-level connection to our network for the new biogas producers appearing in the domestic natural gas market. Our Company is ready to provide the entry points necessary for it, thereby helping to optimally exploit the renewable sources of energy that serve sustainable development.

We believe it is a realistic goal to connect Hungary to all the neighbouring countries in terms of both injection and delivery, that is, the principle of bidirectionality in the cross-border capacities available for our country can be attained in accordance with the EU directives. All this is an important condition for Hungary to diversify and optimise its sourcing potentials in a way that best suits the current market situation. To this end, we have implemented significant infrastructure developments at our Company in recent years. The stage of our strategic investments planned for the period 2013–2022 includes the central and north-west development projects.

With a connection to already existing capacities, the creation of the Hungarian-Slovakian and the Hungarian-Slovenian interconnectors as well as the

expansion of the existing Western import capacities, a unified structure that is interoperable in all directions is now within reach. However, before we can fully interconnect our systems with the transmission systems of the neighbouring countries, it is necessary to implement further developments, which are entering their final phase in 2014.

Hungary's security of supply is inseparable from the energy security of the Central European region and the whole of Europe. Therefore, our strategic goal is to ensure permeability of the region's natural gas systems on the domestic side on the basis of mutually advantageous European gas market agreements and to expand the volume of transfer and transit transmission service through Hungary.

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The planned project for the creation of the North-South Gas Corridor offers an important and feasible solution to the challenges emerging in the area of energy security, which can serve the creation of an integrated and transparent gas market in the central and southern regions in addition to enhancing the security of supply. The North-South Gas Corridor creates a connection between the east-west trans-



port routes by making the LNG terminals – currently being built and planned for construction – on the way available for the countries of the region. This key strategic project is not only important for FGSZ but it is also among the strategic energy priorities of the European Union.

The creation of energy security that is required for Europe's sustainable development largely depends on which of the natural gas projects that can ensure the conditions for this, among them the North-South

Gas Corridor, the Trans-Adriatic Pipeline (TAP) and the South Stream, will be implemented and how and when they will be implemented. Since all this is key for FGSZ Ltd, our Company is taking part in the preparation of the solutions that require international cooperation with all of its professional expertise. In order to mitigate and possibly prevent the future risk on the gas market and to ensure long-term sustainability of energy security, our Company is also taking an active part in the elaboration and publication of EU Gas Regional Investment Plans (GRIPs).



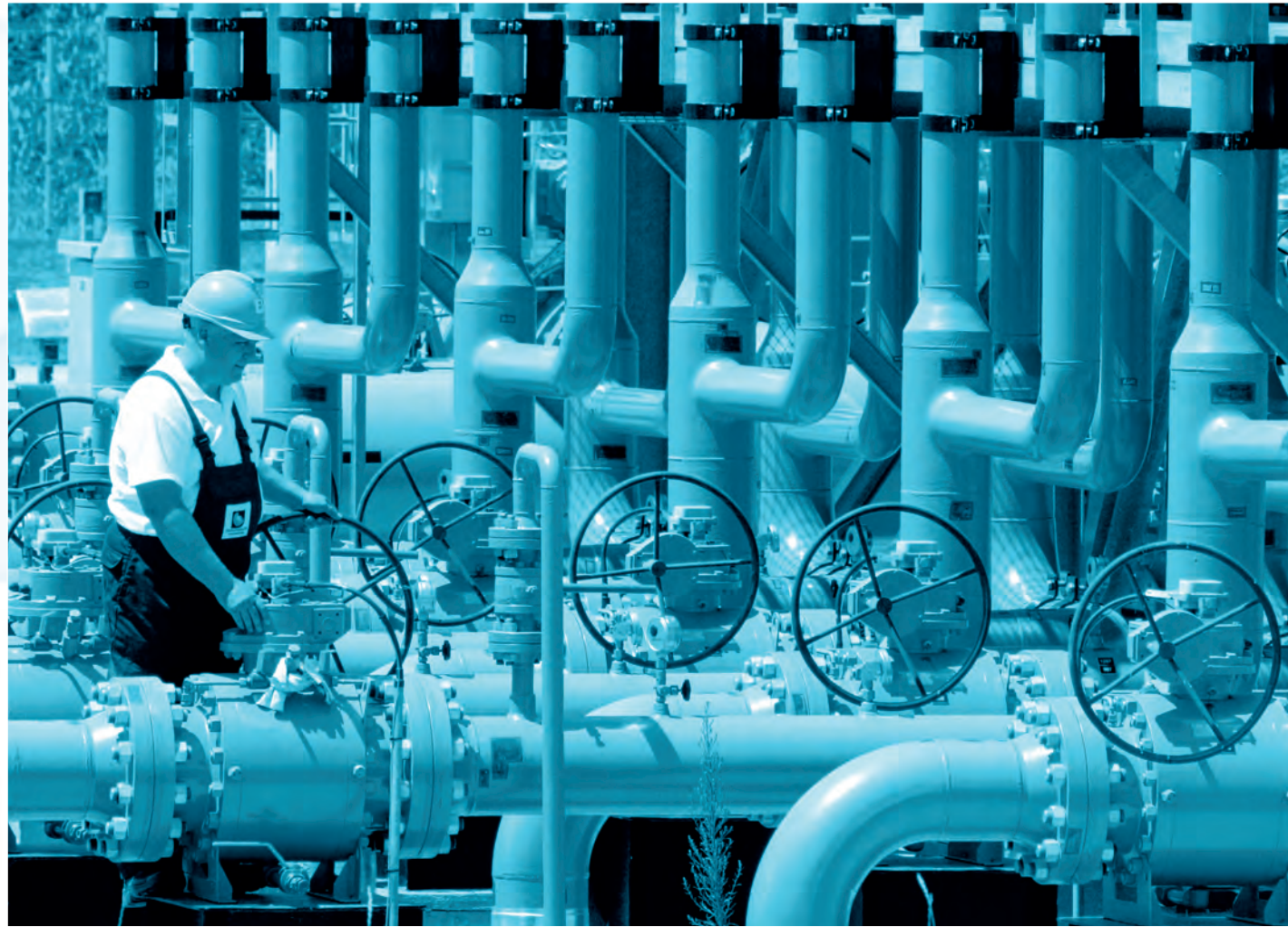
OUR MEDIUM-TERM DEVELOPMENT POLICY

One of the greatest challenges of the near future for our Company as well as for the entire Hungarian and regional gas industry is the introduction of the new EU regulations for network usage. The changes, which are very different from the currently effective

Hungarian regulations on network usage, will specify network usage in detail at the European level. Recognising the magnitude of the changes, FGSZ started as early as 2011 to prepare for the practical implementation of the European regulations on network usage which soon will become mandatory. In addition to providing information for the

Hungarian players of the gas market, we are preparing our own systems for the switchover, for example by turning the current MJ-based settlement system with a reference state of 15/15 °C to a kWh-based system with a reference state of 25/0 °C or by the development of the Regional Booking Platform that enables the allocation of bundled capacities jointly with other system operators.

Recognising the magnitude of the changes, FGSZ started as early as 2011 to prepare for the practical implementation of the European regulations on network usage which soon will become mandatory.



The solution proposed by FGSZ makes it possible to allocate connected transmission system capacities at a given cross-border point quickly and in a simple procedure among all the applicants with favourable transaction costs and under the same transparent conditions and in accordance with the same transparent rules. On the one hand, the model, which fully complies with regulation 984/2013/EU that came into force on 3 November 2013, guarantees that the ca-

pacities on the exit and the entry sides are synchronised at the borders in question, and on the other hand, it makes it possible to launch true integration processes between the gas markets of the neighbouring countries. This will help balance the prices of the national gas markets even in the medium term. This balance may also mean for the Hungarian gas market that the domestic gas prices will approach the lower prices of the neighbouring countries.

Our strategic goal is to enable Hungary to break out of its peripheral role in gas transmission and become a regionally important gas distribution centre in the decades to come.

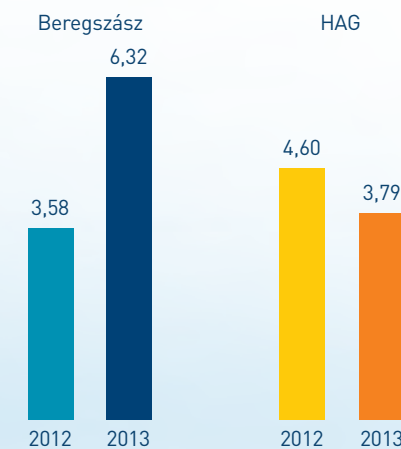
The project and the application enjoy the official GRI Pilot Project status in the European Union and will first go live in 2014 at the Hungarian-Romanian border.

The experiences we gained in the course of the technical work for the preparation of the development projects and the negotiations on the reconciliation of interests show that the expansion of the gas market is both a national and a pan-European interest that inspires the market players. The establishment of real competition in the gas market and the regional harmonisation of gas prices resulting from it as well as the possibility to create a liquid gas exchange supported by the entire sector all represent changes for which in our view all the stakeholders within Hungary and beyond its borders should work together.

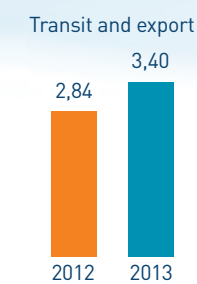
Our technical concepts and proposal, which have been accepted internationally, create a framework for co-operation to ensure energy security based on mutual benefits as well as mark the strategic directions of our developments. All this has a positive synergic effect on Hungary's ability to break out of its peripheral role in gas transmission and become a regionally important gas distribution centre in the decades to come.

In the service of our country's energy security and in line with the interests of the MOL Group and the efforts of the European Union, in 2013 our Company did and will continue to do everything it can to further strengthen its role in gas transmission.

INJECTION THROUGH CROSS-BORDER PIPELINES:
(15 °C, billion m³)



DELIVERY THROUGH CROSS-BORDER PIPELINES:
(15 °C, billion m³)





OUR COMPANY PHILOSOPHY

The experiences of our past represent the building stones of our future for us. The primary source of the competitiveness of FGSZ Ltd is the expertise of its several hundred-strong workforce, their solution-oriented working culture which is manifest even in crisis situations and in the observance of daily

work processes with discipline.

The unique expertise, qualification and innovative approach of our employees represent a value added which is indispensable in paving the way for our future success. It is a conscious effort of our Company to preserve, renew and further enrich the values that stem from our traditions.

We attach great importance to the enforcement of the value-based criteria of sustainable development, the protection of our environmental values and the enforcement of an approach that favours cooperation based on mutual benefits and appreciates domestic value added.

The stability of our operation is equally important for us, which we intend to preserve even under the changing circumstances and the changes that are taking place on the energy market and in the regulatory environment. We believe

the key guarantees for stability include continuously ensuring the conditions for a balanced, transparent and forwardlooking management and working out development projects that can pave the way for long-term success for our Company as well as the preservation and expansion of our infrastructure which is unmatched in Hungary and strategically important in the region.

We are convinced that even a successful company cannot expect lasting results if it fails to effectively facilitate the success of its operating environment. Therefore, it is one of our priorities to actively develop our social relationships with the communities that have an interest in the development and success of our operating environment. However, we interpret the role and scope of social responsibility in a much broader sense which includes much more than the support provided by our Company for various community, cultural, sport, educational or healthcare initiatives. In our view, true value creation lies in a value-driven mindset and action. This is why we attach such great importance to the enforcement of the value-based criteria of sustainable development, the protection of our environmental values and the enforcement of an approach that favours co-operation based on mutual benefits and appreciates domestic value added.

The effective and safe operation of our internationally competitive technological background and

state-of-the-art infrastructure requires a high level of qualification and expertise as well as personal responsibility and sound professional experience. Therefore, following our best traditions, our Company will continue to give priority in the future too to the recognition of our employees' expertise and commitment as well as the preservation and enrichment of the working culture and unrivalled empirical capital of our company accumulated over generations.

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Therefore, our vision is built upon a harmony created between nature and society. We are equally aware of the fact that every building block of our vision is necessary for us to be able to fulfil our strategic role in our country's energy security in every situation, meeting our owner's expectations and fulfilling our social responsibility to the greatest extent possible. We are ready to meet these challenges in the future too, so we continue to see the expansion of our Company's weight and role in the international gas market as a key objective.





OUR ENERGY SYSTEM IN THE SERVICE OF THE COUNTRY

Our high-pressure pipeline system covering the whole of Hungary has 18 domestic, 4 import injection points and nearly 400 gas exit points. The uninterrupted, coordinated and safe operation of the system is ensured by 6 regional centres and 6 compressor stations. The system operation centre of FGSZ, which includes world-class innovations and represents a special value for national security, is located in Siófok, the seat of the company.

The average age of our 5,784 km pipelines of the high-pressure natural gas transmission grid which covers the entire country is 25 years, their diameter is between 100 and 1,400 mm, and their typical oper-

ating pressure is 40–75 bar. The integrated supervision and management of this system is provided by the centre in Siófok, to which and additional six regional control centres are attached. These operative centres perform their tasks in FGSZ Ltd's regional plants in Gellénháza, Hajdúszoboszló, Kápolnásnyék, Kecskemét, Miskolc and Vecsés, providing supervision, integrated control and coordinated management for the gas transmission systems in their regional responsibility.

The stable pressure of our pipeline system and the natural gas supply for our consumers in Beregdaróc, Hajdúszoboszló, Mosonmagyaróvár, Nemesbikk, Városhőd and Bata are provided by the modern compressor stations. Eighteen domestic and 4 import injection points are used for taking over the natural gas coming from domestic production, import or the underground storage facilities.

The uninterrupted, coordinated and safe operation of the system is ensured by six regional centres and six compressor stations.

The odourisation of the natural gas in accordance with standards is done at either at the interconnection points of the pipeline (central odourisation) or at the gas delivery stations (individual odourisation). Our consumers receive the natural gas they need through FGSZ Ltd's gas delivery stations. The task of the nearly 400 delivery points is to ensure that our Company can continuously deliver the necessary quantity of natural gas in a supervised manner to the connected system operator and the industrial and power plant consumers directly connected to the gas transmission system. To this end, we ensure that the quantity of gas is measured at every injection and delivery point in an accurate and authentic manner under careful and transparent quality control.

One of the greatest challenges for the continuous supply of natural gas is the inevitable seasonal fluctuation of consumer demand. The significantly higher demand for gas in the winters can be met by the high-capacity underground gas storage facilities, which are connected to our pipelines at six points.

Transit services were provided for Serbia and Bosnia-Herzegovina and transfer services for Romania, Croatia and Ukraine in 2013. Our Company is constantly working to expand the number of injection and delivery points for the receipt and delivery of natural gas. As a result of these efforts, in 2013 it was possible to deliver natural gas to the Ukraine as well. In July 2013 we first introduced so-called backhaul transmission which, by netting the transmission tasks in the opposite direction, we provided the opportunity for virtual transmission from Romania, and in February 2014 we en-

OUR PERFORMANCE AND CAPACITY IN 2013

TOTAL PERFORMANCE IN 2013

Volume data at 15 °C

TOTAL QUANTITY OF NATURAL GAS MEASURED AT THE ENTRY AND EXIT POINTS:

Supply through cross-border pipelines:

Beregszász:	6.32 billion m³	222.09 billion MJ
HAG:	3.79 billion m³	131.55 billion MJ
Egyéb:	0.00 billion m³	0.00 billion MJ

Delivery from storage at entry and exit points:

Injection:	1.73 billion m³	59.39 billion MJ
Withdrawal:	2.27 billion m³	82.60 billion MJ

At upstream pipeline connections:

Entry:	2.68 billion m³	88.47 billion MJ
Exit to blending:	0.84 billion m³	28.96 billion MJ

Delivery through cross-border pipelines:

Transit and export:	3.40 billion m³	120.99 billion MJ
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CAPACITY DATA

The volume data should be interpreted at 15 °C; the energy quantities were defined at a low calorific value (NCV). The burning and measurement reference temperature for the calculation of the lower calorific value is 15 °C/15 °C; its pressure is 101,325 Pa.

Ukrainian/Hungarian interconnector

(Testvériség, Összefogás)

Entry point	(cubic metres)	(MJ)
Annual firm capacity	20.5 billion	708 billion
Daily firm capacity	56.3 million	1 944 million
Annual interruptible capacity	5.5 billion	190 billion
Daily interruptible capacity	15.0 million	518 million

Austrian/Hungarian interconnector

Entry point	(cubic metres)	(MJ)
Annual firm capacity	4.4 billion	152 billion
Daily firm capacity	12.1 million	418 million
Annual interruptible capacitys	0.8 billion	28 billion
Daily interruptible capacity	2.3 million	80 million

Hungarian/Serbian interconnector

Exit point		
Annual firm capacity	4.8 billion	166 billion
Daily firm capacity	13.2 million	455 million

Hungarian/Romanian interconnector

Exit point		
Annual firm capacity	1.7 billion	59 billion
Daily firm capacity	4.8 million	167 million

Hungarian/Croatian interconnector

Exit point/injection point		
Annual firm capacity	6.5 billion	224 billion
Daily firm capacity	19.2 million	663 million

Hungarian/Ukrainian interconnector

Exit point		
Annual interruptible capacitys	6.1 billion	209 billion
Daily interruptible capacity	16.8 million	576 million

Net domestic production

12 entry points		
Annual firm capacity	1.8 billion	58 billion
Daily firm capacity	7.9 million	256 million

Capacity data for commercial underground gas storage facilities

5 entry points		
Annual firm capacity	5.0 billion	172 billion
Napi csúskapacitás	59.6 million	2 045 million
Ebből megszakítható	7.1 million	244 million

Capacity data for strategic underground gas storage facilities

1 entry point	(cubic metres)	(MJ)
Annual firm capacity	1.2 billion	42 billion
Daily peak capacity	20.0 million	700 million

Peak capacity of the natural gas transmission system on 31 December 2013

Total	172.4 million	5 924 million
Interruptible	43.6 million	1 505 million
Imported	93.6 million	3 233 million
Interruptible	36.5 million	1 261 million
Transit	11.3 million	390 million
Commercial storage	59.6 million	2 045 million
Interruptible	7.1 million	244 million
Strategic storage	20.0 million	700 million
Production	7.9 million	256 million

AS OF 1 FEBRUARY 2014 A NEW IMPORT ENTRY POINT CAN BE USED

Hungarian/Romanian interconnector

Annual firm capacity	0.1 billion	3 billion
Daily firm capacity	0.2 million	7 million
Annual interruptible capacitys	1.7 billion	59 billion
Daily interruptible capacity	4.8 million	166 million

Capacity: the maximum quantity that can be transmitted during a given unit of time which is offered by the transmission system operator to the system user by taking into account the system balance and the operating requirements applicable to the transmission system.

Interruptible capacity: the gas transmission capacity which the transmission system operator can interrupt in accordance with the conditions specified in the transmission contract.

Firm capacity: the gas transmission capacity whose uninterruptible transmission is guaranteed by the transmission system operator.

sured the conditions for real, physical transmission as well. Both new services were received positively, increasing the regional importance of our Company. The strategically important pipeline developments in recent years and the priority given to European energy security provide a sound basis for the further development of the company and the enhancement of its international role.

In order to ensure that we operate and oversee our natural gas transmission systems in a secure way at the highest possible level at all times, our Company operates an independent communications system.



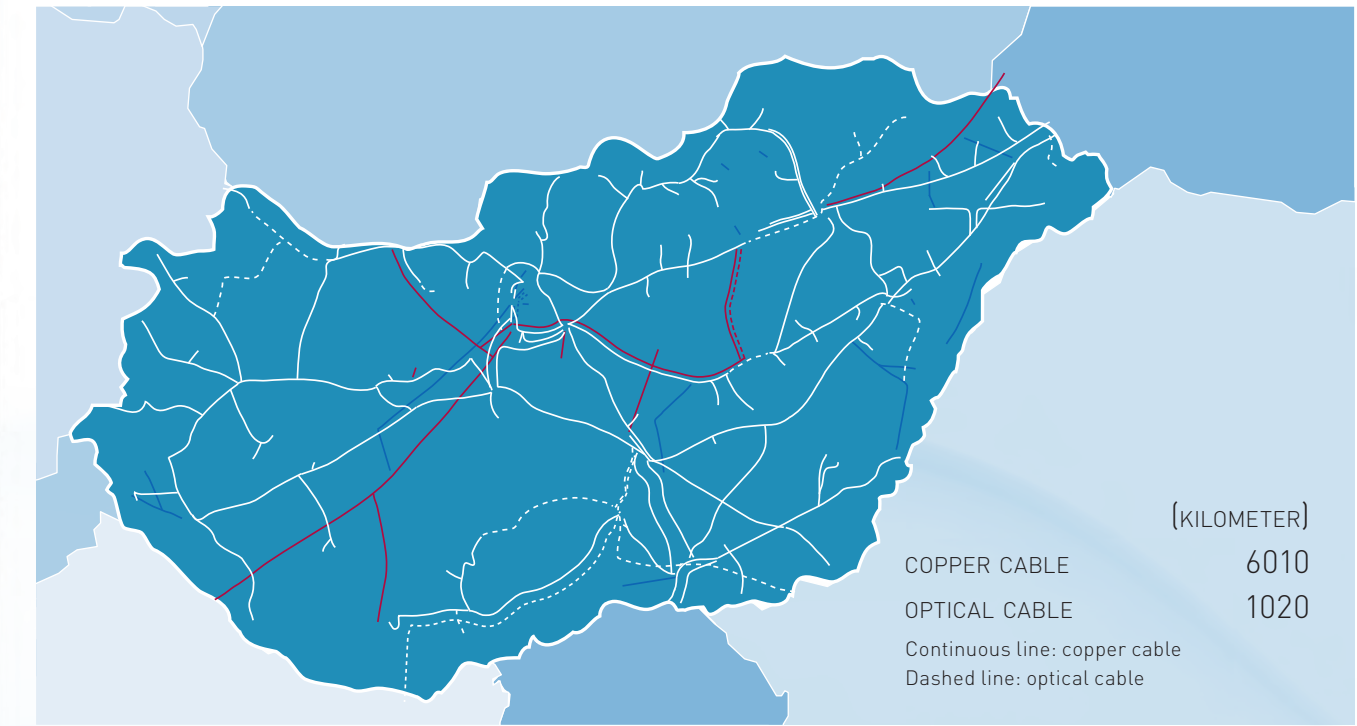
The employees of our Company with outstanding professional qualities guaranteed that our plants and systems operated with high efficiency and technological safety in 2013 too.

This network not only plays a strategic role in system operation but it provides the opportunity for immediate intervention in the case of even minor malfunctions or system disturbances.

The communications infrastructure of our integrated remote-controlled monitoring and management system also serves our gas market applications that are used for system operator activities as well as providing a safe background for our administrative management systems. Nearly one-fifth of the 7,030 km telecommunications cable network of FGSZ Ltd is equipped with optical cables to ensure the smooth flow of data.

One of the important milestones in the further development of the security of our operations is the success of a pilot project launched in collaboration with the National Emergency Management Agency (NEMA) and several external advisors, which was designed to work out a methodological guide that can be used to examine in a transparent way the compliance of the facilities we operate with the licensing criteria.

The pilot project began in the second half of 2012 and was completed, after consultation with several



authorities, in April 2013. The compliance investigations established that the underground pipelines of our natural gas transmission system meet the licensing criteria specified in Annex 7 of Government Decree No. 219/2011. During the project the group of overground facilities to be examined with quantitative risk assessment (so-call "hot points") were also identified for information purposes; in addition, the methodology for quantitative risk analysis of overground facilities was also developed.

The employees of our Company with outstanding professional qualities guaranteed that our plants and systems operated with high efficiency and technological safety in 2013 too. Thanks to this, our Company was able to guarantee the continuous supply of natural gas for Hungary in the past year as well. Their achievement made a significant contribution to the operative stability of the Hungarian economy and the maintenance of energy security in our country. In order to continue to fully ensure that in the future too,

we took several important steps in 2013 to pave the way for the developments that can mitigate the risks on the gas market.

Our Company operates an independent telecommunications system.

OUR INFRASTRUCTURE

5,784 KM TRANSMISSION PIPELINE SYSTEM
22 INJECTION POINTS
399 EXIT POINTS
6 REGIONAL CENTRES
6 COMPRESSOR STATIONS



WHAT WE ARE PROUD OF

EUROPEAN UNION **ITO CERTIFICATION**

EFQM EXCELLENCE MODEL

NEARLY **800 JOBS**

5.784 KM TRANSMISSION PIPELINE SYSTEM

- ISO 9001:2008 compliant Quality Management System
- ISO 27001:2005 compliant Information Security Management System
- MSZ EN ISO 3834-2:2006 compliant welding management system
- Country Representative 2011 (European Business Awards)
- Best Employer in Hungary 2009 (Világgazdaság-Hewitt survey)
- Best Employer in Hungary 2010 (Világgazdaság-Hewitt survey)
- Best Employer in Hungary 2011 (Világgazdaság-Aon Hewitt survey)
- Best Employer in Hungary 2012 (Aon Hewitt survey)
- Best Employer in Hungary 2013 (Aon Hewitt survey)
- Industry leader 2009 (Világgazdaság-Hewitt survey)
- Best Employer Central Eastern Europe 2009/2010 (Aon Hewitt survey)
- Best Employer Central Eastern Europe 2010/2011 (Aon Hewitt survey)
- Best Employer Central Eastern Europe 2012 (Aon Hewitt survey)





OUR REGULATORY ENVIRONMENT

The operations of FGSZ Ltd are determined by Hungarian and EU laws applicable to the Company's business and a set of internal regulations that fully comply with those laws.

The main objectives of the most important law applicable to our Company's core business, the transmission of natural gas, is Act XL of 2008 on Natural Gas Supply (Gas Supply Act), which provides for the following: harmonisation of natural gas resources, secure and

undisturbed service for customers; supply of natural gas with good quality and a transparent cost structure; creation of the conditions for energy-efficient, effective and economical operation; protection of the interests of users; facilitation of the entry of new players; development of new transmission, distribution and storage capacities; integration of the Hungarian gas market

into the unifying energy markets of the European Union; creation of objective, transparent regulations that comply with the requirements of equal treatment.

Our Company has its own quality management and decision-making system as well as an independent IT and administrative management system in place, and all the activities required for high-quality work are performed exclusively by its own staff.



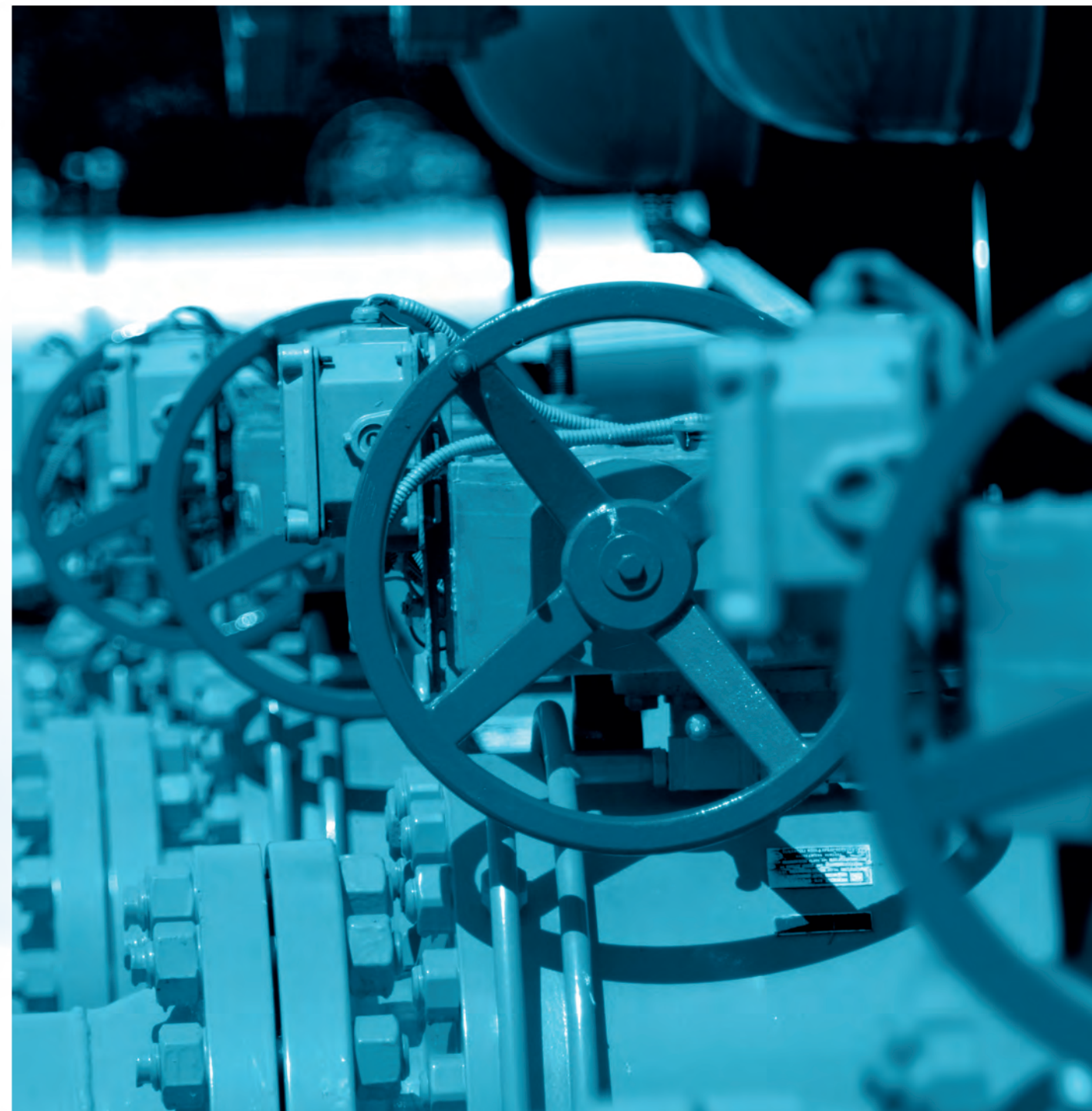
We build and operate our pipelines and perform activities related to them in compliance with the technical safety provisions of Act XLVIII of 1993 on Mining, keeping fully in mind the protection of human life, health, the natural environment and private property.

In addition to these two important laws, there are a number of implementation decrees and authority regulations (by the Hungarian Office for Mining and Geology, the Hungarian Energy and Public Utility Regulatory Authority, etc.) that govern the everyday work of natural gas transmission systems.

After Directive 2009/73/EC was published, which defined common rules for the internal market in the takeover, storage and distribution of natural gas in the interest of further liberalisation of the gas market, our Company began the implementation of its provisions without delay. As a result, FGSZ Ltd was the first

among the European natural gas suppliers to transform its operations by creating the conditions for an ITO model that complies with the requirements of the Directive. As one of the first independent transmission system operators in Europe with an ITO certification, our Company has full independence in making decisions on the tasks and material resources that are necessary for system operation, the improvement of infrastructure and maintenance. The stringent rules on unbundling apply to finances as well as to the management and human resources management of MOL and FGSZ, and compliance with them is supervised by both the national and the EU regulatory authorities.

In harmony with this, our Company has its own quality management and decision-making system as well as an independent IT and administrative management system in place, and all the activities required for high-quality work are performed exclusively by its own staff.





OUR INTEGRATED MANAGEMENT SYSTEM



Our Integrated Management System (IMS) ensures effective and safe operation and a high level of co-ordination between the different areas of our activities. The IMS includes the integrated operation of the management systems which coordinate the following areas of activity, ensuring that the standards related to each of the subsystems are fully enforced:

- ▣ Quality Management System (QMS);
- ▣ Technical Security Management System (TSMS)
- ▣ Information Security Management System (ISMS)
- ▣ Calibration Laboratory Management System (CLMS)
- ▣ Welding Management System (WMS)

The common components of the systems (that can be integrated) are managed by unified regulations. The detailed description of these regulations are contained in the Company's Integrated Management Handbook, while the activities which should be regulated separately are determined by independent regulations that belong to each system.

QMS

We have been operating our Quality Management System since 1997 in accordance with the requirements of the ISO 9001 standard. This management systems covers the entire range of the Company's operations. The QMS was revised in June 2012 and the certification was renewed, which is now valid until 14 June 2015. The operation of the system in accordance with the standard is reviewed semi-annually by SGS Hungária Kft, an international certification company highly recognised in the oil and gas sector.

TSMS

The TSMS was designed on the basis of the requirements contained in the Authorisation Procedure Handbook published by the Hungarian Office of Mining and Geology (HOMG), which was accepted by the HOMG in its HOMG Resolution No. 1948-4/2013. The system was put it place without any exclusion. This management system applies to the Company's technical security activities and any other areas related to them. The operation of the system is supervised by the Mining Commission.

ISMS

In December 2013 our Company successfully passed the certification review carried out by SGS Hungária Kft and received the certification for its Information Security Management System, which is now valid until 9 January 2017. The operation of the system in accordance with the standard is reviewed semi-annually by SGS Hungária Kft. When designing the ISMS, we applied the chapters defined in the "Statement of Applicability" from among the requirements of the ISO 27001:2005 standard. This management system



covers the Company's centre in Siófok and the operating area of the Gas Transmission Plant in Kápolnásnyék.

WMS

In order to improve the quality and efficiency of maintenance and repair work at FGSZ Ltd, in 2010 we organised welding work in accordance with the MSZ EN ISO 3834-2:2006 standard and had it certified by EMI-TÜV-SÜD Kft and also obtained the license of the competent authority pursuant to IKIM Decree No. 3/1998 (I. 12.). In 2013 the WMS was reviewed for the renewal of the certification, which we received for another three years until 30 June 2016. This management system applies to the Company's welding activities and any other areas related to them. The full-scale quality management system for the fusion welding of metals is reviewed semi-annually by EMI-TÜV-SÜD Kft.

CLMS

We have been using the CLMS since 2012 for the management and regulation of calibration tasks. All the requirements of the MSZ EN ISO/IEC 17025:2005 standard should be applied to the CLMS without any exclusions. The provisions of this standard are included in the Integrated Management Handbook and the Calibration Laboratory Handbook. This management system covers the Calibration Laboratory Centre operating at the Company's centre in Siófok and its four sites (Gellénháza, Kápolnásnyék, Kecskemét, and Miskolc). Our Company plans to obtain accreditation for the CLMS at the end of 2014.



BUSINESS AND COMMERCIAL CODE

Our Business and Commercial Code contains the basic content elements of commercial, settlement, measurement and data traffic agreements as well as the detailed rules on system access and daily balancing. We constantly update the Code in accordance with the provisions of the Gas Supply Act and its implementation decree regarding the operation of the cooperating natural gas system.

The Transmission System Operator set up a sectoral team, a so-called Code Committee (CC) to support the elaboration and evaluation of the BCC in accordance with legal regulations, also acting as its chairperson. The companies with the same type of license (distribution, trading, storage, production, etc.) participate in the work of the CC through their elected representatives.

Just as in the case of the CAM NC, FGSZ is ready to put the other network codes in place in its technical and IT systems.

The BCC is an indispensable tool for the regulation of the daily operation of the cooperating natural gas system. Our Company

attaches special importance to the operation of the CC and to keeping the BCC up-to-date, thereby ensuring the conditions for the secure supply of gas in Hungary. In order to support the successful and smooth professional work of the CC our Company designed its own Code Committee Web Portal which successfully supported the amendment of the BCC in 2013.

The BCC has been amended twice since the beginning of 2013 in accordance with the resolutions of the

Hungarian Energy and Public Utility Regulatory Authority.

As part of the third energy package of the EU, numerous details of system operation rules have been defined at the European level, which affects nearly every area of system use in Hungary. The new European network codes create a coherent system, describing the operation of the unified gas market in as much detail as the domestic BCCs. These EU regulations directly apply to the subjects of regulation, primarily but not exclusively to gas suppliers, the national regulatory authorities and the distributors, and their common feature is that they leave a relatively short period of time for the application of the new regulations. In addition to regulation 984/2013/EU mentioned before (CAM NC), decision 2012/490/EU (CMP) designed to eliminate contractual congestion and regulation 312/2014/EU (BAL NC) on gas balancing of transmission networks belong to this set of regulations. In the near future additional network codes are expected on the technical cooperation between the system operators (Interoperability NC), the allocation of new capacities (Incremental Capacity Proposal), the harmonisation of tariff systems (tariff NC) and the commercial rules (Rules for Trade). Just as in the case of the CAM NC, FGSZ is ready to put the other network codes in place in its technical and IT systems. However, the magnitude of changes require more than that, calling for a conceptual modification of the regulation affecting the domestic gas sector (Gas Supply Act, Implementation Decree, Tariff Regulation, BCC, etc.) in order to ensure continued compliance.





OUR HUMAN VALUES

The successes of the future depend on whether we can pass on the values of our working culture and expertise to the next generation of experts.

We are proud that FGSZ Ltd was the best employer of Hungary for the fifth time and the best employer in Central-Eastern Europe for the third time according to the Aon Hewitt survey. Our participation in the survey was characterised by an exceptionally high rate every year, reaching 96% in 2013. Our already high engagement index also continued to rise. The 89%

rate recorded in 2013 was more than 30% higher than the average loyalty index of the Hungarian companies participating in the survey.

This result shows that our colleagues trust one another and believe in the future of the company. One of the important pillars of our corporate culture is that our employees are loyal and committed to the company often for a lifetime.

We are aware that the achievements of the past entail responsibility for all of us. We also know that the successes of the future depend on whether we can pass on the values of our working culture and expertise to the next generation of experts. This is why it is especially important to ensure that our colleagues

see a secure future, an inspiring environment and a predictable career path in their employer.

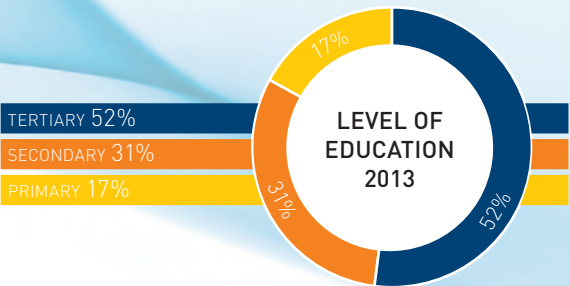
The recognition of our employees is supported by our Company's integrated human resource management system, which was supplemented in 2013 with a new career management and succession programme. We put a strong emphasis on keeping our colleagues' expertise up-to-date and assisting them in acquiring new skills that are necessary to keep up with technological developments. To this end, we have a structured training system in place and in accordance with our innovative corporate culture we encourage our employees to enrich their knowledge on their own too.

Our results speak for themselves. The nearly 800 people in the community of our staff all have a level of qualification that is high even by international standards. Of our employees, 83% have at least secondary and 52% higher-level education, most of whom have several degrees.

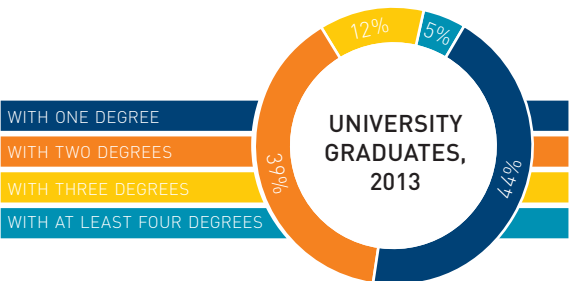
In order to ensure the recruitment of suitable experts for vacancies we maintain extensive relationships with specialised vocational secondary and higher-level education institutions. We participate in their training programmes on the basis of agreements of cooperation. Their students participate in summer internships offered by our Company, where they can learn about our core activities and operation with the help of an internal advisor.

The nearly 800 people in the community of our staff all have a level of qualification that is high even by international standards.

LEVEL OF EDUCATION OF FGSZ LTD'S EMPLOYEES



EDUCATION AND NUMBER OF DIPLOMAS OF FGSZ LTD STAFF





In addition to preserving our common values, health protection is also part of our traditional corporate culture.

In addition to preserving our common values, health protection is also part of our traditional corporate culture. The health and safety of our employees is a value that enriches our community as well. We created and are using every day our health, safety and environmental (HSE) strategy with this in mind.

In addition to mandatory screenings, we also organise health programmes for prevention. For example, in 2013 we organised screening tests for melanoma, cardiovascular risks, and colon and rectal cancer for all those

interested. We also provide medical advice and information for our employees, and our regular sports and outdoor programmes are designed to preserve the health and vitality of our colleagues.

As cooperating and conveying values are part of our Company's core activities, this is what creates the

We seek to engage the talents of our profession by promoting knowledge and information about our Company. One of our strongest points has always been embracing the young talents of our business. We get the involved in the life of our Company by means of competitions, grants and concrete programmes, assisting them in fitting into our community and expanding their knowledge.

With our reputation, our academic relationships, the career opportunities we offer and our remuneration system based on professional performance, FGSZ has become one of the most attractive players on the regional labour market.

We know that a company that gives up on young people puts its future at risk. We are also aware that a company that fails to nurture its relations with its retired colleagues will easily lose its past. Therefore, we highly respect the members of the former generations of the Hungarian gas market. We know that their course of life, experience and joint successes provide inspiration for the younger generations, and we see our traditions as an incomparable and irreplaceable resource.

Our Saint Borbála day corporate celebration provides a great opportunity year after year to show that our retired experts still belong to our corporate community.



frameworks of social responsibility for us. We are always happy and honoured when we can contribute to the saving, preservation and creation of values, which serve the enrichment of both our special field and our social values.

The unique archeological travelling exhibition, “Pipe archaeology” launched in 2010 arrived at its final station, the Déri Museum in Debrecen in February 2013. The exhibits were compiled with the help of museologists from archaeological finds. This special exhibition attracted several thousand visitors in six different countries over the three years.

We seek to establish good partner relations with the settlements in our service area. As in previous years, in 2013 we provided support for the social, sport and cultural as well as health and environmental protection programmes organised by the institutions and non-governmental organisations of the villages and towns in the service area of FGSZ Ltd, paying special attention to helping the work of educational institutions.

Our colleagues did voluntary work of a total of 769 hours in 2013. We visited Gellénháza as part of our Energetic Town Programme, where, using the donation provided by our Company, over one hundred of our colleagues helped build a badminton and football tennis court, installed new toys in the courtyard and improved the landscape in the local primary school. One of the great traditions of our social responsibility is the contest organised every year since 2011, “Genius wanted.” Teams composed of the eighth-form students of primary schools were invited to partic-

ipate in the contest organised by FGSZ Ltd’s Junior Natural Gas Academy. Since the contest was a big success, in 2012 we turned it into a national event.

We helped disadvantaged families make ends meet and their children succeed in their studies with school and food supplies, clothes collected and bought by our colleagues as well as with other donations. We provided numerous families and non-governmental organisations with unused IT equipment and other devices in order to improve social equality.



Our Company organised 18 voluntary blood donations in 2013, collecting 423 units of blood for people in need. Since one unit of blood can serve three patients, our voluntary donors helped 1,269 unknown fellow human beings. The manager of our Natural Gas Transmission Plant in Hajdúszoboszló accepted the award for Blood Donation Friendly Employer in November at an event in Budapest organised by the Hungarian Red Cross on the day of blood donors. The award, including a certificate of recognition and a memorial plaque, was earned by twenty employers

who regularly organise blood donations and encourage their employees to participate in this form of social responsibility in as large a number as possible. Our plant in Hajdúszoboszló organised the 25th blood donation in the spring of 2014.

We are proud to be the sport sponsor of the year in Siófok for the second time. The award and the certificate that goes with the title were given to our CEO by the city’s mayor at a ceremonial event in December 2013.



WHAT WE DO FOR SUSTAINABLE DEVELOPMENT

Health protection at the workplace and the environment as well as sustainable development and the security of energy supply are all equally important basic principles that we constantly harmonise with our business interests in our daily operations and decision-making processes. We believe that this is the only way for a service provider with a 21st century corporate culture to operate.

We do everything
we can to use as few of our natural
resources as possible.

Our health and safety, security and environmental strategies give priority to precaution, responsible thinking, effective

resource management and health protection in our working environment.

As we are aware of the vulnerability of our natural environment, we do everything we can to use as few of our natural resources as possible. We are not content with avoiding unnecessary damage but we do our best to proactively facilitate the preservation and regeneration of the natural values of our environment.

In order to optimise the ecological footprint of our Company, we attach great importance every year to reducing the emission of greenhouse gases, re-generating the lands and waters we use as well as reducing hazardous materials and waste, their secure storage and, as required, their environmentally friendly disposal or recycling.

Our Company met its obligation to pay the water resource contribution for 2013 to the competent authority on time. We operate our own waste water treatment plant at the Seszták Imre Compressor Station and the Gas Transmission Plant in Hajdúszoboszló in compliance with the applicable management and maintenance instructions. The quality of discharged water is analysed twice a year by an accredited laboratory, which guarantees that the recipient waters are contaminated to the least extent possible.

We ensure that the applicable regulations and our internal codes on the generation, treatment and reduction of waste are fully complied with. We have established a framework agreement with companies that are licensed to ship and treat waste for any type of waste generated at our Company. We fulfilled all our data supply obligations on time regarding waste in respect of the regionally competent nature protection authorities.

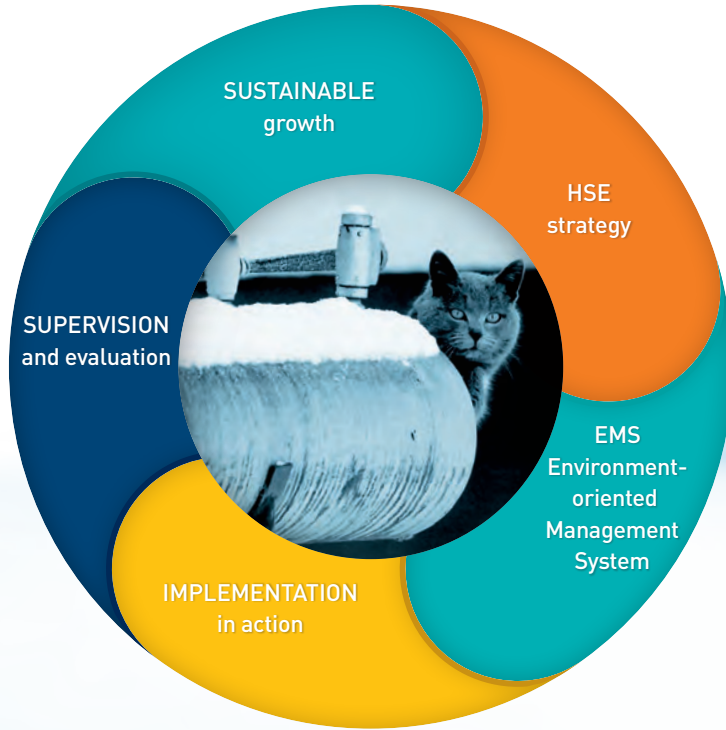
In 2013, 74.3 t of hazardous and 525.1 t of non-hazardous waste were generated at our Company. Our technology requires using a large amount of lubricating oil. Therefore, in order to ease the en-

vironmental load, we replace the lubricating oil on the basis of strict oil-diagnostic tests, thereby eliminating the possibility of excessive use of lubricating oil. In order to reduce harmful emissions our Company operates optimised boilers and gas turbines. We also volunteered to collect waste selectively and protect and nurture the environment in the vicinity of our facilities. In this context, we continuously remove the constantly growing amount of illegally disposed (household and industrial) communal and construction-industry waste in the area around our gas delivery stations.

We always carefully assess and analyse the environmental impact of our activities on natural values. In order to safeguard the habitat, we prepare a detailed action plan negotiated with the green authorities and the waste treatment service providers in the case of any project or work process that may require intervention into nature. When building pipelines, we use advanced technologies and procedures to ensure the smallest possible intervention and the most comprehensive recultivation. In doing so we are not content with minimising and recovering damage: we are also committed to actively enriching our natural values.

As of 2009 we are constantly monitoring the environmental rehabilitation of the area where the Városföld-

In order to optimise the ecological footprint of our Company, we attach great importance every year to reducing the emission of greenhouse gases.



Algyő DN1000 PN63 strategic pipeline is being built. The same monitoring process is being carried out along the Hungarian section of the Hungarian-Croatian interconnector at the Városföld-Bátmonostor-Drávaszerdahely DN800 PN75 pipeline.

Botanic monitoring is being carried out by a nature protection expert in the spring, summer and autumn seasons. The annual summary report is sent to the directorates of the national parks concerned and the inspectorates for environment, nature and water. Monitoring the flora and fauna means regularly collecting data in the field with a predefined methodology, which is designed to provide sets of data on the observed objects that are suitable for long-term assessment. The experiences so gained also help us improve our workflows and environmental supervision for our future investment projects.

For any reconstruction and troubleshooting work carried out in Natura 2000 areas we always wait for the notification of the competent environmental inspectorate and prepare an environmental impact assessment before work begins. The area is then rehabilitated in accordance with the provisions of the recovery plan.

The peace of mind of the people living near our working environment is very important for our Company. Within the framework of our noise protection programme we constantly measure the noise emission of our installations operating in or next to residential areas. We always involve specialists to find the best solution for eliminating noise pollution. Our noise map currently features over 40 installations. Every

FGSZ CONTINUOUSLY REDUCES THE EMISSION OF HAZARDOUS SUBSTANCES





one of our new installations with a noise emission over 85 DB is now equipped with passive noise protection.

IN 2013 WE CARRIED OUT AN ENVIRONMENTAL NOISE EXAMINATION AT SEVEN GAS FACILITIES:

- 1. Eger I. gas delivery station
- 2. Eger II. gas delivery station
- 3. Ózd-Farkaslyuk gas delivery station
- 4. Nyírmeggyes gas delivery station
- 5. Törökszentmiklós gas delivery station
- 6. Fertőszentmiklós gas delivery station
- 7. Hárshegy gas delivery station

The noise emission measured in the tests remained below the stipulated limit both during the day and at night, so the operation of our gas delivery stations meets all the requirements contained in the joint KvVM-EüM Decree 27/2008 (XII. 3.) on environmental noise and vibration load limits. The success of our noise protection programme is demonstrated by the fact that we did not receive any complaints from residents in 2013 regarding the noise emitted by our installations.

Our Company observes the provisions of Directive 2003/87/EC of the European Parliament and of the Council on the scheme for greenhouse gas emission allowance trading. Due to the seasonal changes in natural gas consumption, it is especially challenging for our experts to comply with these requirements. However, despite all the difficulties we managed to comply with them in full.

There are a total of 148 facilities in the operating area of our Company with a point source operating

license. In 2013 they were reviewed on 68 occasions in the following breakdown:

NATURAL GAS TRANSMISSION PLANT – LICENSE-SUPERVISION:	
Gellénháza	17 tests
Hajdúszoboszló	13 tests
Kápolnásnyék	14 tests
Kecskemét	11 tests
Miskolc	13 tests
Vecsés	0 tests
Total	68 tests

Our compressor stations are subject to Government Decree No. 314/2005 (XII. 25.) on environmental impact assessment and a unified procedure for authorizing the use of the environment, so they are required to have a Unified License for the Use of the Environment. In 2013 the license of the compressor stations in Hajdúszoboszló, Nemesbikk and Városhőd was reviewed with the help of an external expert.

The air pollutant emission of the gas turbines operating at the compressor stations is reviewed every year. In 2013 the measurements showed that the values were all below the limit.

Pursuant to Section 12 of VM Decree No. 6/2011 (I. 14.) on the rules regarding the examination, supervision and assessment of the load on the air and the emission of fixed air pollution point sources, the air pollutant emission of point sources with an operating license must be verified by periodic measurements. In 2013 we carried out emission tests at 35 installations on a total of 56 point sources. The results of the measurements were below the limit in all cases.



OUR FINANCIAL AND BUSINESS PERFORMANCE

Despite the difficult circumstances created by external factors, FGSZ Ltd has closed another well-balanced year, which is largely due to the stable background provided by its owner, the high-level infrastructure which is the result of investments and maintenance work carried out in the previous years as well as rapid and flexible adaptation to the external circumstances.

In 2013 our Company recorded an operating profit of HUF 47.4 billion, which is almost the same as last year.

Our net sales revenues come from the transmission of 14.5 billion m³ natural gas and the gas turnover related to maintaining system balance. Our sales revenues fell by 13% to HUF 118.8 billion in 2013 year-on-year, which mostly reflects the regulations that changed for the worse, the effect of the economic environment of Hungary and the countries in the region on gas consumption. The revenues from both Hungarian natural gas transport and transit

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transport show a declining tendency compared to the previous years. One exception to this was our new activity in 2013, the transmission of gas to Ukraine, which had a beneficial effect on our results.

Our Company offset the unfavourable effects of the external environment by rationalising its operations and strictly controlling operating costs and expenditure. The high technical level of the gas transmission system, which is due to the investments and reconstruction carried out in the previous years, made it possible to postpone certain planned maintenance tasks, helping to keep operating costs at a lower level.

Our Company has an obligation by law to maintain the balance of gas source consumption, which is ensured by the purchase and sale of balancing gas. The Company does not make any profit on these transactions. The turnover of balancing gas fell significantly in 2013 by 14% compared to 2012.

Our profit after tax was lower by HUF 3.2 billion in 2013. One of the determinant factors in this decline in 2013 was the loss of value accounted for related to the stake in the NABUCCO GmbH. After the decision of the Shah Deniz 2 consortium to use an alternative solution for the transportation of the gas produced in the field, the NABUCCO project lost its rationale and FGSZ Ltd classified its stake in the project as a non-recoverable investment, recording a 100% loss of value for its book value.

Our Company offset the unfavourable effects of the external environment by rationalising its operations and strictly controlling operating costs and expenditure.



FGSZ Ltd spent HUF 7.2 billion on investments in 2013, mostly on the reconstruction of its existing system.

Our Company's operating cash flow is positive, representing a large amount of liquid cash. This sound financial background gives us an opportunity to implement our investment plans and pay the capital and the interest on the loan provided by the parent company, also creating coverage for other cash flow elements.

The regulatory environment that determines the operation and results of our Company changed significantly in 2013. The dual price regime introduced on 3 December 2010 continues to influence daily opera-

tions and the average rate of return decreased year on year due to the changes in the regulatory environment.

The decree of the Hungarian Energy and Public Utility Regulatory Authority, which came into force on 1 January 2013, stipulates a 10% cut in household energy prices for the services provided on the gas and electricity markets. On 1 November 2013 another 10% cut in household energy prices was introduced, which also had a detrimental effect on the business of FGSZ Ltd, impairing its profitability. The return on assets applied to universal services amounted to 2.28% between 01/01/2013-31/10/2013, and was 0% after 01/11/2013.

The business and economic environment of our Company also shows an unfavourable picture in 2013 compared to the previous years. We are doing our business with decreasing domestic and lower transit demand.

The increase in natural gas consumption came to a standstill in Hungary, with demand declining steadily in the past few years. Despite the lower gas price level stipulated by the regulatory authority, domestic household consumption decreased and the demand of power plant consumers for natural gas, which are not subsidised, fell significantly short of the level of consumption realised in the previous years. This decline is partly the result of saturation on the natural gas market and partly the increase in energy efficiency.

The expansion of the domestic market and the entry of new consumers could be supported in the short term mainly by building a new market structure and in the medium term by a significant growth of the Hungarian economy. In order to be able to maximally meet these challenges in the future too, we constantly improve our infrastructure.

The gas transmission to Ukraine offered a new market opportunity for our Company in 2013, which had a significant share in the amount of transmitted gas.

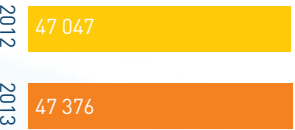
FGSZ Ltd places a strong emphasis on the develop-

The expansion of the domestic market and the entry of new consumers could be supported in the short term mainly by building a new market structure and in the medium term by a significant growth of the Hungarian economy.

NET SALES REVENUES (MILLION HUF)



RESULTS OF BUSINESS OPERATIONS (MILLION HUF)



RESULTS OF BUSINESS OPERATIONS IN THE RATION OF NET SALES REVENUES (%)



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ment of effective market strategies that are mutually beneficial for all the participating partners. To this effect, we established multidirectional cooperation which we plan to expand with the system operators of the neighbouring countries.

The key to the medium-term expansion of the regional market is still the economic growth in the Balkan region and its connection to the integrated European gas transmission system, which has partly been implemented, while in a strategic perspective the creation of the east-west and the north-south transit corridors can offer new market opportunities.

In accordance with our strategy for developing and expanding our markets, in 2013 our Company designed a capacity allocation IT application with the working title Regional Booking Platform (RBP) under an EU pilot project that fully meets the requirements of the European capacity allocation mechanism (CAM Network Code). This application is suitable for conducting capacity auctions that comply with the procedure under the CAM NC, and for processing nominations received for awarded capacities not only at

the cross-border points found in FGSZ's system, but also at any other point in the network, even those independent of the cooperating domestic natural gas transmission system. At the same time, our Company continued the negotiations with its Slovenian partner on the physical interconnection of the national gas transmission systems.

In the future, in accordance with the expectations of our owner, we intend to take further significant steps to accomplish our strategic objectives.

Looking forward to the 2014 business year, the greatest challenges for our Company are the changes in the regulatory environment and adapting to them. As a result of the tariff cuts valid from November 2013, the average rate of return continued to fall, which will have an adverse effect on the entire business year of 2014. This measure entails a further decrease in sales revenues and has a detrimental effect on our profitability. Another challenge for our Company may be the impact of the tension steadily growing from the end of 2013 in the Russian-Ukrainian relations on the gas transmission to Hungary.

As for our financial and economic performance in 2014, we foresee a decrease compared to our 2013 data. We intend to offset the possible negative effects of the regulatory and economic environment by further improving internal efficiency.

DATA IN ACCORDANCE WITH HUNGARIAN ACCOUNTING STANDARDS

	2012 (million HUF)	2013 (million HUF)	2013/2012 (%)
Net sales revenues	136,627	118,839	86.98
Result of business operations	47,047	47,376	100.70
Profit after tax	34,730	31,493	90.68

BALANCE SHEET / ASSETS

ASSETS	2012 (million HUF)	2013 (million HUF)	2013/2012 (%)
Project and investments	332,597	314,870	94.67
Intangible assets	3,526	3,002	85.14
Tangible assets	323,689	311,850	96.34
Financial investments	5,382	18	0.33
Current assets	18,816	17,120	90.99
Inventories	3,668	3,507	95.61
Receivables	12,887	9,186	71.28
Securities	0	0	-
Cash and cash equivalents	2,261	4,427	195.80
Accrued and deferred assets	584	16	2.74
Total assets	351,997	332,006	94.32

HUF 31.5 billion profit after tax

HUF 47.4 billion operating profit

HUF 7.2 billion in investments

BALANCE SHEET / LIABILITIES

LIABILITIES	2012 (million HUF)	2013 (million HUF)	2013/2012 (%)
Equity	116,022	83,589	72.05
Registered capital	18,823	18,823	100.00
Capital reserves	64,766	64,766	100.00
Retained earnings	32,368	0	0.00
Committed reserve	65	0	0.00
Balance sheet profit	0	0	-
Provisions	3,454	2,872	83.15
Liabilities	207,964	223,066	107.26
Subordinated liabilities	0	0	-
Long-term liabilities	147,742	134,671	91.15
Short-term liabilities	60,222	88,395	146.78
Short-term liabilities towards affiliated companies	43,294	71,496	165.14
Accrued and deferred liabilities	24,557	22,479	91.54
Total liabilities	351,997	332,006	94.32

PROFIT AND LOSS STATEMENT

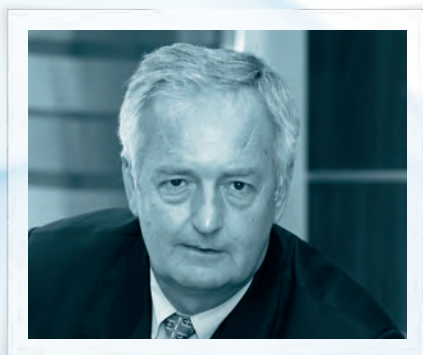
PROFIT AND LOSS STATEMENT	2012 (million HUF)	2013 (million HUF)	2013/2012 (%)
Net domestic sales revenues	113,208	96,281	85.05
Net export sales revenues	23,419	22,558	96.32
Net sales revenues	136,627	118,839	86.98
Capitalised value of own performance	170	349	205.29
Other revenues	2,608	2,934	112.50
Material type expenses	59,697	42,261	70.79
Personnel expenses	8,026	8,439	105.15
Depreciation	18,837	19,035	101.05
Other expenses	5,798	5,011	86.43
Operating profit/loss	47,047	47,376	100.70
Revenue from financial transactions	4,089	1,473	36.02
Expenses of financial transactions	14,743	16,600	112.60
Of which: interests and interest-type expenses paid to affiliated companies	14,035	10,249	73.02
Profit/loss from financial transactions	-10,654	-15,127	141.98
Profit/loss of ordinary business activities	36,393	32,249	88.61
Extraordinary profit/loss	-1,075	-361	33.58
Profit before tax	35,318	31,888	90.29
Tax payable	588	395	67.18
Profit after tax	34,730	31,493	90.68
Dividend approved	34,730	63,926	184.07
Balance sheet profit	0	0	-

CASH FLOW

CASH FLOW	2012 (million HUF)	2013 (million HUF)	2013/2012 (%)
Profit before tax	35,318	31,888	90.29
Operating cash flow	58,688	58,379	99.47
Investment cash flow	-7,878	-8,379	106.36
Financing cash flow	-49,454	-47,834	96.72
Change in cash and cash equivalents	1,356	2,166	159.73

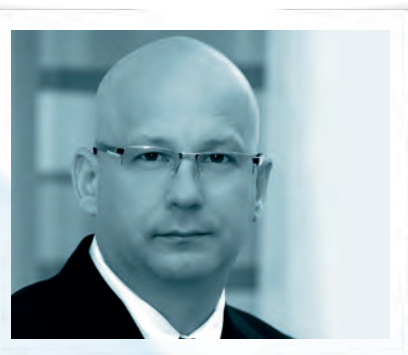


COMPANY MANAGEMENT



János Fehér

János Fehér holds a diploma of economics and has been working in the petroleum industry for more than 40 years, including nearly 15 years in MOL Group holding various manager positions in the exploration and production business, including the period between 2006 and 2011, when he was the managing director of crude oil and natural gas production operations of MOL Group in Pakistan. He was appointed in 2011 as the head of MOL branch office at Damascus, where he managed and controlled the exploration and production operations of the Group in the Middle East, and then, when MOL operations had to be suspended in Syria, he managed INA foreign exploration and production operations with his experience and expertise. Chief Executive Officer of FGSZ Ltd from 1st August 2013, member of the Board.



PhD. János Zsuga

Graduated at the University of Miskolc, holder of diploma of gas engineering. Earned PhD. at the University of Miskolc, School of Postgraduate Studies. Samuel Mikoviny, then the University Senate appointed him honorary associate professor. Since June 2013 has been the honorary professor of the University of Miskolc, since July that of the National University of Public Service, since September the honorary doctor of the Ukrainian National Technical University of Oil and Gas. Since June 2014 head of the MOL-department at the University of Miskolc. Technology engineer at MOL Crude Oil and Natural Gas Transportation Business Unit between 1994 and 1999, in 1999/2000 head of the Trade Dispatcher Service of MOL Natural Gas Transmission Business Unit. Head of System Management and Gas Transmission of MOL Natural Gas Transportation Business Unit between 2001 and 2003, then Chief Executive Officer of MOL Natural Gas Transmission Co., later, till 31st July 2013 that of FGSZ Natural Gas Transmission Ltd. Presently Chairman of the Board.



Pál Buday

Graduated from the University of Miskolc as an MS economist, then obtained a degree of economist specialised in law. Has been working for the legal predecessor of the company since 1987. Natural gas dispatcher until 1995, then oil dispatcher till 2000. Worked for the commercial dispatcher service of MOL Plc Natural Gas Division in 2000, from 2001 to 2004 capacity management expert at the System Operation – Gas Distribution of MOL Plc Natural Gas Transmission. Head of Accounting and Metrology from 2004, took over the management of Regulation and QOP in 2009. Director of Corporate Support from 2010, he was the director of System Operation and Capacity Trade since March 2011 till February 2014. Presently member of the Board.

SUPERVISORY BOARD

József Molnár

MOL Group Chief Executive Officer since 1 May 2011 and member of the MOL Board of Directors since 12 October 2007. From 1978 to 2001 Mr. Molnár held various management positions at BorsodChem Plc, including Head of the Pricing Department from 1982 to 1987 and Head of the Controlling Department from 1987 to 1991. Between 1991 and 2001 as Chief Financial Officer and first deputy to the Chief Executive Officer he contributed to the crisis management and reorganisation of the company, and later to creating the Company's vision and fulfilling its subsequent privatisation. He played a key role in the stock exchange listing of BorsodChem shares. He was Chief Executive Officer of TVK between 2001 and 2003, Group Planning & Controlling Director from 2003 and from 2004 until his appointment as Group Chief Executive Officer in May 2011 he was Group Chief Financial Officer of MOL. Within MOL Group he was a Board member of Slovnaft a. s. between 2004 and 2008, and Board member of TVK between 2001 and 2011. He has been a member of INA d.d. Supervisory Board since April 2010 and the member of FGSZ Ltd. Supervisory Board since May 2011.

Gábor Fett

Working for FGSZ Ltd. (legal predecessors) since 1995 at Kápolnásnyék Transmission Branch, holding various positions as engineer. Since 2004 Head of the Technical Supervision Unit. At present he is controlling the Technical Supervision Unit and Deputy Head of the Technical Director at Kápolnásnyék Branch. Since 1999 member of the "Unity" Trade Union, and this TU delegated him into the Supervisory Board when the Natural Gas Transmission Plc. was established. Member of the Supervisory Board delegated by employees since 2004.

Péter Ratatics

He graduated at Corvinus University of Budapest, Faculty of Finance specialization in capital markets, in 2006. In the MOL Group, he started his career as an expert at the Gas Trading and Business Development organization, then he was head of the MOL-Group Management Support organization until 2009, and then he was appointed Head of Executive Board Advisory team in 2009. Between 2009-2010, he was head of the Organizational Development and Process Management, and then in 2010-2011 Head of Management Services.

From 1 May he has been working as Director and since October 2012 as Vice President of Corporate Centre of the MOL-Group and in this position, inter alia, he is responsible for the Mol Group Human Resources Area. Besides he was elected first as member of the Supervisory Board of FGSZ Ltd. and then as Vice Chairman of the FGSZ Ltd. on 25 May. He has also been a member of INA Board of Directors since June 2011.

Kristóf Terhes

Graduated from Janus Pannonius University, then took supplementary studies at the Eötvös Loránd University and the Haynal Imre University. He started his career at Tesco-Globál Rt. as a financial analyst, then he held Head of Stock Management and Dry Product Chief Procurement Officer positions. Thereafter, he was Commercial and Marketing Director at Plus Élelmiszer Diszkont Kft. He joined the MOL Group in June 2009 as Chief Procurement Officer, and he has been Director of Corporate Services of the MOL Group since July 2012. Member of FGSZ Ltd. Supervisory Board since September 2012.

OUR ISO CERTIFICATES



OUR TÜV CERTIFICATES

ZERTIFIKAT ♦ CERTIFICATE ♦ 認定証 ♦ CERTIFICADO ♦ CERTIFICAT



TANÚSÍTVÁNY

A Magyar Köztársaság Gazdasági és Közlekedési Minisztériumának
2004. november 8-án kelt bejegyzése alapján az

ÉMI-TÜV SÜD Kft.
2000 Szentendre, Dózsa György út 26.
tanúsítja, hogy a(z)

FGSZ Földgázszállító Zrt.
H-8600 Siófok, Tanácsház u.5
Telephelyek:
H-8981 Gellénháza, Pf.5
H-4201 Hajdúszoboszló, Pf.2
H-2475 Kápolnásnyék, Pf.2
H-6001 Kecskemét, Pf..61
H-3501 Miskolc, Pf.200
H-2220 Vecsés, Pf.2

a 3/1998 (I.12.) IKIM rendelet hatálya alá tartozó hegesztett szerkezetek gyártásánál, szerelésénél, javításánál és átalakításánál az ömlesztőhegesztés és az ezzel összefüggő egyéb tevékenységek végzésére vonatkozóan a 26C1053013065 számú jegyzőkönyvben megadott érvényességi körben a 3/1998 (I.12.) IKIM rendelet 2§(2) bekezdésében meghatározott követelményeknek eleget tesz.

A vállalat az MSZ EN ISO 3834-2:2006 szabvány követelményeinek felel meg és az ISO 9001:2008 szerinti tanúsított minőségirányítási rendszert működtet.

Ez a tanúsítvány 2016-06-30-ig érvényes.

Nyilvántartási szám: **TA 1026-009- B**

Szentendre, 2013. július 3.



ÉMI-TÜV SÜD Kft.

3834-10-b

2007-08-02

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TANÚSÍTVÁNY

ÉMI-TÜV SÜD Kft.
2000 Szentendre, Dózsa György út 26.
tanúsítja, hogy a

FGSZ Földgázszállító Zrt.
H-8600 Siófok, Tanácsház u.5
Telephelyek:
H-8981 Gellénháza, Pf.5
H-4201 Hajdúszoboszló, Pf.2
H-2475 Kápolnásnyék, Pf.2
H-6001 Kecskemét, Pf..61
H-3501 Miskolc, Pf.200
H-2220 Vecsés, Pf.2

megfelel a

9/2001. (IV.5.) GM rendelet

szerinti nyomástartó berendezések gyártására vonatkozó hegesztéstechnikai feltételeknek, amelyet az MSZ EN ISO 3834-2:2006 szabvány szerinti üzemalkalmassági felülvizsgálat során bizonyított.

A vonatkozó érvényességi tartományt a 26C1053013065 számú jelentés tartalmazza.

Ez a tanúsítvány 2016-06-30-ig érvényes.

Nyilvántartási szám: **TA 1026-009- C**

Szentendre, 2013. július 3.



ÉMI-TÜV SÜD Kft.
Notified Body
1417

3834-10-aa

2007-08-02

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CERTIFICATE

for fulfilment of quality requirements for welding

ÉMI-TÜV SÜD Kft.
H-2000 Szentendre, Dózsa György út 26.
certifies, that

FGSZ Földgázszállító Zrt.
H-8600 Siófok, Tanácsház u.5
Plants:
H-8981 Gellénháza, Pf.5
H-4201 Hajdúszoboszló, Pf.2
H-2475 Kápolnásnyék, Pf.2
H-6001 Kecskemét, Pf..61
H-3501 Miskolc, Pf.200
H-2220 Vecsés, Pf.2

fulfils the **Comprehensive Quality Requirements** according to
MSZ EN ISO 3834-2:2006
in defined scope in the report No. 26C1053013065

The certificate is valid until 2016-06-30.

Registration No.: **TA 1026-009- A**

Szentendre, 2013-07-03



ÉMI-TÜV SÜD Kft.

3834-10-aa

2007-08-02

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CONTACT INFORMATION

FGSZ Ltd. operates a customer service centre for its contracted partners. Do not hesitate to contact us if you have any questions regarding natural gas transmission and system operation services.

CUSTOMER SERVICE CENTRE

Registered office: H-8600 Siófok, Tanácsház u. 5. fsz. 3.

Mailing address: H-8601 Siófok, P.O. Box. 102

Phone: +36 (84) 505-117

Fax: +36 (84) 505-592

Email: info@fgsz.hu

Opening hours:

Tuesday, Thursday: 13.00–16.00

Monday, Wednesday, Friday: closed

Please contact our Information Office if you are interested in data regarding pipeline construction projects or other activities related to our Company.

INFORMATION OFFICE

Registered office: H-8600 Siófok, Tanácsház u. 5. fsz. 3.

Mailing address: H-8601 Siófok, P.O. Box. 102

Opening hours:

Tuesday, Thursday: 7.30–10.00

Monday, Wednesday, Friday: closed

Please contact our 24/7 dispatcher service if you have questions on daily operative matters.

SYSTEM OPERATION CENTRE

Phone: +36 (84) 505-777

Fax: +36 (84) 505-217

Email: fri@fgsz.hu

Our company's website can be accessed at www.fgsz.hu.



ENERGY

INTO THE FUTURE

IN EVERY MOMENT OF LIFE



NATURAL GAS TRANSMISSION
MEMBER OF THE MOL GROUP