



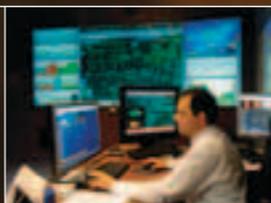
NATURAL GAS TRANSMISSION  
MEMBER OF THE MOL GROUP

# ENERGY INTO THE FUTURE

In every moment of life



FGSZ Ltd.





## ● Simple facts

### A brief history

- i** The first gas lamp flamed in Hungary on June 5, 1816.
- i** Implementation of a central gas distribution and city utility network started in 1856 at Pest. (This was the year when the first domestic gas plant was built at the present Köztársaság square.)
- i** In 1884 the gas illumination system was inaugurated at the Budapest Opera House, as a great sensation.
- i** In 1910 Budapest Municipality became the owner of the gas plants in the city, then a new, modern gas plant was built in 1909-1914 at Óbuda.
- i** Natural gas distribution started in 1943 in Hungary. The first natural gas transmission pipeline was also built in this year between Budafa and Nagykanizsa.
- i** In 1965 we completed the circular pipeline around Budapest, and it opened a new chapter in the history of the domestic gas transmission and gas consumption.

# AT STATE-of-the-art level

The most beautiful mission of mankind: to identify values hidden in depth and lift them to the surface. But there is another and similarly noble mission, namely, when we make such values available also for other people.

The mission of the domestic gas industry is also like that, and in this context FGSZ Ltd. - the Natural Gas Transmission Company of the MOL Group - has the mission to deliver natural gas, one of the most precious treasury on Earth, once lifted to the surface, to the distribution companies for supplying the end-consumers, applying the most up-to-date technology, in a safe and environmentally-friendly manner. This company has a strategic role in the domestic gas industry and it looks back to almost 70 years of history. The company had been steadily, spectacularly and dynamically developing in the past 40 years. Developments have played a key role through the company history, rights from the very beginning. The past decade was indeed witnessing a modernisation program that could guarantee the highest ever level of operational safety and implement environmentally-aware projects.

The ability to flexibly adjust to the new challenges of the 21st century in our operations is a top priority for our company. Our mission is to secure safe, discrimination-free, environmentally-friendly natural gas transmission on high technical levels. We are fully convinced that we can fulfil this mission only through permanently reducing the load onto the environment and continuous developments in the natural gas transmission technology. We are proud that the technical level of the natural gas transmission pipeline system, which we operate and covers the entire country belongs to the first class systems in the world. This is a common success of the Hungarian gas engineers and highly skilled operators working in various fields in the natural gas transmission process. This is why we can say that whenever we modernise our network or build a new pipeline, we in fact invest into our common future, and into the security of our future energy supply.



### Continuously and safely

In the past five years we have completed several projects in order to improve reliable and uninterrupted supply to the gas distribution companies and the large consumers and to reduce the number of operational disturbances. We have implemented several developments in the compressor stations at Beregdaróc - operating since 1979.

## Simple facts

### FACTS THAT SPEAK FOR THEMSELVES

**i** The high-pressure natural gas transmission pipeline system natural gas supply system (operated by FGSZ) covering Hungary is 5300 km long. The transit transmission pipeline is 323 km long. The typical diameter of the pipeline system is 100-800 mm, operating pressure 40-75 bar, average age 25 years. There are five compressor stations in the pipeline system for boosting the pressure and securing the required quantity and quality of firm gas supply for the consumers (Beregdaróc, Hajdúszoboszló, Mosonmagyaróvár, Nemesbikk, Városhőd).

**i** Natural gas transmission nodes are responsible for allocating the gas within the system that are operating at the inter-connection points of the gas pipeline network. Natural gas (once odourised) is delivered through almost 400 gas transfer stations, securing the required temperature and pressure rate.

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**i** The annual nameplate inlet capacity of the gas system operated by FGSZ in 2007 was 25,2 bcm. In 2007 the aggregated gas quantity received for domestic consumption was 15,31 bcm (including the UGS gas, which was 2,24 bcm), and the transit volume was 2,40 bcm. Out of domestic consumption, the import at Beregszász was 7,89 bcm, at HAG pipeline 2,61 bcm, and from domestic production 2,57 bcm.



# HAVING a central role

FGSZ Natural Gas Transmission Company is the dominant player of the Hungarian natural gas supply system. The company is in MOL's ownership and has its head office at Siófok. It owns and operates the high-pressure natural gas transmission pipeline system that practically covers the entire territory of Hungary. FGSZ is the sole holder of the so-called TSO license (Transmission System Operator) so it is responsible for the coordinated operations of the total natural gas system.

FGSZ is also engaged in natural gas transit operations, presently for Serbian and Bosnian partners. Capacity upgrade and expansion of transit markets has by now become the focus point in the company's medium and long term development philosophy.

The Siófok Head Office is responsible for the central management and control of natural gas transmission operations. There are six (6) regional branch offices for performing the operative tasks of the natural gas transmission, Gellénháza, Hajdúszoboszló, Kápolnásnyék, Kecskemét, Miskolc and Vecsés.

The key responsibility of the dispatcher centre at Siófok is to control the operating parameters of the Hungarian natural gas transmission system, to implement the required interventions and to develop the tele-mechanic system. It is also responsible for securing safe operations and balance for the inter-cooperating natural gas systems, as well as to guarantee the discrimination-free, uninterrupted and transparent operations of the system. Coordination of operations of the regional branch offices is also performed in the Siófok Head Office.



### The soul of the system

The control centre of our Company is equipped with state-of-the-art technology - it is located at the Lake Balaton.



# NETS, the network of the future

Security of energy supply is one of the most challenging issues all over the world. Neither can gas industry escape from facing this challenge. Solution to the security of energy supply in the gas market is a European, regional and national interest at the same time as we enter into the 21st century, as traditional approaches can not offer a reassuring solution to this problem. Experts of FGSZ are fully convinced that only a new and integrated network, organised into a standardised supply system based on new philosophy can provide us with a reliable solution that can be indeed implemented both in terms of place and time. FGSZ has prepared the NETS project concept and MOL Group gives full support to this initiative, which is based on this recognition.

NETS (New Europe Transmission System) is aiming at the integration of the natural gas systems in the Central and South-eastern European region and to establish a new, independent, multinational gas transmission company. This company will have one of the longest and most developed transmission networks in Europe, and thus unique opportunities.

The initiative will enable the participants to simultaneously realise several benefits. These will include: 1. extraordinary capacity to attract capital („blue-chip”); 2. outstanding development funds for integration of infrastructure; 3. extraordinary high added value; 4. extraordinary high security of supply.

The NETS project can perfectly fit to MOL Group corporate and business strategy, based on regional cooperation and synergy realisation. It will create value for the shareholders and is in full harmony with the draft EU Gas Directive aiming at ownership unbundling, where the two key pillars are enhancing market competition and supporting the consumers' interests.

The NETS project was proposed in 2007 December and the European Commission was fully supportive to the initiative, and the energy offices of the participating countries were also very positive regarding the project.



## Long term vision

We initiated the NETS project in 2007 and it provides an inspirational background to our day-to-day activities. The European Commission offered specific support to the project, and various energy offices in the participating countries also gave very positive feedback.

# A HISTORICAL moment



## Thinking on tomorrow

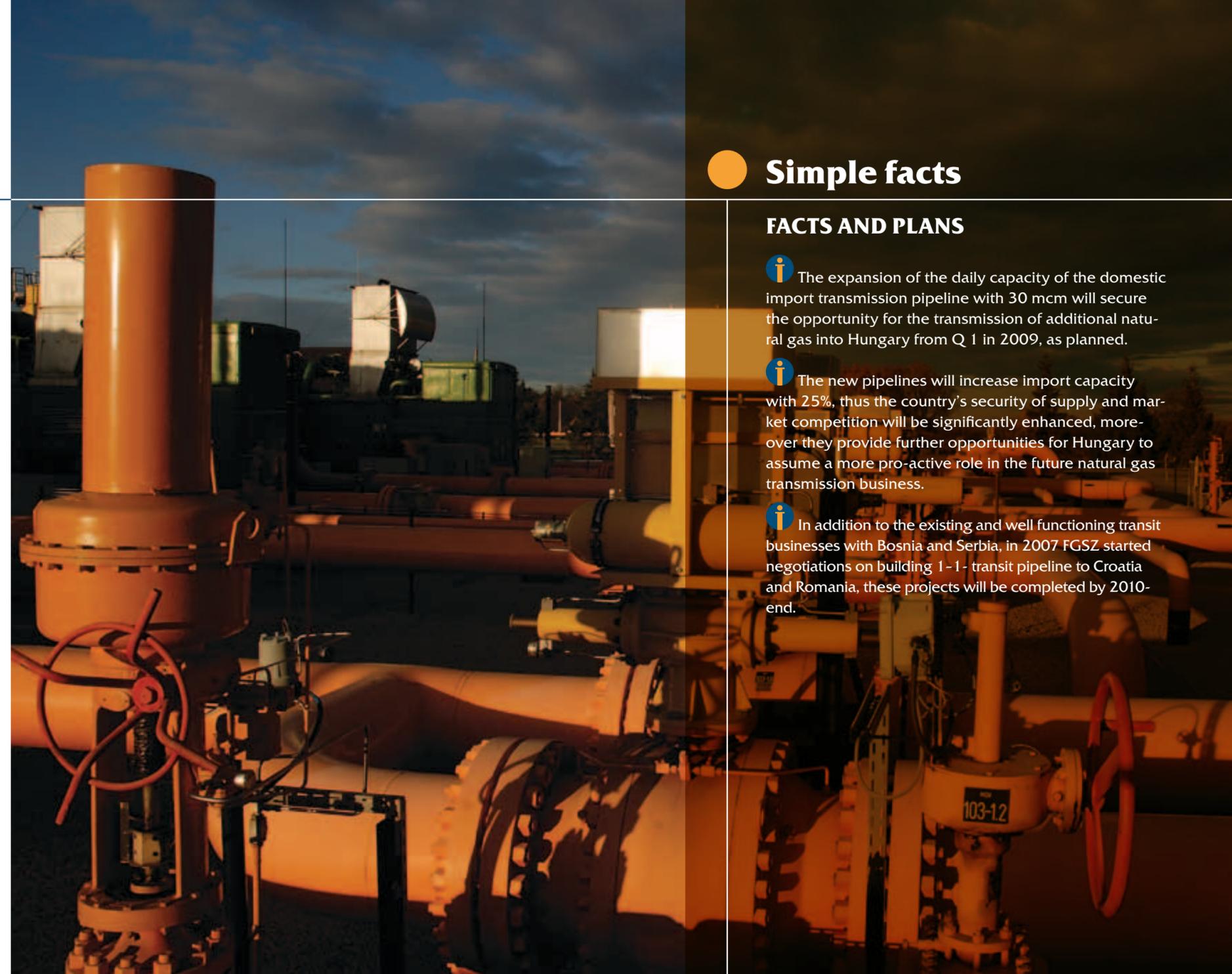
We are proud that in addition ensuring reliable and continuous energy supply and developments, we take care also on the protection of the environment. Our goal is to do our best efforts in the interests of the safety and health of the future generations.

FGSZ has recently launched several capacity expansion projects that will facilitate firm, trouble-free and safe supply of natural gas for increasing domestic consumption demands, in addition to deliver gas for the new underground strategic natural gas storage facility. The new and recently launched development projects will, of course, enable the company also to exploit the opportunities arising from the transmission demands for increasing transit operations.

As part of the development program that includes adequate answers to the future challenges as started to build a 5 km long pipeline section (DN 1400, PN 75 bar) between the Hungarian-Ukrainian border and Beregdaróc, and a 125 km long (DN 1000, PN 63 bar) gas pipeline connecting Beregdaróc and Hajdúszoboszló. Another new pipeline and a new settlement measuring station are being built between Algyő and Városhód at 80 km length (DN 1000, PN 63 bar). The said developments have historic significance in the gas sector, as we have never built gas pipelines with so large diameters.

FGSZ has another major project under implementation, a new pipeline is being built between Pilisvörösvár and Százhalombatta (DN 800), and this will be the final and concluding piece of the ring pipeline encircling Budapest, and significantly improving the security of gas supply, as planned for many years.

In 2007 FGSZ spent a huge CAPEX for projects, namely, 22,4 bn HUF. As part of this development program we have reconstructed the compressor stations, specifically ensuring full compliance with the rigorous EU emission limits for air polluting gases.



## Simple facts

### FACTS AND PLANS

**i** The expansion of the daily capacity of the domestic import transmission pipeline with 30 mcm will secure the opportunity for the transmission of additional natural gas into Hungary from Q 1 in 2009, as planned.

**i** The new pipelines will increase import capacity with 25%, thus the country's security of supply and market competition will be significantly enhanced, moreover they provide further opportunities for Hungary to assume a more pro-active role in the future natural gas transmission business.

**i** In addition to the existing and well functioning transit businesses with Bosnia and Serbia, in 2007 FGSZ started negotiations on building 1-1 - transit pipeline to Croatia and Romania, these projects will be completed by 2010-end.



## Simple facts

### ECOLOGIC SOLUTIONS

**i** Our Company has five pressure boost up compressor stations that are subject to the Guideline issued by the European Parliament and the European Council dd. October 13, 2003, no. 2003/87/EC, on the establishment of the trading system of greenhouse gases. In 2007 our total annual emission was 150,598 ton. MOL HSE and the financial department provide us professional support in pursuing transparent and monitorable trade operations with the CO<sub>2</sub> quota.

**i** In 2007 we completed the transformation program of compressor stations with emission higher than permitted limits. The newly installed units can fully comply with the BAT (best available technology), and the rigorous EU emission limits for CO and NO<sub>x</sub> gases. As a result of the project, the specific energy consumption of the compressors projected to the transmitted natural gas has significantly decreased.

**i** We have transformed the slop systems of the pressure boost-up compressor stations to closed-cycle system in order to reduce the volume of dangerous waste materials produced during the company's operations, and we have replaced the heat commuting fluids of the gas heating technology units with products in lower hazard category.

# ENERGY into the environment

Our Company is cherishing the traditions of our legal predecessors, so we attach outstanding attention to set up and maintain healthy and safe workplaces for our employees. As a result of consistently introduced and permanently developed safety system, there has been no major accident in the natural gas transmission system and its facilities for the past 15 years. The accident frequency indicator (LTIF) in 2007 was 1,45.

The purpose of our HSE strategy is to reduce the environmental pollution and maintain the quality of life, based on a complex approach. As a result of developing cities and villages new residential areas have emerged in the vicinity of our industrial facilities, so we have taken actions in order that the noise levels can meet the requirements of the people living in the said settlements. To this effect we have launched a noise protection program, with the following main elements: survey of noise emission of our facilities, evaluation of noise impacts, and to develop technical solutions for noise reduction, involving research institutions. We have so far prepared the noise map of nearly 40 facilities in this program. The noise protection plan has become a statutory and permanent element in the technical plans prepared for the expansion and reconstruction projects in our facilities.



### Environment management culture

FGSZ applies state-of-the-art, safe, environmentally-friendly and close-cycle technology systems at all stations and premises.



## Simple facts

### FGSZ STRATEGY

-  To create shareholder value on short and long term to be maintained on a balanced growth path.
-  To increase customer satisfaction based on consumer relations and surveys.
-  To mitigate HSE risks arising from or related to the transmission operations.
-  To develop the environment-based management system (kir) in accordance with ISO 14001 standard, to introduce the workplace safety and health protection system (MEBIR).
-  To operate an information system that applies the most modern technology.
-  To maintain a positive communication with our clients and people living in cities/villages affected by our operations.
-  To harmonise our internal processes and development goals, and to strengthen the knowledge of technology and corporate culture.
-  We apply the EFQM excellent model in order to improve our operational excellence.
-  We deem our suppliers and market partners as our strategic alliances, and we rely upon their active cooperation in implementing our plans at high level of quality.

# ENERGY into the future

### OUR MISSION

Our Company is responsible for the natural gas transmission by pipelines and system operations in Hungary. Our goal is to strengthen our leading role and therefore to ensure reliable, uninterrupted and safe transmission of natural gas in Hungary and in transit operations, and the system operation of the inter-cooperating natural gas business. Our company - as a dominant player in the Hungarian natural gas business - is interested in increasing the transit transmissions and to continue implementing the natural gas transmission operations as the market leader in the domestic gas transmission market, with high level of security of supply and safety, at high technical standards and in an environmentally-friendly manner, guaranteeing discrimination-free TSO operations.

### OUR VALUES

Remote control gas transmission system that can operate with excellent availability indicators. Operating processes supported with up-to-date IT assets and infrastructure. Management processes organised into an integrated system. Committed employees with innovative corporate culture and adequate skills, industrial experiences.

### OUR QUALITY ASSURANCE

Our Company has been since 1997 operating a quality assurance system, which is certified by an official accreditation agency and is fully complying with the ISO 9001 standard. SGS is our accreditation agency, as it is widely recognised in the international oil and gas business. (Its Hungarian counterparty is SGS Hungária Kft.) SGS Hungária Kft inspects the operation of the quality assurance system in every 6 months, whereas the Mining Authority of Hungary once a year.



### Strategic natural gas capacity

FGSZ is also responsible for ensuring the strategic natural gas capacity of Hungary in accordance with the Law in effect since April 1, 2006. In 2008 several major projects have been launched to this effect, for example a 210 km long pipeline has been built between Beregdaróc and Hajdúszoboszló and Algyő.

# IN PARTNERSHIP with

## DOMESTIC GAS SHIPPERS IN 2007: trader type

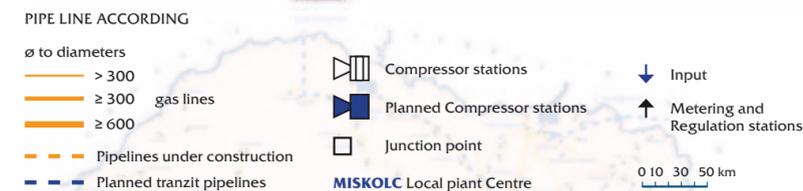
1. EON Natural Gas Trade Zrt.	public utility wholesale
2. TIGÁZ Zrt.	public utility wholesale
3. ELMIB Zrt.	Competitive market trader
4. E.ON Földgáz Trade Zrt.	Competitive market trader
5. EMFESZ Kft.	Competitive market trader
6. Égáz-Dégáz Zrt.	Competitive market trader
7. FŐGÁZ Gázkereskedelmi Kft.	Competitive market trader
8. Global NRG Kereskedelmi és Tanácsadó Zrt.	Competitive market trader
9. MOL Energiakereskedő Kft.	Competitive market trader
10. Shell Hungary Zrt.	Competitive market trader
11. TIGÁZ Zrt.	Competitive market trader
12. Nitrogénművek Zrt.	Eligible consumer independent shipper
13. MOL Nyrt. KTD	Producer with access rights

## TRANZIT SHIPPERS IN 2007: Country

1. JP Srbijagas	Serbia
2. BH-GAS d.o.o.	Bosnia-Herzegovina
3. Energoinvest d.d.	Bosnia-Herzegovina

## Pipelines planned and being built

You can see in this map the gas transmission pipelines that are planned or being built by FGSZ.



# ENERGY

INTO THE FUTURE



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