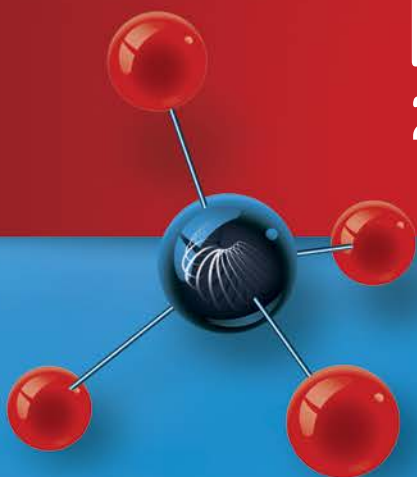




# ENERGETIC TEAM, 21<sup>ST</sup> CENTURY PERFORMANCE

FGSZ LTD. ANNUAL REPORT 2012





ENERGETIC TEAM, 21<sup>ST</sup> CENTURY PERFORMANCE  
**FGSZ Ltd.** Annual Report 2012



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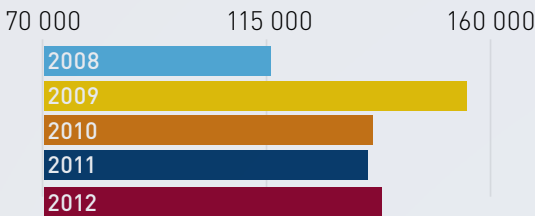
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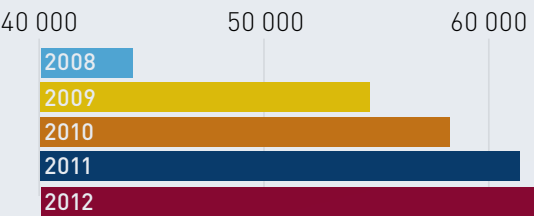
# KEY FINANCIAL DATA

# THE MOST IMPORTANT INDICATORS

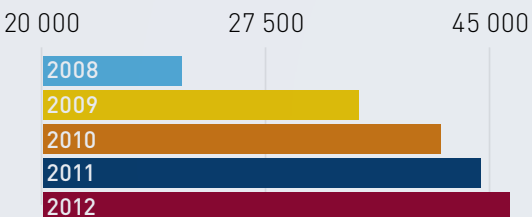
NET SALES REVENUES  
(MILLION HUF)



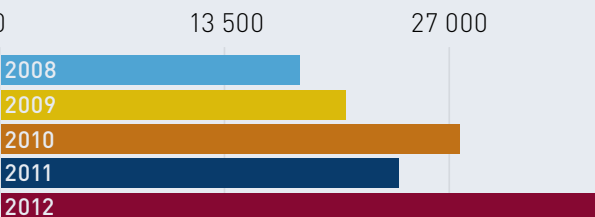
EBITDA (MILLION HUF)



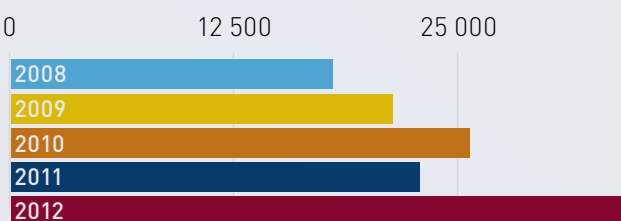
EBIT (MILLION HUF)



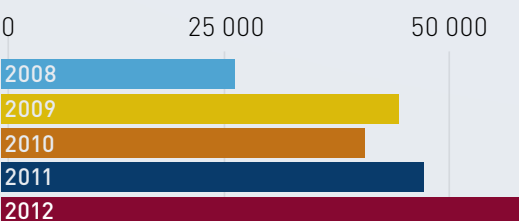
PROFIT BEFORE TAXATION  
(MILLION HUF)



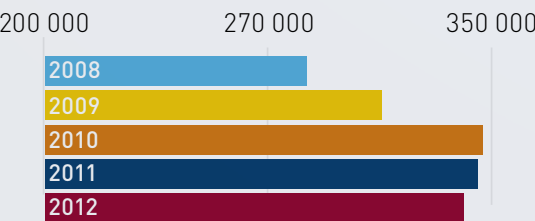
PROFIT AFTER TAXATION (MILLION HUF)



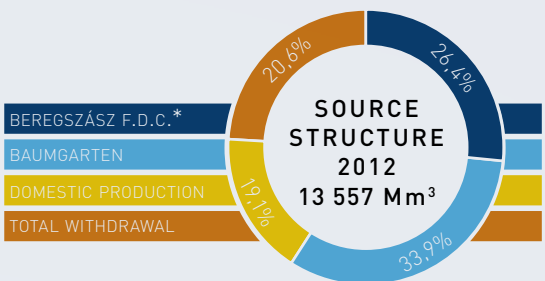
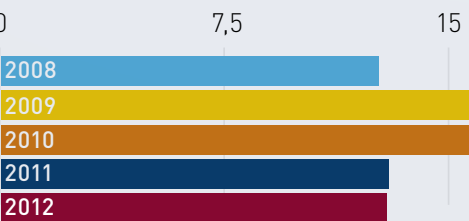
OPERATING CASH-FLOW (MILLION HUF)



PROJECTS AND INVESTMENTS  
(MILLION HUF)

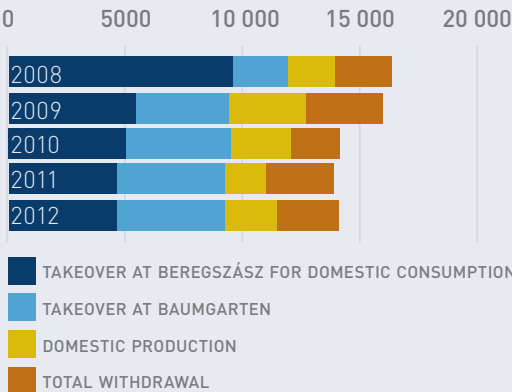


RATE OF AVERAGE CAPITAL  
EMPLOYED (ROACE, %)

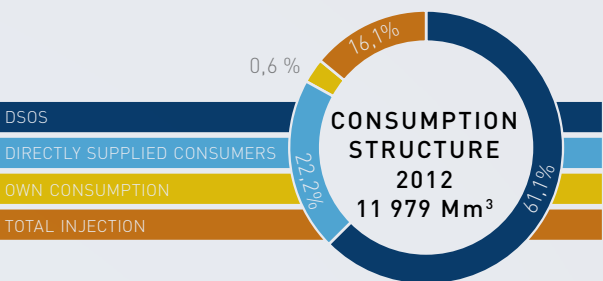
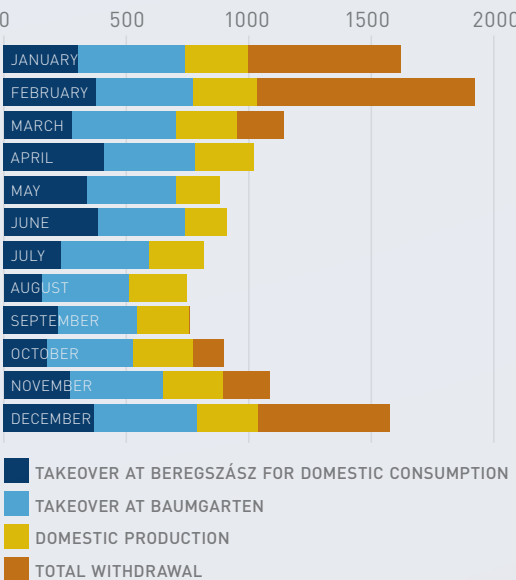


\*F.D.C.: TAKEOVER FOR DOMESTIC CONSUMPTION

SOURCE STRUCTURE  
(2008-2012, Mm³, 15 °C)



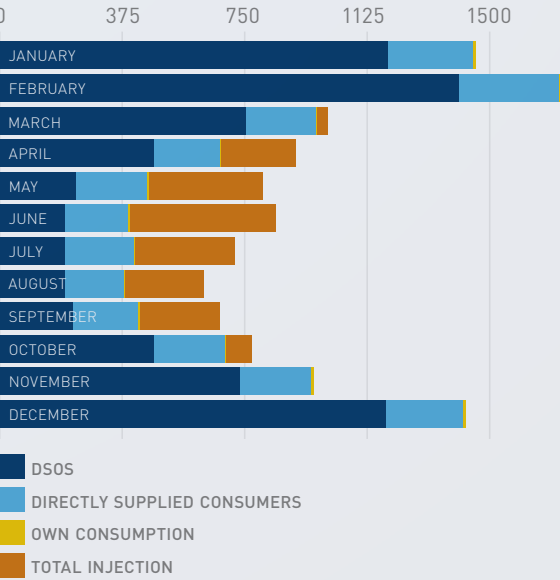
SOURCE STRUCTURE 2012  
(JANUARY-DECEMBER, Mm³, 15 °C)



CONSUMPTION STRUCTURE  
(2008-2012, Mm³, 15 °C)



CONSUMPTION STRUCTURE 2012  
(JANUARY-DECEMBER, Mm³, 15 °C)





Our past

means

the future







## 7 DECADES, 500-FOLD PERFORMANCE

Natural gas is one of the most future-friendly energy resources. Natural gas transmission via pipelines has a tradition of more than 7 decades in Hungary, this period being characterized by unbelievable dynamic improvement and a number of significant national innovations.

The first national oil pipeline was built in 1941 between Báza-kerettye and Budapest. A development of industry-historical significance was the implementation of the more than 200 km long pipeline, through which natural gas (since 1949) was transported, along with oil, due to the unique "plug transmission". Today a 5784-km-long high-pressure natural gas pipeline system, netting the entire country, provides FGSZ partners with safe energy supply.

Through our pipeline we serve: nine national gas distribution companies; power plants playing a key role in the country's energy supply and other large industry consumers. Our scope of activities includes: ongoing control of the quality and volume of the delivered gas; the odorization of gas; regulation of the gas pressure; the protection against overpressure and the safe and optimal operation of the pipeline network, its maintenance and development. In 2012 we transmitted 10.3 billion m<sup>3</sup> of natural gas for national utilization, and 2.84 billion m<sup>3</sup> for transit and export.

## EUROPEAN CO-OPERATION

FGSZ plays an important role in granting energy security for not only the country, but also the entire Central-European Region. Today, FGSZ not only carries out its tasks at a high level, which relate to national gas supply, but also transit and export transmissions of significant volume take an increasingly prominent role among its services.

The European Union offers good opportunities for deepening new forms of co-operation in the field of gas supply as well as gas trade. Building consciously on these new opportunities, the management of FGSZ defines a strategy that accommodates to 21<sup>st</sup> century challenges.

It is of high importance to us, that by taking advantage of the geographic position of Hungary, we facilitate and also help to implement interconnection and interoperability, enabling transit and export transmission of the pipeline systems in the Central European region, both in the east-west and the north-south relations. In order to achieve this, we successfully created the conditions for our company to carry out its activity in compliance with the applicable European norms, among these the Directive 2009/73/EC, as an Independent Transmission Operator (ITO) Company. The EU-level and Central European partnerships based on multi-lateral relationships provide the foundation for further growth of our company and the stability of our development policy.

The most important goals of our medium and long-term development strategies are capacity increase and expansion of the transit markets. The realization of developments aimed at the above considerably increases the weight and role of our company – FGSZ Ltd. – in the international gas market.

## THE GUARANTEES OF OUR SUSTAINABLE DEVELOPMENT

In defining our strategy for growth, we also considered the fact that one of the largest challenges of our era is ensuring sustainability of development. The utilization of our environmental resources is only possible through efficient operation, i.e. without dissipation and by minimizing the damage made to the environment.

For this reason, we consider it a top strategic value that natural gas transmission via pipeline imposes less of a hindrance on the natural environment than any other forms of transmission. In accordance with this, our development policy was formulated by also taking into consideration sustainability aspects. It is highly important for us that at all times, the modern technologies we use facilitate the operations of the Company in the most nature-friendly way.

This is a core value in the company's working culture. We are confident that a company can only achieve long-standing success if it takes its share in facilitating the success of its operational environment. We also consciously build on the fact that the greatest asset of a company – which is capable of continuously renewing itself – is provided by the entirety of its employees and their personal contribution. We place great emphasis on honoring our employees, which is reflected in their loyalty to our company, their community-conscious and responsible attitude, and also in their performance.

## OUR SERVICE PHILOSOPHY AND VISION

The service philosophy of FGSZ has been built on the very same three piers for a long time. More than anything else, it is important for us to guarantee the energy-security of Hungary, the non-discrimination in our services and also to ensure transparent operation of our natural gas transmission activity – in accordance with the most stringent technological requirements.

Similar to our service philosophy, our vision is also built on three piers. The first pier is our commitment to sustainable development, the second is broadening regional co-operation, and the third is further development of our human resources and technological background. It is of prime importance for us that we should be able to create harmony in our present, by using our past assets together with the challenges of the future. We consider it to be a unique value of our working culture, that during the long history of our development, expertise have been passed on through the generations. Even today, it is this proficiency – accumulated throughout the decades and also renewed and passed on on a daily basis –, and the devotedness stemming from this, that help our company effectively fulfill its strategic aims.

Our management and the community of its employees are convinced that the comprehensive system of conditions set against our service philosophy and vision as well as the simultaneous satisfaction of these conditions guarantee that FGSZ, as the only company in Hungary in possession of a transmission system operation license which also fulfils system coordinator roles, is at all times able to meet the energy market challenges of the era, the expectations of the owners and also the social responsibility imposed on the Company.

## OUR REGULATORY ENVIRONMENT

Act XL of 2008 on Natural Gas Supply (GSA), clearly and unambiguously requires that the following shall be guaranteed in the national natural gas supply provision: harmonization of the natural gas resources; high-quality and undisturbed service to the consumers; implementation of the principle of energy efficiency and saving; and access to the natural gas system by applying objective, transparent and equal treatment. It also states that the interests of the users shall be protected; the efficient entry of those entering the competitive market shall be made possible; the integration of the Hungarian natural gas market into the unified natural gas market of the European Union; the development of the domestic and international transmission, distribution and storage capacities; and the facilitation of efficient and economical operation.

We create and operate natural gas pipelines and exercise related activities, by observing the technical safety prescriptions of Act XLVIII of 1993 on Mining. This is achieved by ultimately keeping in view the protection of human life, health, the natural environment and private property.

Beyond these two most important statutory provisions, the everyday activity related to natural gas delivery is regulated by numerous implemented precepts and authority regulations (i.e. Hungarian Office for Mining and Geology, Hungarian Energy Office and its legal successor, Hungarian Energy and Public Utility Regulatory Authority; etc.).

For FGSZ, it is a top priority to ensure that its activity is in compliance, at all times, with all relevant existing legislative norms and provisions, both on a national and EU level.





The background of the slide features a photograph of industrial equipment, including two large pressure gauges and various pipes and valves, all covered in a layer of white snow. The scene is set against a clear, bright blue sky. In the lower right corner, a grey cat with yellow eyes is peeking over the edge of a large, snow-covered metal pipe.

# Key financial and business data 2012 (million HUF)

	2011	2012	12/11 (%)
Net sales revenues .....	130,915	136,627	104.36
EBITDA .....	61,100	65,884	107.83
EBIT .....	44,083	47,047	106.72
Profit before taxation .....	23,610	35,318	149.59
Profit after taxation .....	23,201	34,730	149.69
Operating cash-flow .....	47,675	58,688	123.10
Projects and investments .....	343,573	332,597	96.81
Rate of average capital employed (ROACE) % .....	13.97	13.89	99.43

+ 23.1% Operating cash-flow  
+ 6.72% EBIT  
+ 7.83% EBITDA





We belong  
to an energetic  
family







### CREATIVE THOUGHT IS THE REAL ENGINE OF ADVANCEMENT

Our company is a respected member of an energetic and performance-oriented international company network, the MOL Group. Our company is in 100% ownership of the MOL Plc., however it carries out its activity in compliance with the ITO model of the European Union (Directive 2009/73/EC), independent from both the owner and all of its affiliated companies.

We are proud to be among the first in Europe to be awarded the ITO, (Independent Transmission Operator certification), indicating compliance with EU guidelines. We are also proud of the fact that the framework of our operation, specifically set by relevant domestic and EU regulations, is filled with state-

of-the-art meaning and spirit of competitiveness by our highly qualified engineers and associates, thereby ensuring the reliable operation and self-confident development of the Company.

For us, belonging to the MOL Group also means the undertaking of shared interests: affiliation with those values which are represented by the trinity of thought, creation and progress, the foundations of the evolving value philosophy of the company network. And what else better for our job than to acquire an understanding of our world step-by-step, and make our lives better? To create and uncover new values through our work, and also make them available for others. This is the ultimate

goal of all sensible human efforts and the real aim of human aspirations. This is what gives meaning to all our personal and joint actions.

We are aware that all of our actions have an impact on our environment, and that all acting human beings can fulfil their earthly destiny through community and within creative co-operation with others. The unfolding of our freedom and possibilities is ensured by this creative co-operation. Since nothing can be more freeing than thought, nothing can be nobler than creation and nothing can bring a greater sense of success than facilitating our personal and joint issues.



### NATIONAL RESPONSIBILITY WITH INTERNATIONAL COMPETITIVENESS

The life of FGSZ is matched with a responsibility that cannot be devolved. This is also emphasized by the fact that the company is the only transmission system operation licensee in Hungary. Our 5784-km-long high-pressure natural gas pipeline system, netting the entire country, represents real cutting edge technology, even on an international level.

Our natural gas transmission system has 18 national and 2 import inlet points and 400 gas outlet points. Its continuous and safe operation is ensured by 6 regional branch units and 6 compressor stations. The system operation centre of FGSZ – possessing state-of-the-art innovations and representing a national security asset – is located in Siófok, at the headquarters of the company. Our company also presents as a major national economic asset, through its maintenance of more than 800 workplaces that require highly skilled professionals together with its profitable business activity, high volume of national added value, and its unique infrastructure and technical potential.

We currently exercise transit activity for Serbia, Bosnia and Herzegovina, and we transfer gas for Romania and Croatia. In the spring of 2013, test transmissions to the Ukraine will also be launched. Strategically important pipeline developments carried out in the past years, the prioritization of the issue of European energy safety, and the continuously increasing demand for natural gas – as an environment friendly energy source – all provide a secure ground for further development of the Company and the enhancement of its international significance.

We regard it our mission to play the role of regional distributor and to ensure safe gas supply for the country at competitive prices and in an environmentally friendly manner.



# Future's energy derives from today's performance

## WHAT WE ARE PROUD OF:



- European Unit ITO certification
- EFQM Excellence Model
- ISO 9001:2008 certified quality 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)
- 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)

- More than 800 workplaces
- 5784 km transmission pipeline system
- HUF 136,627,000,000 net sales revenue
- HUF 8,600,000,000 investments







LETTER FROM THE CEO

# An energetic year is behind us

"There are souls in whom energy grows, like a pearl in a shell.  
This energy is directed towards something. Always to work, but of different orientation."  
*(Zsigmond Móricz)*

Planning for the future is always a question of probabilities and their sober judgment, both in economics and in company management. I myself belong to those who believe that the future of the company can best be predicted from its past. Our company has had a successful past year, one full of challenges and showing outstanding stability even amongst the changes.

Our last year's performance fits well into the tradition of past decades. Obviously the internationally acknowledged modern technological background of our company has also contributed to our success. Yet, I believe that the utmost source of our achievements is still brought, by what we call today, human resources. The utmost asset of the Company is comprised of the unique professional skills and expertise of our employees, their know-how, loyalty to each other, and responsible team spirit. This is the reason why the real secret of the Company's performance lies not in the numbers, but in the volume of the added value produced by the several hundreds of employees of FGSZ.

The value creating potential of the FGSZ community is, of course, reflected in business results as well. This is why we could again close a successful year, similarly to previous years. Our profit after taxation amounted to HUF 34.730 billion in the past year, and our EBIT in 2012 was HUF 47.047 billion, which is HUF 2.964 billion more than our financial performance in 2011.

Our adaptability played a significant role in our performance in 2012. We were not only able to react quickly and flexibly to the changes of our economic and regulatory environment, but we also managed to utilize new business opportunities in a proactive way. Within this, in order to guarantee the energy safety of Hungary and the Central-European region, we also realized extra capacity allocations, which ensured seamless service during the winter periods that were colder than the average. But an important source of our success was also that the large investments of the past years, which increased the value of our company, have contributed to both our financial and economic performance in 2012 with their production capabilities.

A provident person knows that it is not enough to prepare tomorrow for the day after tomorrow, future success should be founded today. To ensure operational stability, we continued our system development investment program also in 2012, through which we spent HUF 8.6 billion on modernization, maintenance and reconstruction of our natural gas transmission system.

In addition to our renewing traditions, 2012 also opened a new era in the history of FGSZ. Since 1 July last year, we have been operating within a new framework as ITO (Independent Transmission Operator) licensee, as the exclusive operator of the high-pressure pipeline system, playing a key role in our region. The experiences of the past year have justified our previously undertaken efforts for ITO-compliance and as a result we are able to fulfil our unique strategic role in domestic and transit

natural gas transmission, as well as system operation, in compliance with the EU requirements, the EU rules on unbundling, and the national regulations.

In 2012 we continued our active market building activity in accordance with our long-term strategic goals, to serve regional energy safety. Accordingly, to broaden our transit portfolio, a co-operation agreement was made with UKRTRANSGAZ, for natural gas transmission from Hungary to the Ukraine. Another significant new achievement of 2012 was that we established the business concept and the related IT solution, bearing the working title: 'Regional Booking Platform' (RBP). This enables aggregate allocation of exit and entry capacities, at each individual border crossing points. The RBP will be launched as a European pilot project in the second half of 2013 on the Hungarian-Romanian border, with the Romanian system operation licensee, SNTGN Transgaz S.A. As a result of the project, FGSZ and Transgaz take a large leap towards the interconnection of the national markets of our region, even before the official introduction of the uniform European system usage regulations. With respect to the future realization of our strategic aims, I consider it an important achievement that negotiations with our Slovenian partner – aimed at the physical interconnection of the gas transmission systems – continued in 2012, furthermore, that we took part in the preparations of the Slovakian connection.

In addition to our settled and fruitfully developing business and social partnerships, I am glad and proud that our company has obtained the honorable title of the Best Employer in Hungary, for the fourth time, in the Aon Hewitt Survey: the Best Employer in Hungary 2012. Furthermore, in the regional competition, FGSZ became the Best Employer in Central Eastern Europe for the third time, being the only Hungarian company awarded in its category. A special delight for me is that the high participation and commitment indices measured in previous years have improved even further. There is hardly any greater acknowledgement for a company manager than to have more than 800 employees express that they feel the Company enjoys a good reputation and that – likened to that in the workplace – they see their own prosperity in the success of the community, and also, that they find the company management worthy of their trust.

I'd like to thank our partners for their trust and support, without which we could not even foresee our 21<sup>st</sup> century success. And I also thank my colleagues, the energetic team of FGSZ, for transforming our long-standing company into such a future-oriented community, capable of this outstanding performance.

JÁNOS ZSUGA PhD Chief Executive Officer





# Our performance in 2012







## WE OPERATE AN ENERGETIC SYSTEM

The employees of the energetic team of our company also ensured the high level operation and technological safety of our plants and systems in 2012. With the effective and safe operation of our unique infrastructure, our company was also able to grant continuous natural gas supply in Hungary in the past year. Our performance made a significant contribution to the maintenance of the energy security of our country. We took other important steps to prepare for investments that facilitate the reduction of future gas market risks, and we successfully became the first company in the region to be awarded the ITO certification.

In addition to the outstanding expertise and devotedness of our employees, the maintenance and continuous development of the 21<sup>st</sup> century level of technology of our infrastructure provided the background to our business success in 2012. The average age of the pipelines in our 5784-km-long high-pressure natural gas pipeline system – netting the entire country – is 25 years. Their characteristic diameter is between 100 and 1400 mm, with rated pressure of 40 to 75 bar. Integrated supervision and control of this pipeline system is provided by the Siófok centre, to which 6 regional branch units are connected. These operative centers are located in the Gellénháza, Hajdúszoboszló, Kápolnásnyék, Kecskemét, Miskolc and Vecsés regional units of FGSZ Ltd. Their operation encompasses supervision, integrated control and coordinated management of the natural gas supplier systems belonging to their regional scope.

The uniform and constant pressure of our pipeline system and providing consumers with natural gas in appropriate volume and pressure is guaranteed by our modern compressor stations located in Beregdaróc, Hajdúszoboszló, Mosonma-

gyaróvár, Nemesbikk, Városcsöd and Bába. We take the natural gas stemming from domestic production, import and underground storage facilities at 18 domestic and 2 import inlet points.

The distribution and transmission of standard odourised natural gas to transfer points, is implemented at the nodes of the pipeline system. Our clients have access to the energy amount they wish to use, through the transfer facilities of FGSZ. The most important role of the nearly 400 exit points is to continuously supply and deliver gas, in a controlled way, to connected system operators and to direct industrial and power plant consumers.

For this reason we provide the exact measurement of the amount of natural gas passing through each of the entry and exit points, as well as providing cautious and transparent quality control.

One of the greatest challenges of continuous natural gas supply is the unavoidable seasonal fluctuation of consumption demands. Supplying the significant additional amount of gas required in wintertime is facilitated by large-capacity underground gas storage facilities, which are connected to the natural gas supplier pipeline system at six points.

Our company operates its own telecommunication system so as to be able to – at any moment – ensure operational safety and supervision of the natural gas supplier systems, at the highest possible level. This system not only plays a strategic role in system operation, but it also guarantees the possibility of immediate and accurate intervention for us, even in the case of the smallest failure or operational disturbance.

The telecommunication infrastructure of our integrated telemonitoring and control system serves also our gas market applications related to our licensed activities, and it provides a safe background to our business administration systems as well. Today, optical cables ensure seamless data transmission in nearly one-fifth of FGSZ Ltd.'s approx. 7030 km long telecommunication cable system

## CONTINUITY AND DYNAMISM IN STRATEGIC PLANNING

Analysis of past experience provides important aspects for adapting to present challenges and planning the future. Thus, an in-

separable part of the future-oriented operation of our company is the preservation of the tradition of innovative corporate culture that ensures FGSZ has the capability of renewal and adaptation.

An important observation from our past experience is that the strategic role of natural gas is increasingly prominent for ensuring today's energy safety. Similarly, taken from past experiences, we understand that natural gas transmission via pipeline is an area where today's investments should also be able to satisfy tomorrow's needs. We have outlined the most important tasks for 2012 in our strategic planning in line with these observations.

One of the largest elements of uncertainty in the past year was the extended market and national economic aftermath of the worldwide financial crisis, started in 2009, which also had a great impact on the national and the European energy sector. One of the most unpleasant, yet natural implications of crises, is that in these periods, the number and significance of uncertainty factors increases, which has a great impact on both the sector and its environment. This necessitated some precautions in the life of FGSZ as well, however, we also took into consideration that we must plan our actions so that they will lead us towards our goals after the waves of the economic depression are gone.

So, we developed our services and infrastructure accordingly in 2012, preparing also to preserve our stability and scope of action, even if the oil-indexed long-term contracts that determine the market today remain in force, and even if we have to hold our position in a more flexible gas market. This is why the introduction of the ITO model in 2012 was of strategic importance to us.

The actions taken by FGSZ in 2012 were in harmony with the medium and long-term goals of the Company. It is in our interest to facilitate the emergence of a more diversified, more efficient gas market, which rests on several pillars. This is the purpose of our 10-year comprehensive infrastructure development program, in the establishment of which we also made significant advancements in the past year. The aim of our capacity expansion program concerning both domestic and international natural gas transmission, is to establish a condition system supporting the establishment of a liquid gas market, in order to – amongst other things –, be able to, at all times, supply national consumers from the most favorably priced sources.

In harmony with the gas market aspirations of the European Union and Hungary, we place the greatest emphasis on the establishment of western-oriented developments, but, as responsible market participants, our preparedness enables us to take part in utilizing the opportunities arising from the east. Our strategy is unambiguous: the strengthening of our regional position means an important guarantee for the energy safety, sustainability and stability of Hungary and the Central-European region. The backbone of our development policy in 2012 was also that domestic capacity expansion and the strategic interconnection of the natural gas supplier systems of the region facilitate the establishment of integrated gas markets, which, for Hungary, means not only long-term safety in natural gas supply, but it also means creating the fundamental conditions for the establishment of a transparent gas market based on fair competition.



## STEP-BY-STEP REALIZATION OF OUR VISION

The geographic position of our country predetermines our company's central role in a gas market, built on Central-European co-operation.

Our aim is to connect our country to all neighboring countries, and thus, enable diversification and optimization of Hungary's purchasing possibilities in a way that best suits the actual gas market conditions. We consider this a realistic opportunity in the forthcoming decade.

Yet, until we fully accomplish this desirable aim, we consider every single prospective step, even the seemingly tiny ones, to be important for improving the security of supply for Hungary. For example, as a result of the change in the legal environment, connection to the cooperating natural gas transmission system will soon become possible for new biogas producers appearing on the Hungarian natural gas market. Therefore, in the near future, the Hungarian natural gas system may be expanded by numerous smaller domestic inlet points. We are prepared for enabling this.

Another important change can be brought about in the near future by the approval of the Capacity Allocation Mechanism Network Code (CAM NC) decision; for its introduction FGSZ has started preparations in due time. This decision, which – in addition to ENTSG, the organisation encompassing EU natural gas supplier companies, and others – was drafted by the professionals of FGSZ, would make border capacity connections and joint supply obligatory. After its introduction, the new procedure will enable interconnection of national gas markets, primarily the balancing gas markets.





The solution suggested by FGSZ, enables distribution of joining transmission system capacities among the applicants – at favorable transaction costs – by applying uniform and transparent conditions and regulations, in a quick and simple process. The model complying (in all aspects) with the pan-European regulation – to be introduced in the near future – guarantees on the one hand, synchronization of exit and entry side capacities on the border in question, and on the other hand, enables real integration processes between the gas markets of the neighboring countries. It is this that can help level national gas market prices even in the medium-term. This leveling-off can also mean to us (Hungarians) that domestic gas prices approximate the lower prices of the neighboring countries.

The model and the application has an official status of GRI Pilot Project in the European Union, and will first go live in 2013, on the Hungarian-Romanian border. In the near future, intense negotiations are expected on the conditions under which other companies, in addition to the Romanian supplier, can join in the project.

The cautious preparation of the present and near future actions fits well into our investment plan indicated in our long-term strategy. With its implementation it can also be guaranteed, that in the forthcoming decade, Hungary breaks away from its periph-

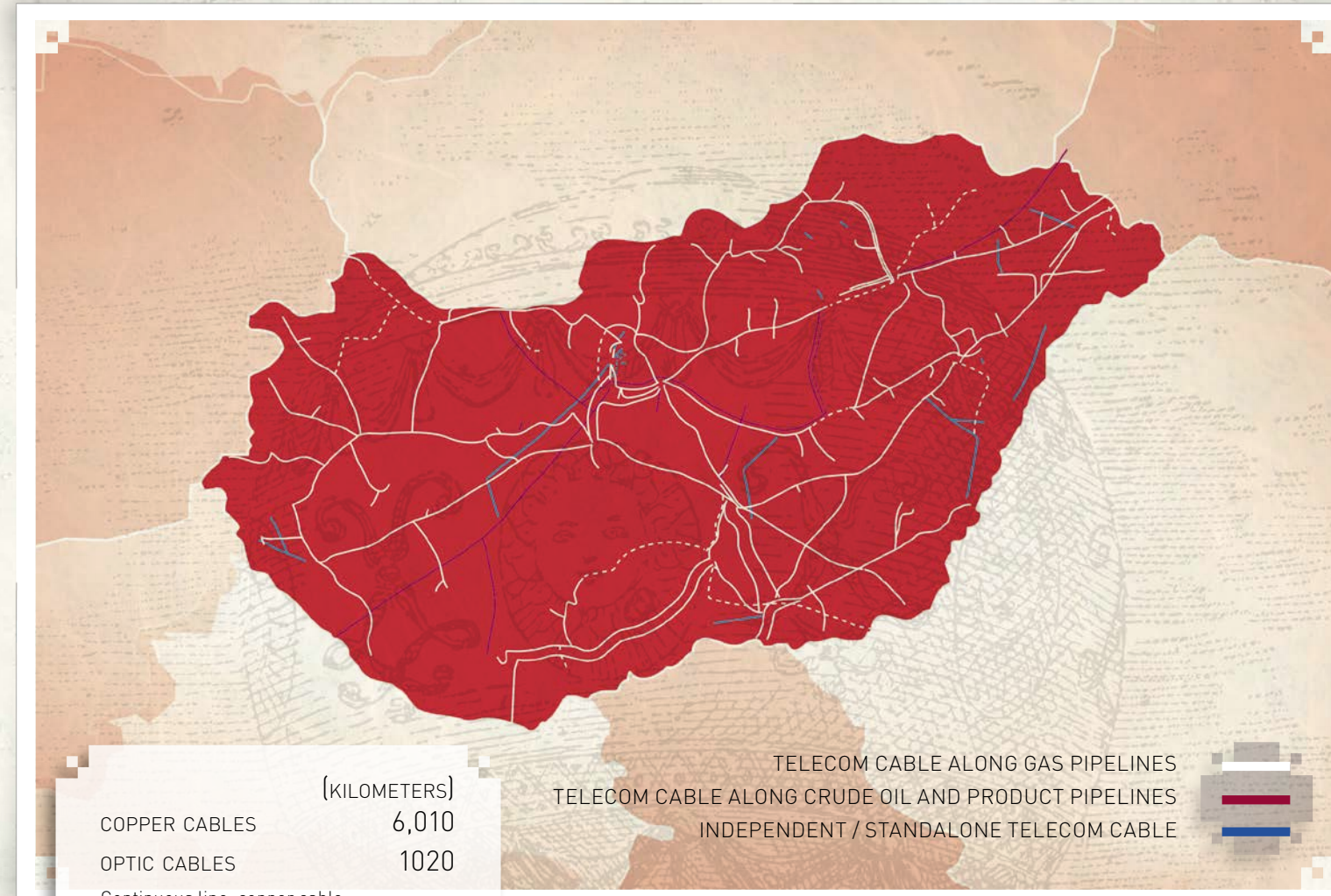
eral gas transmission role and develops into a gas distribution centre of real regional importance.

The experiences from both the professional works preparing the developments, and the negotiations for the reconciliation of interests, equally demonstrate that expansion of the gas market is a national and pan-European interest, which also inspires market players. Establishing real gas competition and subsequent gas price decreases, as well as the possibility for creating a liquid gas exchange, supported by the whole sector, are all such changes for which, – according to the FGSZ – co-operation is regarded as worthwhile for all parties concerned, both within and outside the country.

In line with the interests of the MOL Group and with the efforts of the European Union, our company made all efforts in 2012, as well, to further strengthen its position in gas transmission. Our plans and investments naturally reflect this intention.

#### EXPANDING NETWORK, LOWER ENERGY PRICES, IMPROVED SAFETY

We can achieve more favorable gas prices and improve our country's energy safety, mostly by applying market instruments, by



creating real gas competition, and by increasing the volume of transit deliveries and transfers through Hungary. Therefore, we have to make all possible regional sources for purchasing, available to Hungary. This infrastructure is not entirely available at present, but the preparation of these developments entered its final phase in 2012.

It is our goal that Hungary achieves connection to every neighboring country from inlet and outlet aspects i.e. according to the EU-directives, the basic principle of bi-directionality should be enforced also in its border-crossing capacities. The next stage of our strategic investments planned for the period 2013-2022, includes the Central and North-West developments. Being connected to the already existing capacities (by the creation of the Hungarian-Slovak and the Hungarian-Slovenian interconnectors, as well as by the expansion of the existing Western import capacities) a unified natural gas transmission structure that is interoperable from all directions, is now within our reach.

The future of Europe, of Hungary within it and of FGSZ, will considerably depend on which of the competing ideas – i.e. the North-South Gas corridor, the Trans Adriatic Pipeline (TAP), or

the South Stream project – will be realized and when and how they will be realized.

The goal of the North-South gas corridor is to increase the security of supply, and the creation of a single, transparent gas market, in the Central and South-East European region. The purpose of this concept is to establish connection between the East-West delivery routes by making the already created and the currently planned LNG terminals falling in the paths of these routes available to the countries of the region. This project of strategic importance is not only of key significance for FGSZ, but it is also included among the strategic energetic priorities of the European Union. The initiative of FGSZ, namely NETS (New European Transmission System), which is prominently supported by the European Commission, is organically related to this. The co-operation (which commenced in 2007) would create mutually beneficial connections between the gas transmission companies of the Central-Eastern European region. Its goal is to increase supply security in the region, to develop regional infrastructure and to create an efficient regional gas market.

The Nabucco West gas pipeline, supported by the European Union and by the United States of America, was planned to



connect the western border of Turkey with Austria, via Hungary (amongst other countries). If this would have been accomplished, it would have resulted in a considerable source diversification in the Central and South-East European region, which would have also served the interests of the Hungarian gas market actors. According to the plans, the Nabucco West pipeline would have been fed with the natural gas from the Caspian Sea, through the Trans-Caucasus Pipeline (TCP) and the projected Turkish Trans-Anatolian gas pipeline (TANAP). In 2012, FGSZ was an active participant in the decision support and decision-making processes relating to the Nabucco project. On 28 June 2013, the consortium of the Shah Deniz II. gas reservoir in Azerbaijan, announced that it did not choose the Nabucco but its gas source competitor, the Trans Adriatic Pipeline (TAP), for transporting natural gas to Europe. According to the plans, the TAP gas pipeline will run from the Turkish-Bulgarian border through Greece to Italy.

THE LEGAL ENVIRONMENT OF OUR ACTIVITY

The legal framework of our activity is defined by the relevant national and EU law.

Among these, one of the most important regulations is Act XL of 2008 (GSA, Natural Gas Supply Act), which clearly describes the following principles of our operation:

- Harmonization of the natural gas resources;
- Undisturbed service at a high quality standard;
- Transparency and non-discrimination;
- Energy-saving, efficient and economic operation;
- Protection of the consumers' interests;
- Helping new participants to enter the market;
- Supporting the integration of EU gas markets;
- Developing national and international transmission, distribution and storage capacities.

OUR INDEPENDENT TRANSMISSION SYSTEM OPERATING ACTIVITIES

The issue and adoption of the 2009/73/EC Directive brought complete change into the life of FGSZ Ltd. The EU directive, with its purpose of promoting market liberalization, determined the new European framework for takeover, storage and distribution of natural gas, by restructuring the activities of the companies in the energy industry sector.

In accordance with legal provisions, FGSZ operates within the ITO model, i.e. as an independent transmission system operator. Accordingly, FGSZ Ltd. will have fully independent decision-making powers concerning the measures and the material resources required for the operation of the system, the infrastructural development and the maintenance tasks. The strict separation rules are applicable for, besides the separation of finances, also for that of the management and human resources management of MOL and FGSZ. Compliance with the regulations is supervised by both the national and the EU regulatory authorities.

By 2012, our company had taken the necessary measures to prepare for the continuation of its activities within the framework of the new model. As a final measure, FGSZ terminated its contracts related to the services provided by the vertically integrated enterprise (according to the GSA's provisions) and its member companies; liquidated its contracts related to identical safety access systems; and resolved the statuses of the real properties of which titles had been previously shared. Finally, we reclaimed the accounting activity, which is now completely undertaken by our own employees, thus continuing our compliance with the highest and strictest quality expectations regarding the regulated and transparent financial processes.

As a result, our company operates with autonomous, quality management and with a regulatory, decision-making, IT and business organizing system. Also, the company's employees exclusively carry out all of its activities, necessary for performing its tasks at a high standard.

OUR BUSINESS AND COMMERCIAL CODE

Our Business and Commercial Code (BCC), includes the minimal content elements of the commercial, settlement, measurement and data exchange agreements, as well as the detailed rules of system access and daily balancing. We continuously update them in accordance with the rules of the GSA and its executive orders relating to the operation of the co-operative natural gas system.

In accordance with legal provisions, and to support the formulation of the BCC and to be able to comment on it, the transmission system coordinator operates and acts as chairman for an industry branch, working group, the so-called Code Committee (CC). The circles of similar types of license holders (distributors, traders, storers, producers, etc.) take part in the work of the CC through their elected representatives.

BCC is an absolutely necessary regulation system for the co-operative natural gas system. Our company pays special attention to the operation of the CC and to the updating of the BCC, thus preserving the conditions of a safe gas supply for Hungary. To support the successful and smooth professional operation of the CC, our company established the Code Committee Web Portal as an intrinsic development, which after a successful test run, commenced live operation in 2012.

Since the beginning of 2012, the BCC has been amended twice on the basis of the resolutions of the Hungarian Energy and Public Utility Regulatory Authority (former name: Hungarian Energy Office).

We have maintained a Quality Management System corresponding to the ISO 9001 standard, since 1997. In June 2012, the certification for our company was further approved for 3 years by SGS Hungária Kft. – a highly acclaimed certification company in the oil and gas industry. The operation of the quality management system is reviewed continuously, biannually, by SGS.

OUR PERFORMANCE AND CAPACITY IN 2012

TOTAL PERFORMANCE IN 2012

(billion cubic meters at 15°C)

Total quantity for domestic purposes together with the withdrawn quantity	10.03 billion
Withdrawal from this	2.59 billion
Imported quantities at Beregszász from domestic takeovers	3.58 billion
On the HAG pipeline	4.60 billion
From domestic production	2.80 billion
Injection from domestic sources	1.93 billion
Export for neighbouring countries	0.84 billion
Takeover at Beregszász for transit purposes	2.00 billion

CAPACITY DATA

(at 15°C)

Ukrainian/Hungarian interconnector

(Testvériség, Összefogás)

Inlet point	(cubic meters)
Annual non-interruptible capacity	20.5 billion
Daily non-interruptible capacity	56.3 million
Annual interruptible capacity	5.5 billion
Daily interruptible capacity	15.0 million

Austrian/Hungarian interconnector (from the HAG pipeline)

Inlet point	(cubic meters)
Annual non-interruptible capacity	4.4 billion
Daily non-interruptible capacity	12.1 million
Annual interruptible capacity	0.8 billion
Daily interruptible capacity	2.3 million

Hungarian/Serbian interconnector

Exit point	(cubic meters)
Annual non-interruptible capacity	4.8 billion
Daily non-interruptible capacity	13.2 million

Hungarian/Romanian interconnector

Exit point	(cubic meters)
Annual non-interruptible capacity	1.7 billion
Daily non-interruptible capacity	4.8 million

Hungarian/Croatian interconnector

Exit/inlet point	(cubic meters)
Annual non-interruptible capacity	6.5 billion
Daily non-interruptible capacity	19.2 million

Hungarian/Ukrainian interconnector

Exit point	(cubic meters)
Annual capacity	1.7 billion
Daily capacity	4.8 million

Domestic net production

12 inlet points	(cubic meters)
Annual non-interruptible capacity	2.07 billion
Daily non-interruptible capacity	8.3 million

Capacity data for commercial purpose underground gas storage facilities

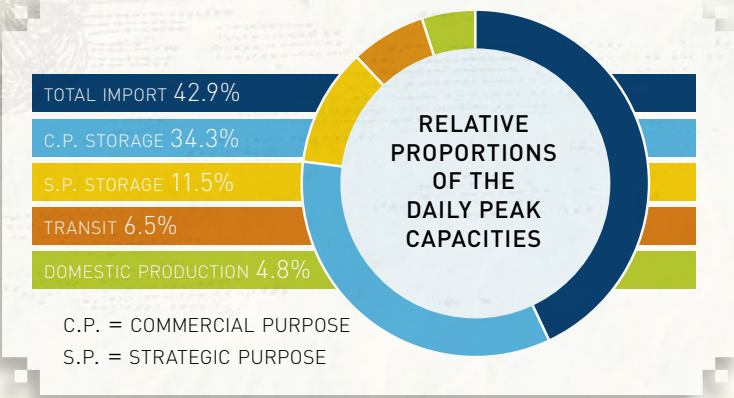
5 inlet points	(cubic meters)
Annual non-interruptible capacity	5.0 billion
Daily peak capacity	59.6 million
Thereof interruptible	7.1 million

Capacity data for strategic purpose underground gas storage facilities

1 inlet point	(cubic meters)
Annual non-interruptible capacity	1.2 billion
Daily peak capacity	20.0 million

NATURAL GAS TRANSMISSION SYSTEM'S DAILY INLET PEAK CAPACITY

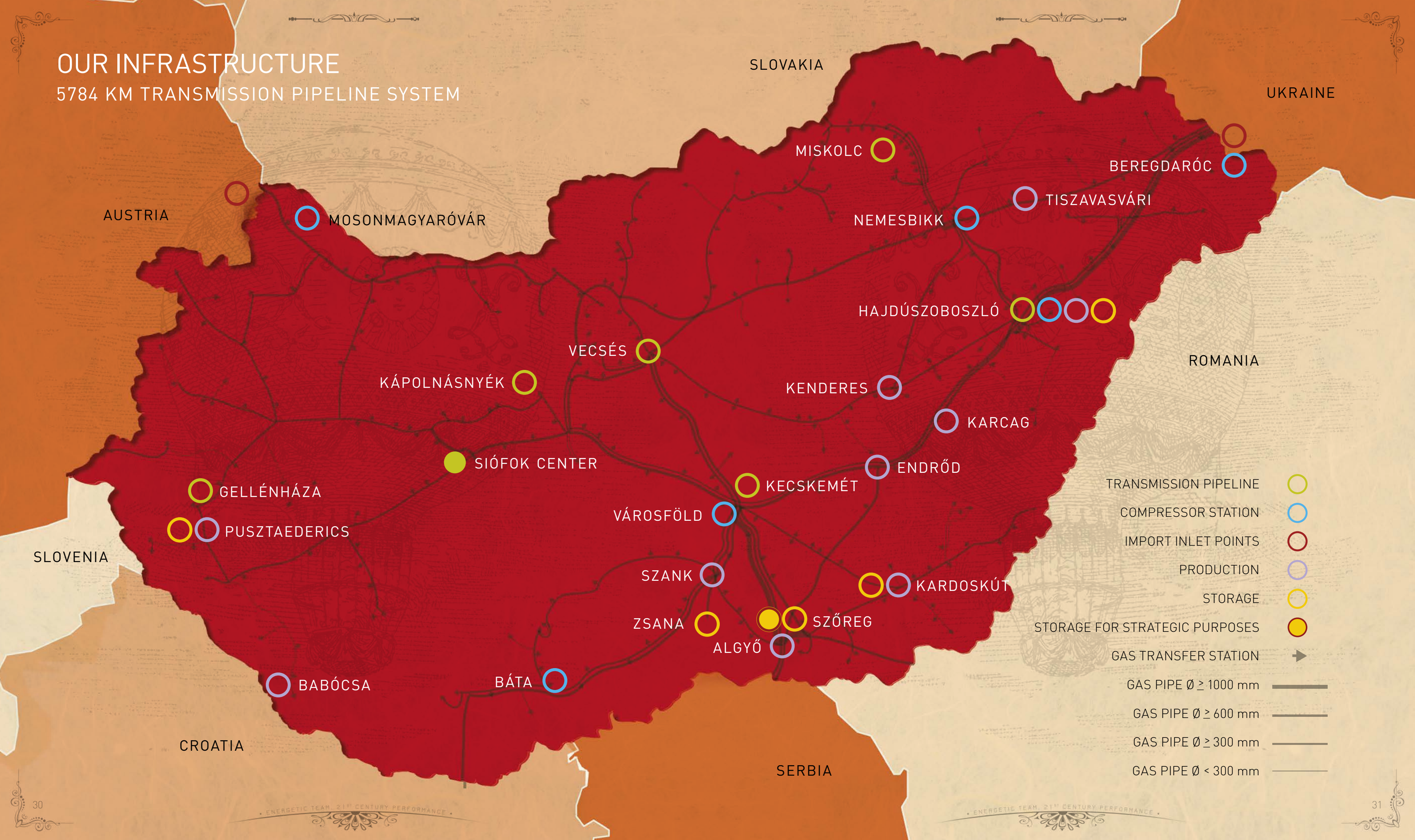
Total	(cubic meters)	172.8 million
Thereof interruptible		43.6 million
Imported		74.4 million
Thereof interruptible		36.5 million
Transit		11.3 million
Storage capacity for commercial purposes		59.6 million
Thereof interruptible		7.1 million
Storage for strategic purposes		20.0 million
Production		8.3 million





# OUR INFRASTRUCTURE

5784 KM TRANSMISSION PIPELINE SYSTEM





In harmony  
with our environment







## IN THE SERVICE OF SUSTAINABLE DEVELOPMENT

Each day we work with a special, natural treasure called natural gas. And each day we face how vulnerable our environment is. We know well, that the natural resources of our planet Earth are plentiful, yet not infinite. Our vision is built upon the harmony between nature and society.

Sustainable development and security of energy supplies are equal core values for us, which we harmonize with our business interests during our decision-making processes. We believe that a provider with a 21<sup>st</sup> century corporate culture could not otherwise function successfully in the long term.

We will do our best to draw as little as possible on our natural resources. Today we do not only resolve to avoid unnecessary damage, but we also work proactively to help the preservation and regeneration of our environment's natural values.

In our health care, safety and environmental protection strategies, we place emphasis on precaution, responsible thinking and effective resource management, as well as keeping the environment clean and on the reduction of greenhouse gas emissions. Each year we take important steps to promote the regeneration of the ground and water areas we use, as well as the reduction of the amount of our harmful materials and waste.

We assess the environmental effects of our activities on the natural habitats with careful analytical work. We pro-

tect the wildlife with environmental conservation operations, in consultation with environment protection agencies and handlers. During the development of our pipelines, we use the most modern technologies to minimize reshaping of the landscape and to respect the vulnerability of nature. Upon finishing with the work, we restore the green areas and replant a multiple number of the trees we have cut. The change of the lubricating oil is undertaken on the basis of the results of strict oil-diagnostics, thus, avoiding unnecessary consumption of lubricating oil. We have managed to reduce the emission of harmful materials using optimized boilers and gas turbines.

## SAFETY AND RESPONSIBILITY

Each year we do our best to further improve the safety of our facilities. We took important measures in 2012 to reduce the potential for damages caused by foreign tampering. We have significantly modernized our natural gas odorization procedures, so that today, no dangerous materials used for odorization may enter into the ground, not even following an eventual technical failure.

Environmental protection safety aspects have gained a special role during the transformation of the odorization systems at the HAG-mains located near the Austrian-Hungarian border. Thanks to our striving for environmental protection, our activities do not harm either the geological base or the quality of ground and surface waters, as the storage and transportation of dangerous materials and products are in strict accordance with the existing legislation.

We have established automated fire-extinguishing equipment next to our process control and information technology equipment. In choosing an extinguishing medium, we decided in favor of the more environmentally friendly one – in spite of its higher implementation costs. We have improved the fire safety of our plan storerooms, warehouses and maintenance workshops with similar considerations in mind.

## COOPERATION WITH THOSE CONCERNED

FGSZ Ltd. agrees with the social expectation of preserving natural treasures, therefore, we are particularly mindful that the construction of the gas pipelines, as well as the operations connected to it, are performed in co-operation with our most prepared engineers and independent environmental protection specialists.

We put great emphasis on the protection of wildlife in the areas concerned and on the extensive rehabilitation of the landscape and the environment. To eliminate contamination, we apply environmentally friendly technologies, and throughout our investments, we co-operate with local communities, governments and civil organizations, taking their needs into account during the construction of our gas pipelines.

Our company always strives to build our lines with the least interference and within the shortest time possible.

We acknowledge and support the work of civil organizations dealing with environmental protection. Representatives of FGSZ attend public hearings organized by the environmental protection agencies. Moreover, we are ready to perform discussions with interest representatives and local residents, on the basis of any requests about



environmental protection, because for our company, these opinions are important and we take them into consideration.

We have established a good relationship with the agents of environmental protection areas and take their recommendations into consideration. We assess the natural values of the given area before each investment and we suspend works during sensitive periods for wildlife. In specially protected areas, to construct our pipelines, we use horizontal drilling technologies instead of the traditional trench method. We constantly monitor the affected area's wildlife and we also provide possibilities to rescue any potentially harmed organisms. We employed these methods during our last gas pipeline investments, as we connected Hungary with Romania and Croatia.

## NOISE PROTECTION

The relaxation of the people living near our working environment is important for our company. However, a part of the equipment necessary for the uninterrupted supply of gas, is found in residential areas. Within the framework of our





noise protection program, we measure the noise emission of our installations, we evaluate the noise impact and in case of any problems, with the help of specialists, we look for the best solution for avoiding noise pollution. Our noise map features over 40 installations. Every new installation whose noise emission exceeds 85 dB is presently equipped with passive noise protection.

## WASTE MANAGEMENT

Our company voluntarily undertakes to protect and care for the environment in the area of our facilities and to serve this purpose by the separate collection of waste. Within this framework, we continue to clean the surroundings of our gas transfer facilities from the ever-growing, outer (communal and industrial) illegal communal waste and debris.

We keep the focus on recyclable materials. We decrease the quantity of the dangerous waste by optimizing the usage of hazardous materials and products. The traceability of the waste is important to our company, as is the salvage and disposal based on legal provisions. Therefore, we expect from our waste recipients legal conformity and adaptation of quality assurance and environmental protection systems.

Upon selecting our waste management partners, we consider the principle of proximity i.e. that the waste should travel the shortest possible route from the place of origin to the receiver, thus minimizing our ecological footprint. The transportation of

waste is ordered directly from the place of origin. This procedure decreases the transportation time, as well as the extra costs related to the risks and temporary storage.

## PROTECTING THE ATMOSPHERE

Our company follows the Directives 2003/87/EC, specified by the European Parliament and the European Council on the commercial system of greenhouse gas emission units. Due to seasonal changes in natural gas consumption, compliance with the directives proved to be an especially important challenge for our specialists, but FGSZ has nonetheless thoroughly complied with them.

During the reconstruction of our offices, workshops and other installations, we have given extra consideration to the technologies reducing operational energy consumption. Besides the passive insulation of our buildings, we have provided our installations with low energy-consuming building-machinery equipment for heating, warm water supply, lighting and air conditioning.

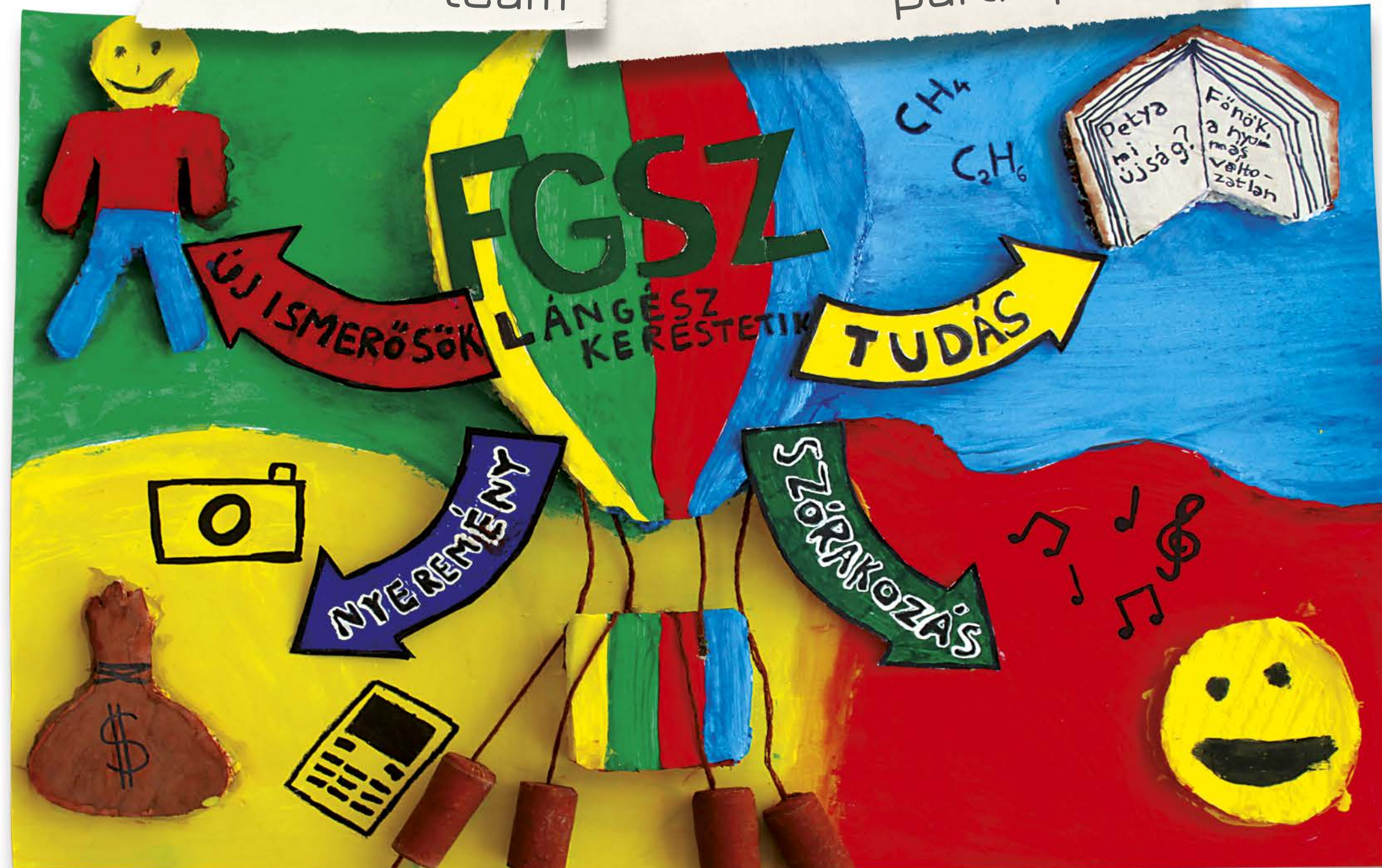
Our company believes that besides the reduction of the industrial amount of energy consumption, our colleagues ought to intensify their personal responsibility in their everyday life. Recently we have set up guarded bicycle racks next to our office buildings, thus encouraging our employees to use environmentally friendly vehicles.





Our  
energetic  
team

and social  
participation



TÍZ ÉV, PÉNZ AGY, EZT A BULIT KI NE HAGYD!





## KNOWLEDGE AND COMMITMENT

Our geographic position and the quality and culture of our service allow us to be one of the most important natural gas transmitters in Europe. Therefore, we are working to create high added value, in the spirit of creating long-term community values: in case of infrastructure development, local public interests are taken into consideration, environment resources are protected and the human values of our employees are highly appreciated.

It has never been a routine task to work for FGSZ. The success of a company like this depends (more than usual) on the level of preparedness, experience and commitment of the employees. In the past years, it was an important task to develop a company-specific, integrated, human resource management system. The fine-tuning of the system continued in 2012 and its two new elements were the insourcing of the arrangement of business travels and that of the organ-

izing and arrangement of the regular team-building and efficiency increasing workshops.

The selection of FGSZ employees and the management of their performance and knowledge, is a multi-level, sequential process. The protocol of this process covers every detail from recruitment and selection to motivation. It is due to this well functioning system that not only the best and most prepared but also the most up-to-date professionals work for our company with exemplary vocation and motivation.

The community of FGSZ's employees is characterized by its high qualification value: 52% of our more than 800 employees are graduates of a higher education institution, while 88% of them have finished at least secondary education. Keeping up to date with professional knowledge and acquiring new abilities, is a basic requirement at the Company and in a sector with such dynamic

growth. Based on this, training opportunities for the employees are offered permanently.

## APPRECIATION AND PERFORMANCE

The key to our company's success lies in its performance culture, which ensures our employees constancy, even in the most strained situations. Therefore, our employees are guaranteed a well-planned future and a designable career.

Our managers and employees are proud that FGSZ Ltd. (according to the research carried out by Aon Hewitt) has been the best employer in Hungary and in Central Eastern Europe for four years. We have further improved our survey participation (over 70% in each of the three years) and commitment index (stable 85%) which were already outstandingly high: the participation of employees (which serves as a basis for the survey) increased to 97% and the commitment index grew to 88% – the latter exceeds the Hungarian average by 30%.

According to the survey, people like to loyally work for FGSZ and many of them have a lifelong connection to the company. This is of prime importance within a sensitive sector such as natural gas transmission, with its complex system control, requiring great knowledge and vocation.

This is a result of the trust between us and our employees. The social recognition of our performance is reflected by the fact that our partners maintain our company as among the most reliable companies, where employees can count on each other – and the whole country can rely on their performance at any given moment.

## THE FUTURE HAS ARRIVED AND WE OPEN OUR DOORS WIDE FOR IT

We are well aware that the future is in the hands of the new generation. Therefore FGSZ helps children and young people to get familiar with the world of natural gas transmission, to find this profession attractive and, after growing up to do their best, to join us. We are trying to incorporate young talent into the life of FGSZ, namely through the dissemination of information about the Company. Supporting young talent within this profession has always been among the company's strengths. Competitions, sponsoring and specific programs all involve young people in the life of the Company and thus help them to integrate and widen their knowledge.

To support innovation and in order to receive a wide range of professional knowledge, FGSZ has fostered extensive relationships with specialized secondary and higher education institutions. We participate in education through cooperation agreements. Students have the opportunity to participate in summer internship programs, where they can familiarize themselves with the operations of FGSZ, assisted by a subject specialist. Moreover, students in higher education can have the support of our experts in cases where they are preparing a thesis about the gas industry.



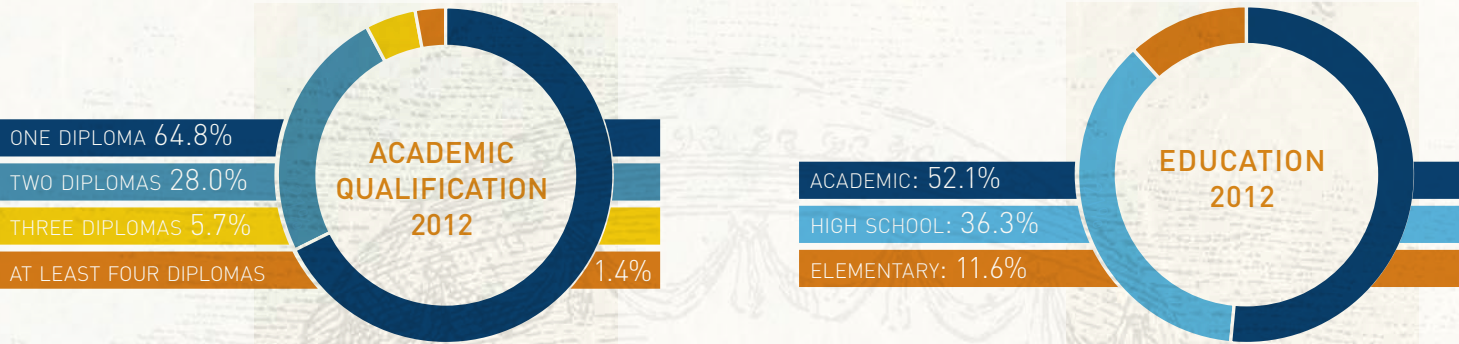
Additionally, members of the younger generation are also important to us, leading to the launch of FGSZ's quiz (in 2011), titled "Looking for a genius!", for 7th and 8th grade elementary school students. In 2012, we have extended the competition to a national level. We have organized this competition now for the third time, and it was a great success.

A good reputation, relations with universities, professional development opportunities, and the compensation system appreciating work, have all made FGSZ the most attractive player on the regional labor market today.

Recognizing, selecting and motivating young talent is not an easy job and keeping them, proves even more difficult. Therefore, for us, it is very important, to create a working en-



EDUCATION AND NUMBER OF DIPLOMAS OF FGSZ LTD. STAFF



environment based on common values and to ensure straight communication and proper working conditions within the company.

REVIVING TRADITIONS

In paying regard to the great history of our company, we should not forget senior colleagues and tradition. Every year on St. Barbara's day a traditional event is organized for retired professionals, where they are able to share their experiences with younger colleagues and still be part of the community they have belonged to during their entire professional lives.

Our company's past is an important part of the history of the Hungarian industry. In 2012, our travelling exhibition, showing the history of both FGSZ and the domestic natural gas transmission, reached another level. Visitors are able to get a close experience regarding our activities and our company's history. Besides this, our outstanding archaeological traveling exhibition "Pipe archeology", which began in 2010, was continued. This exhibition was arranged, with the help of museologists, from the archaeological artifacts found during the works of the development of import capacity.

THE ENERGY OF HEALTH

FGSZ lays great emphasis on the preservation and improvement of employee health. This is an important part of the health, safety and environmental protection strategy (HSE). In addition to the mandatory medical services, we have introduced several prevention-oriented health promotion programs. As a new feature, in 2012, applicants could take part in a Functional Movement Screen test. Employees are supplied with consultations and information about health. To protect the health and vitality of the staff, FGSZ regularly organize sport and outdoor programs.

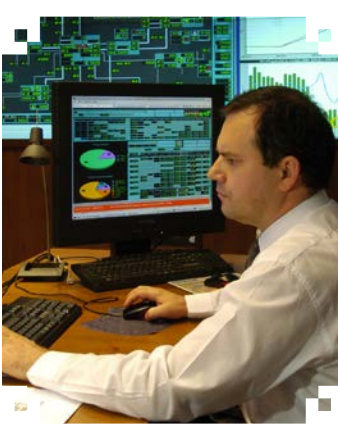
INTERESTED IN THE SUCCESS OF OUR ENVIRONMENT

The main activities of FGSZ Ltd. are co-operation and delivering values. These also provide the framework for the social investment activities of the Company. We find it an honour and a pleasure to provide support in preserving and creating values that are increasing social values that lie beyond the specialization of FGSZ.

We are proud to have received for the second time, the certificate "Main Sponsor of the University of Miskolc", awarded by the campus in 2012. In addition the Somogy Regional Integrated Vocational Training Centre awarded us with an ornated document and thanked us for our professional support, of exceptional value and high standard, offered for the development of secondary education and vocational training in Siófok. The Hungarian Red Cross Somogy County Organization also awarded our company with a silver plaque, for supporting the blood donation movement. Furthermore the gas trading system which operates the Daily Natural Gas and Capacity Trade Market (developed in co-operation with IP Systems Kft.) won ICT Association of Hungary's "ICT Project of the Year" award, at the Tibor Gyurós award ceremony.

FGSZ is striving to maintain a good relationship with the settlements affected by the operation of the Company. In 2012, as well as in earlier years, FGSZ has supported social, cultural and sport programs of these towns and villages and has paid great attention toward supporting the work of educational institutions.

Within the framework of our Energetic Town Program, in 2012, we performed voluntary work in Nemesbikk and Kistokaj. With the help of more than a hundred colleagues, we installed outdoor play equipment, planted trees and flowers and we created beautified communal spaces, all by using the monetary donations from our company.





# Financial

and operational performance







## BALANCE, SUCCESS, STABILITY

A stable business background, the investments realized and put into operation in the recent years and our adaptation to external circumstances, all enabled FGSZ Ltd. to have another successful year.

In 2012, the Company attained outstanding profit worth HUF 47.047 billion, which exceeded our financial performance, recorded in the past year, by HUF 2.964 billion – our after tax profit was HUF 34.730 billion. The important factors for achieving this included the flexible adaptation to the economic and regulatory environment as well as having favorable external conditions. These enabled us to attain extra capacity allocations in the winter period – which was colder than average. The large investments made in previous years – which increased the value of the Company – have also contributed, by means of their profitability, to having a good financial year in 2012.

As an additional effect of the external circumstances, the unrealized exchange profit from the foreign currency loans – borrowed for the investment project concerning the international connection towards Croatia – increased our net profit against the exchange-rate losses, suffered in the previous financial year.

The level of average rate of return remained essentially the same since last year. This established a predictable background on the regulatory side, thus ensuring a stable return and profit generation capability for the existing and operating assets of the company. The efficient and disciplined operation of our company greatly contributed to the achievement of our strategic and financial objectives.

It is a statutory liability of our company, to maintain the balance between the gas source and the gas consumption. This

we ensure by applying a balancing gas sale and purchase practice. The Company did not realize profit on this transaction. In 2012, there was slight – nearly 6% – decrease, in the turnover of the balancing gas, compared to 2011. Apart from this item, our revenues from gas transmission increased by 8%.

In 2012, FGSZ Ltd. spent HUF 8.6 billion on investments, these being mainly comprised of reconstruction works completed on the existing system.

## OUR ECONOMIC ENVIRONMENT IN 2012

FGSZ Ltd. operated adapting to the regulatory environment and had to deal with a slightly declining demand. Stability and predictability are of special importance for a company that wants to operate successfully. In 2012, FGSZ was active in such a regulatory environment and had to deal with a slightly declining demand.

In Hungary, the growth of consumption has stopped, the demand shows a practically downward trend. On the one hand, the decline is due to the higher domestic gas prices which encourage savings, and, on the other hand, it is due to the saturation of the natural gas market, which cannot grow further within the framework of the present structures.

The expansion of the domestic market and the acquisition of new consumers have been made possible in the short-term, by the development of a new market structure supported by gas market liberalization. In the medium-term it has been made possible by the further expansion of the economy and the construction of natural gas-fired power plant capacities. We are constantly developing our infrastructure, in order to meet these challenges in the future.

## DEVELOPMENT CONNECTS

FGSZ Ltd. puts great importance on the development of successful market strategies favorable to every co-operating party. In the in-

**HUF 8.6 billion** investments **48.22%** EBITDA

**8% increase** in natural gas transmission sales revenues

**HUF 34.7 billion** profit after taxation

**HUF 47.0 billion** EBIT



terest of the above we have attained multidirectional co-operation and have also planned for this in the future.

The key to the expansion of the regional market is still the economic development of the Balkan region, and its already partly realized connection to the integrated European gas delivery system. Strategically, the creation of the East-West and North-South transit corridors, offers exploitable market opportunities.

Our company continued to actively develop its market in our region, according to its strategic goals. Together with SNTGN Transgaz SA, our Romanian partner company, we have launched a project aimed at the joint allocation of cross-border capacities. By participating in this project, the involved transmission system operators make a major step towards linking the national markets, even before the formal introduction of the uniform European system usage regulations. In the year 2012, we continued the negotiations with our Slovenian partner on the physical interconnection of the national gas transmission systems, and we contributed to the completion of preparations for the connection towards Slovakia.

## EFFICIENCY AND EBIT

The legislation provided an appropriate rate of return on assets for our company in 2012. Due to the measures taken to improve our efficiency and the profits arising from other activities – the latter in this year significantly exceeded the profits arising from our regulated activities – our company has shown to be profitable in 2012 as well.

We gained our net price revenue from the delivery of 17.6 billion cubic meters of gas and from the gas turnover associated with the maintenance of the system balance.

The impact of tax base adjusting items was also significant in 2012. These arose basically from the difference of the pipeline deprecia-

tion rates, provided by the Accounting Act and the Act on the Rules of Taxation.

Corresponding to the expectations of the owner, we wish to take further substantial steps in the future, with an interest in attaining our regional strategic goals.

Looking ahead to the year 2013, our company's greatest challenges will be the changes in the legal environment. According to the decree promulgated in December 2012, the average rate of return will be further reduced, which will have a negative impact on our company's revenues and profitability from 1 January 2013. With regard to our economic performance in 2013, we forecast that we will be able to maintain the level of our 2012 annual business indicators. We wish to balance the eventual negative inner processes of the regulatory and economic environment by increasing internal efficiency.

## THE PLEDGE OF SUCCESS

The operative cash flow of our company is positive, and its volume is also rather considerable. With this safe financial background, we can successfully carry out our investment plans, repay the principal from the parent company loan and the related interest, and provides coverage for other cash flow elements.

Our business success in 2012 is indicated by the EBITDA rate of 48.22%, showing an increasing trend compared to last year.

The value of the ROACE calculated over the 2012 annual business result is 13.89%. The value higher than the asset-proportional return before tax, acknowledged for domestic delivery, is due to the more favorable returns attained from our other activities.



## DATA IN ACCORDANCE WITH HUNGARIAN ACCOUNTING STANDARDS

	2011 (million HUF)	2012 (million HUF)	2012/2011 (%)
Net sales revenues	130,915	136,627	104.36
EBIT	44,083	47,047	106.72
Profit after taxation	23,201	34,730	149.69

## BALANCE-SHEET

Assets	2011 (million HUF)	2012 (million HUF)	2012/2011 (%)
Projects and investments	343,573	332,597	96.8
Intangible assets	3,811	3,526	92.5
Tangible assets	334,947	323,689	96.6
Financial investments	4,815	5,382	111.8
Current assets	19,298	18,816	97.5
Inventories	3,384	3,668	108.4
Claims	15,009	12,887	85.9
Securities	0	0	-
Cash and cash equivalents	905	2,261	249.8
Accrued and deferred assets	161	584	362.7
Total assets	363,032	351,997	97.0
Liabilities	2011 (million HUF)	2012 (million HUF)	2012/2011 (%)
Equity	116,036	116,022	100.0
Share capital	18,823	18,823	-
Retained capital	64,766	64,766	-
Profit and loss according to the balance-sheet	201	0	0.0
Provisions	3,551	3,454	97.3
Liabilities	224,448	207,964	92.7
Deferred liabilities	0	0	-
Long-term liabilities	182,665	147,742	80.9
Short-term liabilities	41,783	60,222	144.1
Thereof short-term liabilities to affiliated companies	26,574	43,294	162.9
Accrued and deferred liabilities	18,997	24,557	129.3
Total liabilities	363,032	351,997	97.0

Profit and loss statement	2011 (million HUF)	2012 (million HUF)	2012/2011 (%)
Net domestic sales revenues	109,796	113,208	103.1
Net export sales revenues	21,119	23,419	110.9
Net sales revenues	130,915	136,627	104.4
Capitalized own performance	206	170	82.5
Other revenues	2,404	2,608	108.5
Materials expenditure	55,019	59,697	108.5
Personnel expenditure	7,467	8,026	107.5
Depreciation	17,017	18,837	110.7
Other expenditure	9,939	5,798	58.3
Operating profit	44,083	47,047	106.7
Financial transaction revenues	811	4,089	504.2
Financial transaction expenditure	20,307	14,743	72.6
Thereof: interest-type costs payable to affiliated companies	12,327	14,035	113.9
Financial transaction profit	-19,496	-10,654	54.6
Ordinary business activity profit	24,587	36,393	148.0
Extraordinary profit	-977	-1,075	110.0
Profit before taxation	23,610	35,318	149.6
Tax payable	409	588	143.8
Profit after taxation	23,201	34,730	149.7
Approved dividend, profit sharing	23,000	34,730	151.0
Profit and loss according to the balance sheet	201	0	0.0

Cash flow	2011 (million HUF)	2012 (million HUF)	2012/2011 (%)
Profit before taxation	23,610	35,318	149.6
Operating cash-flow	47,675	58,688	123.1
Invested cash-flow	-9,770	-7,878	80.6
Financing cash-flow	-44,030	-49,454	112.3
Change in cash and cash equivalents	-6,125	1,356	-22.1



BOARD OF DIRECTORS AND SUPERVISORY BOARD

COMPANY MANAGEMENT



Ph.D. JÁNOS ZSUGA

Graduated from the University of Miskolc with a degree in gas engineering, earning his Ph.D. at the Sámuel Mikoviny School for Postgraduate Studies at the University of Miskolc. The University Senate later granted him the title of honorary associate professor. Since June 2013 has been the honorary professor of the University of Miskolc, since July 2013 that of the National University of Public Service. From 1994 to 1999 he was technology engineer at the MOL Crude Oil & Natural Gas Transmission Business Unit; between 1999 and 2000 he was head of the MOL Natural Gas Transmission Business Unit's trade dispatcher service. From 2001 to 2003, he was head of System Management & Gas Transmission at MOL's Natural Gas Transmission Business Unit and then, from December 2003, Chief Executive Officer of FGSZ Ltd.



PÁL BUDAY

Graduated from the University of Miskolc with a degree in economics, then took a university degree in economics with a legal professional degree. He has been working for the Company (and its legal predecessor) since 1987. Until 1995, he worked as natural gas dispatcher and, until 2000, as crude oil transport dispatcher. In 2000, he was an associate of MOL Natural Gas Trade Business Unit's trade dispatcher service, and then, from 2001 to 2004, a capacity economy associate at Natural Gas Transmission System Management & Gas Transmission at MOL's Natural Gas Transmission Business Unit. From 2004, he was head of the Accounting and Metrology organization within the System Operation organization. From 2009, he directed the company's Regulation and MSZF organization; from 2010, he was the director of the Company's Support, and from March 2011, that of the System Operation and Capacity Trade.



CSABA JUHÁSZ

Degree earned in gas engineering and has worked for FGSZ Ltd. and its predecessors since 1989. From 1989 to 1994, he was technical engineer at the Algyő Plant, then head of the Kecskemét Transmission branch office from 1994 to 2003. Since 2003, he has been Director of Operations and since 1 January 2010 Head of Corporate Services. From 1 August 2011, he has been the director of Information and Communications Technology.

SUPERVISORY BOARD

JÓZSEF MOLNÁR

MOL Co. Chief Executive Officer since 1 May 2011 and member of the MOL Board of Directors since 12 October 2007. From 1982 to 1987, he held various management positions at BorsodChem Co., including Head of Pricing Department from 1982 to 1987, and Head of Controlling Department from 1987 to 1991. Between 1991 and 2003, as deputy Chief Financial Officer, he contributed to the crisis management and reorganization of the company, and later to the creation of its vision and subsequent privatization. He played a key role in the stock exchange listing of BorsodChem shares. He was CEO of TVK from 2001, MOL Group Planning & Controlling Director from 2003 and from September 2004, until his appointment as Group CEO in 2011, he was the Group deputy CFO of the Company Group. Between 2004 and 2008 he was a Board member of Slovnaft A. S. Between 2001 and 2011, he was a Board member of TVK, and he has also been a member of INA Supervisory Board since April 2010 and the member of FGSZ Ltd. Supervisory Board since May 2011.

PÉTER RATATICS

Graduated in economics from Corvinus University Budapest in 2006. In the MOL Group, he started as an expert at the Gas Trading and Business Development organization, then he was head of the MOL-Group Management Support organization until 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 was Director of Corporate Centre of the MOL-Group and elected as member of the Supervisory Board of FGSZ Ltd. and on 25 May he was elected Vice Chairman of FGSZ Ltd. 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. A member of FGSZ Ltd. Supervisory Board since September 2012.

GÁBOR FETT

Since 1995 he has held various engineering positions at FGSZ Ltd. Kápolnásnyék Transmission branch office and its predecessors. From 2004, he was head of the Technical Supervision Unit. Currently Technical Supervision Unit Manager engineer and deputy to the Responsible Technical Director at the Kápolnásnyék Natural Gas Transmission Plant. Since 1999, member of the "Unity" Trade Union and its legal predecessor, which delegated him to the Supervisory Board when FGSZ Natural Gas Transmission Ltd. was established. Since 2004, he has been a member of the Supervisory Board as employee delegate.



## ISO CERTIFICATE

Certificate HU97/10106

The management system of

### FGSZ Földgázszállító Zrt.

H - 8600 Siófok, Tanácsház u. 5.  
H - 2475 Kápolnásnyék, Pf. 2.  
H - 8981 Gellénháza, Pf. 5.  
H - 4201 Hajdúszoboszló, Pf. 30.  
H - 2220 Vecsés, Pf. 2.  
H - 6001 Kecskemét, Pf. 61.  
H - 3501 Miskolc, Pf. 200.

SGS



has been assessed and certified as meeting the requirements of

### ISO 9001:2008

For the following activities

Transportation of natural gas. System management.

Further clarifications regarding the scope of this certificate and the applicability of ISO 9001:2008 requirements may be obtained by consulting the organisation

This certificate is valid from 25 June 2012 until 24 June 2015 and remains valid subject to satisfactory surveillance audits.

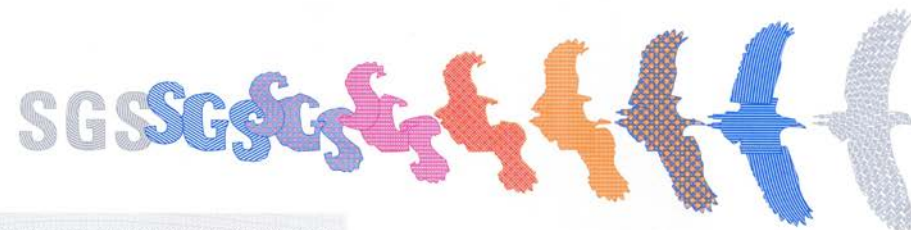
Re certification audit due before 14 June 2015  
Issue 11. Certified since 25 June 1997

Authorised by

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Rossmore Business Park Ellesmere Port Cheshire CH65 3EN UK  
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## OUR CONTACTS

FGSZ Ltd. operates a Customer Service Office for its contractual partners. Should you have any queries related to the use of natural gas transmission and system operation services, please do not hesitate to contact us.

Customer Service Office  
Seat: H-8600 Siófok, Tanácsház u. 5. ground floor 3.  
Mailing address: H-8601 Siófok, P.O.Box 102  
Telephone: +36 (84) 505-117  
Telefax: +36 (84) 505-592  
E-mail: [info@fgsz.hu](mailto:info@fgsz.hu)  
Opening hours:  
Tuesday, Thursday: 1.00–4.00 p.m.  
Monday, Wednesday, Friday: closed

The Information Office will reply to queries related to pipeline construction projects and other issues related to Company activities.

Information Office  
Seat: H-8600 Siófok, Tanácsház u. 5. ground floor 3.  
Mailing address: H-8601 Siófok, P.O.Box 102  
Opening hours:  
Tuesday, Thursday: 7.30–10.00 a.m.  
Monday, Wednesday, Friday: closed

The dispatcher service should be contacted about day-to-day operational issues (24-hour service) through the following contact points:

Dispatcher Centre  
Telephone: +36 (84) 505-777  
Telefax: +36 (84) 505-217  
E-mail: [fri@fgsz.hu](mailto:fri@fgsz.hu)

The website of our company is accessible at: [www.fgsz.hu](http://www.fgsz.hu)







[WWW.FGSZ.HU](http://WWW.FGSZ.HU)