

Annual Report 2007

FGSZ Ltd.



NATURAL GAS TRANSMISSION
MEMBER OF THE MOL GROUP



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Background

FGSZ Natural Gas Transmission Closed Company Limited by Shares (hereinafter referred to as “FGSZ Ltd.”) is the dominant player of the natural gas transmission in Hungary.

MOL Plc. has been the sole owner of 13,209 ordinary shares, with a 1,000,000 (one million) Hungarian Forint par value per share of the company, since the date of foundation.

FGSZ Ltd. conducts its operations in a regulated market controlled by law, as provided at the international level by EU Directive no. 55/2003 regarding internal natural gas markets, and also by Order no. 1775/2005/EC, which stipulates conditions of access to natural gas transmission networks.

Act XLII of 2003, the Gas Supply Law (hereinafter referred to as the GSL), amended several times, and its rules of implementation (issued by Government Decree) prescribe, in line with EU legislation, conditions for domestic operations. FGSZ Ltd. was established to pursue licensed operations in accordance with Points a), h) and i) of Article 7 of the GSL, operations that include the following: natural gas transmission; system operations (TSO); access to the cross-border natural gas transmission pipeline. FGSZ Ltd. has been pursuing natural gas transmission; system operations (TSO); access to the cross-border natural gas transmission pipeline operations since January 1st, 2004, pursuant to the GSL.





CEO's letter

Dear Reader,

We closed a very successful year as 2007 had outstanding results both in business and professional aspects, much better than any of the previous years. We could expand our operating environment with several new activities, and we also managed to implement a major headcount increase process.

At the same time we could ensure uninterrupted and smooth gas supply throughout the year for the domestic consumers and re-sellers, as well as for our Bosnian and Serbian partners.

Our financial indicators can confirm these successes: FGSZ Ltd. reported HUF 29.4 billion operating profit and HUF 18.6 billion net profit in 2007.

We could realise these excellent results as a consequence of the following factors: favourable changes in the regulatory environment around the natural gas market, profitable operations of our company and more advantageous external economic circumstances but most importantly results of implementation of our strategy.

We spent a significant amount for new projects, namely HUF 22.4 billion.

We continued the reconstruction of our compressor stations in order that they can fully comply with the strict EU standards for emission of air polluting gases.

We launched several projects aiming at capacity expansion, and they can facilitate better supply for domestic demands and increasing demands for gas transit, in addition to securing gas supply for the new strategic gas storage.

We will increase the domestic import transmission pipeline capacity with 30 mcm/day from first quarter of 2009 and thus will be able to import more gas. The new pipelines will increase the import capacities by 25%, consequently the security of the country's gas supply and market competition will be significantly improved, and furthermore they will enable us to embrace a more proactive role in joining the gas transmission businesses in the future.

The Company started the implementation of an active market creating policy in the region, in line with our strategic objectives. As the domestic market is relatively saturated, we now focus on capturing new transit markets in order that results can keep on growing.

In 2007 we began negotiations to construct transit pipelines with Romania and Croatia, and we plan to complete these pipelines by the end of 2010.

When the said gas transmission systems are inter-connected, the security of gas supply will be significantly improved and market competition enhanced.

These targets were the key motivations for coming out with our international initiation unique in Europe, launched at the beginning of December.

The NETS (New Europe Transmission System) Project is aiming at the establishment

of a new, independent gas transmission company as a result of integrating the gas transmission systems in Central and Eastern Europe. This new multi-national company would be an attractive target for capital investors, as it could accelerate the developments to the infrastructure, result in new international inter-connections, create added value, while at the very same time enhance competition and improve the security of gas supply in the region.

This new company would have one of the largest transmission networks in Europe, and could get easier access to the international capital markets for financing its projects.

The concept fits well MOL Group's strategy, creates value for the shareholders, and is in full harmony with the draft EU directive aiming at the ownership unbundling, which would enhance competition and serve the interests of gas consumers. The European Commission is very supportive to the project and so are the national energy agencies as well.

FGSZ Ltd. will face major challenges in the future, and one of the best guarantees for meeting them is our experienced and highly professional expert team. As we have an extremely skilled, prepared and experienced expert pool we will be able to implement our targets derived from MOL Group strategy for natural gas transmission.

May I take this formal opportunity and express my sincere thanks, also on behalf of our Management, to my colleagues, as their work and contribution improved the reputation of the gas transmission, and let me express my appreciation to our business partners for their ongoing trust and confidence.

Phd. János Zsuga
CEO



Our activities

The seat of the company is in Siófok. The company owns and operates the high-pressure natural gas transmission pipeline system covering the territory of Hungary, as well as it coordinates, as the sole holder of the TSO licence, the operations of the total natural gas system. In addition it is also pursuing natural gas transit operations, presently to Serbian and Bosnian partners, but it is permanently striving for expanding the transit markets.

This high-pressure pipeline system supplies natural gas to 8 gas distribution companies and the power plants and large industrial consumers directly connected to the gas transmission grid.

The company’s primary responsibility is ensuring safe, uninterrupted and optimal operation, maintenance and development of the high-pressure transmission pipeline system, including off-take and delivery of natural gas transmitted along the high-pressure pipeline to and from shippers, measurement of the quantity and quality of gas transmitted, provision of central gas odourisation, pressure regulation and protection against over-pressure.

The Company can look back to a nearly 70 year-old history and during the past four decades it has become modernised at an increasing rate.

FGSZ Ltd. is performing its natural gas transmission responsibility at high level of security, in non-discriminatory and environmentally-friendly manner and satisfying high technical standards. It can permanently decrease the load exerted to the environment through permanently developing the natural gas transmission technology.

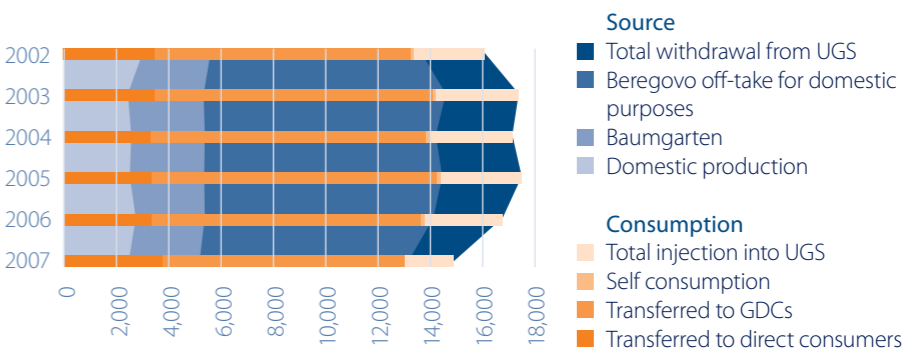
Based on international benchmarks, the Hungarian gas transmission system is one of the best in class regarding its technical performance.

Key financial and business data

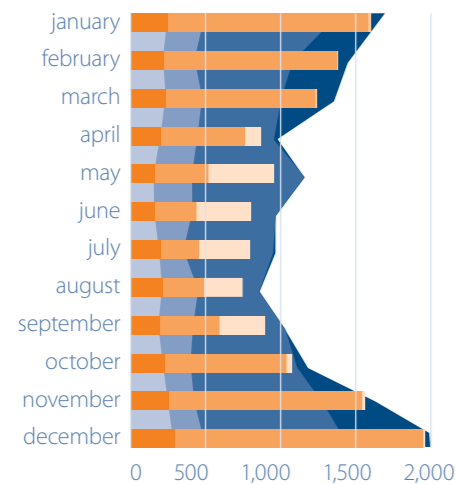
Description	2006	2007	2007/2006 (%)
Net revenue of sales	74,392	75,130	101.0
EBITDA	40,377	42,515	105.3
Operating profit	27,703	29,419	106.2
Gross profit (before taxation)	20,916	20,614	98.6
Net profit (after taxation)	19,678	18,551	94.3
Operating cash flow	31,256	42,615	136.3
Investments and projects	204,553	212,154	103.7
Return on average capital employed (ROACE) %	12.43	12.61	101.4

Domestic transmission

Natural gas sources and consumption data during 2002-2007 (Mm³ 15°C)



Monthly figures of natural gas sources and consumption in 2007 (Mm³ 15°C)



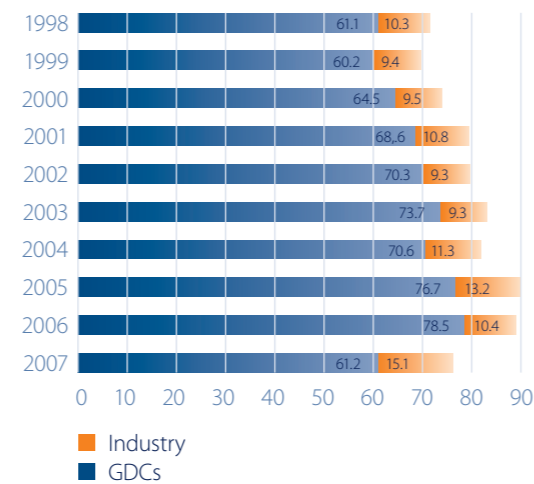
Source

- Total withdrawal from UGS
- Beregovo off-take for domestic purposes
- Baumgarten
- Domestic production

Consumption

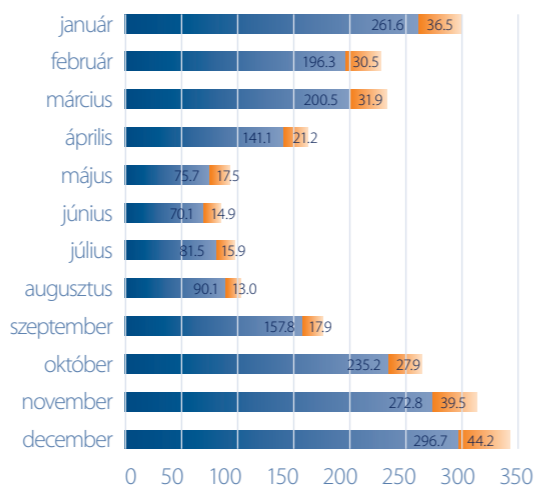
- Total injection into UGS
- Self consumption
- Transfer to distribution system
- Transfer to direct consumers

Daily peak consumption figures during 1998 and 2007 (Mm³ 15°C/day)



- Industry
- GDCs

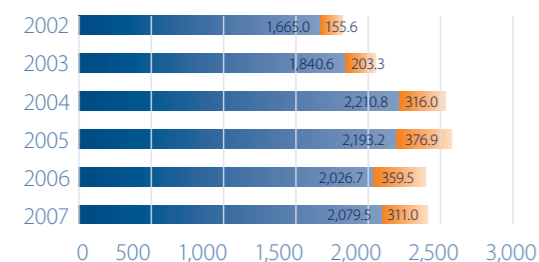
Monthly transit volume figures in 2007 (Mm³ 15°C)



- Transit supply Energoinvest d.d./BH-GAS d.o.o.
- Transit supply JP SRBIJAGAS

Transit transmission

Transit volume figures during 2002-2007 (Mm³ 15°C)



- Transit supply Energoinvest d.d./BH-GAS d.o.o.
- Transit supply JP SRBIJAGAS

The Company has the following main responsibilities:

- Providing transparent and non-discriminatory access to the transmission pipeline system
- Safe, uninterrupted and efficient control and operation of the overall natural gas system and the management of gas quantity settlements
- Sale of the natural gas transmission system's entry and exit capacities and conducting capacity management
- The receipt and processing of nominations relevant to the transmission system
- Providing safe and efficient transmission system operations, in compliance with prevailing environmental requirements
- Performance of measurements to determine the quantity and quality of natural gas transmitted
- The development and operation of the transmission system process information technology platform
- The maintenance of the technical level of the transmission system
- The expansion of the transmission system in line with shippers' demand - as approved by the Hungarian Energy Office
- Natural gas odourisation in compliance with the quality standards prescribed by law
- Performance of the obligations arising from transit contracts
- Providing data to contracting partners and the authorities that supervise the Company's activities as prescribed by law and the Business & Commercial Code.

Major events:

- The capacity commitment of the natural gas transmission system at the entry points was 100% in 2007. We could ensure safe, firm and uninterrupted natural

gas transmission both for the domestic consumers and re-sellers as well as for our Serbian and Bosnian partners throughout the year.

- We launched projects aiming at capacity expansion, and they can also support supplies for the strategic storage in addition to satisfying the transmission needs for increasing domestic consumption and transit operations.
- We launched an initiative to establish a new independent regional gas transmission company for integrating the gas transmission networks in Central and Eastern Europe.
- In 2007 we completed the full-scale reconstruction of the key compressor stations at Városföld and Nemesbikk, and, as a result, we can ensure full compliance with the strict EU emission limits imposed on air polluting gases.

Major results in 2007

Capacity expanding projects

— construction of new pipelines

We need to expand the import capacity for meeting the ever-increasing domestic gas consumption demands and securing the gas fill-up in the strategic storage. As part of these efforts, we started to construct a 5 km long (DN1400, PN75 bar) pipeline between the Ukrainian-Hungarian border and Beregdaróc, and another 125 km long (DN1000, PN63 bar) line between Beregdaróc and Hajdúszoboszló.

An 80 km long (DN1000, PN63 bar) pipeline between Algyő and Városföld nod, and a custody transfer metering station are being built. These facilities will secure the capacities required for the gas fill-up for and withdrawal from the strategic storage.

Another pipeline (DN800) is under construction between Pilisvörösvár and Százhalombatta, and it will complete the

pipeline ring that will improve the security of gas supply for the capital. The completion of the ring has been planned for many years.

The said new pipelines will present 25% growth in the domestic inlet capacities, and this has outstanding significance and will improve both the security of supply and the competition in the market. In addition, they will enable us to enjoy a more pro-active role in the future natural gas transmission businesses.

New strategic opportunities – NETS Co.

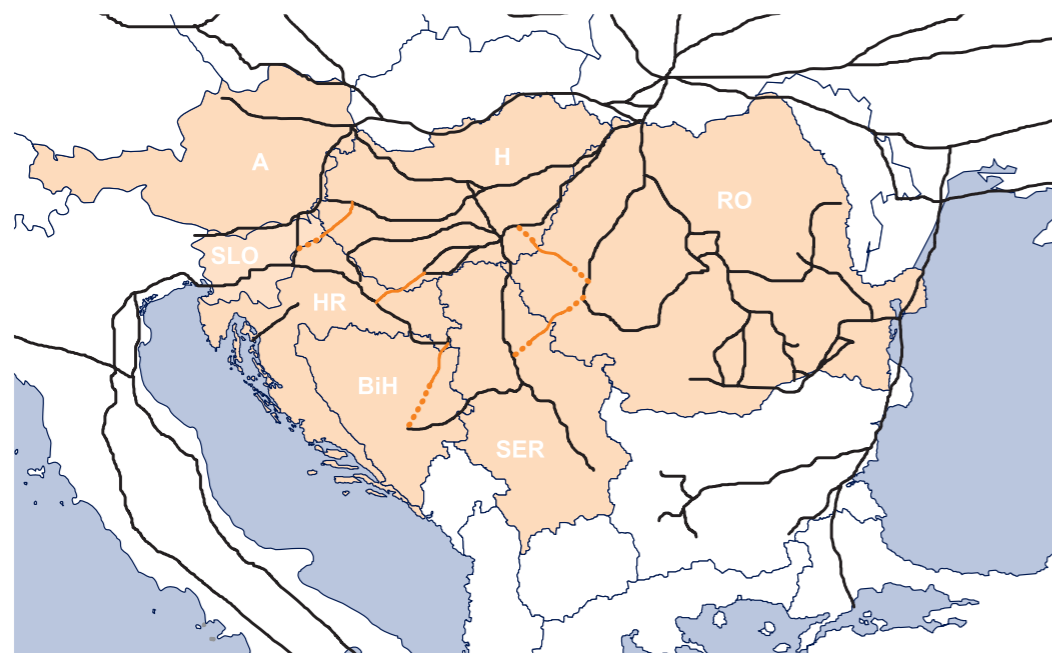
In December we initiated the foundation of a new, independent regional gas transmission company with the purpose to integrate the gas networks in Central and South-eastern Europe. Consultations started with the gas transmission companies of Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Romania and Austria.

Integration of the gas transmission assets that are at present operating in isolation and controlling them under one single joint ownership and management structure, and,

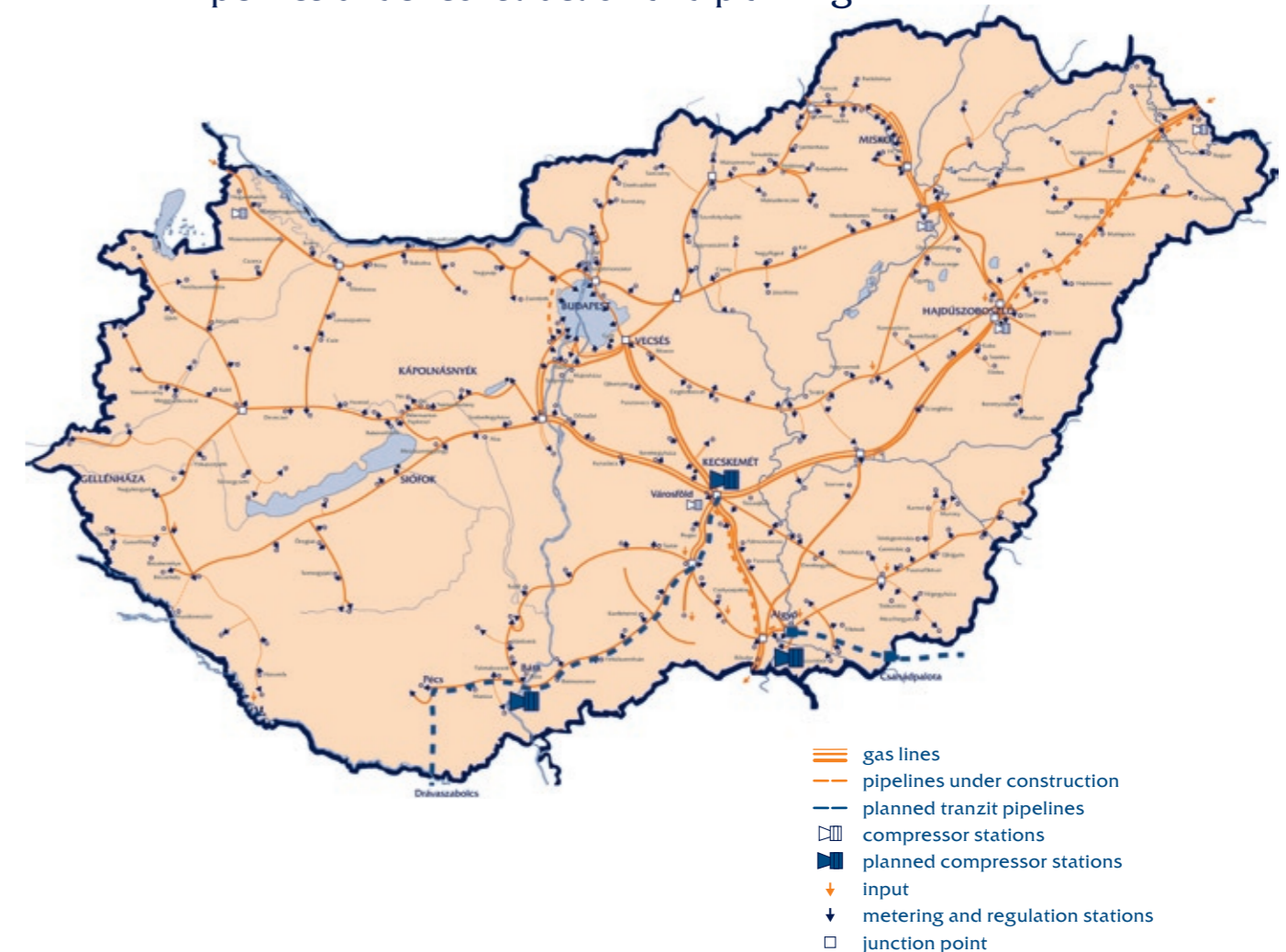
at the same time, unbundling them from the gas trade and production operations would create for the shareholders significantly higher value than if such assets and systems continue to be operated by the relevant national companies. Consumers would enjoy a higher level security as a result of such integrated gas supply platform.

This new integrated company would own and operate one of the largest transmission networks in Europe and would be able to exploit the synergies arising from the operations of the integrated assets, combined procurement and purchase, and project implementation. The new, leading “blue-chip” gas company would get better and easier access to the international capital markets for financing its large-scale projects (see the planned Nabucco pipeline).

This proposal perfectly fits MOL strategy, as it creates value for the shareholders, and is in full harmony with the draft EU Gas Directive aiming at the unbundling of ownership, and which is to support competition and the consumers' interests.



Natural Gas Pipelines System of FGSZ Ltd. Pipelines under construction and planning



Outlook

As transmission demands for transit operations keep on increasing we need to develop the cross-border capacities. In 2007 we held negotiations on the construction of a transit pipeline towards Croatia and Romania, respectively. We planned these facilities in such a way so that they can transmit gas to and from both directions. The CAPEX need for the first pipeline is nearly HUF 62-65 billion, depending on the various options, and the planned commissioning date is 2010. The Hungarian section of the pipeline to Romania will require some HUF 9 billion CAPEX and it will be completed by the end of 2009.

The security of gas supply will significantly improve as a result of inter-connection of the Hungarian and the Croatian and the Hungarian and the Romanian gas transmission networks, because the sources of supply will be expanded and securing safe gas supplies for the increasing consumption demands will thus be more efficiently supported. This will also enhance the competition in the gas market, in addition to a genuine source diversification.

Infrastructure

The high-pressure natural gas transmission system is nearly 5,300 km long and covers practically the whole territory of Hungary. Typical pipe diameter is 100-800 mm with an average age of 25 years, the operating pressure varies between 40-75 bars.

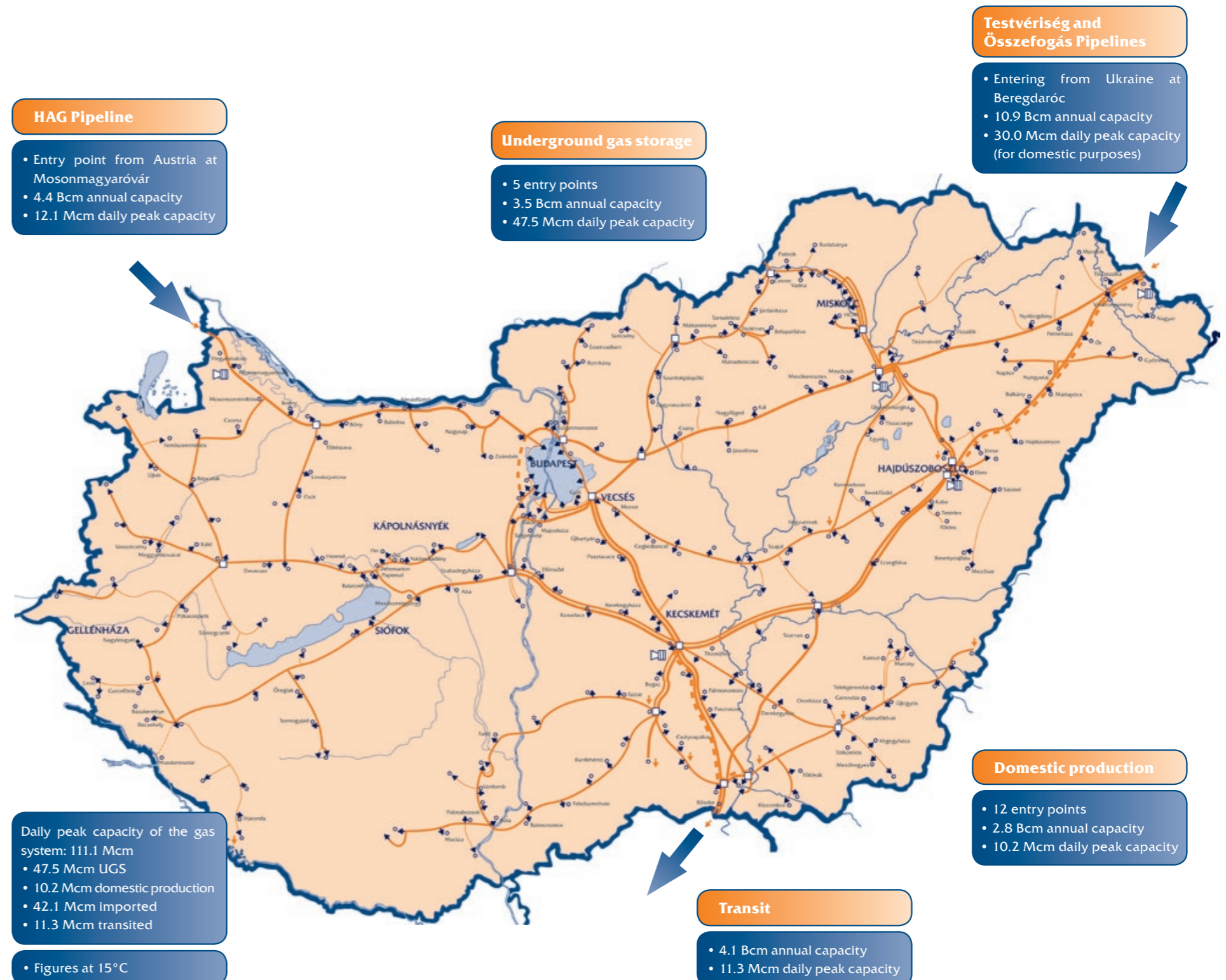
The transit transmission network is 323 km long. Gas is fed into the Company's high-pressure pipeline system through 2 entry points from import sources, 12 entry points from domestic gas fields, and 5 entry points from domestic gas storage facilities.

Compressor stations, built into the pipeline system (of the centrifuge-type and gas turbine driven), boost gas pressure, thus increasing system capacity, and transmit gas through the pipeline to customers. Presently, five compressor stations are in operation. The main natural gas transmission nodes, located at the pipeline network's connecting points, distribute and supply natural gas between and to distribution network pipelines.

Natural gas transmitted through the pipeline system is delivered to gas delivery stations. Currently, there are 394 such stations in operation, their most critical function being constantly to deliver and transfer gas, in a controlled way, to the operators of connected systems and to directly-supplied large industrial consumers. Quantity of natural gas in transmission is continually measured and the quality controlled at every entry and exit point.

In 2007, the Company's system annual transmission capacity amounted to 25.2 billion m³. Total quantity of gas received for domestic purposes reached 15.31 billion m³ (of that gas withdrawn from storage was 2.24 billion m³) and transit quantity reached 2.40 billion m³. Imports of gas for domestic purposes totalled 7.89 billion m³ through Beregovo at the Ukrainian-Hungarian border and 2.61 billion m³ through the HAG pipeline at the Hungarian-Austrian border, whilst the quantity received from domestic production amounted to 2.57 billion m³.

The Company's Siófok-based head office houses all corporate management and control functions. In addition, we have six regional natural gas transmission branch offices (at Gellénháza, Hajdúszoboszló, Kápolnásnyék, Kecskemét, Miskolc and Vecsés) for day-to-day operations.





Our partners committing capacity in our transmission system

Domestic shippers in 2007	Type of trader
E.ON Földgáz Trade Zrt.	public utility wholesaler
TIGÁZ Zrt.	public utility wholesaler
ELMIB Zrt.	open/competitive market trader
E.ON Földgáz Trade Zrt.	open/competitive market trader
EMFESZ Kft.	open/competitive market trader
Égáz-Dégáz Zrt. (earlier Édenenergia Kft.)	open/competitive market trader
FŐGÁZ Gázkereskedelmi Kft.	open/competitive market trader
Global NRG Kereskedelmi és Tanácsadó Zrt.	open/competitive market trader
MOL Energiakereskedő Kft.	open/competitive market trader
Shell Hungary Zrt.	open/competitive market trader
TIGÁZ Zrt.	open/competitive market trader
Nitrogénművek Zrt.	eligible consumer
MOL Nyrt. KTD	with access as gas producer

Transit shippers in 2007	Country
JP Srbijagas	Serbia
BH-GAS d.o.o.	Bosnia and Herzegovina
Energoinvest d.d.	Bosnia and Herzegovina

Corporate values

2007 was an outstandingly significant year for the implementation of the Company’s Sustainable Development Strategy. We had to achieve our key targets, including meeting shareholder expectations and the maximisation of profits, while ensuring that our activities also had to provide positive social and global impact in the long run. We also reacted to global challenges with a business and environmental strategy that gave special priority to our impact on society.

Our investments focus on social responsibilities

Our Company devotes particular attention to young talent management. We provide financial support to various medium and higher-level educational institutions with one-off grants paid from the vocational training tax. We regularly organise study tours for students, offering them the opportunity to participate in summer field practice and internships, and to prepare their thesis with the support and guidance of a senior expert of our Company under agreements concluded with these institutions.

In 2007 we donated office furniture as a support to the foundations “For More Valuable Free time and Talent Management” and “Empathy”.

We also organise the traditional “Miners’ Day” celebration, every autumn.

We also regularly support the annual “St. Barbara meeting” (patron saint of oil producers), as well as various other cultural events, for example in 2007 the 16th Golden Shell International Folkloric Festival.

Health, Safety and the Environment (HSE)

Key Performance Indicators (KPI's)

Our Company and its legal predecessors have always been focusing on providing safe and healthy workplace as an issue of key importance. As a result of consequently introduced and developed safety technology system, there has been no fatal accident or serious injury within the natural gas transmission system and at its facilities for more than 15 years. Since we have been focusing on technical improvements and ensuring high-level maintenance procedures, the main source of accidents at our facilities, highly susceptible to fires and explosion, has been that of slips and falls. Our accident frequency (LTIF) in 2007 was 1.45.

Our Company developed a three-year prevention strategy, involving occupation health and safety experts, with the purpose to prevent the occurrence of accidents and occupational diseases.

Another major potential source of accident is transport. Since our natural gas transmission system virtually covers the entire country, our employees have to drive nearly 5 million kilometres per annum for network operation and supervision purposes. The Company provides up-to-date vehicles and organises regular driving courses to improve road safety, and we are proud of our 1.7 RAR score, (the number of accidents per 1 million kilometres driven), a figure which compares very favourably with international performance.

Measurement of exposure to danger at our workplaces

Our Company orders regular measurements at our workplaces by professional institutions to identify the precise level of employee exposure to noise and dangerous materials. The goal of such measurements and surveys is to identify the exact exposure levels for our

employees regarding noise and dangerous compounds. Then we identify the necessary preventative measures in cooperation with an occupational health service provider (FÖNIX-MED Plc.)

We are also focusing on the involvement of the employee representatives such as trade unions, the Labour Safety Committee and providing adequate training for the safety representatives in this area.

Emission of greenhouse gases

Our Company operates 5 compressor stations, each are subject to the October 13th, 2003 European Parliament & Council Directive no. 2003/87/EC, which established the greenhouse gas emission unit trading system within the Community. The emission quota defined for 2007 in the National Allocation Plan amounted to 150,598 tons. Since weather-dependent use of gas by households is the dominant factor in Hungary's total natural gas consumption, estimating natural gas consumption and compressor station CO₂ emissions is a major challenge. We receive technical support from MOL HSE and Finance Department when conducting transparent and traceable CO₂ quota trading.

Improvements to our compressor stations

In 2007 we could complete the modernisation of our compressor stations with higher than permissible emission levels. The new installed compressor units can fully meet the best available technology (BAT) and comply with rigorous EU emission limits laid down for greenhouse gases such as CO and NOx. We were able to ensure compliance with EU law at our Nemesbikk and Városföld facilities by replacing the compressor stations, whereas at Beregdaróc we only needed to replace some compressor station parts. As a result of this project, the specific gas energy consumption of the compressor units significantly decreased as a percentage of natural gas transmitted.

Our noise measurement programme

As towns and villages constantly develop and expand, residential areas and buildings have gradually crept closer and closer to the Company's gas delivery station locations, and our operations have to comply also with the expectations of the local communities. Therefore, we launched a noise protection programme to avert complaints from the general public. The programme has the following three key elements: to prepare and evaluate noise maps of towns and villages, and then to explore and investigate, in cooperation with certain research institutes, opportunities to reduce noise. Between 2004 and 2007 we completed noise maps for 40 facilities, and produced a technical study, in collaboration with the University of Miskolc, as a statutory element for the expansion and reconstruction of these facilities to reduce noise generated by our gas transmission machinery there.

Reduction in the quantity of dangerous materials

The Company produces dangerous materials at a rate of 120-180 tons per annum - 157 tons in 2007. Therefore we implemented

certain actions to reduce the quantity of dangerous waste, such as: transformation of the compressor station oil gathering system into a closed system, replacement of gas heating technical unit liquids by another less hazardous medium. The cause for higher quantity of dangerous waste was the need to secure compliance with the technological discipline during natural gas transmission pipeline cleaning operations. Damages caused by third parties to our facilities generate 1-3 tons of highly dangerous waste materials per annum, mainly as a consequence of leaks and effluents from damaged odorisation technology.

Introduction of mobile (portable) separators for pipeline cleaning operations resulted in significant benefits both in the area of environmental protection and safety of operations. With the help of mobile separators we can highly efficiently separate the solid and liquid polluting materials in natural gas and following the completion of the operation, the dangerous compounds can be immediately transported to the remediation or neutralisation plants.

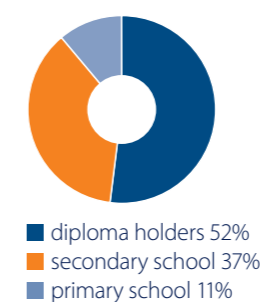




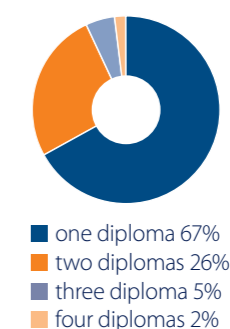
Human values

We can only remain successful in a competitive market if we have highly-qualified, committed and performance-oriented employees. Efficient application of our human resources is a key priority in our Company in order that we can at high level implement our corporate and individual targets. Our employees are qualified experts with high professional standards and vast experiences. The Company's qualifications profile can, inter alia, clearly reflect this - 52% of our employees have degrees, and 33% of them more than one.

Education and training chart in 2007



Diploma-holder employees – 2007



Elements of the human resources management

Main process	Related processes
Human resources planning	Planning (manpower, job) evaluation
Job analysis and evaluation	Categorisation/grading review
Recruitment and selection	Selection
Development and advising/ consultancy	Competence management Performance management Knowledge management Career planning
Remuneration and rewards	Collective Agreement Welfare and Social Agreement
Succession planning	Identification of key positions DMS Talent program
Labour relations	Workers Council Trade unions

Our Company prepares a three-year headcount plan in accordance with our business strategy, and adjusts its HR activities accordingly.

The manager of each organisational unit reviews and plans the recruitment, job modification and training needs broken down to every job, based on the manpower requirements.

We run a competitive recruitment system to ensure the manpower with the required competencies, skills, qualifications and personal capabilities.

We select the best candidates for the jobs and position among the nominees through personal interviews and application tests.

In 2007 we hired 73 new employees, among them 37 engineers, 12 holders of other diplomas or equivalent and supported the application of 23 employees for early retirement.

In 2007 we continued the Company's talent management program (launched in 2005) and expanded it with new elements. In this program we select and prepare potential candidates for managerial and expert technical positions at various levels in the organisation. The program was indeed very successful as several young talents were

appointed in key positions that required outstanding professional qualifications and responsibility, and two of them have been constituted middle level managers. We gradually extended the program to also cover all young graduate employees, who were hired after the program had been launched.

In 2007 we introduced a new HAY-based job evaluation, grading and compensation system. As a result, we could identify the relative value levels of each employee and to prepare a job grading system that enabled us to lay down the foundation for a modern incentive system.

We offer our employees the chance to improve and broaden their skills, knowledge and professional competence in general through our regular training programme. Every year we prepare an annual training plan, and it also contains the specific training in the given year for every individual employee.

Main elements of the training system and data supporting the results of the system

Type of training	Results
Labour safety Safety technology Fire protection	Decreasing number of accidents
Technical engineering and design, plan approval in line with Decree no. 12/2004. (II.13.) GKM	Compliance with law
Road safety - driving training	Decreasing number of traffic accidents
Internal technical courses: <ul style="list-style-type: none">• compressor-engineering• metrology• pipeline diagnostics• information systems (NYIR, OTR, KAR)	Higher levels of work performance
Conferences and exhibitions	Professional development
Individual technology training	Acquisition of new technology knowledge

We apply various approaches towards providing incentives to employees, including the benefits prescribed by the Collective Agreement concluded for 2007-2009, our fringe benefits system, rewards, bonuses and our prize and award system. In 2007 we introduced the target-based remuneration system as a new form of recognising the

extraordinary work performance and incentive for better performance. We also maintain a social welfare fund to provide financial support to cultural and sports events and individual aid or subsidy.

We continued also in 2007 the system of regular (semi-annual) senior managerial

visits and personal communication in order that employees can get better, reliable and authentic information. The employee satisfaction survey implemented in 2007 confirmed positive developments also in this dimension.

Our employee satisfaction survey

FGSZ Ltd. has regularly conducted employee satisfaction surveys since 2004. We have employed the services of an expert company for conducting the questionnaire-based poll.

Results clearly showed that the average total satisfaction indicator in the Company kept on increasing. The score was 4.2 in 2004 and it improved to 4.5 by 2007 while the standard deviation remained around 1.0.

As a result of the survey we received valuable feedback from the employees in several areas. Employees identified as key demands for training, internal communication and carrier development opportunities.

We are pleased to note that changes identified in the survey were mostly positive and that Management efforts appear to have paid off since the former issues about communication have faded away.

In summary, based on employee feedback, we can conclude that employee satisfaction has improved in almost every area, and thus the greatest challenge for next year will be to maintain current levels of satisfaction.

In 2007 one of the critical elements of the employee satisfaction survey was the positive feedback for the introduction of the RFID system, supporting the administrative operations of the operating staff. As the survey highlighted, the new IT application could reduce the conflicts arising from the control over the work performance (conflicts of tasks). At the same time it also pointed out the weaknesses in the system, like e.g. stability of the electronic communication contacts. We need to develop this functionality as one of the key actions in 2008.



Quality Assurance

Our Company has been operating an officially certified quality assurance system in compliance with ISO 9001 Standard requirements, since 1997. The agency certifying the system is SGS, widely recognised in the international oil and gas sector, its Hungarian subsidiary being SGS Hungária Ltd. SGS Hungária Ltd. audits the performance and operation of the quality assurance system with semi-annual, and the Mining Bureau of Hungary with annual frequency.





Financial highlights

Management report and analysis of the Company's financial status and operating results

In 2007, FGSZ Ltd. reported HUF 29.4 bn operating profits and HUF 18.6 bn net profits. These fairly high operating profits were achieved as a result of favourable developments in the regulations that determine the natural gas market, profitable business activities and successful achievement of strategic targets, all in addition to more favourable external circumstances.

The main balance sheet figure increased by HUF 14.7 bn due to an increase in projects and cash assets that supported the Company in implementing its strategic targets.

Within total assets, share of equity capital increased from 34.9% to 40.8%, the dominant factor being the higher balance sheet profit figure resulting from a new dividend policy, supporting the implementation of the company's strategy.

The parent company loan decreased from HUF 116.0 bn to HUF 111.2 bn. The main factor in achieving this result, a reduction of HUF 4.8 bn, was the stable profitability of our business operations.

The Company invested HUF 22.4 bn in projects. We had to increase the project spending driven by needs for expanding import capacity based on increasing consumer demands, and completing pipeline and compressor station projects prescribed for 2007 by laws (e.g. construction of the strategic gas storage), and completion of the Budapest gas pipeline ring for enhancing the security of domestic gas supply.

Business environment overview

Developments in the 2007 domestic and regional business environment had a major effect on the Company's business and financial performance.

Growth in natural gas consumption, and thus the volume of domestic gas transmissions in Hungary, came to a halt in the current structure, and demand stabilised. There was no growth partly because higher domestic natural gas prices forced consumers to conserve energy and partly the weather prevailing in the year and partly as the natural gas market becoming saturated.

Further opportunities for expansion in the domestic gas market can be secured

on short term through the establishment of a new market structure supported by the implementation of the strategic gas storage, gas market liberalisation and entry of new consumers, and, on medium term, further expansion in the economy can secure. The Company supports the said processes through the development of the infrastructure (i.e. projects).

The economic development of the Balkan region can enable the regional market to grow, while securing East-West gas transit opportunities will offer market opportunities exploitable on strategic time horizon. This is exactly why the Company launched the implementation of a pro-active market-building policy in the region, in line with our strategic objectives, and initiated to start consultations aiming at the cooperation among the region's gas transmission companies and investigation of collaboration opportunities.

Contribution of our operations to operating profits

Domestic regulation changes and relative stability in the regional market had significant positive impact on the Company's operating profits and on those of the business units added along the way in 2007. Adaptation to these factors permitted us to maintain profitable and stable business operations in 2007.

The domestic transmission business contribution to operating profits was in

line with the regulated rate of return, in accordance with the regulated price regime.

Profitability of other operations was higher than the relevant indicator of regulated operations, thus adding to Company profitability.

FGSZ Ltd. profit components

As a result of the Company's actual revenues and expenditures, our business activities reported operating profits of HUF 29.4 bn.

The Company's net sales revenues derived from the transmission of 17.7 bn m³ of natural gas (calculated at 15 Co).

In 2007, operating costs and other expenditures, along with efficient business management, enabled us to maintain profitable operations.

2007 profits from financial transactions were HUF -8.9 bn, mainly due to interest payable on the parent company loan (HUF -8.9 bn).

The reason for lower extraordinary profits was due to changes in the free-of-charge CO₂ quota accounting (i.e. it was re-allocated as "Other Revenues"), whereas other extraordinary profits were minimal in 2007.

As a consequence of profits from operations, from financial transactions and from extraordinary items, FGSZ Ltd. declared HUF 20.6 bn net profits before taxation, in 2007.

The effects of tax base adjustments, related to differences in depreciation rates applicable

Key figures, in line with Hungarian Accounting Standards (HUF bn)	2006	2007	2007/2006 (%)
Net sales revenues	74.4	75.1	100.9
Operating profits	27.7	29.4	106.1
Net profits after taxation	19.7	18.6	94.4

for pipes as prescribed by Accounting & Taxation Laws, were quite significant for the Company.

Tax payable by FGSZ Ltd. in 2007 was thus 10.0%, the Company enjoying no other tax benefits.

The Company, based on its 2007 business performance, plans to maintain current economic indicators, in line with investor expectations. To meet its targets, therefore, predictability in the business environment and favourable trends will need to prevail in the future. The continuing strengthening of internal efficiency and implementation of our regional strategies, in addition to favourable changes in the external business environment, are together guarantees that will enable us to meet owner expectations.

Other economic performance indicators that measure our efficiency

The Company has positive operating cash flow with considerable funds in hand, and these can support re-payment of the principal of the parent company loan as well as the interest and other cash flow elements.

Among indicators that measure the efficiency of our business activities, our 56.6% EBITDA rate clearly reflects high operating profits in 2007 and shows the combined effects of such profits from the aspects of regulation and depreciation.

The capital efficiency indicator, projected onto operating profits, ROACE, was 12.6%, a figure higher than the recognised rate of return before taxation on domestic transmission assets, i.e. 6.9%, due to the effect of higher rates of return achieved by other operations.





Balance Sheet and Profit and Loss Account

Assets (HUF mn)

Description	2006	2007	2007/2006 (%)
Non-current assets	204,553	212,154	103.7
Intangible assets	2,309	2,203	95.4
Property, plant, equipment, net	202,244	209,951	103.8
Non-current financial assets	0	0	-
Current assets	9,209	16,345	177.5
Inventories	1,224	1,030	84.2
Trade receivables	7,426	7,221	97.2
Securities	0	0	-
Cash and cash equivalents	559	8,094	1,447.9
Pre-paid expenses	156	64	41.0
Total assets	213,918	228,563	106.8

Liabilities (HUF mn)

Description	2006	2007	2007/2006 (%)
Equity	74,604	93,191	124.9
Share capital	13,209	13,209	100.0
Capital reserved	51,717	61,431	118.8
Balance sheet profit figure	9,678	18,551	191.7
Provisions	484	884	182.6
Liabilities	135,284	130,491	96.5
Deferred liabilities	0	0	-
Non-current liabilities	561	598	106.6
Current liabilities	134,723	129,893	96.4
Of which, current liabilities from affiliated companies	129,205	116,073	89.8
Accrued expenses	3,546	3,997	112.7
Total liabilities	213,918	228,563	106.8

Profit and loss account (HUF mn)

Description	2006	2007	2007/2006 (%)
Net domestic sales revenues	59,944	61,237	102.2
Net export sales revenues	14,448	13,893	96.2
Net sales revenues	74,392	75,130	101.0
Capitalised own performance	89	4,638	5,211.2
Other revenues	765	688	89.9
Expenditures — materials	24,578	29,071	118.3
Expenditures — personnel	4,210	4,567	108.5
Depreciation	12,674	13,096	103.3
Other expenditures	6,081	4,303	70.8
Operating profits	27,703	29,419	106.2
Financial transaction revenues	295	427	144.7
Financial transaction expenditures	9,134	9,278	101.6
Of which, interest and interest-type expenditures payable to affiliated companies	8,627	8,884	103.0
Financial transaction profits	-8,839	-8,851	100.1
Business activities — ordinary profits	18,864	20,568	109.0
Extraordinary profits	2,052	46	2.2
Profits before taxation	20,916	20,614	98.6
Tax payable	1,238	2,063	166.6
Profits after taxation	19,678	18,551	94.3
Approved dividend, profit sharing	10,000	-	-
Balance sheet profits figure	9,678	18,551	191.7

Cash flow (HUF mn)

Description	2006	2007	2007/2006 (%)
Profits before taxation	20,916	20,614	98.6
Operating cash flow	31,256	42,615	136.3
Invested cash flow	-10,201	-20,262	198.6
Financing cash flow	-21,809	-14,818	67.9
Change in cash and cash equivalents	-754	7,535	999.3

This is a translation of the Hungarian Report

To the Shareholder of MOL Földgázz szállító Zrt.

1.) We have audited the accompanying 2007 annual financial statements of MOL Földgázz szállító Zrt. ("the Company"), which comprises the balance sheet as at 31 December 2007 - showing a balance sheet total of HUF 228,563 million and a profit for the year of HUF 18,551 million-, the related profit and loss account for the year then ended and the summary of significant accounting policies and other explanatory notes.

2.) We issued an unqualified opinion on the Company's annual financial statements as at 31 December 2006 on 9 February 2007.

Management's Responsibility for the Financial Statements

3.) Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Hungarian Accounting Law and generally accepted accounting principles in Hungary. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

4.) Our responsibility is to express an opinion on these financial statements based on the audit and to assess whether the business report is consistent with the financial statements. We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work regarding the business report is restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

6.) We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

7.) We have audited the elements of and disclosures in the annual financial statements, along with underlying records and supporting documentation, of MOL Földgázz szállító Zrt. in accordance with Hungarian National Auditing Standards and have gained sufficient and appropriate evidence that the annual financial statements have been prepared in accordance with the Hungarian Accounting Law and with generally accepted accounting principles in Hungary. In our opinion the annual financial statements give a true and fair view of the equity and financial position of MOL Földgázz szállító Zrt. as at 31 December 2007 and of the results of its operations for the year then ended. The business report corresponds to the disclosures in the financial statements.

Budapest, 8 February 2008

(The original Hungarian language version has been signed.)

Ernst & Young Kft.
Registration No. 001165

Szilágyi Judit
Registered Auditor
Chamber membership No 001368



Corporate Governance

Board of Directors

Dr. János Zsuga

Graduated at the University of Miskolc, with a degree in gas engineering; earned his Ph.D. at the Sámuel Mikoviny School for Postgraduate Studies, University of Miskolc; 1994-1999, technical engineer at MOL Crude Oil & Natural Gas Transportation Business Unit; 1999-2000, head of MOL Natural Gas Transmission Business Unit's trade dispatcher service; 2001-2003, head of System Operations & Gas Transmission at MOL's Natural Gas Transportation Business Unit and since 2004 Chief Executive Officer of FGSZ Ltd.

István Keresztesi

Degreed in mechanical engineering, gas distribution engineering and engineering-cum-economics; has worked in the gas industry since 1985 for, inter alia, FGSZ Ltd. predecessors, with various company names; 1985-2001, technical engineer at the Kápolnásnyék Transmission branch office then head of operations for the branch office; 2001-2003, Head of System Operations (TSO) Gas Accounting department; since 2003 Director of System Operations (TSO).

Csaba Juhász

Degreed in gas engineering; has been working in the gas industry since 1989 and worked for FGSZ Ltd. predecessors; 1989-1994, technical engineer at the Algyő Plant, then head of operations of the Kecskemét Transmission branch office, 1994-2003; since 2003 Director of Operations.

Supervisory Board

György Mosonyi

MOL GCEO and member of the Board of Directors since July 19, 1999. Chairman of the Sustainability Committee of the Board of Directors. Chairman of TVK Plc. Board of Directors. From 1974 employed by Shell International Petroleum Co. Hungary, then, from 1986 Marketing Director. In 1991 worked at Shell Head Office at London. Between 1992 and 1993 Managing Director of Shell-Interag Ltd., then, between 1994 and 1999 Chairman and CEO of Shell Hungary Co. At the same time, in 1997 Chairman of the Central and Eastern Europe Region, and in 1998 CEO of Shell Czekia. Honourable President of the Joint Venture Association, and Vice-President of the Hungarian Chamber of Commerce and Industry.

Dr. Pál Kara

Director of Law of MOL Hungarian Oil and Gas Plc. Earned his diploma at ELTE University of State and Legal Sciences in 1994 (summa cum laude). Employed at GE Lighting Tungsum Co as company secretary until May 1997, then as legal expert in procurement and marketing. Between 1997 and 2001 Head of HR and Law Department in METRO Holding Hungary Marketing Ltd. From 2001 legal counsel of MOL Co., then Director of Law of MOL Plc. since June 1, 2006. Member of the Trustees of the National Marketing Association (OKSZ), Labour Committee of the Association of Hungarian Industrialists (MGYOSZ), MOL Council of Ethics, and Chairman of the Supervisory Board of the New Europe Foundation since 2006 September.

László Fekete

Managing Director of MOL Group Corporate Services since 2004. Between 1992 and 2000 held various position at Tungsum Co., then, following its acquisition, at General Electric as the legal successor, including plant manager, head of productivity and factory director. Joined MOL Group in 2000. Between 2001 and 2003 as Vice Chairman active participant of Slovnaft's acquisition and integration into MOL Group. Member of Slovnaft Board of Directors, owner's representative towards MOL Group SSC maintenance company and Egerfém Ltd.

József Horváth

Economist and auditor; 1976-1997, held various positions at MOL and its legal predecessors as economist and expert, and, from 1983, as manager; 1997, head of MOL Planning Department and since 2003, head of MOL Planning & Controlling; member of the Hungarian Chamber of Auditors.

István Zsíros

Joined the company in 1983, working at FGSZ Ltd., Miskolc Transmission branch; 1993, earned his degree in electrical engineering; 2003, degreed in engineering-cum-economics; 2004, member of the Supervisory Board of FGSZ Ltd., as employee delegate. Since June 18, 2007 member of MOL Group European Workers Council.

Gábor Fett

Engaged since 1995 at FGSZ Ltd. Kápolnásnyék Transmission branch office and its predecessors, holding various engineering positions; 2004, head of the Technical Supervision Unit; currently, Technical Supervision Unit Manager and deputy to the Technical Director at Kápolnásnyék branch office; 1999, member of the "Unity" Trade Union which delegated him to the Supervisory Board when FGSZ Ltd.'s predecessor was established; member of the Supervisory Board as employee delegate, since 2004.





Contacts

FGSZ Ltd. operates a help desk for the disposal of our contractual partners. Our partners can raise their questions and queries related to natural gas transmission and transmission system operation services at the said help desk.

Help desk

H-8600 Siófok, Tanácsház u. 5., 1st floor, room 108

Postal address: H-8601 Siófok, Pf. 102.

Telephone: +36 (84) 505-114

Telefax: +36 (84) 505-592

E-mail: fgsz.ugyfelszolgalat@mol.hu

Opening hours:

Tuesday, Thursday: 13.00-16.00 hours

Monday, Wednesday, Friday: closed

Should you have any question regarding our pipeline construction projects and other operations please feel free to contact our information desk.

Information desk

H-8600 Siófok, Tanácsház u. 5., 1st floor, room 108

Postal address: H-8601 Siófok, Pf. 102.

Opening hours:

Tuesday, Thursday: 07.30-10.00 hours

Monday, Wednesday, Friday: closed

The dispatching service should be contacted about day-to-day operational issues (24 hour service) through the following contacts:

System operations - Dispatching Centre

Telephone: +36 (84) 505-777

Telefax: +36 (84) 505-217

E-mail: fri@mol.hu