



REGIONAL ROLE

in natural gas transmission and capacity sales

2015
FGSZ LTD ANNUAL REPORT





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KEY FINANCIAL AND BUSINESS DATA

(million HUF)

	2014	2015	2015/2014 (%)
Net sales revenues	108,787	106,638	98.02
EBITDA	58,180	62,000	106.57
Operating profit/loss	40,296	44,133	109.52
Profit before tax	24,298	31,240	128.57
Profit after tax	23,495	29,499	125.55
Operating cash flow	47,893	49,587	103.54
Fixed assets	302,251	290,515	96.12





LETTER FROM THE CEO

DEAR PARTNER, DEAR READER,

REAL CONDUCTORS and the greatest orchestras see the most complicated pieces of music as a challenge worthy to their profession, rather than a difficulty they need to overcome. An opportunity to prove that not only can they play to the best of their ability, but they can also mobilise the untapped resources of their talent in times and in situations which others regard as mission impossible.

The same holds true for the world of economics where the most challenging score is dictated by the circumstances that often change to our disadvantage. In such situations, the key to success lies in the art of adaptation, the three most important criteria of which in the life of a future-oriented company include the recognition of new opportunities, the exploitation of capabilities and operating in a precisely controlled manner.

One of FGSZ Ltd's enduring tradition is that the power of circumstances was never an opportunity for us to go with the flow. On the contrary, we had a good reason to always try and avoid it, knowing that there is only the merest chance of us drifting to the very same place where our mission, responsibilities and intentions lead us.

Of course, when the year 2015 is being evaluated, we cannot deny the difficulties that we had to face. Just like the years before, 2015 presented us with some difficult circumstances and tough challenges too. There are still several unfavourable processes in our operating environment. In Europe, natural gas consumption has been decreasing over the years. The regulatory framework affecting our activity is constantly changing and is getting increasingly complicated, imposing heavier burdens on our Company.

As a combined result of the changes in our operating and regulatory environment, our income from both domestic and transit natural gas transmission suffered a perceptible decline. Our revenues were down almost 2% from last year, thus the annual revenues from our basic activity amounted to HUF 106.6 billion in 2015. In the light of all this, we are really proud of posting a quite successful fiscal year despite our shrinking revenues. As a result of a major improvement in our operating efficiency, our operating profit was HUF 44.13 billion last year, up 9.5% compared to 2014.

I am also proud to report that the efficiency of the professional work performed by our Company is just as good as our financial results. In this context, in 2015 we successfully continued to perform - according to plan - the tasks related to the introduction in Hungary of the new detailed rules on network usage stipulated in the third energy package of the EU, the so-called network codes which provide for the rules of capacity allocation mechanisms

The success of our achievements and our proactive developments is the fruit of the responsible work and the established expertise of our employees. The concerted performance of our staff is a value that is similar to the harmony born from the artistic perfection of the different voices in an orchestra.

(CAM NC) and balancing (BAL NC). For the purpose of implementing the provisions of CAM NC and BAL NC, we successfully prepared our own systems for the change-over, for example, by converting the previous MJ-based accounting system with a 15/15 °C reference status into a kWh-based accounting system with a 25/0 °C reference status calculated with gross calorific value (GCV).

The successful implementation of EU legislation also required the conceptual change of the regulation of the gas industry in Hungary. The fact that the high level of professional competence of our Company proved to be indispensable in this work is something that we consider a recognition of our achievements.

Capitalising on our central regional position, we continue to thrive to be the champions in establishing bidirectional connections with the neighbouring countries for the energy security and the long-term sustainability of the utility costs reduction programme in Hungary, which, at the same time, ensures that diverse delivery routes are set up. Our role and recognition in the natural gas market of the European Union is further enhanced by the fact that after long years of careful professional preparatory work we were the first in the region to launch our international capacity trading service which was successfully introduced in 2015 under the name of Regional Booking Platform (RBP).

As of 11 May 2015, capacity allocation on both cross-border and domestic network points has been done through the RBP in Hungary. Since the application is also suitable for capacity allocations under the CAM NC on any other network points, the RBP was already used by five transmission system operators from four countries last year as a result of our business development efforts. As a proof of how successful our service is, a new member joined our group of users in 2016 and others are also expected to join in.

The success of our achievements and our proactive developments is the fruit of the responsible work and the established expertise of our employees. The concerted performance of our staff is a value that is similar to the harmony born from the artistic perfection of the different voices in an orchestra. We continue to build our corporate culture in the spirit of this harmony and this is what remains to be pivotal in our partner relations as well. Particularly because this is true for all walks of our lives: permanent success can only be derived from future partnerships, the very essence of which is mutual trust and the synergistic effect of harmony.





The background of the image shows a close-up of industrial machinery, likely a steam engine or turbine, with various metal components, pipes, and valves. A large, semi-transparent blue circular graphic is overlaid on the right side of the image. Inside this circle is a network diagram with nodes and connecting lines. Several numerical values are scattered around the network diagram, including 0.0981243, 1.189656, 1.19834, 1.0128639, .347865, 0.3298456, 1.0135001, 1.1908261, and 0.518250. The text 'SERVING REGIONAL ENERGY SECURITY' is centered over the image in a white, sans-serif font.

SERVING REGIONAL ENERGY SECURITY

IN A CENTRAL POSITION

Building on our strategic advantages

THE ENERGY SECURITY and the security of supply of the European Union including countries in the Central European region is one of the key issues of our present and future. Natural gas plays a central role in ensuring this security since its extensive residential and industrial use it is the second most sought after and most favoured source of energy in the European Union.

This considerable demand for natural gas is primarily because of the very good properties of this natural energy carrier. Apart from its versatility, one of its most important strategic

advantages lies in the fact that with appropriately developed and modern infrastructure it can be easily transmitted to huge distances in an extremely safe and environment-friendly way.

The five fundamental criteria for the stability of the national and international gas market are the following: (1.) connecting high-pressure transmission pipeline systems of different countries to each other on a regional level, (2.) ensuring their transparent bidirectional interoperability, (3.) appropriate diversification of sources of supply, (4.) well-planned usage of strategic gas storage options, (5.) and developing systems allowing the integrated and most favourable use of capacities.

FGSZ Ltd considers it a strategic task to ensure energy security and the security of supply to the gas market in Hungary in compliance with the applicable directives of the European Union. Alongside with the modernisation of the Hungarian natural gas transmission network and capacity extension, the objectives of our development policy and the implementation thereof have long been governed by projects ensuring the bidirectional North-South and the East-West interconnections of the high-pressure pipelines in the Central European region. Building on the central position Hungary holds as a result of its central location in the natural gas market and energy policy map of Europe, we have always felt the responsibility to be the initiators in developing the infrastructure of capacity trading service in Europe.

We will make every endeavour to optimise Hungary's natural gas supply possibilities in

line with the current gas market situation, thus assisting in the operation of a competitive market that allows consumers' energy costs to be reduced. All this is also reflected in the infrastructural developments that our Company has implemented in recent years. Following the successful completion of the developments ensuring cooperation possibilities in the field of cross-border natural gas transmission, we have projected the development of our network in Central Hungary and in the north-western parts of the country for the phase of our strategic investment plan until 2023.

FGSZ Ltd considers it a strategic task to ensure energy security and the security of supply to the gas market in Hungary in compliance with the applicable directives of the European Union.

We are especially proud that after long years of professional preparatory work we were the first in the region to launch our international capacity trading service in 2015, under the name Regional Booking Platform (RBP), which earned our Company further recognition in the force field of the EU's natural gas market.



OUR INFRASTRUCTURE IN THE SERVICE OF ENERGY SECURITY

REGARDING THE SUSTAINABLE DEVELOPMENT OF OUR FUTURE, ONE OF THE KEY QUESTIONS IS HOW WE CAN ENSURE SUPPLY SECURITY THAT SATISFIES THE ENERGY DEMAND OF HOUSEHOLDS, PUBLIC SERVICE PROVIDERS AND INDUSTRIAL ENTITIES UNTIL ENVIRONMENT- AND CLIMATE-FRIENDLY TECHNOLOGIES BECOME GENERALLY WIDESPREAD. NATURAL GAS ALSO PLAYS AN ESSENTIAL ROLE IN THIS PERSPECTIVE.

FOR US, THE DEVELOPMENT of our transmission capacities and technological level means more than a simple professional task since our operation has a significant impact on the supply security of Hungary. FGSZ Ltd is Hungary's largest transmission system operator with an ITO (Independent Transmission Operator) qualification complying with EU Directive 2009/73/EC which imposes serious responsibility on our Company. It is only natural for the management and experienced professionals of our Company that they perform their duties in every minute of every day being fully aware of such responsibility.

The volume of natural gas required to ensure continuous supply to network users is delivered in consistent quality and pressure through our modern and highly automated high-

pressure transmission network of almost 5,800 kilometres that runs all over the country. In that context, we are responsible for odorising natural gas delivered to users for safety purposes as per the regulations, for continuously monitoring the quality of natural gas and for measuring gas volume supplied to our partners in a transparent way in compliance with the strictest international standards.

In addition to the consistent implementation of our development strategy, we think that the continuous improvement of the efficiency of our operations is a precondition for us to be able to take advantage of all the opportunities that make the energy security of Hungary and the region sustainable.



OUR TRADITIONS ARE THE PILLARS OF OUR FUTURE

A COMPANY'S REAL VALUE IS ALWAYS ITS EMPLOYEES. IT ENCOMPASSES WORK CULTURE AND A HIGH LEVEL OF PROFESSIONAL COMPETENCE WHICH ARE INDISPENSABLE FOR SUCCESS IN ANY SECTOR OR IN ANY COMPETITIVE MARKET ENVIRONMENT. THIS IS WHY WE ARE REALLY PROUD THAT FGSZ LTD AS AN EXCLUSIVE SUBSIDIARY OF MOL PLC REPRESENTS MORE THAN 70 YEARS OF PROFESSIONAL EXPERIENCE IN THE FIELD OF DOMESTIC NATURAL GAS TRANSMISSION.

THE KNOWLEDGE and expertise of our employees is unique and indispensable in the Hungarian energy industry. Therefore, we believe that it is important not only to maintain the traditions of our work culture, but also to deliberately and carefully adapt and renew such traditions as may be required by the challenges of the age. Professional excellence, mutual collegiality, innovative and can-do attitude, personal and collective responsibility and corporate performance culture based on efficiency are some of our timeless values that we attach great importance to.

As a result of the professional performance of our experts, FGSZ Ltd possesses a transmission infrastructure that is considered to be one of the most modern not only when compared to those of the countries in the region, but also when compared on a European level.

The skills of FGSZ Ltd's nearly 800-strong workforce represent such a significant volume of domestic added-value which is indispensable for not only the business success of our Company, but to the stability of the domestic energy industry.



SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL SUSTAINABILITY

ONE OF THE TOUGHEST CHALLENGES OF THE 21ST CENTURY IS
TO SLOW DOWN THE RATE OF CLIMATE CHANGE CAUSED BY HUMAN ACTIVITY AND
TO KEEP GLOBAL WARMING BELOW 2 DEGREES CENTIGRADE.

OUR COMPANY is aware of the global dangers caused by environmental damage and it has an interest in using its best endeavours within its control to operate in an environmentally conscious manner. Our principle is that every step we take towards sustainable development is an important one, and in this regard, we are ready to become a point of reference in our region.

We fully embrace the values of environmental sustainability and sustainable development, therefore we are ready to ensure that - in compliance with the legislative environment regulating our activities - our network is capable of receiving biogas stocks present on the Hungarian natural gas market. We consider the system-level utilisation of renewable energy sources an opportunity that serves environmental sustainability and energy security at the same time.

These values have a profound influence our everyday lives, our entire operation and development ideas. While operating our plants and implementing our developments, we therefore deliberately strive to protect the assets

of the natural environment, apply solutions that are least harmful to the environment, reduce the environmental impact caused by activity or provide appropriate compensation for damages which may have been caused by our activities and effectively rehabilitate the affected area.


However, we are also aware that the cause of environmental sustainability must go hand in hand with the sustainable development of our country for it to succeed. We monitor international project ideas enhancing the energy security of our region with a view to this principle. In this regard, we believe it would be particularly advantageous to implement the idea of a North-South Gas Corridor, with a particular view to the LNG terminals which would thus become available. Our Company considers it particularly important that this project idea is among the development priorities of the EU's energy policy.

We are similarly interested in and look forward to hearing about ideas on how to exploit natural gas reserves in the Black Sea and also about when and what will be actually



implemented from the successor project(s) of the Trans-Adriatic Pipeline (TAP) or the South Stream. These are issues that are of great importance as far as the long-term energy and supply security of our country as well as the regional role of our Company are concerned, therefore, we are doing our best to ensure that

FGSZ Ltd plays an active role in the international professional cooperation on possible solutions and in developing concepts affecting regional supply security just like it did in drafting the Gas Regional Investment Plan (GRIP) stipulating the EU's development plans.



CHALLENGES OF THE 21ST CENTURY IN THE HEART OF EUROPE

NEW DIMENSIONS IN NATURAL GAS TRANSMISSION

THE TRANSPOSITION OF THE EU'S NETWORK USAGE RULES

WHICH ARE SIGNIFICANTLY DIFFERENT FROM THE RULES PREVIOUSLY IN EFFECT IN HUNGARY HAVE POSED THE GREATEST CHALLENGE TO BOTH DOMESTIC AND REGIONAL GAS SERVICE PROVIDERS IN THE PERIOD SINCE THE TURN OF THE MILLENNIUM.

OUR COMPANY began preparations as early as in 2011 for the practical implementation of the policies regulating the new network usage which had to be started by all EU member states by 2015 at the latest, and we started getting our systems ready for the required changeover. As a highly important step of the conversion and in conformity with Regulation (EU) 984/2013 effective as of 3 November 2013, we have developed our Regional Booking Platform (RBP)

model - having a GRI Pilot Project status - which, besides its numerous advantages, has greatly facilitated the shared allocation of bundled capacities with other system operators. Its operation is characterised by favourable transaction fees and clear and transparent rules that uniformly apply to everyone, it enables the interconnected transmission system capacities to be distributed quickly and simply among the applicants at cross-border points.

A further benefit of using the Regional Booking Platform, which first went "live" at the Hungarian-Romanian border, in support of the integration processes between the gas markets of neighbouring gas markets, is to guarantee that the capacities on the entry and the exit side will be brought in sync at the borders in question. In addition to capacity synchronisation, the model can also help converge the gas market prices of the individual countries. As for the domestic market, this could result in the positive effect in the near future that the Hungarian gas prices move towards the lower tariffs of the neighbouring countries.

In compliance with the national legislative and regulatory background, capacity allocation

on both cross-border and domestic network points has been done through the RBP in Hungary since 11 May 2015. This application is suitable for conducting capacity allocation procedures that comply with the procedure under the CAM NC not only at the cross-border or internal points found in our system, but also at any other point in the network, even those independent of the cooperating domestic natural gas transmission network. Besides our Company, the RBP was used by four other natural gas transmission companies within the EU in 2015: Eustream from Slovakia, Transgaz from Romania, Plinacro from Croatia and MGT from Hungary. Bulgartransgaz from Bulgaria joined in 2016 and negotiations with other TSOs are also underway.



COUNTRIES OF THE REGIONAL BOOKING PLATFORM

The RBP is suitable for conducting capacity allocation procedures that comply with the procedure under the CAM NC not only at the cross-border or internal points found in our system, but also at any other point in the network, even those independent of the cooperating domestic natural gas transmission network.



- Joined in 2015
- Joining in 2016
- Negotiations pending

NO ONE CAN SUCCEED ON ITS OWN

THE PERSONAL RESPONSIBILITY AND DEDICATION OF OUR HIGHLY QUALIFIED AND INNOVATIVE EMPLOYEES ARE INVALUABLE ASSETS THAT PROVIDE A FIRM BASE FOR US TO MEET THE CHALLENGES OF THE FUTURE.

WE CONSIDER the experience and professionalism of the cooperation between employees in solving everyday routine tasks and also in dealing with crisis, if any, to be one of the most valuable assets of the Company. Safeguarding such a unique asset of expertise is considered our priority. In addition to protecting collective professional knowledge, our employees are also regularly given the opportunity to extend their specialist knowledge and experience by learning the latest and the most state-of-art knowledge of the profession.

In the light of our strategic role in the energy security of the country, the reliable operation of our Company is another important pillar of our vision of the future together with the world-class knowledge base. Our stability is only possible if we manage our resources in a careful, transparent and proactive manner, and if we continuously search for and implement sustainable and economically operable developments and investments. If we assess and utilise all the values of the local and regional

infrastructure, we can fully comply with the changing market circumstances, as well as the changes in the regulatory environment.

In defining our long-term and short-term objectives, we always keep in mind the eternal truth that no one can succeed on its own: only if we work in cooperation with our surroundings, can we achieve lasting results. With a view to this, we use our best endeavours to have mutually successful relationships with the communities that are affected by the operation of our Company. We believe that sustainable development is the way for our future, and it is our specific task to use all the means available to us to raise and enhance awareness about the importance of the environment.



KEY REGIONAL ROLE

Efforts to consolidate domestic energy security

IN 2015 OUR EXPERTS continued to ensure the uninterrupted supply of natural gas all around the country according to the already customary high standards by effectively operating our facilities and by creating and maintaining the required operation security.

Natural gas from both domestic and foreign production is received and transferred at 20 domestic, 4 cross-border entry points and nearly 400 exit points on our high-pressure natural gas transmission line which is an important factor in ensuring energy security in Hungary. In case of all entry and exit points, we pay particular attention to apply appropriate quality control protocol and authentic measuring requirements in compliance with the applicable law.

The safe and continuous operation of the network of 5,782 kilometres covering the whole territory of our country is ensured by the coordinated work of 6 regional centres

and 6 compressor stations, as well as their experienced and competent coordination by the system operation centre in Siófok. The work in our main centre in Siófok and in our regional centres in Gellénháza, Hajdúszoboszló, Kápolnásnyék, Kecskemét, Miskolc and Vecsés is assisted by our modern compressor stations in Beregdaróc, Hajdúszoboszló, Mosonmagyaróvár, Nemesbikk, Városföld and Bába. Our main centre is responsible for the integrated supervision of the pipeline system and also for controlling system processes, our regional centres coordinate the natural gas transmission networks within their territories, while our compressor stations ensure even pressure in the pipeline system and also reliable natural gas supply to users.

The natural gas required to meet the current household demands is delivered to the consumers through almost 400 gas delivery stations which, under strict and uninterrupted

Dominant presence in the region

The developments implemented in recent years have further enhanced the regional importance of our Company. We are encouraged by both our responsibilities in Hungary and by our role in the Central European region and we strive to receive and supply natural gas at as many entry and exit points as possible, thus creating greater energy security not only for the country, but also for the neighbouring countries as well. In 2013, we reached a major milestone of this tendency: We were given the chance to transmit natural gas towards Ukraine, and in July 2013 we first introduced the so-called backhaul transmission which, by netting the transmission tasks in the opposite direction, we provided the opportunity for virtual transmission from Romania. As of February 2014, the conditions for actual physical supply have also been provided. In the same year, the natural gas transmission system of Slovakia was also connected to the Hungarian high-pressure natural gas transmission network in the framework of an investment by MGT Zrt.: the pipeline is connected to the pipeline system of FGSZ Ltd at the hub in Vecsés. Transit services were provided for Serbia and Bosnia-Herzegovina and transfer services for Romania, Croatia and Ukraine in 2015.

20 domestic entry points

6 compressor stations

397 gas delivery stations

control, provide the required volume of natural gas to operators connected to our system and also to industrial and power plant users. Consumer demand which varies according to the current season because of the continental climate we live in, requires our Company to provide significantly more gas in the winter season which we can satisfy with the help of the underground gas storage facilities

connected in five places to our high-capacity natural gas transmission pipeline network.

The average age of the pipelines in our high-pressure natural gas transmission line incorporating state-of-the-art technological innovations in the region, is less than 25 years, their diameter is between 100 and 1,400 mm and their typical operating pressure is 40–75 bar.

TECHNOLOGICAL MODERNISATION

OUR COMPANY CAN CONTRIBUTE TO THE STABLE ECONOMIC OPERATION OF HUNGARY, AMONG OTHER THINGS, BY PREPARING DEVELOPMENTS WHICH ALLOW US TO MITIGATE INTERNATIONAL GAS MARKET RISKS AND FURTHER STABILISE THE ENERGY SECURITY OF OUR COUNTRY.

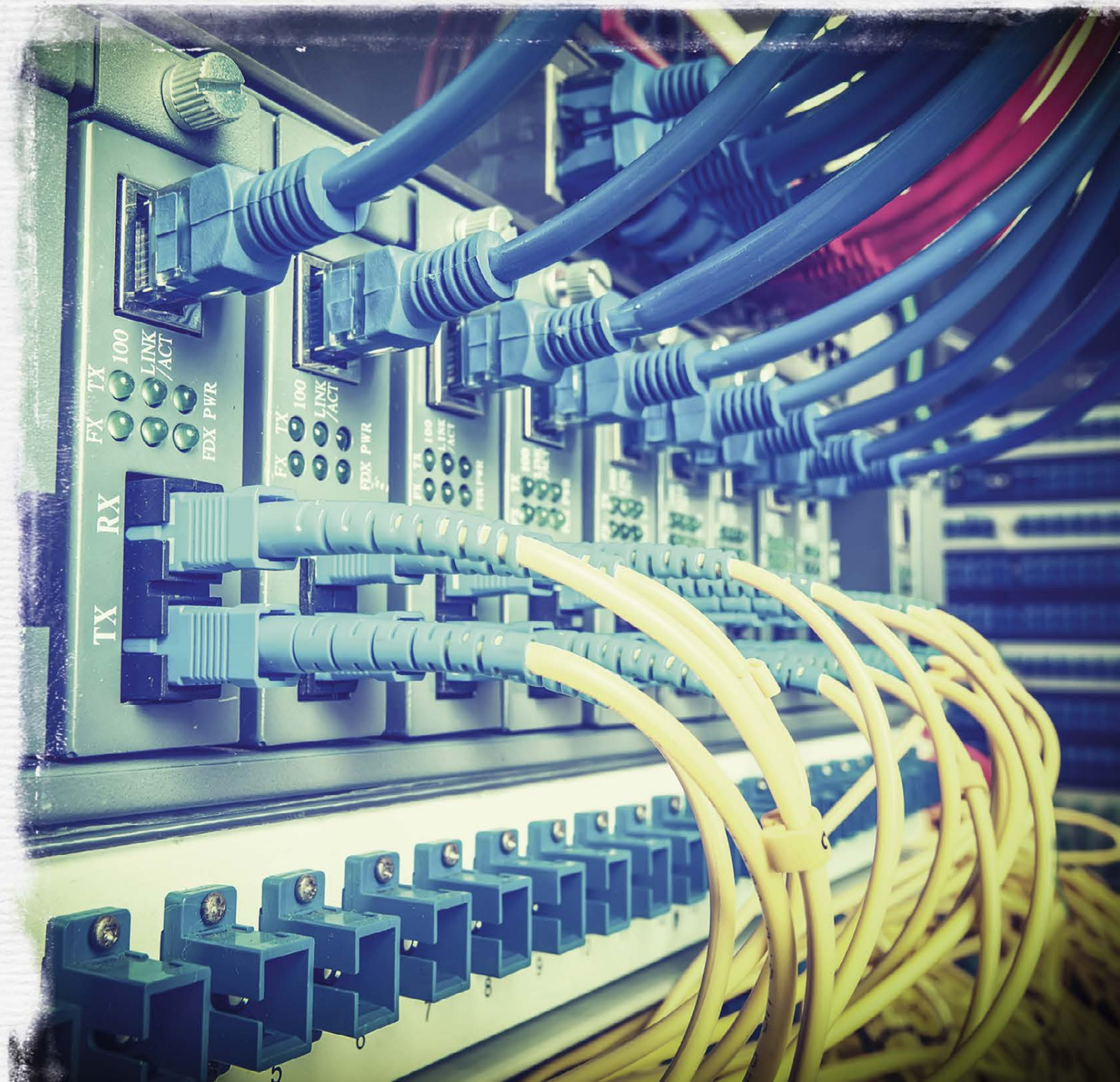
THE STRATEGICALLY important pipeline developments in recent years have provided a sound basis for the further development of our Company and the enhancement of our role and international weight in energy security. We have also created a telecommunication system between our centres and stations which has, on the one hand, a strategic role in ensuring effective coordination and system management, and on the other hand, it provides maximum supervision and reliable control over our natural gas transmission system by allowing immediate intervention into the processes in the event of the slightest malfunction.

Information systems are also used for administering and controlling the system being operated, for supporting the optimum use of resources and for monitoring budget spending. Our new telecommunication infrastructure provides a modern background for gas market applications related to our service activities and also for our management systems.

In the spirit of technological upgrading, we already performed the lifecycle-based refurbishment of industrial switches at the gas technological facilities in 2014, in the framework of which 760 Cisco technological and

management computer network devices and 718 copper-cable-operated SHDSL modems were replaced and their supervisory system was installed. The project, which is still in progress, continued with the replacement of optical modems and the technological switch devices in 2015. The refurbishment of devices provides an opportunity to significantly increase the speed in copper cable and optical network connections: on average, an eightfold and a tenfold increase is expected in the speed of copper cables (up to max 2 Mbps) and of optical cables (up to max 100 Mbps), respectively.

The refurbishment of devices provides an opportunity to significantly increase the speed in copper cable and optical network connections: on average, an eightfold and a tenfold increase is expected in the speed of copper cables and of optical cables, respectively.





In nearly one sixths of our telecommunication cable system exceeding 7,000 kilometres in length, uninterrupted data flow is already provided by optical cables; and in 2015 we began to set up an optical network covering the central facilities and the centre in Siófok. As the first step in the project, an optical remote cable connection between Gellénháza and Siófok was established as a result of which a high-speed (10 Gbps) MPLS data transmission grid is expected to be put in operation there in 2016.

Also, as another key pilot project of recent times a new methodological guide has been developed with the help of which the compliance of our facilities with the licencing criteria can be assessed in a transparent manner. The importance of the task is clearly reflected in the fact that it was implemented in consultation with the experts of the National General Directorate of Disaster Management and also third party consultants. As part of the model project between summer 2012 and April 2013, the range of surface facilities to be examined with quantitative risk assessment (so-call "hot points") was also identified for information purposes; in addition, the methodology for quantitative risk assessment of surface facilities was also developed. The compliance investigations established that the underground pipelines of our natural gas transmission network meet the licensing criteria specified in Annex 7 of Government Decree No. 2019/2011 (X.20.)

In line with our maintenance philosophy, maintenance activities were mainly performed by our own resources. The cost-effective and reliable operation of our maintenance practice

developed with high-level proficiency and specifically for the individual devices, is ensured through the optimised application techniques of maintenance solutions, including the diagnosis based (corrective), PPM type (preventive), condition-based and risk-based maintenance activities. The scheduled diagnostic tests performed on the natural gas transmission network permit the required repairs and rehabilitation to be performed on our pipeline system.



IN LINE WITH NATIONAL AND EUROPEAN LAWS

Our regulatory framework

IN ADDITION to the principles based on the most important standards of human co-existence, such as the protection of human life and health, the safeguarding of natural environment and private property, the operation of our Company is obviously regulated by a number of laws and regulations.

The most important law regulating natural gas transmission is Act XL of 2008 on Natural Gas Supply (Gas Supply Act), the main objective of which is to provide uninterrupted and safe services to users and to protect the interests of the consumers. In addition, the act also stipulates the following: (1.) the supply of natural gas in good quality and a transparent cost structure; (2.) the setting up of energy-efficient and effective operation; (3.) the development of transmission, distribution and storage capacities; (4.) the harmonisation of natural gas sources; (5.) the promotion of new participants' entry; (6.) integration of the Hungarian gas market into the unifying gas energy markets of the European Community; and (7.) the creation of objective, transparent regulations which comply with the requirements of equal treatment.

The other most important law having a major impact on our operations is Act XLVIII of 1993 on Mining, the safety provisions of which are always strictly complied with whenever natural gas transmission pipelines are installed, operated and other related activities are performed. In addition, day-to-day natural gas transmission is

also regulated by several executive regulations and authority resolutions (issued by for example the Hungarian Energy and Public Utility Regulatory Authority, the Hungarian Office for Mining and Geology etc.).

For our Company, it is of utmost importance that our activities are always performed in line and in compliance with the current laws of the European Union. To this end, once Directive 2009/73/EC assisting the further liberalisation of the gas market and regulating the new European framework of natural gas supply, storage and transmission was published, we immediately started the implementation of the regulations stipulated therein. We are proud that as a result of this we were among the first to create the conditions for the introduction of the ITO-model in compliance with the Directive, and thereby FGSZ Ltd became one of the first independent transmission system operators in Europe to have been awarded the ITO certification. All this means that we are free to make decisions, at our own discretion, concerning tasks and finances related to system operation, infrastructure development and maintenance.

Pursuant to EU laws, FGSZ and MOL have separate management and HR-management, except for finances. Our Company applies its own systems whether they concern quality control, IT, management, regulation or decision-making.



We are proud to be one of the few first companies to create the conditions for the introduction of the ITO-model in compliance with the Directive ITO-model in compliance with the Directive, and thereby FGSZ Ltd became one the first independent transmission system operators in Europe to have been awarded the ITO certification.

FOCUS ON QUALITY OPERATION: IMS

Integrated Management System



The Integrated Management System (IMS) comprising of the integrated operation of six management systems ensures that the operation of our Company is both efficient and compliant with the applicable standards and regulations, and also with the standards and applicable to each sub-system. The common components of the systems are subject to a uniform regulation stipulated in the Integrated Management Handbook. The specific processes and activities of the systems are regulated for each system separately.

Quality Management System (QMS)

The Quality Management System applicable to our entire range of operation has been in place since 1997 in accordance with the requirements of the ISO 9001 standard. The QMS was revised in June 2015 and the certification was renewed to remain valid until June 2018. The preparatory work related to the certification of the Quality Management System according to the new ISO 9001:2015 standards are expected to be launched before the end of 2016 while the implementation of the new system is projected for 2017. The operation of the system in accordance with the standard is reviewed semi-annually by SGS Hungária Kft, an internationally recognised certifying company.

Technical Security Management System (TSMS)

The scope of the TSMS extends to the Company's technical security activities and any other sub-

areas related to them; its operation is annually checked by the mining authority. The system was designed with a view to the requirements set out in the Authorisation Procedure Handbook published by the Hungarian Office of Mining and Geology (HOMG), which was accepted by the HOMG in its HOMG Resolution No. 1948-4/2013. It was put in place without any exclusion. In its resolution issued in May 2015, the HOMG approved the policy amendments affecting the Technical Security Management System of FGSZ Ltd.

Information Security Management System (ISMS)

The Information Security Management System covers the operational areas of our centre in Siófok, as well as that of our Kápolnásnyék Natural Gas Transmission Plant. When designing it, we applied the chapters defined in the "Statement of Applicability" from among the requirements

The Integrated Management System (IMS) comprising of the integrated operation of six management systems ensures that the operation of our Company is both efficient and compliant with the applicable standards and regulations.



of the ISO 27001:2005 standard. In December 2013, our Company successfully passed the certification audit carried out by SGS Hungária Kft. The certification is now valid until January 2017. The Information Security Management System (ISMS) was reviewed in June 2015 (in accordance with the provisions of the ISO 27001 standard published in October 2013). The operation of the system in accordance with the standard is reviewed semi-annually by SGS Hungária Kft.

Welding Management System (WMS)

In order to perform maintenance and repair work efficiently and in high quality, our Company set up in 2010 its welding activity in

accordance with the MSZ EN ISO 3834-2:2006 standard and had it certified by ÉMI-TÜV-SÜD Kft. We have also obtained the license of the competent authority pursuant to Decree No. 3/1998 (I. 12.) of the Minister of Industry, Trade and Tourism. In 2016, the WMS was re-assessed for a second time now, thus the certification has been renewed for another three years until 30 June 2019. The full-scale welding management system for the fusion welding of metals is reviewed annually by ÉMI-TÜV-SÜD Kft.

Calibration Laboratory Management System (CLMS)

To manage and regulate calibration activities, we have been using the Calibration Laboratory

Management System since 2012, it applies to the headquarters of the Calibration Laboratory of FGSZ Ltd in Siófok and to its four business sites (in Gellénháza, Kápolnásnyék, Kecskemét, and Miskolc). All the requirements of the MSZ EN ISO/IEC 17025:2005 standard can be applied to the CLMS. The accreditation process initiated with the National Accreditation Body was completed in May 2015, based on which the Calibration Laboratory of FGSZ Ltd was given permission to continue its operation as an internationally recognised accredited laboratory. The extension of the management system to flow computers and orifice plates is expected to be completed before the end of 2016.

Energy Management System (EMS)

In 2014, our Company began to set up and implement the Energy Management System (EMS) in accordance with the ISO 50001 standard, in line with the provisions in EU Directive 2012/27/EU. In December 2015 FGSZ Ltd passed the certification audit performed by SGS in accordance with ISO 50001:2011 and as a result was granted the EMS certificate for a period of 3 years. The operation of the system in accordance with the standard is reviewed semi-annually by SGS Hungária Kft.

BUSINESS AND COMMERCIAL CODE

A set of rules for the safe natural gas supply in Hungary



THE BUSINESS AND COMMERCIAL CODE (BCC) is an indispensable set of rules regulating the daily operation of the cooperating natural gas system, which contains the basic elements of commercial, settlement, measurement and data-exchange agreements as well as the detailed rules on system access and daily balancing. We regularly update our operation and commercial rules in compliance with the Gas Supply Act and its implementing acts, as well as other legal provisions applicable to the operation of the cooperating natural gas system. Pursuant to the resolutions and other requirements of the Hungarian Energy and Public Utility Regulatory Authority, the code was amended five times in 2015 to reflect the changes in the legislative environment of the European Union and Hungary.

We set up and chair a so-called Code Committee (CC) for the elaboration and evaluation of the BCC in accordance with legal regulations. The groups of licensees with the same type of licence and other entities on the gas market (distributor, trader, storage facility, producer, etc.) participate in the work of the Committee through their elected representatives. In order to support the smooth professional work of the Code Committee, our Company set up the Code Committee Web

Portal which successfully supported the online amendment of the BCC in 2015.

The numerous details of the system operation rules defined as part of the EU's third energy package affect nearly every area of network usage in Hungary. Similarly to the Hungarian BCC, the new 'network codes' constitute a coherent system and describe the various areas of the operation of the unified gas market in Europe. EU regulations directly apply to the subjects of regulation, including primarily, but not exclusively, gas suppliers, national regulatory authorities and distributors. Their common feature is that they leave a relatively short period of time for the adoption of new regulations. In addition to Regulation 984/2013/EU (CAM NC), Decision 2012/490/EU (CMP) for the elimination of contractual congestion and Regulation 312/2014/EU (BAL NC) on gas balancing of transmission networks, as well as Regulation 703/2015/EU regulating the technical cooperation among system operators (INT NC) also belong to this set of regulations.

Additional network codes are expected on the allocation of new capacities (Incremental Capacity Proposal), the harmonisation of tariff systems (Tariffs NC) and the commercial rules

(Rules for Trade). In the case of the CAM NC and BAL NC, FGSZ has prepared to put the provisions of these network codes in place in its technical and IT systems by the deadline. In order to ensure continuous compliance, however, the magnitude of changes required more than that, calling for a conceptual modification of the regulation affecting the domestic gas sector (Gas Act, Implementation Decree of the Gas Act, Tariff Decree, BCC, etc.) and also for the drawing up of the Operational Rules of RBP.

In order to ensure compliance with the EU legislations referred to above, we completed the necessary changes in 2015 and launched operations accordingly. These changes affected basically all areas of the business processes, including, but not limited to capacity trade, contractual relationships, system balancing and accounting. The changes in the processes and activities as detailed above had to be incorporated in the Business and Commercial Code in line with higher level legal regulations by elaborating the details of rules with high precision. All this requires substantial amendments to the BCC the implementation of which will continue in 2016.

A hand in a dark suit sleeve holds a polished brass trumpet against a dark background. A futuristic, semi-transparent circular graphic with concentric rings and rectangular segments is overlaid on the left side of the image. The text 'TOWARDS SUSTAINABLE DEVELOPMENT' is centered in white, bold, sans-serif capital letters.

TOWARDS SUSTAINABLE DEVELOPMENT

THE KEY TO OUR FUTURE: OUR COMMUNITY

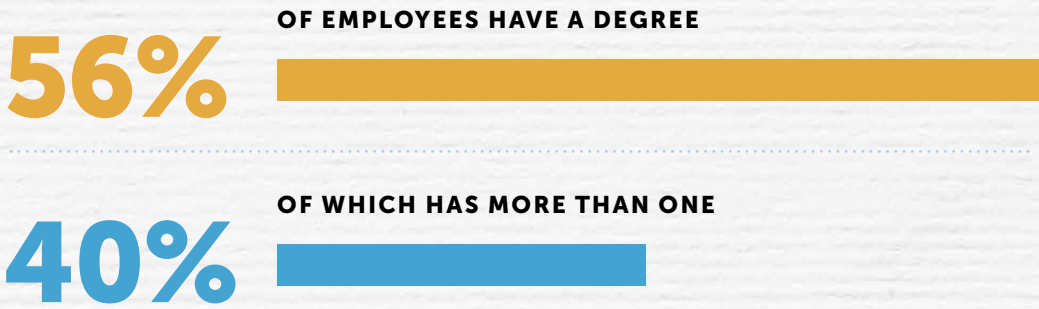
One for all, all for one

IT IS COMMON KNOWLEDGE that the most important assets of a company are its employees. This is why we are proud that based on the surveys conducted by the leading HR consulting company, Aon Hewitt among our employees we have been awarded with the title Best Workplace several times in the past few years, and not only in Hungary, but also in the Central and Eastern European region. In 2015, our Company participated again in the employer's commitment survey and yet again the turnout was extremely high: 88% of our employees participated in the survey. This shows that the employees of our Company know that their opinion, workplace satisfaction, feedback are important for the management of the Company. We are proud that our Company continues to be one of the leaders in the energy industry based on our employees' commitment index.

Following in our longstanding traditions, we pay special attention to the issue of training a new generation of experts for

each of our specialist areas, and with this in mind, we continue with our successful specialist practical, scholarship and mentoring programme, which we have been offering to college and university students in the past few years, and also our series of programmes called "Gas Days" organised in cooperation with the University of Miskolc. In the framework of this latter programme series, university students have the chance to visit our plants and see for themselves how the theory they learnt is put in practice.

Our primary objectives also include development, refreshment training and further education of our employees – the success of our efforts is proven by the high level of expertise, qualification and professional experience of our employees, since no less than 56% of them have a college or university degree and 40% of them has more than one degree. Our academic relationships, the career opportunities we offer and our remuneration system based on professional performance



We are also proud that our employees did a substantial number of volunteer work, totalling at 490 hours in 2015: In the framework of our Energetic Town Programme, for example, 64 employees helped to build a new playground.

have made FGSZ one of the most attractive players on the regional labour market, which is a main factor in the achievements of our Company.

We also pay tribute to the work of the generation of professionals and experts before us since we are well aware that though they are not part of the daily work anymore, their life, experience and what we achieved together serve as guidance and inspiration for future generations. In the same spirit, we organise our Saint Barbara Day festival each year, with the main purpose of showing that our retired experts will remain a part of our community forever.



The health of our employees is a fundamental pillar of our corporate culture the aims and practice of which are set out in our health, security and environmental protection (HSE) strategy. In addition to counselling and briefing on health issues, we pay particular attention to the excellent ergonomics of the workplaces, which we assess and improve by regularly measuring environmental noise, air quality and illumination.

Starting from 2015, we have been providing further free healthcare screenings for our employees, which are made available up to the budget allocated in the arrangement of 2 plants per year or in the centre. Tests available in the framework of the programme:

- lactose intolerance test,
- celiac disease test,
- testing the risk of thrombosis (Leiden mutation),
- thyroid function tests (TSH, T3, T4),
- diabetes test (for type 2),
- prostate screening (PSA).

The framework of our corporate social responsibility is well defined by the principles of cooperation and value transfer. We are always happy and honoured when we can contribute to the creation and preservation of values, which go beyond our field of expertise and serve the enrichment of our social values.

By doing so, we strive to provide assistance for the towns and villages in our operational areas. Just like in previous years, in 2015 we

sponsored the social, sport and cultural, as well as healthcare and environmental protection programs organised by the institutions and non-governmental organisations of the surrounding villages and towns in the operational area of FGSZ Ltd, paying special attention to helping the work of educational institutions. We are happy to say that our quiz contest "Mastermind wanted!" - as is now tradition - is announced every year for teams of students in Grade 8. The competition of the Junior Natural Gas Academy of FGSZ was such a success that we have been accepting entries from all over the country since 2012.

We are also proud that our employees did a substantial number of volunteer work, totalling at 490 hours in 2015: in the framework of our Energetic Town Programme, for example,

64 employees helped to build a new playground and to landscape its surroundings in Kápolnásnyék. In addition, our Company organised 17 voluntary blood donations in 2015, collecting 328 units of blood for people in need. Since one unit of blood can serve 3 patients, our blood donors helped 984 unknown fellow human beings.

The improvement of social equality is important for us, thus we organise charity donations to help families in need and to support the education of disadvantages children by getting them school equipment, clothes and food. In addition, we also donated unused IT and other devices and equipment to families and non-governmental organisations.



WHAT WE ARE PROUD OF

a transmission pipeline system of almost **5,800** kilometres

almost **800** jobs

- European Union ITO certification
- EFQM Excellence Model
- ISO 9001:2008 compliant Quality Management System
- ISO/IEC 27001:2013 compliant Information Security Management System
- ISO 50001:2011 compliant Energy Management System
- MSZ EN ISO 3834-2:2006 compliant welding management system
- MSZ EN ISO/IEC 17025:2005 compliant accredited calibration laboratory
- Country Representative 2011 (European Business Awards)
- Best Employer in Hungary 2009 (Világgazdaság-Hewitt survey)
- Best Employer in Hungary 2010 (Világgazdaság-Hewitt survey)
- Best Employer in Hungary 2011 (Világgazdaság-Aon Hewitt survey)
- Best Employer in Hungary 2012 (Aon Hewitt survey)
- Best Employer in Hungary 2013 (Aon Hewitt survey)
- Industry leader 2009 (Világgazdaság-Hewitt survey)
- Best Employer Central Eastern Europe 2009/2010 (Aon Hewitt survey)
- Best Employer Central Eastern Europe 2010/2011 (Aon Hewitt survey)
- Best Employer Central Eastern Europe 2012 (Aon Hewitt survey)



EVERY STEP COUNTS

WE BELIEVE THAT WORKPLACE HEALTH AND ENERGY SUPPLY SECURITY ARE NOT THE ONLY FUNDAMENTAL VALUES FOR A RESPONSIBLE COMPANY IN THE 21ST CENTURY, BUT EQUALLY IMPORTANT FOR LONG-TERM SUCCESS IS THAT THE COMPANY DOES ALL THIS ALONG WITH ENVIRONMENTAL PROTECTION AND SUSTAINABLE DEVELOPMENT.

WE ARE AWARE of the vulnerability of our natural environment, and this is why we do everything we can to use as little of the resources as possible. Our aim is still to enhance our eco-efficient operation, to reduce the emission of greenhouse gases, to help the regeneration of lands and waters and to reduce the volume of harmful substances and waste emitted. In the latter case, we pay particular attention to ensuring the required safe storage, environment-friendly disposal and, if possible, to recycling.

Value-creating environmental awareness

For us, preserving nature does not only mean avoiding or mitigating unnecessary damage, but rather our priority is to actively improve, regenerate our environmental values, and we use our best endeavours to contribute to this in a proactive and value-creating manner.

The environmental impact of our every kind of activity is meticulously assessed and analysed. If the required developments and work processes involve intervention into nature, a detailed action plan is drawn up in consultation with the green authorities in order to protect the living resources. In the framework of the so-called living resources protection monitoring, we regularly collect field data in a professional manner and gather data on the subject of our monitoring that can be evaluated on the long term. For example, as part of the botanic monitoring, the nature conservation expert collects data in spring, summer and autumn, and the annual summary report is reviewed by the directorates for national parks and the environment protection inspectorate. We only start working once these latter ones are notified and the environmental impact assessment is performed, then



we rehabilitate the area pursuant to the recultivation plan, just like we did in case of the reconstruction and trouble-shooting activities performed in the Natura 2000 area.

We use state-of-the-art technologies and processes that ensure the fastest and most comprehensive recultivation so that pipeline construction intervenes into nature to the smallest extent possible, and even so this is continuously being monitored. For instance, at the construction site of the Városföld-Algyő DN1000 PN63 strategic pipeline, we have been monitoring the rehabilitation of nature since 2009, and we do the same in case of the Hungarian section of the Hungary-Croatia interconnector, i.e. the Városföld-Bátmonostor-Drávaszerdahely DN800 PN75 pipeline. Our aim is to use the experience gained with these areas to improve the work processes and environmental monitoring of future investments.

Minimised harmful emission

Our Company is particularly keen on complying with Directive 2003/87/EC of the European Parliament and of the Council on the scheme for greenhouse gas emission allowance trading. Our booster compressor stations possess an integrated pollution prevention and control (IPPC) licence in compliance with Government Decree No. 314/2005 (XII.25.) on the environmental impact assessment and the IPPC licencing.

Pursuant to the provisions in Section 12 of Decree No. 6/2011 (I. 14.) of the Minister of Rural Development on the rules regarding the examination, supervision and assessment of the load on the air and the emission of fixed air pollution point sources, the air pollutant emission of point sources with an operating license must be verified by periodic measurements. There is a total of 146 such facilities within the operating area of our Company and the required emission tests were conducted in 2015 and the findings were all below the limit values. Re-assessment was performed on 3 occasions in 2015.



We protect our water resources

Our Company operates special household waste water treatment devices at the Seszták Imre Compressor Station and the Gas Transmission Plant in Hajdúszoboszló. In order to minimise the influx of pollutants in the recipient water flow, the quality of the treated waste water discharged is analysed by an accredited laboratory twice a year.

Focus on the ecological footprint

In order to significantly reduce harmful emissions, we operate boilers and gas turbines optimised for performance. For the optimum application of lubricants required for the operation of these devices, lubricants are always replaced according to the findings of a strict oil diagnostics thereby effectively reducing our ecological footprint.

Waste management in the 21st century

We transport and dispose of each kind of waste pursuant to the provisions of the applicable laws and our internal policies and we have entered into framework agreements with licenced companies.. Our data reporting obligation towards the locally competent environment and nature conservation supervisory authorities is at all times complied with before the relevant due dates. In 2015, our Company generated 109 tonnes of hazardous and 635 tonnes of non-hazardous waste.

We pay special attention to reducing the amount of waste generated during our activity and to collecting waste selectively. The surroundings of our facilities are regularly kept clean and maintained, including the removal of external household and construction waste illegally disposed in our operation areas.

Health

In the framework of our workplace health programme, in addition to the mandatory occupational medical examinations, we also offer

We pay special attention to reducing the amount of waste generated during our activity and to collecting waste selectively.

The surroundings of our facilities are regularly kept clean and tidy.

our employees preventive health programmes. For example, we helped the melanoma screening programme by offering working time allowance to participants and the necessary rooms for the purpose of the screening, we also had a free seasonal flu vaccination campaign which in 2015 helped 128 employees.

On our intranet portal we regularly publish HSE information for our employees which provide them with information on the latest prevention techniques related to safety and health protection.

Effective noise control programme

Our noise map covers about 40 facilities today. We consider it important to ensure a peaceful environment for the people living near our work sites, therefore we are continuously measuring the noise emission of our facilities. Every one of our new installations with a noise emission over 85 dB is now equipped with passive noise control facilities. The operation of our gas delivery stations complies with the requirements set forth in the Joint Decree 27/2008 (XII.3.) of the Minister of Environment and Water and the Minister of Health on the determination of limit values of environmental noise and vibration exposure. The success of our noise control program is demonstrated by the fact that we did not receive any complaints from residents in 2015 regarding the noise emitted by our installations.



WHAT THE FIGURES SAY

OUR PERFORMANCE AND CAPACITY IN 2015

Total quantity of natural gas measured at entry and exit points:

ENTRY THROUGH CROSS-BORDER PIPELINES:

	Volume (cubic metres)	Energy (kWh)
Beregszász:	5.8393 billion	63.1488 billion
HAG:	2.7732 billion	29.7056 billion
Csanádpalota:	0.0 billion	0.0 billion
Interconnection line Vecsés 4 (MGT>FGSZ)*:	0.0239 billion	0.2386 billion

DELIVERY FROM STORAGE AT TRANSFER POINTS:

Entry:	1.85 billion	20.0522 billion
Withdrawal:	2.97 billion	31.6652 billion

AT UPSTREAM PIPELINE CONNECTIONS:

Entry:	2.13 billion	21.7825 billion
Entry circuit withdrawal:	0.58 billion	6.2736 billion

DELIVERY THROUGH CROSS-BORDER PIPELINES:

Transit and export:	2.38 billion	25.5958 billion
Interconnection line Vecsés 4 (MGT>FGSZ)*:	0.022 billion	0.2386 billion

** Gas volume during test run*

CAPACITY DATA

Volume data are understood at 15 °C, energy data are given for 25/0 °C reference temperature heat of combustion (GVC).

AUSTRIAN/HUNGARIAN INTERCONNECTION LINE

Entry point	Volume (cubic metres)	Energy
Annual firm capacity	4.4 billion	47.3 TWh
Daily firm capacity	12.1 million	129.7 GWh
Annual interruptible capacity	0.8 billion	8.8 TWh
Daily interruptible capacity	2.3 million	24.1 GWh



UKRAINIAN/HUNGARIAN INTERCONNECTION LINE (TESTVÉRISÉG ÉS ÖSSZEFOGÁS)

Entry point	Volume (cubic metres)	Energy
Annual firm capacity	20.5 billion	220.9 TWh
Daily firm capacity	56.3 million	605.2 GWh
Annual interruptible capacity	5.5 billion	58.8 TWh
Daily interruptible capacity	15.0 million	161.2 GWh

HUNGARIAN/UKRAINIAN INTERCONNECTION LINE

Exit point		
Annual interruptible capacity	6.1 billion	66.0 TWh
Daily interruptible capacity	16.8 million	181.0 GWh

HUNGARIAN/SERBIAN INTERCONNECTION LINE

Exit point		
Annual firm capacity	4.8 billion	51.8 TWh
Daily firm capacity	13.2 million	142.1 GWh

HUNGARIAN/ROMANIAN INTERCONNECTION LINE

Entry point		
Annual firm capacity	0.1 billion	1.0 TWh
Daily firm capacity	0.2 million	2.7 GWh
Annual interruptible capacity	1.7 billion	19.0 TWh
Daily interruptible capacity	4.6 million	52.1 GWh
Exit point		
Annual firm capacity	1.7 billion	18.8 TWh
Daily firm capacity	4.8 million	51.6 GWh

HUNGARIAN/CROATIAN INTERCONNECTION LINE

Entry point		
Annual interruptible capacity	7.0 billion	72.8 TWh
Daily interruptible capacity	19.2 million	199.5 GWh
Exit point		
Annual firm capacity	2.6 billion	28.1 TWh
Daily firm capacity	7.2 million	77.1 GWh
Annual interruptible capacity	4.4 billion	46.9 TWh
Daily interruptible capacity	12.0 million	128.5 GWh

NET DOMESTIC PRODUCTION

14 entry points		
Annual firm capacity	2.1 billion	20.1 TWh
Net daily firm capacity	7.8 million	82.3 GWh

CAPACITY DATA FOR COMMERCIAL UNDERGROUND GAS STORAGE FACILITIES

5 entry points		
Annual firm capacity	5.1 billion	54.3 TWh
Daily peak capacity	59.6 million	561.1 GWh
Of which interruptible	6.5 million	69.0 GWh

CAPACITY DATA FOR STRATEGIC UNDERGROUND GAS STORAGE FACILITIES

Annual firm capacity	1.2 billion	12.7 TWh
Daily peak capacity	20.0 million	211.1 GWh

PEAK CAPACITY OF THE NATURAL GAS TRANSMISSION NETWORK ON 31 DECEMBER 2015

Total	189.1 million	1945.2 GWh
of which interruptible	47.6 million	506.0 GWh
Imported	98.4 million	1053.2 GWh
of which interruptible	41.1 million	437.0 GWh
Connecting point (MGT>FGSZ)	12.0 million	127.1 GWh
Transit	11.3 million	121.5 GWh
Commercial storage	59.6 million	561.1 GWh
of which interruptible	6.5 million	69.0 GWh
Strategic storage	20.0 million	211.1 GWh
Production	7.8 million	82.3 GWh

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

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

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



OUR INFRASTRUCTURE

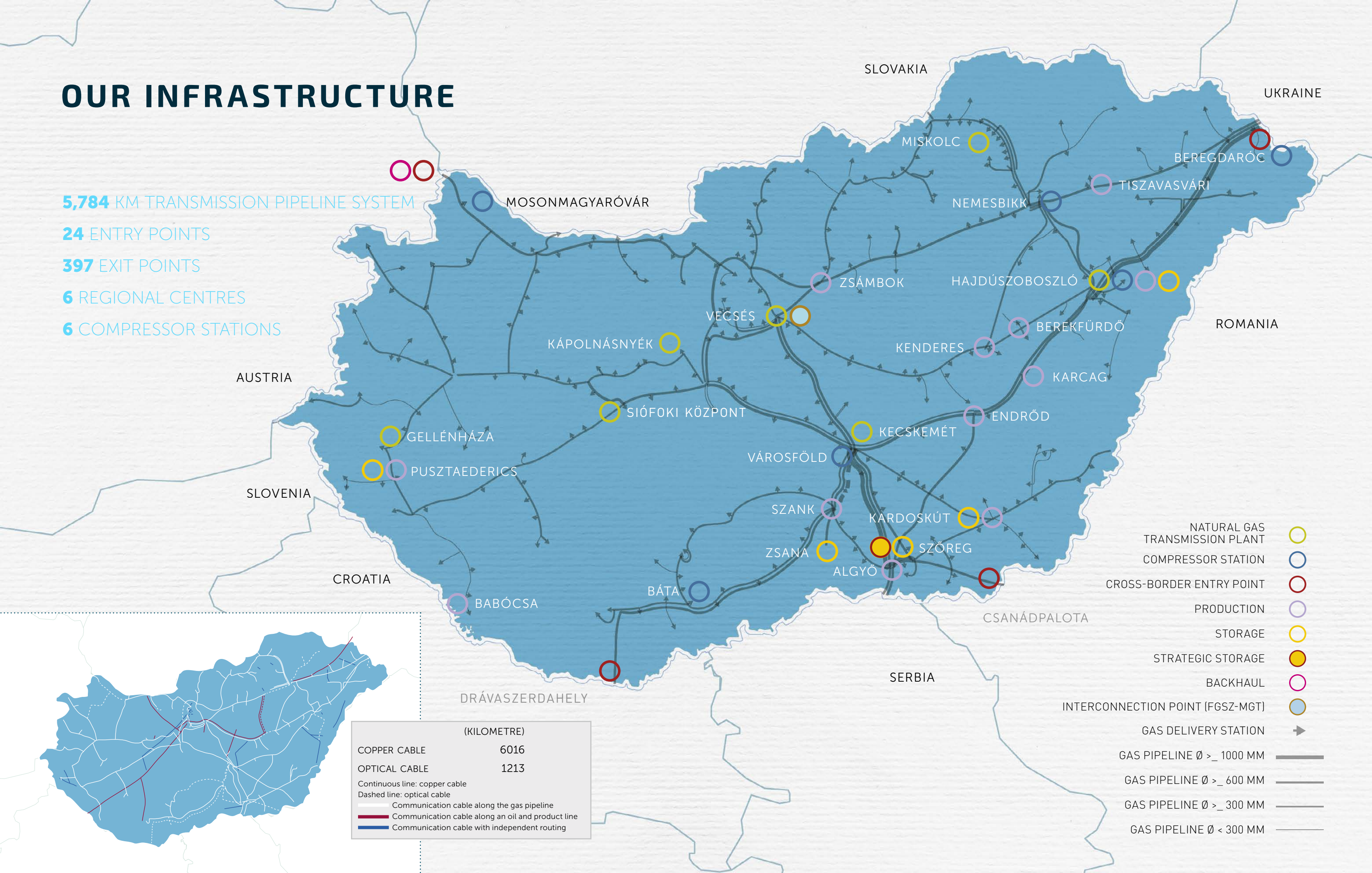
5,784 KM TRANSMISSION PIPELINE SYSTEM

24 ENTRY POINTS

397 EXIT POINTS

6 REGIONAL CENTRES

6 COMPRESSOR STATIONS



OUR FINANCIAL AND OPERATIONAL RESULTS

2015 WAS A FINANCIALLY SUCCESSFUL YEAR FOR FGSZ LTD BECAUSE OF THE HIGH QUALITY TECHNICAL INFRASTRUCTURE THAT IS THE RESULT OF THE FIRM OWNERSHIP BACKGROUND, THE DEVELOPMENTS AND MAINTENANCE ACTIVITIES IMPLEMENTED IN THE PREVIOUS YEARS, AND THE SWIFT AND FLEXIBLE ADAPTATION TO EXTERNAL CIRCUMSTANCES.

THE OPERATING PROFIT of our Company was HUF 44.13 billion in 2015, up 9.5% compared to the results of 2014. The increase is primarily a reflection of the impact of the changing external circumstances and the cost-effective operation.

Our net sales revenues come from the transmission of 13.71 billion cubic metres natural gas and the gas turnover related to maintaining system balance. The revenues from both domestic natural gas transmission and transit transmission show a declining tendency. Our revenues dropped by 2.0% to HUF 106.6 billion in 2015.

In 2015, the regulatory environment greatly affecting the operation and results of our Company changed substantially several times compared to the previous year, while the dual pricing regime introduced on 3 December 2010, and its accounting method as amended in 2013 (refund mechanism) will continue to affect the operational functioning and our profitability. The difference between return on assets as applied respectively to the competitive market and universal services serves as the rate of refund specified by the authority. The return on assets applied to universal services was 0% after 1 November 2013.

Following the harmonisation of the Hungarian legislation with the rules regulating network usage in the EU, the tariffs of certain standard capacity products have changed

and a substantial change occurred in the composition of natural gas transmission capacity bookings made by network users. The increased number of short-term bookings in 2015 counterbalanced the negative effect that the reduced number of long-term capacity

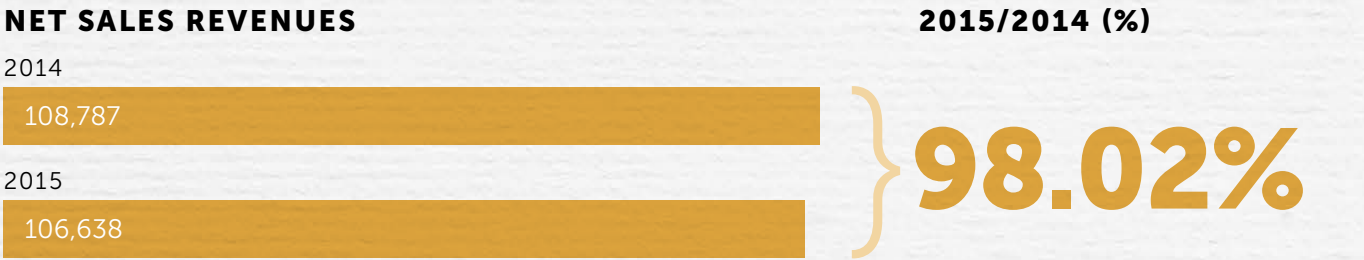
Our net sales revenues come from the transmission of 13.71 billion cubic metres natural gas and the gas turnover related to maintaining system balance.

bookings had on our revenues which on the whole did not significantly affect the revenues of the Company. As a result of the weather conditions, the domestic transmitted volumes slightly increased as compared to last year, however, they could not make up for the substantial loss in the volume of domestic storage.

In legal terms, the Hungarian natural gas transmission market became a two-member market in 2015 in connection with which the institution of balancing payments regarding the sharing of revenues from system operation fee

An increase **9,5%** in our operating profit

DATA IN ACCORDANCE WITH HUNGARIAN ACCOUNTING STANDARDS (MILLION HUF)





was implemented on the one hand, and on the other the nominal tariff was increased in a way so that as a result of the two events the revenue position of FGSZ should remain almost the same. Revenues from transit activities were positively affected by the change of foreign exchange rates (weakening HUF to USD), however, revenues on the whole dropped compared to last year due to the impact the falling market price of gas had on contracted tariffs.

In 2015, FGSZ Ltd paid a total refund of HUF 16.7 billion, a magnitude similar to previous years, from its reduced revenues to universal service providers (indirectly to those eligible for universal services).

The natural gas consumption in Hungary and thus the volume of gas transmission has been gradually declining in the previous years, while demand seems to be stagnating at a low level.

The drop in domestic storage volume was only partially counterbalanced by the slight increase in the transmitted volumes.

Natural gas transmission by our Company towards Ukraine was launched in 2013 and continued in 2015 according to the changing demand. In comparison with previous years, transmissions continue to show a downward trend and are greatly affected by the changes in the political and economic circumstances in Ukraine, therefore they are still not a reliable source of income.

The Company offset the reduced amount of revenues and the changes of the external environment by streamlining its operations and continuing to exercise strict control over its operating costs and expenditure. The cost of own gas consumption by the transmission system decreased compared to the previous year as a result of the different transmission

demand and the decreasing trend seen in the world market gas price. The reduced maintenance-related costs resulting from the rationalisation of the maintenance activities as well as other operating costs that proved to be lower than those in 2014 also positively affected the operating expenditure and the operating profit.

Our Company has a statutory obligation to maintain the balance of gas source and consumption, which is ensured by balancing the purchase and sale of gas. The Company is not permitted to make any profit on such transactions. The turnover of balancing gas fell slightly in 2015 by 13.2% compared to 2014.

The result of financial transactions in 2015 was (HUF 10.9) billion, which is slightly better than in the previous year. This primarily comes from the interests paid on loans from affiliated companies and from the foreign exchange losses on the existing loans accounted for, but not realised at the end of the period.

Our profit after tax is almost 26% higher, i.e. HUF 6.0 billion more than in the previous year. This improvement reflects the higher operating profit generated and the positive effects of the lower amount of expenditure.

In 2015, FGSZ Ltd spent HUF 5.5 billion on investments, mainly comprised of reconstruction works done on the existing system. The value of investments implemented in 2015 is similar to that of the last year, but lower than that of previous years.

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

Looking forward to the 2016 business year, the greatest challenges our Company faces will be to adapt to the domestic regulatory environment changing in line with the EU directives and to the resulting changes in the market conditions and in the operation. In 2015, the changes implemented in the Hungarian legislative environment affected the operation of the Company all through the business year.

The official cost review that began in 2013 was not finished in 2015, instead the price regulating authority will launch new cost review proceedings in 2016. Thus the regulatory cycle that began on 1 January 2010 is still in effect in a regulatory sense and the new price regulatory cycle will enter into force on 1 January 2017.

Expansion of the domestic market and entries of new consumers cannot be expected in the short run. What can create new opportunities in the medium term is the further expansion of the economy and the reappearance of gas-based electric power plant capacities in the market. The Company supports those processes by continuing to develop the infrastructure (investment projects).

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

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

BALANCE SHEET

(million HUF)

ASSETS	2014	2015	2015/2014 (%)
Fixed assets	302,251	290,515	96.12
Intangible assets	2,215	2,147	96.93
Tangible assets	300,036	288,368	96.11
Financial investments	0	0	0.00
Current assets	17,847	12,447	69.74
Inventories	4,185	3,903	93.26
Receivables	10,452	5,255	50.28
Securities	0	0	N/A
Cash and cash equivalents	3,210	3,289	102.46
Accrued and deferred assets	267	7	2.62
Total assets	320,365	302,969	94.57
LIABILITIES	2014	2015	2015/2014 (%)
Equity capital	83,610	83,610	100.00
Registered capital	18,823	18,823	100.00
Capital reserves	64,766	64,766	100.00
Accumulated profit reserve	(22)	(3)	N/A
Committed reserves	22	24	N/A
Retained profit	21	0	N/A
Provisions	3,739	3,574	95.59
Liabilities	209,985	196,664	93.66
Subordinated liabilities	0	0	N/A
Long-term liabilities	146,183	142,048	97.17
Short-term liabilities	63,802	54,616	85.60
Of which: short-term liabilities towards affiliated companies	32,271	39,694	123.00
Accrued and deferred liabilities	23,031	19,121	83.02
Total liabilities	320,365	302,969	94.57

CASH-FLOW	2014	2015	2015/2014 (%)
Profit before tax	24,298	31,240	128.57
Operating cash flow	47,893	49,587	103.54
Investment cash flow	(6,660)	(4,508)	67.69
Financing cash flow	(42,450)	(45,000)	106.01
Change in cash and cash equivalents	(1,217)	79	(6.49)
PROFIT AND LOSS STATEMENT	2014	2015	2015/2014 (%)
Net domestic sales revenues	86,041	85,841	99.77
Net export sales revenues	22,746	20,797	91.43
Net sales revenues	108,787	106,638	98.02
Capitalised value of own performance	123	816	663.41
Other revenues	2,097	3,919	186.89
Material type expenses	39,723	35,047	88.23
Staff expenses	7,909	7,647	96.69
Depreciation	17,884	17,867	99.90
Other expenses	5,195	6,679	128.57
Operating profit/loss	40,296	44,133	109.52
Revenue from financial transactions	296	529	178.72
Expenses of financial transactions	15,832	11,410	72.07
Of which: interests and interest-type expenses paid to affiliated companies	8,537	7,040	82.46
Profit/loss from financial transactions	(15,536)	(10,881)	70.04
Profit/loss of ordinary business activities	24,760	33,252	134.30
Extraordinary profit/loss	(462)	(2,012)	435.50
Profit before tax	24,298	31,240	128.57
Tax payable	803	1,741	216.81
Profit after tax	23,495	29,499	125.55
Use from accumulated profit reserve for dividends and profit sharing	0	0	0.00
Dividend and profit sharing approved	23,474	29,499	125.67
Retained profit	21	0	N/A



COMPANY MANAGEMENT

BOARD OF DIRECTORS



JÁNOS FEHÉR

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



PH.D. JÁNOS ZSUGA

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



ZOLTÁN GELLÉNYI

Graduated as an economist from Karl Marx University of Economics (at present Corvinus University). After several years of experience at the field of international commodity exchange he joined MOL Plc's department of gas business development in 2008 and later FGSZ Ltd in 2009. Under his professional guidance our company developed and launched the Daily Natural Gas and Capacity Market (NFKP), the predecessor of the current Trading Platform (KP). Head of the Capacity Sales department from 2010 and that of the Business Development from 2012. Since February 2014 has been the director of System Operation and Capacity Trade. He has been taking an active part in the work of ENTSOE, the European umbrella organisation of transmission system operators since its foundation and has been a member of the ENTSOE Board since July 2014.



LÁSZLÓ GÁBOR MIKLÓS

Chemical engineer (M.Sc.), economic engineer. Started his career in 1979 at Transdanubian Petroleum Company Százhalombatta and except for a few years he has been working in the oil and gas industry held various expert and management positions. Between 1994 and 1998 he was Member of Parliament. Between 2001 and 2012 as Vice President of the Enterprise Relations of MOL Group, inter alia, he was responsible for relationship with the professional associations and governmental relations as well as for the regulatory affairs. Thereafter he was advisor to chairman until May 2014 and now he is adviser at FGSZ Ltd. From 1993 to 1997 he was member of the Supervisory Board of Nitroil Plc, between 1999 and 2001 Board member of ZAB Zemplén Abaúj Gázszolgáltató Ltd. From 2002 until 2010 he was Chairman of the Supervisory Board of MVM Hungarian Electricity Ltd, between 2008 and 2013 he was Chairman of the Auditors' Public Oversight Committee and since 2012 he is one of the Vice Presidents of the Confederation of Hungarian Employers and Industrialist.



TAMÁS HÁRSFALVI

Graduated from Karl Marx University of Economic Sciences in 1986, majoring in Transportation and Sociology. Gained experience and knowledge in several fields: worked as an academic lecturer and researcher (University of Agricultural Sciences in Gödöllő), as a civil servant in management positions (Hungarian Central Statistical Office, Ministry of Finance, National Media and Infocommunications Authority Hungary) as well as in the media industry as a financial, commercial and controlling director (Budapesti Kommunikációs Rt., P & B Média Rt.). Within the energy sector, he participated in the project of strategic stockpiling of natural gas at the Petroleum and Petroleum Product Stockpiling Association, then at the Hungarian Hydrocarbon Stockpiling Association, and was deputy manager of MSZKSZ Strategic Natural Gas Storage Ltd. Member of FGSZ Ltd Board since 1 January 2015.

SUPERVISORY BOARD

JÓZSEF MOLNÁR

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

PÉTER RATATICS

He graduated at Corvinus University of Budapest, Faculty of Finance specialization in capital markets, in 2006. In the MOL Group, he started his career as an expert at the Gas Trading and Business Development organization, then he was head of the MOL Group Management Support organization until 2009, and then he was appointed Head of Executive Board Advisory team in 2009. Between 2009-2010, he was head of the Organizational Development and Process Management, and then in 2010-2011 Head of Management Services. From 1 May he has been working as Director and since October 2012 as Vice President of Corporate Centre of the MOL Group and in this position, inter alia, he is responsible for the MOL Group Human Resources Area. Besides he was elected first as member of the Supervisory Board of FGSZ Ltd and then as Vice Chairman of the FGSZ Ltd on 25 May 2011. 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-Global Rt. as a financial analyst, then he held Head of Stock Management and Dry Product Chief Procurement Officer positions. Thereafter, he was Commercial and Marketing Director at Plus Élelmiszer Diszkont Kft. He joined the MOL Group in June 2009 as Chief Procurement Officer, and he has been Director of Corporate Services of the MOL Group since July 2012. Member of FGSZ Ltd Supervisory Board since September 2012.

GÁBOR FETT

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

OUR ISO CERTIFICATES



OUR TÜV CERTIFICATES

ZERTIFIKAT ♦ CERTIFICATE ♦ 認証証書 ♦ CERTIFICADO ♦ CERTIFICAT


EMI-TÜV

CERTIFICATE

for fulfilment of quality requirements for welding

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

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

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

The certificate is valid until 2016-06-30.

Registration No.: TA 1026-009- A

Szentendre, 2013-07-03


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EMI-TÜV

TANÚSÍTVÁNY

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

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

FGSZ Földgázz szállító Zrt.
H-8600 Siófok, Tanácsház u. 5.

Telephelyek:
H-8981 Gellénháza, Ipartelep, Pf.5
H-4201 Hajdúszoboszló, Pf.2
H-2475 Kápolnásnyék, Olajtelep, Pf.2
H-6001 Kecskemét, Szolnoki hegy 232.
H-3501 Miskolc, Sajószgeti út 1.
H-2220 Vecsés, Pf.2

a 3/1998 (I.12.) IKIM rendelet hatálya alá tartozó hegesztett szerkezetek
gyártásánál, szerelésénél, javításánál és átalakításánál az ömlesztőhegesztés
és az ezzel összefüggő egyéb tevékenységek végzésére vonatkozóan a
26C1053016055 számú jegyzőkönyvben megadott érvényességi körben a
3/1998 (I.12.) IKIM rendelet 2§(2) bekezdésében meghatározott
követelményeknek eleget tesz.

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

Ez a tanúsítvány 2019-06-30-ig érvényes.

Nyilvántartási szám: TA 1026 - 009 - B

Szentendre, 2016-06-14


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

FGSZ Földgázz szállító Zrt.
H-8600 Siófok, Tanácsház u. 5.

Telephelyek:
H-8981 Gellénháza, Ipartelep, Pf.5
H-4201 Hajdúszoboszló, Pf.2
H-2475 Kápolnásnyék, Olajtelep, Pf.2
H-6001 Kecskemét, Szolnoki hegy 232.
H-3501 Miskolc, Sajószgeti út 1.
H-2220 Vecsés, Pf.2

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

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

A vonatkozó érvényességi tartományt a 26C1053016055 számú jelentés
tartalmazza.

Ez a tanúsítvány 2019-06-30-ig érvényes.

Nyilvántartási szám: TA 1026 - 009 - C

Szentendre, 2016-06-14


Wiegand
WIEGAND KRISZTINA
ÉMI-TÜV SÜD Kft.
Notified Body 1417

3834-10-c 2007-08-02 TÜV®

CONTACT DETAILS

FGSZ Ltd operates a customer service centre for its contracted partners. Should you have any questions or queries regarding the natural gas transmission and system operation services, please feel free to contact us.

Customer Service Centre

Registered seat: H-8600 Siófok, Tanácsház u. 5.
ground floor 3.
Mailing address: H-8601 Siófok, Pf. 102,
Hungary
Phone: +36 (84) 505-117
Fax: +36 (84) 505-592
Email: info@fgsz.hu
Opening hours:
Tuesday and Thursday: 1 p.m. - 4 p.m.
Closed on Monday, Wednesday and Friday.

Should you have any queries regarding data related to the Company's activity, please feel free to contact the Information Office.

Information Office

Registered seat: H-8600 Siófok, Tanácsház u. 5.
ground floor 3.
Mailing address: H-8601 Siófok, Pf. 102,
Hungary
Opening hours:
Tuesday and Thursday: 7:30 a.m. - 10 a.m.
Closed on Monday, Wednesday and Friday.
For daily operative matters, please contact our
24/7 dispatching service.

System Operation Centre

Phone: +36 (84) 505-777
Fax: +36 (84) 505-217
Email: fri@fgsz.hu

Regional Booking Platform (RBP):

E-mail: RBP@fgsz.hu
www.RBP.eu



**Our company's website is available
at www.fgsz.hu**

The information in the booklet
reflect the state of affairs as in July 2016.

