



FGSZ LTD'S ANNUAL REPORT

2016



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Overview

5782 km high-pressure natural gas transmission pipeline system

7229 km telecommunication cable network

6 regional plants

6 compressor stations

24 entry points

nearly 400 gas delivery stations

nearly 750 employees

EBITDA	million HUF	Total transported volume (15 °C)	million m ³
2012	65,884	2012	14,741
2013	66,411	2013	14,448
2014	58,180	2014	14,064
2015	59,988	2015	13,093
2016	54,934	2016	14,953

- Operations in line with the EFQM Excellence Model
- European Union ITO certification
- ISO 9001:2008 certified quality management system
- ISO/IEC 27001:2013 certified information security management system
- ISO 50001:2011 certified energy management system
- MSZ EN ISO 3834-2:2006 certified management system for welding operations
- MSZ EN ISO/IEC 17025:2005 accredited calibration laboratory
- At RBP:
 - 8 registered TSO member
 - 113 registered network user
 - more than 5,300,000 successful auctions

Key financial and business data

	2015	2016	2016/2015 (%)
NET SALES REVENUES	106,638	94,946	89.04
EBITDA	59,988	54,934	91.57
OPERATING PROFIT	42,121	37,696	89.49
PROFIT BEFORE TAXES	31,240	31,978	102.36
PROFIT AFTER TAXES	29,499	28,994	98.29
FIXED ASSETS	290,515	280,830	96.67

(million HUF)

Letter from the CEO

*Dear Partner,
Dear Reader!*



IN 2016 again, our Company was to hold its grounds and perform its activities in a changing external environment that posed difficulties. Still, I can claim that both in business and financial terms we did close a successful year, which is also confirmed by the achieved financial indicators: from among our key financial indicators, profit before taxes showed slight increase, whereas profit after taxes remained on the level of the previous year. With respect to the Hungarian regulatory environment exercising the largest single influence on our operations, it can be seen that the transmission fees applicable to FGSZ remained unchanged basically regarding their content and amount in 2016. However, certain other changes of the regulatory environment resulted in the alteration of the composition of sales revenues from domestic supplies from the beginning of the 2015/2016 gas year, and while the ratio of annual capacity bookings decreased, and short-term or seasonal capacity bookings increased. These unfavourable effects could be counterbalanced by the strict control of our operating expenses and increased supply volumes in consequence of higher domestic and export demands, as in comparison to the corresponding period of the previous year domestic consumption was on the rise, similarly to delivery volumes in Romania, Croatia and Ukraine.

Towards ensuring Hungary's supply and energy security, as well as promoting the establishment of an integrated European gas market, in 2016 we expended HUF 7.6 billion Hungarian Forints on investments, which exceeded the value of investments in the previous year. Taken also for the improvement of our competitiveness, these measures reflect their real significance in the light of the fact that the changes made effective from 1 January 2017 promised the emergence of additional negative tendencies in natural gas supply. As a result of the tariff and cost review conducted by the regulatory authority, capacity fees shrank by 25% on the average, whereas transmission-related fees dropped by 69% from the beginning of 2017.

Looking at the professional achievements made in 2016, a particularly important element was the successful implementation of the investments that were needed for increasing the entry capacity in the direction of Austria–Hungary. It strongly enhanced the flexibility of the transmission system in Western Hungary, which concurrently supported the creation of the possibility of deliveries from Hungary to Austria.

FGSZ continues to follow the priority goal to ensure the potential supply of natural gas to the country from all the possible directions, including the conversion of the existing cross-border connections into bidirectional facilities. In this regard, the establishment of the possibility for the entry of natural gas arriving from the direction of Romania was an important step, and currently work is in progress with the Romanian partner towards the considerable expansion of capacities that are currently suitable only for the delivery of smaller quantities.

We are in the process of improving our professional relations with several countries in the region, and the clientele belonging to our Regional Booking Platform has been growing as a result

of our consistent activities in recent years. In addition to us, our capacity allocation application is now used by seven other TSOs of the EU: the Slovakian Eustream, the Romanian Transgaz, the Croatian Plinacro, the Hungarian MGT, the Bulgarian Bulgartansgaz, the Greek DESFA and the Austrian Gas Connect Austria, while 2017 is expected to witness the joining of other gas-supplying system operators.

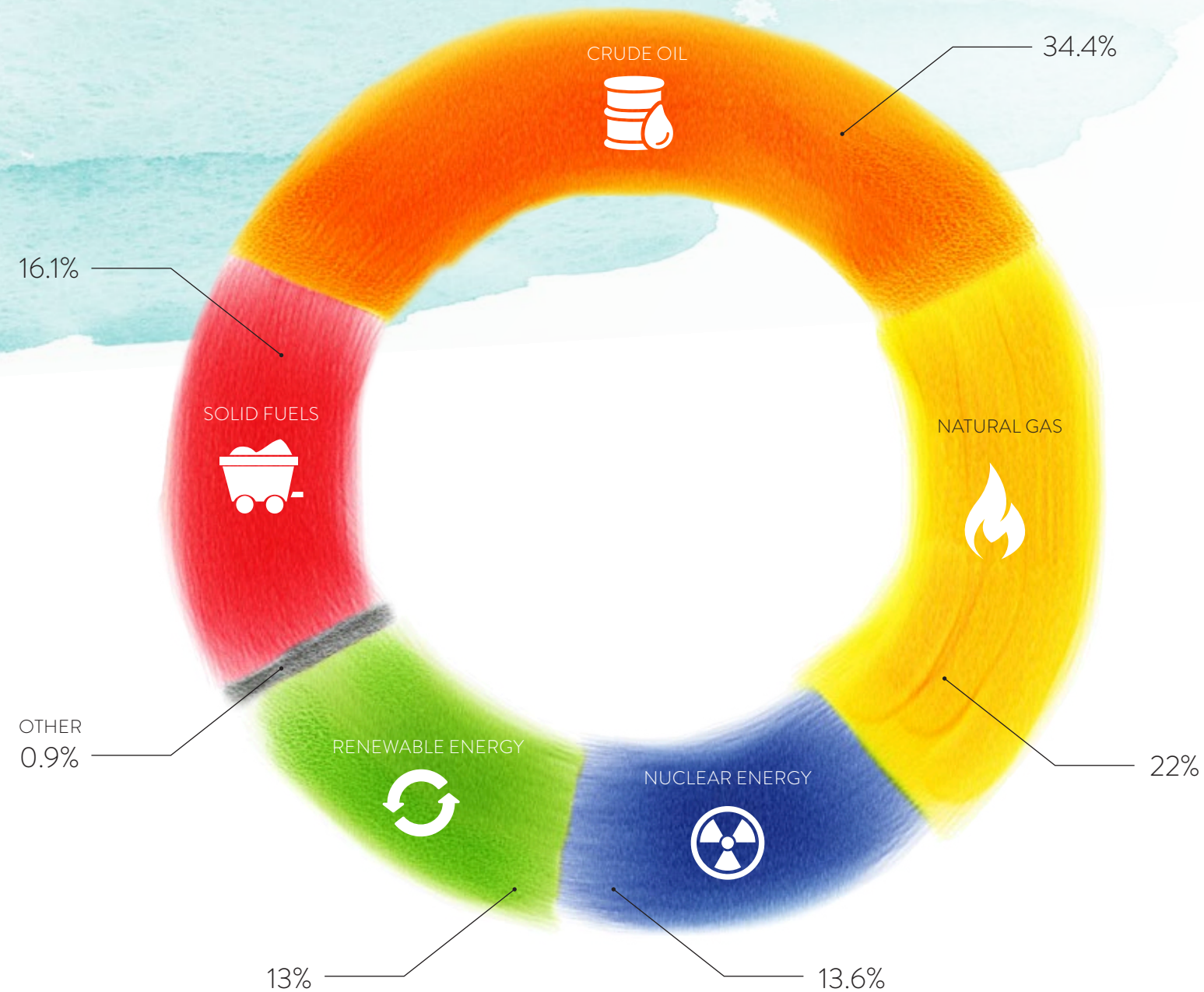
FGSZ continues to be interested in the establishment of a strongly linked, regional natural gas transmission network that is interoperable to all directions, which makes the creation of such a more effective and liquid gas market possible that is more diverse in view of the potential sources. Therefore, we wish to participate in comprehensive infrastructure developments at both Hungarian and international level.

In natural gas supply, safety, professionalism, precision and cooperation are all essential fundamental values. We also follow them as prevailing guidelines in our partnerships. We have the same approach to human values. Therefore, let me express my gratitude to all my colleagues who gave their personal and professional contributions in 2016, and thus fostered our Company's praiseworthy performance.

A handwritten signature in black ink, reading 'Terhes Kristóf', written in a cursive style.

TERHES KRISTÓF
Chief Executive Officer

COMPOSITION OF ENERGY CONSUMPTION
IN THE EUROPEAN UNION BASED ON ENERGY SOURCES



Source: ec.europa.eu (Eurostat/2015)

Energy market overview

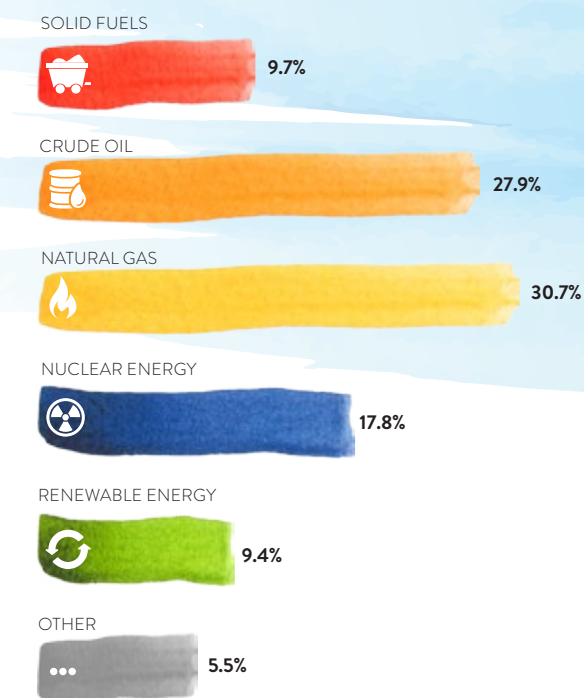
ONE OF the key questions in relation to our sustainable development in the future is how continuous and well-balanced energy and supply security can be guaranteed for households, public utility suppliers and industrial operators until environmentally sound and climate-friendly technologies become generally widespread. In this context, natural gas has an inevitable role.

At present, it is the second most important source of energy in the European Union's energy mix, while in Hungary – though to a slowly decreasing extent – natural gas still continues to have the largest share in the energy market.

With respect to the fact that the volume of gas extraction within the European Union is smaller than the volume used by the member states, the security of supply within the Community can be ensured only with the import of substantial quantities of natural gas. Similarly to several other countries in the Central European region, Hungary is in need of import volumes.

The outstanding demand for natural gas can be attributed to the extremely favourable properties of this natural energy carrier. In addition to its versatile use, one of the essential strategic advantages of natural gas lies in the fact that with reliance on appropriately developed, modern infrastructure it can be transported to large distances in a very safe, economical and environmentally sound manner.

COMPOSITION OF ENERGY CONSUMPTION
IN HUNGARY BASED ON ENERGY SOURCES



Source: ec.europa.eu (Eurostat/2015)

Regional integration

FGSZ LTD'S large-capacity natural gas transmission system has a strategic role in the energy supply of both Hungary and the region, and ensures the permanent and plannable availability of the capacities that are required by consistent gas supply, the necessary important and transit operations alike. For this reason, in the set of goals set in the framework of its development policy our Company prioritizes the guaranteeing of the operating safety of our natural gas transmission system, the implementation of its scheduled modernization and capacity expansion, as well as the realization of projects designed to ensure the bidirectional, north-to-south and east-to-west transportation potentials of the high-pressure transmission pipeline network.

One of our main endeavours is to promote the operation of an integrated competitive market that allows the sustainable reduction of energy costs for consumers in line with the Government's energy policy, as well as the associated guidelines and regulations of the European Union. In this respect, the key guarantee is the expansion and optimization of Hungary's natural gas purchasing options. It is what we





Background

The developments of recent years have considerably reinforced FGSZ Ltd's regional positions, which gives is weighty potentials for the exploitation of our strategic objectives. We strive for putting in place as many entry and exit points as possible for the receipt and delivery of natural gas, thereby creating the highest possible degree of energy security for the country, as well as the neighbouring nations. 2013 saw the onset of a new chapter in FGSZ's history with the option to supply natural gas towards the Ukraine, while from July of the same year an opportunity for so-called backhaul transports – i.e. virtual deliveries by netting the supply tasks to be executed in opposite directions – from Romania was made available. From February 2014, we created proper conditions for physical transport, too. In the same year, Slovakia's natural gas transport system was also connected to the Hungarian high-pressure natural gas transmission system as a result of MGT Ltd's investment: the line enters FGSZ Ltd's pipeline system at the Vecsés node. For Serbia, as well as Bosnia and Herzegovina we are involved in transit operations, whole towards Romania, Croatia and the Ukraine we execute transshipments.

consider to be our guiding principle in the implementation of our infrastructure developments.

We believe that the five major fundamental conditions of the stability of the domestic and international gas market are

- ❶ connection of the high-pressure transmission pipeline networks of the individual countries on the regional level,
- ❷ ensuring their transparent bidirectional interoperability,
- ❸ appropriate diversification of the sources of supply,
- ❹ planned exploitation of the strategic storage facilities, and
- ❺ development of systems for the integrated and optimized utilization of capacities.

Beside measures of local significance, we have an active focus on the changes in Europe's natural gas market, similarly to development of projects and concepts often competing with each other. From Hungary's perspective, the realization of the concept concerning the North–South Gas Corridor would be particularly beneficial, with special respect to the LNG terminals that it would make available. Our Company sees outstanding importance in the fact that this project concept has been listed as one of the development priorities in the European Union's energy policy.



We bear similar interests and expectations towards the ideas relating to the exploitation of the natural gas fields in the Black Sea, as well as the timing and elements to be realized from the legacy project(s) of the Trans Adriatic Pipeline (TAP) or the Turkish Stream. These are issues that cannot be regarded to be ignorable in view of Hungary's long-term energy and supply safety, as well as our Company's regional role, and therefore FGSZ Ltd aspires to take a similarly active role in the international professional cooperative efforts towards finding potential solutions and the elaboration of concepts for ensuring regional supply safety as in the creation of the Gas Regional Investment Plan (GRIP) setting out the associated development plans of the European Union. We actively participate in the so-called CESEC (Central and South Eastern Europe Gas Connectivity) initiative, which targets the integration of the gas market in Central and Southeastern Europe and the diversification of the gas supplies arriving in the region. In pursuing the above goals and endeavours, we have made proposals for such projects in cooperation with the transmission system operators of the

neighbouring countries that have been declared to be projects of common interests (PCI) by the European Union, and that may be implemented later as a function of binding market demands to be confirmed in the form of long-term supply agreements. For the proper preparation of these projects, upon the call for proposals of the Connecting Europe Facility (CEF), we have successfully presented our applications in relation to the preparation of the basic plans of PCI project no. 6.24.1; 6.24.4; 6.24.5; 6.24.6 and 6.24.9 within the meaning of Regulation (EU) No 2016/89, including the necessary routing plans, as well as the documents that can be used in making preparations for the permitting of the required nodes and compressor stations, as well as the environmental permits, and thus we have been awarded non-repayable grants in an amount of up to EUR 1,377,000.



Co-financed by the European Union
Connecting Europe Facility



5782 km pipeline system

6 natural gas transmission plants

6 compressor stations

1 dispatcher center

Our infrastructure

Featuring high-level automation, our high-pressure transmission system is one of the most modern facilities in the European scale.

AS MOL PLC'S a solely owned subsidiary, our Company deploys professional experience of nearly 80 years in domestic natural gas supply. We perform our tasks as an independent transmission operator (ITO) defined in the European Union's Directive 2009/73/EC.

Being worthy of our traditions in the sector, our Company's infrastructure is among the most modern facilities in Europe. Via our high-pressure transmission system featuring high-level automation, natural gas is transported in the required quality and at the necessary pressure for continuous supplies to system users.

Sourced both from domestic production and foreign supplies, natural gas is received and delivered at 20 domestic and 4 cross-border entry points of our high-pressure natural gas transmission pipeline network, as well as at nearly 400 exit points. At each of these entry and exit points, we have a close focus on the application of the quality control protocols defined in the effective legal regulations and the proper observation of validated measurement requirements.

The safe and continuous operation of our 5782-kilometer-long system encompassing the entire

LENGTH OF THE TELECOMMUNICATION CABLES (KM)



TRANSIT AND EXPORT QUANTITIES (BILLION M³)





country is served by the cooperation of 6 natural gas transmission plants and 6 compressor stations, as well as coordination provided from system management center of Siófok. The activities executed at the Siófok center, in Gellénháza, Hajdúszoboszló, Kápolnásnyék, Kecskemét, Miskolc and Vecsés are supported by the operation of the compressor stations in Beregdaróc, Hajdúszoboszló, Mosonmagyaróvár, Nemesbikk, Városhőd and Bába. Our center is in charge of the integrated supervision of the

pipeline system and the management of system processes at all times, our plants carry out the coordination of the respective natural gas transmission systems belonging to their scope of responsibilities, while the compressor stations guarantee appropriate pressure in the transmission system and reliable gas supply to consumers.

Our Company is responsible for the required odorization of the natural gas supplied to the consumers for safety purposes, the continuous control of the quality

of natural gas, as well as the appropriate measurement of the quantitative and quality-related properties of the gas transferred to our partners in conformance to the transparent, most stringent international standards.

The natural gas volumes that cover industrial and household demands from time to time is supplied to the consumers via gas delivery stations that ensure supplies to the connected operators, as well as industrial and power plant consumers under increased and continuous control.

The consumer demands that seasonally fluctuate as a result of Hungary's continental climate call for the provision of considerable excess gas volumes during the winter by our Company, and they are satisfied with reliance on underground gas storage facilities connected to our high-capacity natural gas transmission network at five points.

The average age of our lines does not exceed 25 years, their diameters range from 100 mm to 1400 mm, and their operating pressure is typically 40–75 bars.



Our Company in numbers

OUR PERFORMANCE AND CAPACITIES IN 2016

Total quantity of natural gas measured at entry and exit points: 21.1220 billion

ENTRY THROUGH CROSS-BORDER PIPELINES: 10.5301 billion

	Volume (cubic meter)	Energy (kWh)
Beregszász:	6.5647 billion	70.9636 billion
HAG:	3.9654 billion	42.7763 billion
Csanádpalota:	0.0 billion	0.0 billion
Interconnector line, Vecsés 4 (MGT>FGSZ):	0.0158 billion	0.1709 billion

DELIVERY FROM STORAGE AT TRANSFER POINTS:

Entry:	2.4166 billion	25.9957 billion
Withdrawal:	2.9033 billion	31.1345 billion

AT UPSTREAM PIPELINE CONNECTIONS:

Entry (net domestic production):	1.5642 billion	15.6854 billion
Entry circuit withdrawal:	0.6957 billion	7.5044 billion

DELIVERY THROUGH CROSS-BORDER PIPELINES:

Transit and export:	2.9963 billion	32.352 billion
Interconnector line, Vecsés 4 (FGSZ>MGT):	0.0 billion	0.0 billion

CAPACITY DATA

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

AUSTRIAN/HUNGARIAN INTERCONNECTOR

Entry point	Volume (cubic meter)	Energy
Annual firm capacity	4.4 billion	47.2 TWh
Daily firm capacity	12.1 million	129.3 GWh
Annual interruptible capacity	0.8 billion	9.0 TWh
Daily interruptible capacity	2.3 million	24.6 GWh

UKRAINIAN/HUNGARIAN INTERCONNECTOR (TESTVÉRISÉG, ÖSSZEFOGÁS)

Entry point	Volume (cubic meter)	Energy
Annual firm capacity	20.5 billion	221.1 TWh
Daily firm capacity	56.3 million	605.8 GWh
Annual interruptible capacity	5.5 billion	58.9 TWh
Daily interruptible capacity	15.0 million	161.4 GWh

HUNGARIAN/UKRAINIAN INTERCONNECTOR

Exit point		
Annual interruptible capacity	6.1 billion	66.0 TWh
Daily interruptible capacity	16.8 million	180.8 GWh

HUNGARIAN/SERBIAN INTERCONNECTOR

Exit point		
Annual firm capacity	4.8 billion	51.8 TWh
Daily firm capacity	13.2 million	141.9 GWh



HUNGARIAN/ROMANIAN INTERCONNECTOR

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	1.75 billion	18.9 TWh
Daily firm capacity	4.8 million	51.8 GWh

HUNGARIAN/CROATIAN INTERCONNECTOR

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	28.6 TWh
Daily firm capacity	7.2 million	78.3 GWh
Annual interruptible capacity	4.4 billion	47.6 TWh
Daily interruptible capacity	12.0 million	130.4 GWh

NET DOMESTIC PRODUCTION

14 entry points		
Annual firm capacity	1.6 billion	15.7 TWh
Daily firm net capacity	7.1 million	72.9 GWh

CAPACITY DATA FOR COMMERCIAL UNDERGROUND GAS STORAGE FACILITIES

5 entry points		
Annual firm capacity	5.1 billion	56.0 TWh
Daily peak capacity	59.6 million	640.4 GWh
of which interruptible	6.5 million	69.7 GWh

CAPACITY DATA FOR STRATEGIC UNDERGROUND GAS STORAGE FACILITIES

Annual firm capacity	1.2 billion	13.0 TWh
Daily peak capacity	20.0 million	211.1 GWh

PEAK CAPACITY OF THE NATURAL GAS TRANSMISSION SYSTEM ON 31 DECEMBER 2016

Total	188.4 million	2017.8 GWh
of which interruptible	47.6 million	507.4 GWh
Imported	98.4 million	1053.8 GWh
of which interruptible	41.1 million	437.6 GWh
Connecting point (MGT>FGSZ)	12.0 million	129.1 GWh
Transit	11.3 million	121.6 GWh
Commercial storage	59.6 million	640.4 GWh
of which interruptible	6.5 million	69.8 GWh
Strategic storage	20.0 million	215.6 GWh
Production	7.1 millió	72.9 GWh

Capacity: the maximum volume that can be transmitted during a unit period of time, which is offered by the transmission system operator to the system users, with respect to the system balance relating to the transport network and the operating requirements.

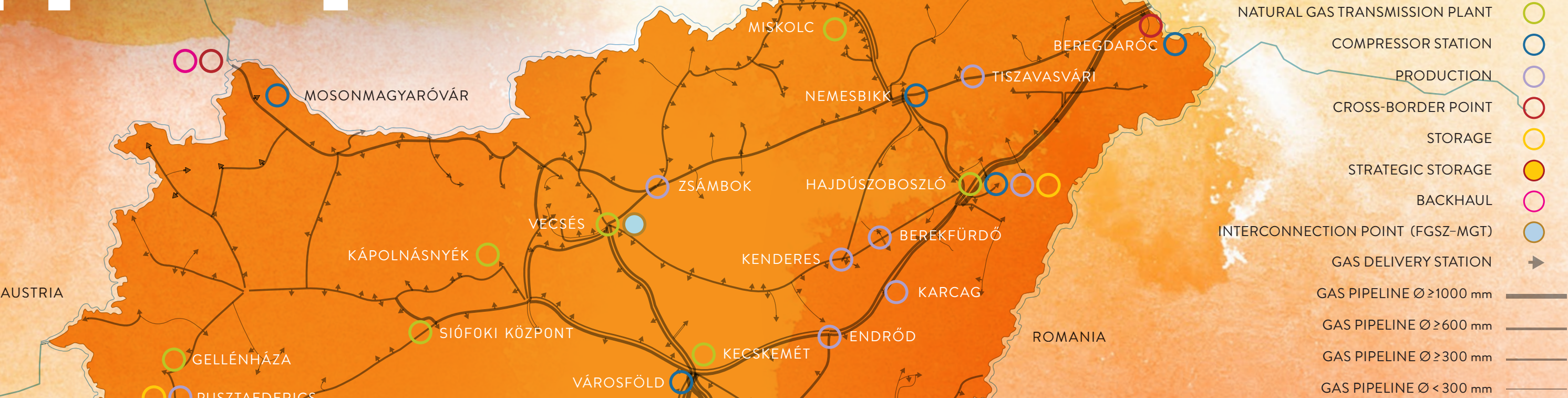
Firm capacity: the gas transmission capacity that is guaranteed to be free from interruptions by the transmission system operator in contract.

Interruptible capacity: the gas transmission capacity that the transmission system operator may interrupt in line with the conditions set forth in the supply contract.



Our pipeline system

5782 KM TRANSMISSION PIPELINE SYSTEM
24 ENTRY POINTS
NEARLY **400** GAS DELIVERY STATIONS
6 NATURAL GAS TRANSMISSION PLANTS
6 COMPRESSOR STATIONS



	(KILOMETER)
COPPER CABLE	5987
OPTIC CABLE	1242
Continuous line: copper cable	
Dashed line: optic cable	
— Communication cable along the gas pipelines	
— Communication cable along an oil and product pipelines	
— Communication cable with independent routing	





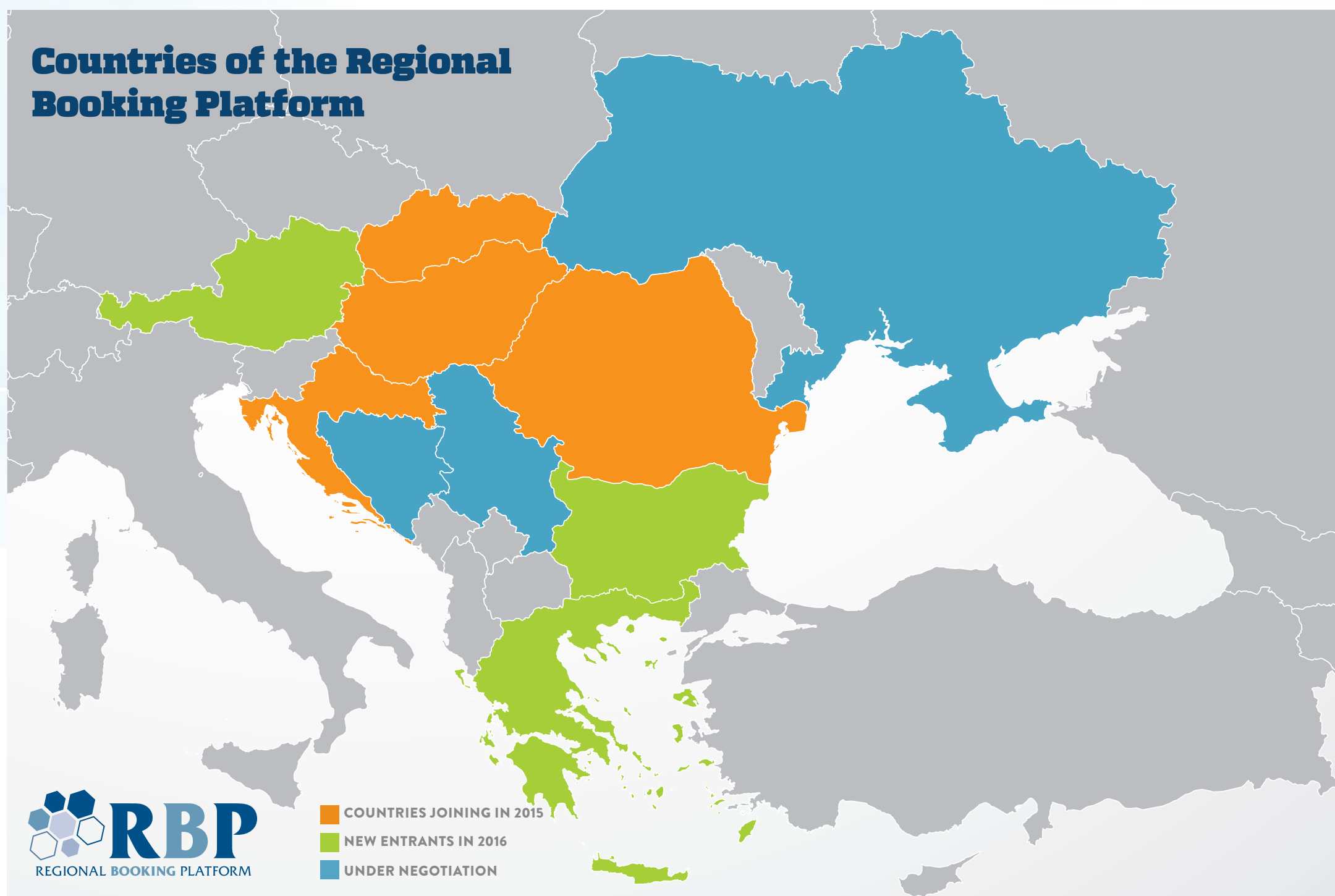
New dimensions in system use

We are proud of our success in bringing high esteem for domestic natural gas transmission with the Regional Booking Platform, within the domain of the natural gas market of the European Union.

HUNGARY'S central location means a strategic position in the map of Europe's natural gas market and energy policy. Therefore, we consider it to be our responsibility to take the initiative in the development of the service infrastructure of European capacity trading. In this aspiration of ours, an important milestone goes back to 2015, when we successfully launched the first international capacity trading service in the region. We are proud of our success in bringing again high esteem for domestic natural gas transmission with our service introduced under the name of Regional Booking Platform (RBP) within the domain of the natural gas market of the European Union.

The major benefits of RBP lie in the favourable transaction rates, the clear-cut and transparent rules that are equally applicable to everyone, owing to which the interconnecting capacities of the transmission systems can be distributed among the participants at the cross-border points in a quick and simple manner. Another advantage of the Regional Booking Platform, which supports the

Countries of the Regional Booking Platform



The major benefits of RBP

lie in the favourable transaction rates, the clear-cut and transparent rules that are equally applicable to everyone.

integration processes among the gas markets of the neighbouring countries, is that its use guarantees the synchronization of the capacities of the respective entry and exit sides over the borders in question. Beyond the coordination of capacity booking operations, this model fosters the approximation of the gas market rates of the individual countries involved, thereby ensuring cheaper tariffs for Hungary.

In line with the domestic legislation and regulatory background, since 11 May 2015 capacity allocation has been implemented via RBP at both the bordering crossing and domestic pipeline nodes in Hungary. The application enables the conduct of capacity allocation procedures not only at the cross-border and domestic pipeline nodes located in our system, but even at pipeline nodes independent from the cooperating domestic natural gas transmission network. In addition to our Company, RBP was used by seven other gas suppliers of the EU in 2016: the Slovakian Eustream, the Romanian Transgaz, the Croatian Plinacro, the Hungarian MGT, the Bulgarian Bulgartansgaz, the Greek DESFA and the Austrian Gas Connect Austria, while we are conducting negotiations with other TSOs, too.



Solutions for operating safety

The management of our systems, record-keeping for the processes of natural gas transmission, support to the optimal use of resources, as well as the tracking of expenses are all implemented by modern and high-standard IT backing.

IN ADDITION to our Company's profitable operations, the line developments of recent years have contributed to the considerable appreciation of our regional role. In order to enhance our operating safety and competitiveness, our telecommunications systems have also been improved. The management of our systems, record-keeping for the processes of natural gas transmission, support to the optimal use of resources, as well as the tracking of expenses are all implemented by modern and high-standard IT backing. Our renewed telecommunications infrastructure offers state-of-the-art background for both the gas market applications associated with our service activities and our business administration systems.

Background

In the framework of our telecommunications cable reconstruction work, during 2016 we commissioned a high-speed (1-10 Gbps) MPLS data transmission network in the optical section between a Gellénháza and Siófok. Within the framework of this technical modernization and reconstruction, the lifecycle-based renewal of the assets of the technological and administrative computerized network was continued, optical modems were replaced, and as a result we achieved a more than tenfold increase in data transmission speeds.

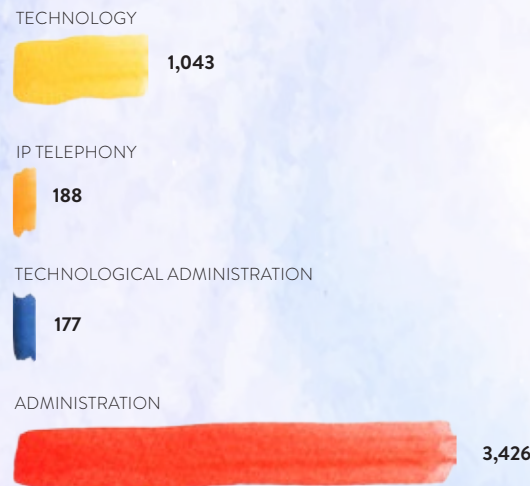
The reconstruction work is being carried on in 2017 with the replacement of the technological switching instruments.

Still in the context of technological modernization, the process to replace the closed analog system handling dispatches telecommunications for technological purposes for a digital system (VoIP) has been concluded with the installation of 350 IP-telephone sets and the establishment of a telephone exchange system fully operated by FGSZ. In the areas of 6 plants, 513 lightning and overvoltage protection block assemblies have been replaced, installed in order to moderate exposure to environmental impacts and enhance operating safety. This work is being continued and expected to be completed during 2017.

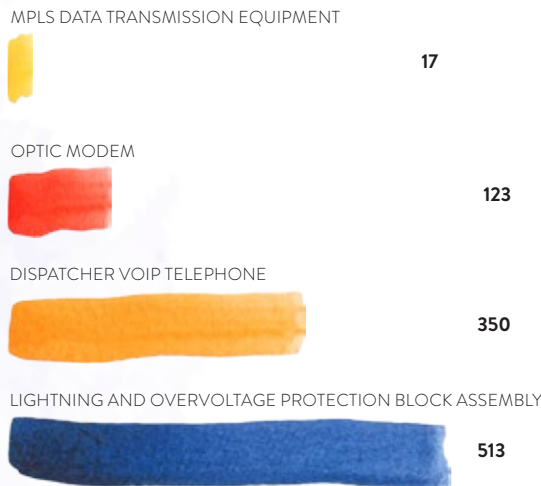
DATA TRANSMISSION RATES IN FGSZ'S OPTIC NETWORK (UNITS)



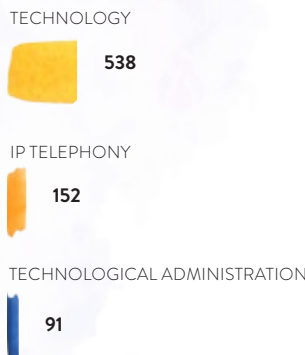
NUMBER OF SWITCH PORTS THAT HAVE BEEN REPLACED IN THE FRAMEWORK OF THE RECONSTRUCTION ACTIVITIES (UNITS)



INSTALLED EQUIPMENT (UNITS)



NUMBER OF PORTS TO BE MODERNIZED IN 2017 (UNITS)



Regulatory framework of our operations

THE OPERATIONS of our Company are regulated by a number of laws, regulations and decrees.

The key legal regulation pertaining to natural gas transport activities is Act XL of 2008 on Natural Gas Supply (GET or Gas Supply Act) with its main focus falling on the uninterrupted, safe performance of supply services to users, as well as the protection of consumer demands. Furthermore, the Act requires

- ① a natural gas supply practices featuring appropriate quality and transparent cost structure;
- ② creation of energy-saving and efficient operation;
- ③ development of the transmission, distribution and storage capacities;
- ④ coordination of natural gas sources;
- ⑤ promotion of the market entrance of new operators;
- ⑥ integration of the Hungarian gas market into the European Community's energy markets that are going through a process of integration; and

It is of primary importance for our Company to pursue our activities in conformance to the European Union's legal regulations in effect from time to time.



We are proud of
*our being among the
forerunners to create
proper conditions for the
introduction of the ITO
model.*

Background

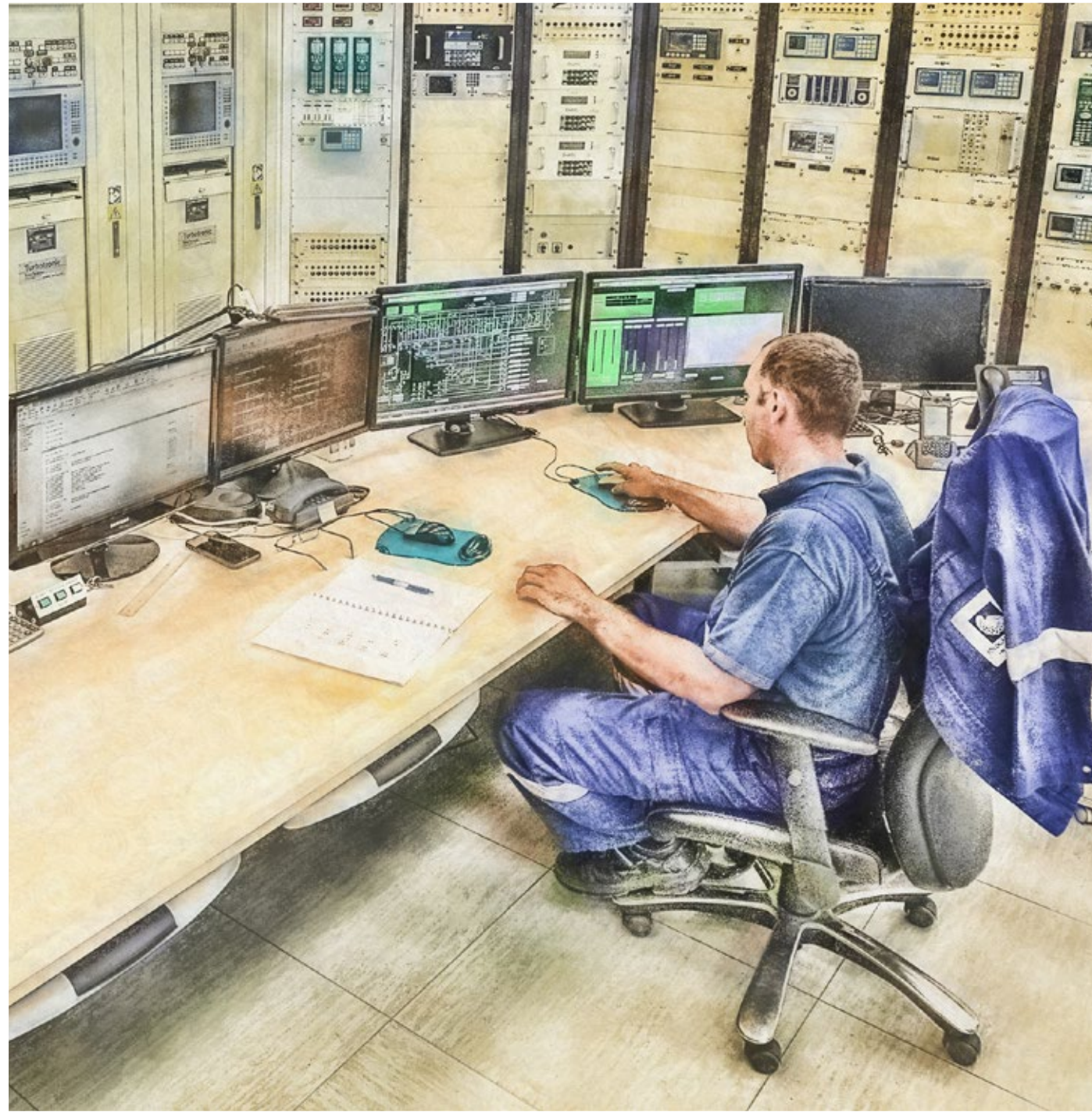
While being MOL Plc's solely owned subsidiary, FGSZ Ltd has been operated fully independently from the parent company since 2010, in conformance to the relevant European Union regulations.



- 7 framing of appropriate, objective and transparent regulations that meet the requirements of equal treatment.

The other key legislation that fundamentally determines our work is Act XLVIII of 1993 on mining, where we are to strictly comply with the relevant safety requirements, for instance, in establishing and operating natural gas supply lines, as well as pursuing the associated activities. Besides, there are numerous legal regulations and authority resolutions (Hungarian Energy and Public Utility Regulatory Authority – MEKH, Hungarian Office for Mining and Geology – MBFH) that govern day-to-day natural gas deliveries on the level of execution and enforcement.

It is of primary importance for our Company to pursue our activities in conformance to the European Union's legal regulations in effect from time to time. For this purpose, we started to adopt the relevant requirements promptly after the enactment of Directive 2009/73/EC that was designed to foster the further liberalization of the gas market, as well as define the new European context for the supply, storage and transmission of natural gas. We are proud of our being among the forerunners to create proper conditions for the introduction of the ITO model, which corresponds to the requirements of the Directive, and therefore FGSZ Ltd became one of the first independent transmission system operators in Europe holding an ITO certificate.



Quality operations - Integrated Management System

The telecommunications system in between our centers and gas industry facilities has a key role in effective coordination and system management.

OUR COMPANY'S efficient operation in line with the relevant standards and regulations, as well as our full compliance with the standards and requirements associated with the individual subsystems are backed by the Integrated Management System (IMS), encompassing the integrated operation of altogether six management systems.

Quality Management System (QMS)

TCovering our entire operating area, our Quality Management System has been functioning since 1997, in line with the requirements of the ISO 9001 standard.

The operation of the system as per the standard is reviewed by the internationally acknowledged certifying agency, SGS Hungary Ltd in every 6 months. June 2016 witnessed the renewal audit of QMS, and now its certificate is valid until June 2018. Preparations for the certification of QMS under the new ISO 9001:2015 standard will last until the end of 2017, and the new system is foreseen to be certified in 2018.



Technical Safety Management System (TSMS)

TSMS covers our Company's technical safety activities and the connected fields, while its operation is annually reviewed by the mining authority. The system has been framed based on the requirements that are set out in the Procedural Aid of the Hungarian Office for Mining and Geology (MBFH), and it has been accepted by the Office in the form of its resolution of approval no. MBFH/1948-4/2013. While establishing the system, no exclusions were applied. In its resolution adopted in April 2016, MBFH approved the policy amendments concerning the Technical Safety Management System for FGSZ Ltd.

Information Security Management System (ISMS)

The Information Security Management System extends to our Siófok headquarters and the operating area of our Kápolnásnyék Natural Gas Transmission Plant. The operation of the system as per the standard is reviewed by SGS Hungary Ltd on a half-yearly basis. A supervisory visit to ISMS and its certifying review as per the ISO/IEC

27001:2013 standard took place in June and December 2016, respectively. Our Company was found to meet the requirements at the certifying audit held in the framework of the review, and was granted the certificate for an additional term of three years; it is valid until 09.01.2020.

Welding Operations Management System (WOMS)

For the efficient and high-standard performance of maintenance and troubleshooting activities, our Company has framed its welding operations based on Standard MSZ EN ISO 3834-2:2006, and had them certified by ÉMI-TÜV-SÜD Ltd in 2010. ÉMI-TÜV-SÜD Ltd conducts annual audits on the operation of the welding management system relating to the fusion welding of metals. As required by Decree 3/1998 (Jan 12) of the Ministry of Industry, Trade and Tourism, we have also obtained the necessary authority permit. May 2016 saw the second occasion when a renewal audit was held in relation to WOMS, as a result of which our certificate was renewed for an additional term of three years, until 30 June 2019.



Calibration Laboratory Management System (CLMS)

For the management and regulation of calibration activities, since 2012 we have been using the Calibration Laboratory Management System, which covers FGSZ Ltd's Calibration Laboratory at the Siófok headquarters and four other sites (Gellénháza, Kápolnásnyék, Kecskemét, Miskolc). To CLMS, all the requirements of Standard MSZ EN ISO/IEC 17025:2005 are applicable. In August 2016, our Company successfully performed at the onsite regulatory visit of the National Accreditation Authority (NAA). The certificate remains valid until 19 May 2019. An extension of the scope of the management system to calculators and measuring orifices is planned to be implemented until the end of 2017.

Energy Management System (EMS)

Since December 2015, our Company has been operating an energy management system certified by SGS Hungary Ltd in line with Standard ISO 50001:2011. The operation of the system as per the standard is reviewed by the certifying agency on a half-yearly basis. We were found to meet the requirements successfully at the onsite supervisory visits in June and December 2016. Our certificate is valid until 6 February 2019. In association with the operation of the management system, our Company aspires to putting in place energy-efficient operations and developments that we want to achieve by setting annual objectives and executing the connected implementation plans.

Regulated business processes

THE BUSINESS and Commercial Code (BCC) forms the essential set of regulations for the day-to-day operation of the interconnected natural gas system, and it encompasses such fundamental content elements as commercial, settlement and measurement, data exchange agreements, as well as the detailed rules of system access and the daily balancing. We update our operating and commercial regulations consistently, in accordance with the provisions of the Act on natural gas supply and its implementing acts, as well as other legal regulations pertaining to the operation of the interconnected natural gas systems. Pursuant to the resolutions and other requirements of the Hungarian Energy and Public Utility Regulatory Authority and with respect to the changes of the European Union and domestic regulatory environment, the Code underwent three modifications in 2016.

To support the elaboration and consultation of BCC, we operate a sectoral working group, the so-called Code Committee (CC), where we also delegate the chairperson of the body. The groups of licensees and entities on the



gas market with the same type of license (transmission system operators, distributors, traders, storage operators, etc.) take part in the work of the Committee through their elected representatives. To back the flawless professional work of the Code Committee, our Company set up an Internet portal for the Code Committee, which in 2016 efficiently ensured the online implementation of processes for the amendment and modification of BCC.

A number of new subrules defined in the third energy package of the European Union govern nearly all the aspects of domestic system use. Similarly to the domestic BCC, these new, so-called network codes constitute a coherent system to describe the individual area of the operation of the integrated European gas market. The European Union regulations are directly applicable to the subjects of the regulations, meaning in this case – in particular, but without limitations – transmission system operators, nation regulatory authorities and distributors. Additionally, their common characteristic is that they tend to leave a relatively short period of time for adoption. Apart from Regulation (EU) No 984/2013 (CAM NC), such legal regulations include the Decision (EC) 2012/490 made for the elimination of contract-based congestions (CMP), Regulation (EU) No 312/2014/EU establishing a network code on gas balancing of transmission networks (BAL NC) and Regulation (EU) No 703/2015/EU regulating technical cooperation among system operators rules (INT NC).

Additional network codes are anticipated in relation to the allocation of new capacities (Incremental Capacity Proposal), the harmonization of the tariff system (Tariffs NC) and commercial regulations (Rules for Trade). In the case of CAM NC and BAL NC, FGSZ completed

2016 saw a significant change in the regulatory environment determining tariffs.

its preparations in a timely manner for the technological, technical and IT introduction of the requirements. On the level of both regulations and practical implementation, 2016 saw the roll-out of transaction sales, and concurrently the termination of trade nominations, the conversion of balancing assets, the introduction of gas quality forecast for the users or transmission pipelines and storage facilities. The switchover from a MJ to a kWh basis was fully completed in the distribution system, as well. On 1 April 2017, data service model 1 as per BAL NC was deployed, under which day-end allocations need to be regarded as final, meaning that preliminary and ultimate allocations will not be separately handled in the future.

2016 also saw a significant change in the regulatory environment determining tariffs. Beyond the determination of the conditions of price application and tariffs, the scope of MEKH's competences has come to include the definition of framework regulations in relation to usage fees for natural gas systems, special charges and connection fees. The above-detailed, substantial changes of processes and activities needed to be integrated into the Business and Commercial Code with the precise elaboration of subrules, in line with higher-level legal regulations. All these activities brought about the fundamental revision of BCC, and this process continued during 2016.





Fundamental values of our corporate culture

WE ARE CLEARLY aware of the fact that at any company the most important, always renewing resource is constituted by well-prepared and committed people. For this reason, we regularly assess the level of employee commitment, inquire about their opinion in relation to our processes, circumstances influencing their work. During this continuous dialog, we are particularly proud of our outstandingly high proportion of participation in surveys, which proves that people working at our Company know that their opinion, workplace satisfaction, feedbacks are important for the Company's management. We do take pride in the fact that based on our employees' commitment indicators we have a leading role in the energy sector.

We have a priority focus on the proper supply of new recruits to our well-prepared team of experts, which is steadily backed by the well-proven framework of our practice-based scholarship and mentoring program designed to address college and university students. From year to year, we organize a program series jointly set up with the University of Miskolc under the name of "Gas Days", in

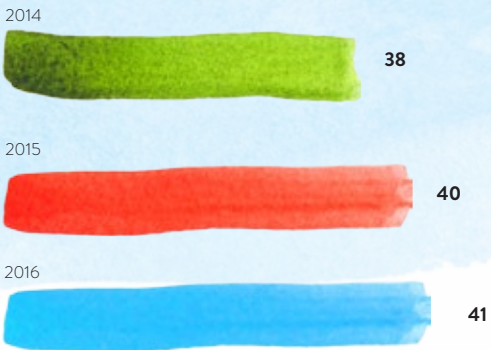
RATIO OF EMPLOYEES WITH QUALIFICATIONS OF HIGHER EDUCATION (%)



the context of which university students belonging to this industry have the option to obtain valuable practical experience in connection with the modern processes of natural gas transport at plant visits as an addition to their theoretical knowledge.

The continuous renewal of technologies and high-level operating safety call for the regular further training of

**RATIO OF EMPLOYEES WITH QUALIFICATIONS
OF HIGHER EDUCATION (%)**



our active employees. In addition to the execution of our scheduled training programs, we support our employee’s aspirations in broadening their professional expertise and enriching their knowledge. We regard the thoroughly educated team of experts as the key guarantee of our Company’s competitiveness. We are proud of the fact that 55% of our employees hold higher education qualifications, and 41% of them have more than one academic degrees. Higher levels of professional knowledge and day-to-day professional performance are also recognized by our system of compensation and promotion. For all these reason, FGSZ is known for being one of the most attractive actors of the regional labour market in the industry.

An integral element of our corporate culture is the high esteem we hold for the earlier generations of professionals. Their paths of life, experience, human and professional examples serve as guidance and inspiration for all of us. From year to year, we organize our Saint Barbara Day corporate celebration with the principal goal to demonstrate: our retired experts will never cease to belong to our community.



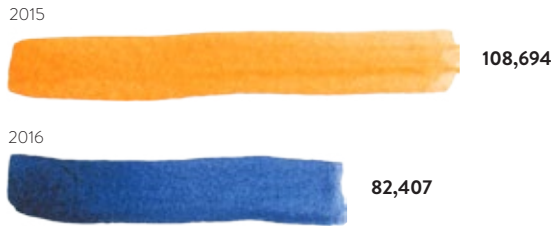


In harmony with our environment

THE SAFEGUARDING of natural values is not merely an important goal for us, but it is indeed an integral part of our corporate culture, and therefore also in the future we want to rely on the energy market advantage that is inherent in the extremely favourable ecological footprint of natural gas transmission. During the operation of our plants and investments, we apply the least environmentally harmful solutions, and consciously strive for moderating the emissions generated by our activities to the environment. Our fundamental principle is that any damage caused by us should be adequately compensated, areas suffering such damage need to be effectively rehabilitated by ourselves or professional contractors, such as by means of follow-up monitoring at construction sites, the replanting of forests to the required extent and in the necessary quality, noise-reducing investments in the surroundings of our environment.

We regard the systemic utilization of renewable energy resources that equally serves environmental sustainability and energy security. To this end, we make all efforts to enable our network to accept any biogas inventories appearing in the domestic natural gas market

VOLUME OF THE GENERATED HAZARDOUS WASTES (T)



VOLUME OF THE GENERATED NON-HAZARDOUS WASTES (T)



in conformance to the regulatory environment that determines our activities.

As a responsible strategic operator of the Hungarian energy market, we believe that the cause of environmental sustainability cannot be handled separately

from the need to secure the Hungary's sustainable development. These two goals can be accomplished only hand in hand with each other. With this principle in mind, we keep an eye on the project concepts that shape the energy security of the region in the long term.



Safety above all

Our objectives set in the field of health protection, safety engineering and environmental protection are based on our absolute respect for human life and natural values.

FOR THE HEALTH protection and occupational safety of our employees, we consistently execute our complex HSE strategy, where the protection of the environment is also viewed as an integral element. Our objectives set in the field of health protection, safety engineering and environmental protection are based on our absolute respect for human life and natural values. During the realization of our HSE strategy, beside regular health counseling and information, we have a close focus on systemic improvement of ergonomic conditions at our workplaces and during our operations. Our objectives relating to safe working practices that are not harmful to life have been defined in view of the triple principle of preparedness, information and prevention.

Main directions of this strategy:

- Elimination of unfavourable circumstances at work or the mitigation of their impacts.

- Exploration and prevention of new threats, harms.
- Reduction of the number of work related accidents and moderation of their severity.
- Continuous development of the employees' work safety knowledge.
- Regular drills in relation to the rescue plans for high-risk activities.
- Maintenance of working environments that serve the welfare of our employees.

Safe workplaces

When gas industry technologies, office workplaces, workshops are designed and commissioned, heightened attention is paid to the creation of proper conditions for safe operation and maintenance.

We regularly review the risk assessment documentations of workplaces, jobs and work processes, the risk maps relating to the individual jobs, the adequacy and efficiency of the necessary risk-mitigating measures.

For our employees using life-saving equipment (e.g. devices for fall protection, respiratory protection), we organize refreshing practical trainings in order to drill the safe use of protective equipment.

Our Company encourages the improvement of the conditions of healthy and safe work by announcing work safety competitions among the natural gas transmission plants.

In order to improve work safety performance, a program called Life-Saving Rules was prepared and introduced in 2016 and 2017, respectively, so as to enhance the employees' commitment to safe working practices on all the managerial and operating levels of the Company.

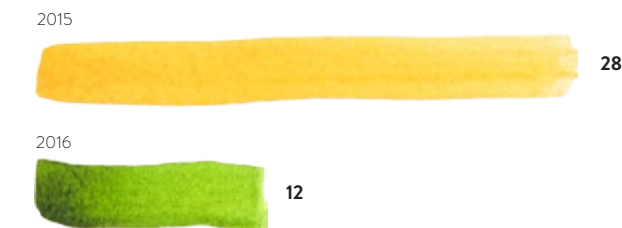
NUMBER OF LOST TIME INJURIES (LTI, INJURIES)



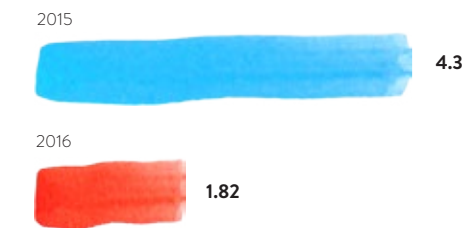
FREQUENCY OF LOST TIME INJURIES (LTIF)



NUMBER OF ROAD ACCIDENTS



ROAD ACCIDENTS RATE (RAR)



There is increased emphasis on the avoidance, conscious prevention of occupational accidents taking place in pedestrian traffic as a result of falling, tripping and slipping. (In previous years, there were several such incidents at our Company.)

Prevention of road accidents

The program targets the reduction of the number of accidents on public roads.

Employees have the option to practice safe car driving techniques under varied environmental circumstances, in the framework of driving technique trainings.

Annual traffic safety trainings are also held to call the employees' attention to the risks that originate from transport, as well as changes in the rules of the Highway Code (KRESZ).

We keep records of traffic incidents/accidents, and investigate them.

Prevention of fire incidents, disaster management, carriage of dangerous goods on public roads

The goal of the program is to prevent operating disturbances, serious industrial accidents relating to dangerous substances from occurring, and mitigate the risks that are inherent in their transportation to an acceptable level.

For the employees, we organize emergency trainings, alongside evacuation and firefighting drills for people working in office jobs.

The employees concerned are prepared for the execution of the Plans for the Prevention of Serious Damage Incidents (SKET) designed for our natural gas transmission plants.

The employees involved in the road transportation of dangerous goods are provided with regular trainings. Heightened attention is paid to the proper selection of suppliers for the carriage of dangerous goods.

Health improvement

The program targets the mitigation of the health-related risks that employees are exposed to.

We annually perform advanced level screening examinations as part of the basic occupational medical care. Apart from these annual screening examinations, our employees have the option to take part in complementary medical screening examinations as free of charges. We regularly hold information sessions in order to raise awareness for and encourage healthy lifestyles.

Examinations offered in the framework of the program in 2016 were:

- lactose intolerance test,
- celiac disease screening,
- thrombosis risk assessment (Leiden mutation),
- thyroid test (TSH, T3, T4),
- diabetes (type 2) screening examination,
- prostate screening examination (PSA).

In line with our occupational health preservation program, we also announce preventive healthcare programs for the employees from time to time. Examples include melanoma screening that we support by allowing the examinations to be performed during the working hours and providing the necessary premises, as well as seasonal

flu vaccination as free of charges, which was demanded by 158 co-workers in 2016.

Ergonomic supervision and development of workplaces

The program has the goal to establish and maintain such working environments in offices that do not pose accident risks on employees, while ensuring their welfare. In the framework of occupational risk assessment, we regularly verify the ergonomic adequacy of workplaces, and modernize working environments as necessary.

Development of the HSE performance of suppliers

The program aims at the enhancement of the HSE performance of the contractors that work for the Company, the promotion of the accident-free work of their own employees, the prevention of damage in the event of any accident.

Environmentally conscious operations

Environmental protection has undoubtedly become part of our corporate operations. The safeguarding, sustenance and improvement of the quality of the environment are shared responsibilities for all of us, and deemed as part of the maintenance of health protection and ecological balance. Our objective is to operate the natural gas transmission system in an ecologically efficient manner, by taking the principles of sustainable development into account, moderate greenhouse gas emission, promote the regeneration of soil- and water-covered areas, reduce the quantities of contaminants, wastes. In this latter respect, we have a strong focus on the modernization of waste collection facilities, the





environmentally sound management of wastes and recycling to the largest possible extent.

In harmony with nature

In this context, our aim is to promote the regeneration of the natural environment that is affected by our activities, and avoid all unnecessary damage. If such developments, work processes are necessitated that require intervention in nature, we prepare detailed action plans with the involvement of the competent environmental authority to safeguard the living world. After the completion of works, we appoint nature conservation experts to perform follow-up monitoring in the areas affected by the construction works in order to keep track of the renewal of natural values. 2016 saw the continuation of monitoring along the strategic Városföld–Algyő DN1000 PN63 gas pipeline and at the Városföld–Bátmonostor–Drávaszerdahely DN800 PN75 pipeline construction site. The activities are performed with the goal to gather experience that facilitates the work processes of future investments and the development of their surveillance for nature conservation purposes.

Protection of air cleanliness

Within our Company's operating area, there are 140 facilities that operate so-called high-output point sources of air pollution that are allowed to work only if the conditions stipulated in the permission of the environmental authority are satisfied. Also fulfilling the relevant requirements of Directive 2003/87/EC and 2010/75/EU of the European Parliament and Council, our compressor stations emit the least possible air

pollutants due to the application of the best available technologies.

We keep the emissions of our facilities under permanent control, and check them with the involvement of accredited measuring agencies, with the frequency and in the manner prescribed in the associated legal regulations. During 2016 again, emissions from the point sources of air pollution remained under the respective limit values at all times.

Water management

With the operation of individual communal wastewater treatment facilities at the Seszták Imre Compressor Station and the Natural Gas Transmission Plant of Hajdúszoboszló, we have the goal to minimize the emission of contaminants to the recipient watercourses, and therefore we have the quality of the effluent treated wastewater analyzed by an accredited laboratory twice a year.

Our Company's compressor stations are in possession of local damage elimination plans for the protection of surface and subsurface waters – they were reviewed in 2016 – with the purpose of objectively seeing the actual threats at the respective sites and placing the primary focus on the prevention, containment of any contamination, as well as the tasks that need to be executed during any potential operation for the management of damage.

Waste management

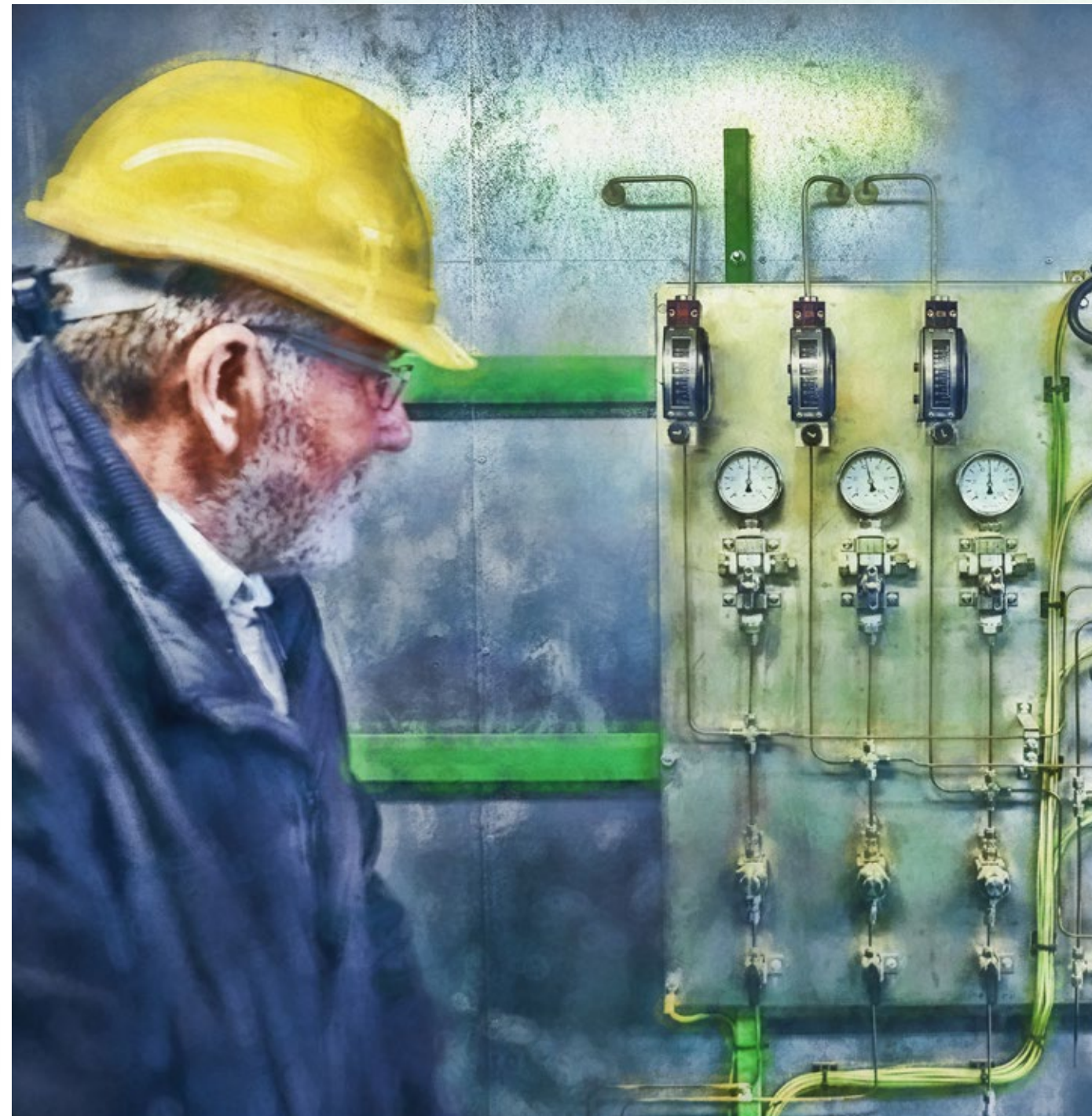
We dedicate heightened attention to the reduction of the volumes of wastes generated during our operations and selective waste collection. We continuously keep the

environments of our facilities clean and in good order, and in this context we provide for the removal of illegally deposited communal wastes and construction debris that originate from areas outside of our operating sites.

By following the lifecycle approach, throughout the lifetimes of the individual products and services – i.e. during the exploitation of resources, use and reuse, transportation and recycling, as well as the ultimate disposal, elimination of wastes – we aspire to minimizing harmful effects on the environment. In 2016, our Company produced 82.4 tons of hazardous and 501.2 tons of non-hazardous wastes, from which 508.2 tons were recycled, and consequently used again as valuable base materials in economy.

Noise protection

We attribute significance to keeping people living in our working environment undisturbed, and therefore we continuously measure the noise emission of our facilities. At times of construction works, we provide proper noise protection to our technologies, objects in order to ensure that noise emission should remain under the respective limit values. The surroundings of the compressor station in Városföld are permanently monitored. Our investments in noise reduction (pipeline insulation, chimney replacement) resulted in the measurable decrease of loading. The efficiency of our noise protection program is indicated by the fact that 2016 did not see any complaint, observation from the inhabitants at around our operating sites in relation to the noise associated with our facilities.



Background

In consequence of the joint efforts of our Company's management, work managers and employees, in 2016 there were no extraordinary events involving lost time injuries, fire incidents, environmental pollution or material property damage in association with FGSZ Ltd's operations.



Our corporate social responsibilities

We attribute importance to helping the settlements that are located within the area of our operations.

ANY SUCCESSFUL business should be fundamentally interested in fostering the successes of its operating environment. Therefore, the philosophy underlying our corporate social responsibilities relies on the pillars of cooperation and the conveyance of values. We attribute importance to helping the settlements that are located within the area of our operations. Following our traditions, in 2016 we supported and sponsored the social, cultural, sports, health-related and environmental programs of institutions and non-governmental organizations in the surrounding villages and towns. In 2016, we organized the highly successful intellectual competition entitled “Lángész kerestetik!” (“Mastermind wanted!”) for the sixth time, with a total prize pit of HUF 3,300,000 where teams of eighth-grade students can compete. This series of events seem to enjoy increasing popularity and interest from year to year, and we hope that it will also be inspiring for young people in their future career orientation.

We are also proud of the fact that our co-workers spent nearly 400 hours on voluntary work in 2016: In the framework of our Energetic Settlement Program, for

67 colleagues added their voluntary work

to the construction of a special, extreme skateboard, scooter and BMX bike park for young people in Siófok.

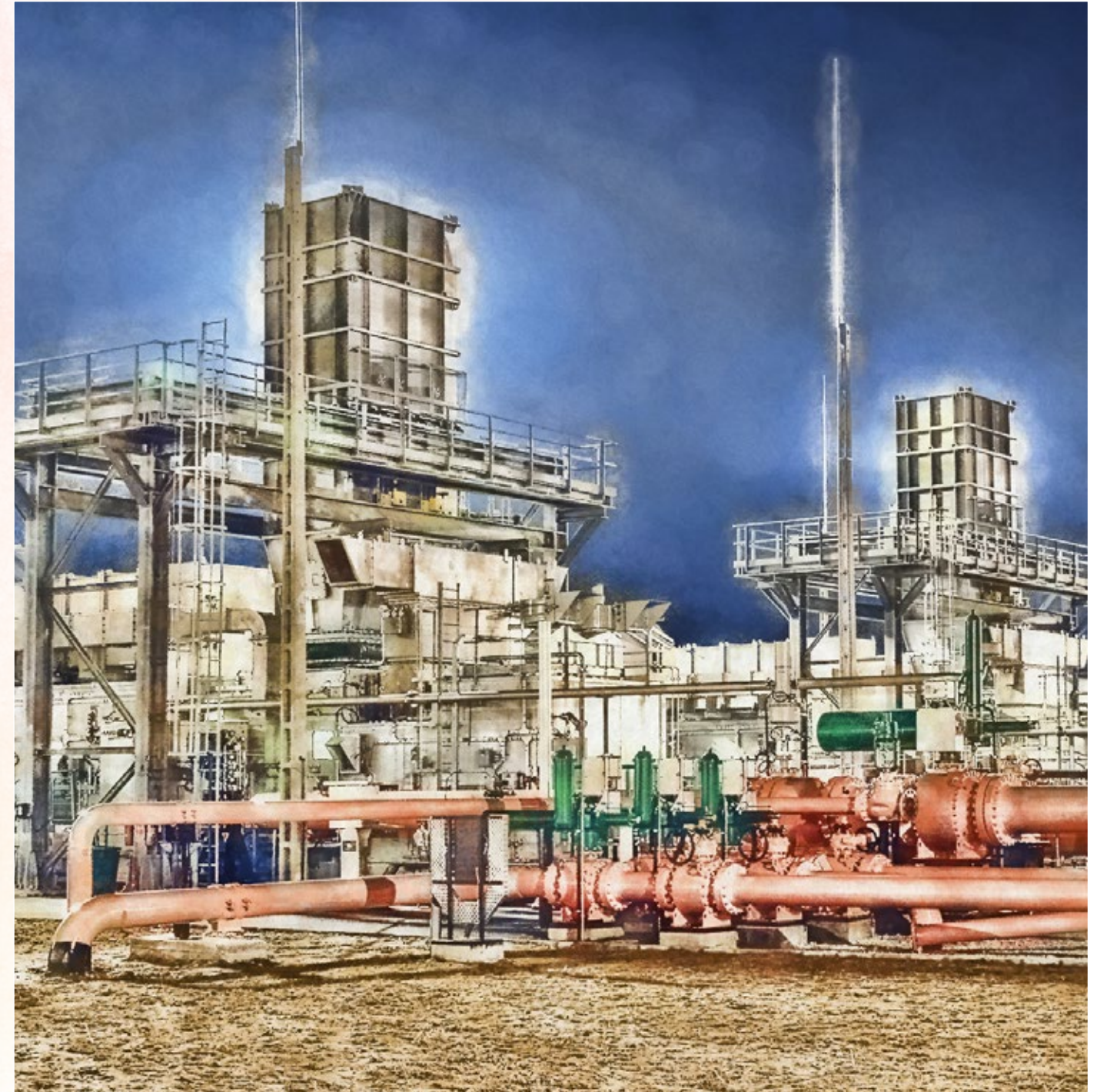
instance, 67 colleagues added their voluntary work to the construction of a special, extreme skateboard, scooter and BMX bike park for young people in Siófok. Besides, our Company organized 17 events for voluntary blood donation in 2016, and collected 328 units of blood for people in need. As one full unit of blood can be distributed among 3 patients, therefore in this program our blood donors helped altogether 984 unknown fellow people.

Knowledge is the principle source of the improvement of equal chances in society, and therefore it is important for us to support educational institutions, as well as the studies of children who are brought up in disadvantaged families. To this end, we regularly organize events to collect and deliver school supplies, clothes and food to those concerned. By handing over our still operable, but unused computer appliances, we have brought the benefits of the digital universe closer to a number of families in need and non-governmental organizations.



Things we are proud of

- European Union ITO certification
- EFQM Excellence Model
- ISO 9001:2008 certified quality management system
- ISO/IEC 27001:2013 certified information security management system
- ISO 50001:2011 certified energy management system
- MSZ EN ISO 3834-2:2006 certified management system for welding operations
- MSZ EN ISO/IEC 17025:2005 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 of Central Eastern Europe 2009/2010 (Aon Hewitt survey)
- Best Employer of Central Eastern Europe 2010/2011 (Aon Hewitt survey)
- Best Employer of Central Eastern Europe 2012 (Aon Hewitt survey)



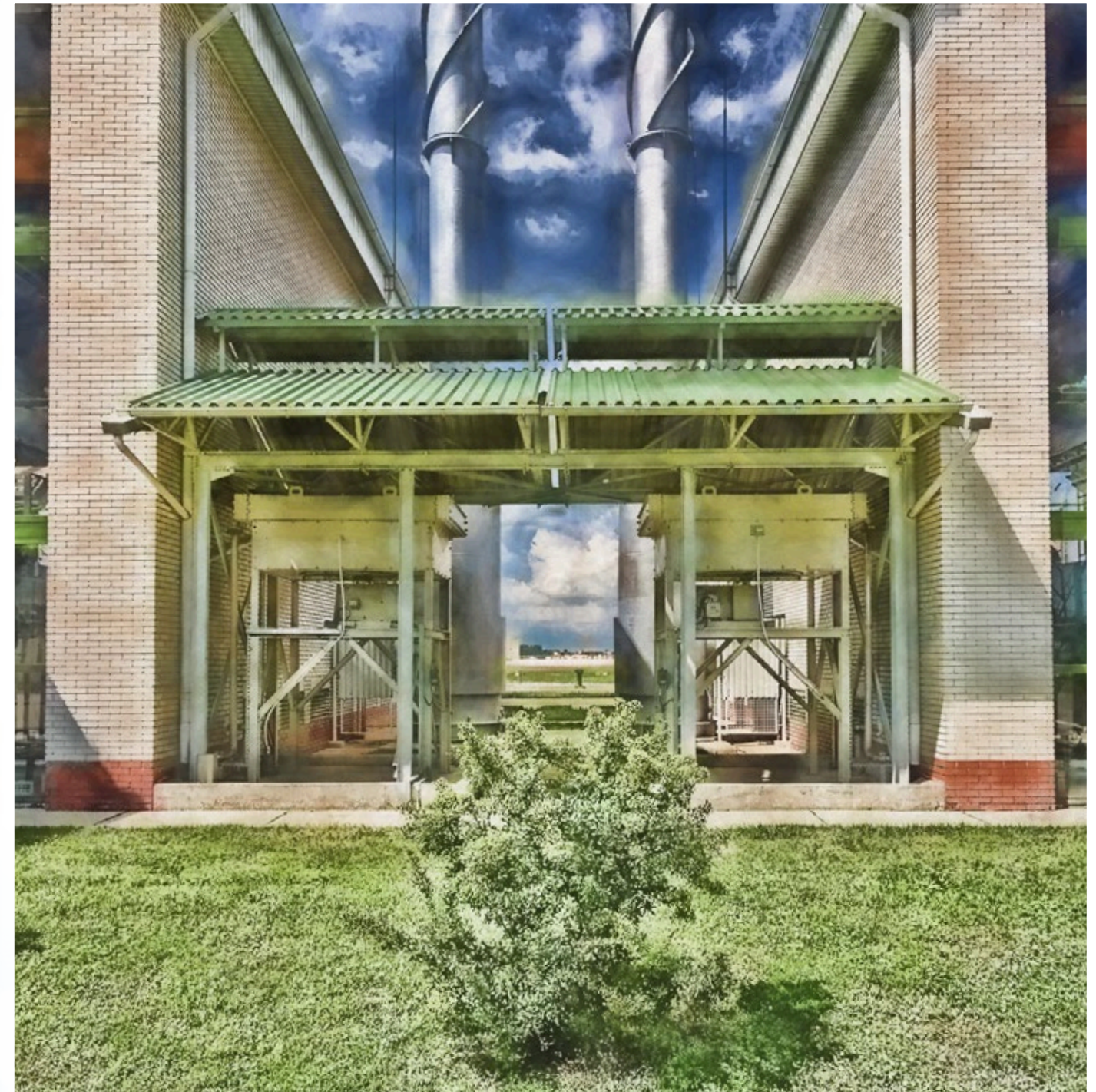
Our financial and operational results

IN FINANCIAL TERMS, our Company closed the business year of 2016 successfully; the achievements made were owing to the steady ownership background, the investments implemented in recent periods, the technically high-standard infrastructure resulting from our maintenance operations, as well as our readiness to adapt to external circumstances.

Our business profit remained 10.5% under the corresponding level of the previous year, bringing about HUF 37.69 billion. The lower result that has been achieved reflects the impacts of the changed business and regulatory environment, which has been partly counterbalanced by the increasing supply demands and our cost-efficient operations.

We realized our net price revenue on the delivery of 15.68 billion cubic meters of natural gas, as well as the gas turnover that was related to the maintenance of the system balance. Sales revenues from both regulated domestic and transit natural gas transmission lag behind the volumes of the

The results that have been achieved reflect the impacts of the changed business and regulatory environment.



DATA IN ACCORDANCE WITH THE HUNGARIAN ACCOUNTING STANDARDS (MILLION HUF)

(HUF MILLION)



2016/2015 (%)

89.04%

OPERATING PROFIT



2016/2015 (%)

89.49%

PROFIT AFTER TAXES



2016/2015 (%)

98.29%



previous year, and still show a downward tendency. In 2016, our total sales decreased by 11.0%, to HUF 94.95 billion.

In relation to the business year of 2016, the domestic regulatory environment determining the Company’s operations and results underwent substantial changes, and at the same time our operations and profitability remained impacted by the double tariff system introduced on 3 December 2010, as well as its settlement method modified in 2013 (refunding mechanism). The rate of refund determined by the authority corresponds to the difference between the respective values of returns on assets in the competitive market and in universal services. After 1 November 2013, the rate of the return on assets applied in universal services

was 0%. As a consequence of other changes in the domestic regulatory environment, the refunding mechanism was discontinued after 31.12.2016.

From the gas year of 2015/2016, the domestic regulations of gas supply considerably changed as a result of their harmonization with the EU’s rules on system usage, and therefore the pricing of short-term capacity products in comparison to annual products became more favourable for system users. As a result, the ratio of capacity bookings was subject to a shift- meaning that our partners satisfied their capacity demands (especially extra demands during the winter) with reliance on short-term products to a larger extent. After the previous year, another change was the



significant drop of storage capacity fees, which led to a larger scale of storage turnover and capacity utilization, still the associated sales revenues remained well under the level of the previous year.

Due to the favourable weather conditions domestic supplied volumes showed slight increase, and with the higher volumes of deliveries and the unchanged unit turnover tariffs our revenues realized on turnover fees rose to a small extent after the previous year. The volume of stored natural gas similarly exceeds the 2015 level, primarily as a consequence of the incentives having been introduced in the domestic system of regulation and the changes in the so-called mandatory storage volumes.

Our Company started to transport natural gas in the direction of the Ukraine in 2013, and this activity was continued in 2016 in alignment with changing demands. In comparison to the previous years, deliveries were fulfilled at higher levels, still they were considerably dependent on changes in the political and economic situation in the Ukraine, and therefore we cannot rely on them on a steady source of income.

As a result of all these changes, our Company's sales revenues realized on the domestic, regulated natural gas transport operations came to be under the level of the previous year by 4% on the aggregate.

With respect to the fact that in 2015 two operators remained in the natural gas transmission market, 2016 saw the division of sales revenues realized on system operation fees as required in the relevant legal regulations in between the transmission license holders concerned (FGSZ Ltd and Hungarian Gas Transit Ltd).

In 2016, from its smaller revenues FGSZ Ltd paid refunds to universal suppliers (and indirectly to consumers eligible



for universal services) in an aggregate amount of HUF 18.0 billion, which was larger than in the previous years.

Sales revenues from transit operations also came to be smaller than in the previous year, and therefore lagged by nearly 4% behind the corresponding sales revenues realized in 2015. The unfavourable effect of the reduction of gas prices in the market on the contracted tariffs could be just partly counterbalanced by the larger supplied volumes and the favourable courses of changes in foreign exchange rates (weakening of the Forint against USD).

It is a statutory liability of our Company to maintain the balance between the gas source and the gas consumption, which we ensure by applying a balancing gas sale and purchase activities, but on these transactions the Company

cannot realize profit. In 2016, the turnover of balancing gas diminished by 33.4% after 2015.

To the shrinking sales revenues, the effects originating changes in the external environmental and demands, our Company responded by exercising more stringent control on operating costs and expenditures and taking further steps to improve operating efficiency, but these measures could just partly compensate for the impacts of the external environment.

The altered supply conditions and the additional air-lifting demands that were incurred raised the settled costs of materials even over the level of the previous year, but this unfavourable outcome was counterbalanced by the smaller expenditures on pressurizing services that turned out to be unnecessary in Q2–Q3 of 2016.

In consequence of the rationalization of maintenance operations, the costs associated with maintenance came to be smaller than the ones stated for 2015, while the expenditures on the services used had a similarly more favourable trend, which reflected the effects of rationalized activities.

In view of other operating expenditures, in order to compensate for the changes in the external environment FGSZ Ltd maintained and continued the strict control of operating costs, and as a result such expenditures were incurred on a similar level after the previous year.

In 2016, financial profit amounted to HUF -5.8 billion, reflecting improvement when compared to the previous year. The more favourable financial profit showed primarily the effects of lower interest rates paid on loans from affiliated

companies, as well as the smaller value of exchange rate losses that were recognized in relation to FX-denominated credits and loans, but not realized at the end of the period.

Our profit after taxes approximated the level of the previous year, i.e. reflected an amount that was by 2% or HUF 0.5 billion than a year before. This difference mirrors the combined effect of the diminishing business profit and the smaller amount of financial expenditures. In 2016, FGSZ Ltd expended HUF 7.6 billion Hungarian Forints on investments, which exceeded the value of investments in the previous year. The investments implemented in 2016 primarily consisted of reconstruction works executed on the existing system.

Our Company's operating cash flow is positive, and is very substantial in terms of volume. With this safe financial

background we can successfully carry out our investment plans, repay the principal from the parent company loan and pay up the associated interest, and it affords the option to the Company to pay dividends.

Looking ahead to the business year of 2017, the major challenges that our Company faces are the need to adapt to the market conditions and operations that emerged in the previous years and the changes there were introduced from 1 January 2017 in the domestic regulatory environment.

As a result of the tariff and cost review conducted by the regulatory authority and closed in 2016, capacity fees substantially shrank from 01.01.2017, which negatively impacted our operations. Our Company is in consistent quest for proper responses to the negative influences of the economic environment, and continuously integrates them into its operations.

We make additional efforts towards the accomplishment of our regional strategic goals, which is a guarantee of our meeting the expectations of the shareholders. In the short term, the considerable expansion of the domestic market and the entrance of new consumers cannot be anticipated. In the medium run, the further growth of the economy and re-entrance of the existing gas-based capacities in electric power plants have the potential to create new opportunities. The Company supports these processes with the continuous development of the infrastructure (by way of investments).

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





Balance sheet

ASSETS	2015	2016	2016/2015 (%)
Fixed assets	290,515	280,830	96.67
Intangible assets	2,147	2,777	129.34
Tangible assets	288,368	278,053	96.42
Financial investments	0	0	n. a.
Current assets	12,447	16,076	129.16
Inventories	3,903	3,007	77.04
Receivables	5,255	7,453	141.83
Securities	0	0	n. a.
Cash and cash equivalents	3,289	5,616	170.75
Accrued and deferred assets	7	13	185.71
Total assets	302,969	296,919	98.00

The amounts should be interpreted in million HUF.

LIABILITIES	2015	2016	2016/2015 (%)
Equity	113,109	112,604	99.55
Share capital	18,823	18,823	100.00
Capital reserve	64,766	64,766	100.00
Accumulated profit reserve	-3	12	n. a.
Tied-up reserve	24	9	37.50
Profit or loss for the year	29,499	28,994	98.29
Provisions	3,574	3,473	97.17
Payables	167,165	162,788	97.38
Deferred liabilities	0	0	n. a.
Long-term liabilities	142,048	138,375	97.41
Short-term liabilities	25,117	24,413	97.20
Of which short-term liabilities to affiliated companies	9,763	9,943	101.84
Accrued and deferred liabilities	19,121	18,054	94.42
Total liabilities	302,969	296,919	98.00

PROFIT AND LOSS STATEMENT	2015	2016	2016/2015 (%)
Net domestic sales revenues	85,841	71,747	83.58
Net export sales revenues	20,797	23,199	111.55
Net sales revenues	106,638	94,946	89.04
Capitalized own performance	816	1,212	148.53
Other incomes	4,789	3,968	82.86
Material-type expenditures	35,047	27,146	77.46
Personnel expenditures	7,647	7,777	101.70
Depreciation	17,867	17,238	96.48
Other expenditures	9,561	10,269	107.41
Operating profit	42,121	37,696	89.49

Financial incomes	529	324	61.25
Financial expenditures	11,410	6,042	52.95
Of which interests and interest-type expenses payable to affiliated companies	7,040	4,973	70.64
Financial profit	-10,881	-5,718	52.55
Profit before taxes	31,240	31,978	102.36
Tax liabilities	1,741	2,984	171.40
Profit after taxes	29,499	28,994	98.29

CASH FLOW	2015	2016	2016/2015 (%)
Profit before taxes	31,240	31,978	102.36
Operating cash flow	49,587	14,057	28.35
Invested cash flow	-4,508	-7,886	174.93
Financing cash flow	-45,000	-3,844	8.54
Change in cash and cash equivalents	79	2,327	2 945.57

Company management



JÁNOS LÁSZLÓ FEHÉR

János Fehér holds a diploma of economics, and has been working in the petroleum industry for more than 40 years, including 15 years at MOL Group, where he acted in various managerial positions in the exploration and production business, such as 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, which by today has surpassed the volume of operations in Hungary. The expert 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. He acted as the chief executive officer of FGSZ Ltd between 1 August 2013 and 31 December 2016. He has been a member of the Board of Directors since 1 August 2013, and its chairman since 1 January 2017.



KRISTÓF TERHES

He graduated from Janus Pannonius University, and then took additional studies at Eötvös Loránd University and Haynal Imre University. He started his career at Tesco-Global Ltd as a financial analyst, and later he held positions as the head of Stock Management and Dry Product chief procurement officer. Thereafter, he was the commercial and marketing director at Plus Food Discount Stores Ltd. He joined MOL Group in June 2009 as the chief procurement officer, and occupied the position of the director of Corporate Services from July 2012. He was a member of FGSZ Ltd's Supervisory Board between September 2012 and 31 December 2016. Since 1 January 2017, he has been acting as the FGSZ Ltd's chief executive officer and a member of the Board of Directors.



ZOLTÁN GELLÉNYI

He graduated as an economist from the Karl Marx University of Economics (today Corvinus University). After several years of experience in the field of international commodity exchange, he joined MOL Plc's gas business development organization in 2008, and the FGSZ team subsequently, in 2009. Under his professional guidance, our Company developed and launched the Daily Natural Gas and Capacity Market, the forerunner of the current Trading Platform. He acted as the head of the Capacity Sales from 2010 and Business Development from 2012. Since February 2014, he has been the director of System Management and Capacity Trade. He has been taking an active part in the work of ENTSOE, the European umbrella organization of transmission system operators since its foundation, and has been a member of the ENTSOE Board since July 2014.



LÁSZLÓ GÁBOR MIKLÓS

He is a chemical engineer (M.Sc.), economic engineer. He started his career in 1979 at the Transdanubian Petroleum Company of Százhalombatta, and except for a few years he has been working in the oil and gas industry, where he held various expert and managerial positions. Between 1994 and 1998, he was a member of Parliament. From 2001 until 2012, he acted as the vice president of Enterprise Relations for MOL Group, and – inter alia – he was responsible for relations with the professional associations and governmental relations, as well as regulatory affairs. Thereafter, he was an advisor to the chairman until May 2014, and now he is advisor at FGSZ Ltd. From 1993 to 1997, he was a member of Nitroil Plc's Supervisory Board, between 1999 and 2001 a member of the Board of Directors at ZAB Zemplén Abaúj Gas Supply Ltd. From 2002 until 2010, he was the chairman of the Supervisory Board of MVM Hungarian Electricity Ltd, while between 2008 and 2013 he was the 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

He graduated from the Karl Marx University of Economic Sciences in 1986, majoring in transportation and sociology. He earned experience and knowledge in several sectors and fields: worked as an academic lecturer and researcher (University of Agricultural Sciences in Gödöllő), as a civil servant in central public administration, mostly in management positions (Hungarian Central Statistical Office, Ministry of Finance, National Media and Infocommunications Authority of Hungary) as well as in the media industry as a financial, commercial and controlling manager (Budapest Communications Ltd, P & B Media Ltd). Within the energy sector, he participated in the project associated with the strategic stockpiling of natural gas at the Petroleum and Petroleum Product Stockpiling Association, and then at the Hungarian Hydrocarbon Stockpiling Association; he was deputy chief executive officer of MSZKSZ Strategic Natural Gas Storage Ltd. He has been a member of FGSZ Ltd Board of Directors since 1 January 2015.

Supervisory Board

JÓZSEF MOLNÁR

He has been acting as MOL Plc's Chief Executive Officer since 1 May 2011 and a member of the MOL Board of Directors since 12 October 2007. From 1978 to 2001, he held various management positions at BorsodChem Ltd. He was the head of the Pricing Department from 1982 to 1987 and the head of Controlling Department from 1987 to 1991. Between 1991 and 2001, as the deputy chief financial officer of BorsodChem Ltd, he contributed to the crisis management and reorganization of the company, and later to the creation of its vision and subsequent privatization. He played a key role in the stock exchange listing of BorsodChem shares. He was TVK's chief executive officer from 2001. He acted as MOL Group's Planning & Controlling director from 2003, and then – from September 2004 until his appointment as the Group CEO in 2011 – he was the Group's deputy CFO. He was a board member of Slovnaft a.s. between 2004 and 2008, and a member of the Board of Directors at TVK from 2001 to 2011. He has been a member of INA's Supervisory Board since April 2010, and the chairman of FGSZ Ltd's Supervisory Board since May 2011.

PÉTER RATATICS

Péter Ratatics currently holds a position of a COO of Consumer and Industrial Services of MOL Hungarian Oil and Gas Plc. He graduated from Corvinus University of Budapest, Faculty of Finance specialization in capital markets. Mr. Ratatics started his career as Gas Trading and Business Development expert in MOL Plc, then he was appointed Head of Executive Board Advisory team in 2009. Between 2009 and 2010 he also acted as Head of Organizational Development and Process Management and in 2010-2011 as Head of Management Services. From May 2011 he has been working as VP of Corporate Centre and he has been responsible for the HR domain. He had been appointed member of the INA Management Board in June 2011, Vice-Chairman of the Supervisory Board of FGSZ in 2012 and member of the Supervisory Board of OT Industries Vagyonkezelő Zrt. in January 2017. From 2015 until 30 November 2016 he was responsible for the MOL Group procurement, investment and communication activities as SVP of Corporate Centre (Group Corporate Human Resources, Group Corporate Services and Group Corporate Communication).

SÁNDOR FASIMON

Sándor Fasimon has been working within the MOL Group for nearly two decades. Formerly, from 1991, he held various management positions at the Mineralimpex foreign trade company. Between 1996 and 1997, he was appointed to act as the commercial counsellor in Tripoli. From 1998 to 2003, he worked for MOL as supply director in the field of crude oil and crude oil products, and then from 2002 he acted as the managing director of Moltrade-Mineralimpex. Between 2003 and 2006, he was the managing director of Natural Gas Division of MOL Plc, while from 2006 until 2009 he acted as the general director of MOL–Russ. In the period between 2009 and 2011, he worked as the senior vice president of the Supply & Trading Division, and then from 1 June 2011 as the executive vice president of Exploration and Production. Since 2011 he is member of MOL Group Executive Board, and he has been the MOL Hungary COO since 1 October, 2012. He is also a member of the Board of Hungarian Hydrocarbon Stockpiling Association and the president of Hungarian Petroleum Association. He has been a member of FGSZ Ltd's Supervisory Board since 1 January 2017.

GÁBOR FETT

Since 1995, he has occupied various engineering positions at FGSZ Ltd's Kápolnásnyék Transmission Plant and its legal predecessor. Since 2004, he has been acting as the head of the Technical Supervision Unit. At present, he works as the engineer in charge of the management of Technical Supervision and the deputy of the technical director at Kápolnásnyék Gas Transmission Plant. Since 1999, he has been a member of the "Unity" Trade Union and its legal predecessor, which delegated him to the Supervisory Board when FGSZ Natural Gas Transmission Ltd was established. Since 2004, he has been a member of the Supervisory Board as an employee delegate.

Our ISO certificates



Our TÜV certificates

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TANÚSÍTVÁNY

hegesztéssel kapcsolatos minőségirányítási követelmények teljesítéséről

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, Sajószveti út 1.
H-2220 Vecsés, Pf.2

a 26C1053016055 sz. jegyzőkönyvben megadott érvényességi körben teljesíti az

MSZ EN ISO 3834-2:2006

szerinti fémek ömlesztőhegesztésével kapcsolatos

teljes körű minőségirányítási követelményeket.

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

Nyilvántartási szám: TA 1026 - 009 - A

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TANÚSÍTVÁNY

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

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tanúsítja, hogy az

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H-8600 Siófok, Tanácsház u. 5.

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H-6001 Kecskemét, Szolnoki hegy 232.
H-3501 Miskolc, Sajószveti 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





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H-8600 Siófok, Tanácsház u. 5.

Telephelyek:
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H-6001 Kecskemét, Szolnoki hegy 232.
H-3501 Miskolc, Sajószveti 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 üzemi kálmassági 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





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Notified Body 1417

3834-10-cm

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Our contacts

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

CUSTOMER SERVICE CENTRE

Registered address: H-8600 Siófok, Tanácsház u. 5., ground floor 3.

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

Telephone: +36 (84) 505-117

Fax: +36 (84) 505-592

E-mail: info@fgsz.hu

Office hours: Tuesday, Thursday: 1.00–4.00 p.m.
Monday, Wednesday, Friday: closed

The Information Office will reply to queries relating to pipeline construction projects and other issues with respect to the Company's activities.

INFORMATION OFFICE

Registered address: H-8600 Siófok, Tanácsház u. 5., ground floor 3.

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

Office hours: Tuesday, Thursday: 7.30–10.00 a.m.
Monday, Wednesday, Friday: closed

For daily operative matters, please contact our 24/7 dispatching service.

SYSTEM OPERATION CENTRE

Telephone: +36 (84) 505-777

Fax: +36 (84) 505-217

E-mail: fri@fgsz.hu

REGIONAL BOOKING PLATFORM

E-mail: RBP@fgsz.hu

www.RBP.eu



The website of our Company is accessible at www.fgsz.hu

The information included in this publication reflects the current state of affairs as of August 2017.

