

HUNGARIAN  
HYDROCARBON  
STOCKPILING  
ASSOCIATION



ANNUAL REPORT 2016

Statistical code:

18053302-9499-599-01

Budapest-Capital Regional Court registration number:

01-08-0000001

## **Hungarian Hydrocarbon Stockpiling Association**

**1037 Budapest, Montevideo u. 16/b.**

### **Annual Report**

**2016**

Budapest, May 3, 2017

Head (Representative) of Entity

L.S.

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01-08-0000001

**BALANCE SHEET "A" Assets**

HUF thousand

Line no.	Description of items	Prior year	Adjustment of prior year(s)	31/12/2016
a	b	c	d	e
1	<b>A. Assets Employed</b>	27 442 073	0	27 408 009
2	I. INTANGIBLE ASSETS	868 425	0	1 234
3	Capitalised Value of Foundation and Restructuring			
4	Capitalised Value of Research and Development			
5	Rights Representing Assets	13 136		487
6	Intellectual Property	747		747
7	Goodwill	854 542		
8	Advance Payments on Intangible Assets			
9	Value Adjustment of Intangible Assets			
10	II. FIXED ASSETS	55 034	0	37 669
11	Land, Buildings and Connected Property Rights	19 580		15 029
12	Machinery and Equipment			
13	Other Equipment, Fixtures and Vehicles	35 454		22 640
14	Breeding Stock			
15	Investments, Renovations			
16	Advance Payments on Investments			
17	Value Adjustment of Fixed Assets			
18	III. FINANCIAL INVESTMENTS	26 518 614	0	27 369 106
19	Long-Term Participations in Affiliated Undertakings	13 692 254		14 546 796
20	Long-Term Loans Granted to Affiliated Undertakings			
21	Long-term Participations	12 758 969		12 758 969
22	Long-Term Loans Granted to Undertakings Linked by Virtue of Major Participating Interests			
23	Other Long-Term Participations	40 000		40 000
24	Long-Term Loans Granted to Other Associated Undertakings			
25	Other Long-Term Loans	27 391		23 341
26	Long-Term Debt Securities			
27	Value Adjustment of Financial Investments			
28	Valuation Difference of Financial Investments			

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**BALANCE SHEET "A" Assets**

HUF thousand

Line no.	Description of Items	Prior year	Adjustment of prior year(s)	31/12/2016
a	b	c	d	e
29	<b>B. Current Assets</b>	291 557 570	0	304 855 530
30	<b>I. INVENTORIES</b>	279 480 411	0	294 033 714
31	Materials			
32	Work in Progress and Semi-Finished Products			
33	Animals for Breeding and Fattening and Other Livestock			
34	Finished Goods			
35	Goods	279 480 411		294 033 714
36	Advance Payments on Inventories			
37	<b>II. RECEIVABLES</b>	4 197 921	0	4 789 729
38	Receivables from Goods and Service Rendered to Clients	6		0
39	Receivables from Affiliated Undertakings			
40	Receivables from Undertakings Linked by Virtue of Major Participating Interests			
41	Receivables from Other Associated Undertakings			
42	Bills Receivable			
43	Other Receivables	4 197 915		4 789 729
44	Valuation Difference of Receivables			
45	Valuation Difference of Derivative Instruments			
46	<b>III. SECURITIES</b>	0	0	0
47	Participations in Affiliated Undertakings	0		0
48	Major Participations			
49	Other Participations			
50	Own Shares and Holdings			
51	Debt Securities Held for Trading			
52	Valuation Difference of Securities			
53	<b>IV. LIQUID ASSETS</b>	7 879 238	0	6 032 087
54	Cash on Hand, Cheques	637		637
55	Bank Deposits	7 878 601		6 031 450
56	<b>C. Accruals</b>	11 913	0	9 173
57	Accrued Income	1 531		1 333
58	Prepaid Expenses	10 382		7 840
59	Deferred Expenses			
60	<b>Total Assets</b>	319 011 556	0	332 272 712

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**BALANCE SHEET "A" Liabilities**

HUF thousand

Line no.	Description of items	Prior year	Adjustment of prior year(s)	31/12/2016
a	b	c	d	e
61	<b>D. Shareholder's equity</b>	199 848 970	0	205 937 891
62	I. SHARE CAPITAL			
63	of which Stocks Repurchased at Par Value			
64	II. UNPAID SHARE CAPITAL			
65	III. CAPITAL RESERVE	200 436 954		199 848 970
66	IV. ACCUMULATED PROFIT RESERVE			
67	V. DEPOSITED RESERVE			
68	VI. VALUATION RESERVE			
69	Valuation Reserve for Adjustments			
70	Fair Value Reserve			
71	VII. RETAINED EARNINGS	-587 984		6 088 921
72	<b>E. Provisions</b>	0	0	11 306
73	Provisions for Expected Liabilities			11 306
74	Provisions for Future Costs			
75	Other Provisions			
76	<b>F. Liabilities</b>	119 103 885	0	126 264 262
77	I. SUBORDINATED LIABILITIES	0	0	0
78	Subordinated Liabilities to Affiliated Undertakings			
79	Liabilities to Undertakings Linked by Virtue of Major Participating Interests			
80	Subordinated Liabilities to Other Associated Undertakings			
81	Other Subordinated Liabilities			
82	II. LONG-TERM LIABILITIES	93 309 760	0	95 794 160
83	Long-Term Debts			
84	Convertible Bonds			
85	Bonds Payable			
86	Investment and Development Loans			
87	Other Long-Term Debts	93 309 760		95 794 160
88	Long-Term Liabilities to Affiliated Undertakings			
89	Long-Term Liabilities to Undertakings Linked by Virtue of Major Participating Interests			
90	Long-Term Liabilities to Other Associated Undertakings			
91	Other Long-Term Liabilities			

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**BALANCE SHEET "A" Liabilities**

HUF thousand

Line no.	Description of items	Prior year	Adjustment of prior year(s)	31/12/2016
a	b	c	d	e
92	III. SHORT-TERM LIABILITIES	25 794 125	0	30 470 102
93	Short-Term Debts			
94	of which: Convertible Bonds			
95	Short-Term Loans	24 110 240		28 769 350
96	Advances Received from Customers			
97	Accounts Payable to Suppliers	91 210		121 401
98	Drafts Payable			
99	Short-Term Liabilities to Affiliated Undertakings	868 634		768 059
100	Short-Term Liabilities to Undertakings Linked by Virtue of Major Participating Interests	398 588		387 276
101	Short-Term Liabilities to Other Associated Undertakings			
102	Other Short-Term Liabilities	325 453		424 016
103	Valuation Difference of Liabilities			
104	Negative Valuation Difference of Derivative Instruments			
105	<b>G. Deferrals</b>	58 701	0	59 253
106	Prepaid Income	54 563		57 250
107	Accrued Expenses	4 138		2 003
108	Deferred Income			
109	<b>Total Liabilities</b>	319 011 556	0	332 272 712

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**PROFIT AND LOSS STATEMENT "A"**

(total cost method)

HUF thousand

Line no.	Description of items	Prior year	Adjustment of prior year(s)	31/12/2016
a	b	c	d	e
1	1 Net Domestic Sales Revenues	28 423 306		34 269 045
2	2 Net Export Sales Revenues	0		
3	<b>I. Net Sales Revenues (01+02)</b>	28 423 306	0	34 269 045
4	3 Changes in Inventories of Own Production ±			
5	4 Capitalised Value of Assets from Own Production			
6	<b>II. Capitalised Value of Own Performance (±03+04)</b>	0	0	0
7	<b>III. Other Revenues</b>	20 755 893		22 766 802
8	of which: Contribution Fees, Oil Section	7 982 278		8 237 770
9	Contribution Fees, Gas Section	12 770 165		14 498 487
10	5 Material Expenses	39 735		42 350
11	6 Value of Services Used	26 197 546		26 729 782
12	7 Value of Other Services	9 999		4 766
13	8 Purchase Value of Goods Sold	23 540 356		29 668 949
14	9 Value of Services Sold (Mediated)	256		75
15	<b>IV. Material and Material Type Costs (05+06+07+08+09)</b>	49 787 892	0	56 445 922
16	10 Salaries and Wages	219 512		182 263
17	11 Other Payments to Personnel	99 497		109 654
18	12 Social Security Contributions	83 044		74 129
19	<b>V. Personnel Expenses (10+11+12)</b>	402 053	0	366 046
20	<b>VI. Depreciation</b>	28 731		12 298
21	<b>VII. Other Expenses</b>	2 775		84 183
22	of which: Loss in Value	0		54 477
23	<b>A. OPERATING PROFIT (I±II+III-IV-V-VI-VII)</b>	-1 042 252	0	127 398

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**PROFIT AND LOSS STATEMENT "A"**

(total cost method)

HUF thousand

Line no.	Description of items	Prior year	Adjustment of prior year(s)	31/12/2016
a	b	c	d	e
24	13 Dividends Received	1 565 138		5 065 678
25	of which: from Affiliated Undertakings	14 962		1 416 074
26	14 Exchange Rate Gain on Sold Participations			
27	of which: from Affiliated Undertakings			
28	15 Interest Income and Exchange Gain on Financial Investments			
29	of which: from Affiliated Undertakings			
30	16 Other Interests or Interest Bearing Income	90 441		1 577 653
31	of which: from Affiliated Undertakings			
32	17 Other Income from Financial Activities	819 438		1 716 839
	of which: Valuation Difference			
33	<b>VIII. Income from Financial Activities (13+14+15+16+17)</b>	2 475 017	0	8 360 170
	<b>18 Expenditures and Exchange Rate Loss on Participations</b>			
	of which: to Affiliated Undertakings			
34	19 Expenditures and Exchange Rate Loss on Financial Investments (securities, loans)			
35	of which: to Affiliated Undertakings			
36	20 Interest Paid	1 905 990		1 521 371
37	of which: to Affiliated Undertakings			
38	21 Loss in Value on Participations, Securities and Bank Deposits			
39	22 Other Expenses of Financial Activities	114 759		877 276
	of which: Valuation Difference			
40	<b>IX. Expenses of Financial Activities (18+19±20+21)</b>	2 020 749	0	2 398 647
41	<b>B. PROFIT/LOSS OF FINANCIAL ACTIVITIES (VIII-IX)</b>	454 268	0	5 961 523
42	<b>C. PROFIT BEFORE TAXATION (±A±B)</b>	-587 984	0	6 088 921
43	<b>X. Tax Liabilities</b>			
48	<b>D. PROFIT AFTER TAXATION (±C-X)</b>	-587 984	0	6 088 921

Dated: Budapest, May 3,2017

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**Hungarian Hydrocarbon Stockpiling Association**

**SUPPLEMENTARY NOTES TO THE ANNUAL REPORT FOR 2016**

## 1. General information

**Name of business entity: Hungarian Hydrocarbon Stockpiling Association (hereinafter “Association”, “HUSA”)**

**Abbreviated company name: HUSA**

Website of the company: [www.husa.hu](http://www.husa.hu)

Registered seat: 1037 Budapest, Montevideo u.16/b.

Year of establishment: 1993

Start of operation: 1993

Form of business organisation: other incorporated entity

Founder’s asset (at the time of establishment): HUF 0

Owners: N/A

Method of accounting: double entry book-keeping

Balance sheet: type “A”, date of balance sheet (business year=calendar year): December 31

Balance sheet prepared on: May 3, 2017

Profit and loss statement: type “A”, total cost method

Currency of annual report: HUF

Core activities: Implementation of the stockpiling activities defined in Act XXIII of 2013 on the strategic stockpiling of imported crude oil and petroleum products and in Act XXVI of 2006 on the strategic stockpiling of natural gas.

Dividend: not applicable due to the Association’s legal position and purpose of operation.

Name and address of the person authorised to sign the annual report:

Dr. Béla Attila Bártfai

1021 Budapest, Labanc utca 15. 3/A31.

## 2. Rules of Accounting, Accounting Policy

- 2.1. The Association keeps its books and records in accordance with Act C of 2000 on Accounting (“the Accounting Act”), in compliance with the discrepancies laid down in Act XXIII of 2013 on the creation of strategic stocks of imported crude oil and petroleum products (“the Oil Stockpiling Act”) and Act XXVI of 2006 on the creation of strategic stocks of natural gas (“the Gas Stockpiling Act”).  
The Association disposes of the consolidated Statutes approved by the competent minister, the Organisational and Operational Rules, the Cash Management Regulations as well as the Rules on Valuation, Inventory and Cost Accounting as part of the Accounting Policy.
- 2.2. Section (1) of Article 32 of the Oil Stockpiling Act prescribes the preparation of an annual report irrespective of the balance sheet total, the amount of the net revenue and the participations held by the Association in other companies. It is not obliged to compile a consolidated annual report in compliance with the provisions of Art. 10 of the Accounting Act, either, independent of the fact that it holds major participations in AMEI Zrt. and OPAL Szolgáltató Zrt. (up to May 31, 2016 OPAL Tartálypark Zrt.) as the Association is not classified as an enterprise but “other incorporated entity defined in a separate provision of law” as laid down in point 4.r of Section (1) of Art.3. Accordingly, the Association also prepared annual reports in the previous years, with a content that conforms to the principles of Art. 15 of the Accounting Act. Pursuant to Section (1) of Art. 35 of the Oil Stockpiling Act, a detailed report on the annual fulfilment of the budget containing data and text is also compiled in relation to the annual report. This corresponds to the Business Report.
- 2.3. The amount of the profit before taxation, which equals to the retained earnings, enters the capital reserve in accordance with point 11.4.2. of the Statutes of the Hungarian Hydrocarbon Stockpiling Association (Statutes), as no tax liability may arise according to Section (1) of Art. 13 of the Oil Stockpiling Act.
- 2.4. The valuation procedures applied in the preparation of the annual report comply with the provisions of the Accounting Act and the requirements set out in the Accounting Policy of the Association. In the balance sheet, intangible assets and fixed assets are calculated as the difference between the budgeted and over the budget depreciation booked in consideration of the acquisition value and the residual value. Financial investments are indicated at fair value, stocks are recorded at purchase price, with the aggregate amount of the settlement price and its related price difference. Receivables and liabilities are verified and reconciled, their valuation conforms to the Accounting Act. The value of liquid assets is supported with status reports and inspected by audit procedures.
- 2.5. In the Accounting Policy of the Association, the amount of extraordinary revenues, costs and expenditures were defined as 2% of total revenues, costs and expenditures. Extraordinary classification is required in case the cardinality of the annual occurrence of an item exceeds 1.

- 2.6. The annual balance sheet of the Association is prepared in version “A” pursuant to Appendix 1 of the Accounting Act, and the profit and loss statement is compiled based on total cost method in version “A” in accordance with Appendix 2 of the Act. In compliance with Section (3) of Art. 32 of the Oil Stockpiling Act, the Association keeps separate accounts of assets and liabilities, revenues and expenditures in relation to crude oil and petroleum product stockpiling as well as to natural gas stockpiling. In its internal accounting, assets and liabilities, revenues and expenditures are recorded separately from non-stockpiling activities and appear in the Supplementary Notes of the Annual Report.
- 2.7. Pursuant to Paragraphs (2)-(3) of Art. 155 of the Accounting Act, auditing is mandatory at the Association. Based on the approval of the General Meeting, audits are conducted by Zsuzsanna Éva Bartha registered auditor of Ernst & Young Kft. (member of the Budapest Organization of the Chamber of Hungarian Auditors, membership identity card number: 005268, registration number: 005237). The annual fee of the audit is HUF 2 900 000. Ernst & Young Kft. provided no other services for the Association. Szabolcs Antal (2484 Gárdony, Botond utca 6., registration number: 172131), Director of Finance and Accounting is responsible for the duties of accounting services.

### 3. Details and explanations of the Balance Sheet and the Profit and Loss Statement

#### 3.1. Changes in intangible and fixed assets (HUF thousand)

	Gross value	Depreciation	Net amount
<b>I. Intangible assets</b>			
<i>1. Rights representing assets</i>			
- Opening value 01/01/2016	46 384.4	33 248.9	13 135.5
- Increase	0.0	4 971.0	
- Decrease	14 044.9	6 367.0	
- Closing value 31/12/2016	32 339.5	31 852.9	<b>486.6</b>
<i>2. Intellectual property</i>			
- Opening value 01/01/2016	747.5	0.0	747.5
- Increase	0.0	0.0	
- Decrease	0.0	0.0	
- Closing value 31/12/2016	747.5	0.0	<b>747.5</b>
<i>3. Goodwill</i>			
- Opening value 01/01/2016	6 101 244.9	5 246 702.7	854 542.2
- Increase	0.0	0.0	
- Decrease	6 101 244.9	5 246 702.7	
- Closing value 31/12/2016	0.0	0.0	<b>0.0</b>
<b>II. Fixed assets</b>			
<i>1. Real estate and related rights</i>			
- Opening value 01/01/2016	42 953.8	23 373.9	19 579.9
- Increase	0.0	4 550.7	
- Decrease	0.0	0.0	
- Closing value 31/12/2016	42 953.8	27 924.6	<b>15 029.2</b>
<i>2. Other equipment, fixtures, vehicles</i>			
- Opening value 01/01/2016	112 675.6	77 221.5	35 454.1
- Increase	121.5	2 776.4	
- Decrease	57 065.6	46 905.9	
- Closing value 31/12/2016	55 731.5	33 092.0	<b>22 639.5</b>
<b>Total closing value 31/12/2016</b>			<b>38 902.8</b>

All depreciation accounted in 2016 was straight-line depreciation as planned.

- 3.2. In 2005, the Association held a participation of HUF 240 000 thousand (30%) in IPR Vámosgyörk Zrt. (Registered seat: 3291 Vámosgyörk, Kossuth tanya 1.). In 2006, the Association acquired the share packages of 15% of ETSRON S.L., 58.58% of MÁD-OIL Kft. and 0.42% of MKB Nyrt., thus becoming 100% owner. In relation to the share purchase, a negative business value of HUF 814 990 thousand was booked as deferred income.
- 3.3. Following the 2006 demerger of PETROTÁR Kft., 58.62% of equity was transferred to the newly established Péti-Terminál Tároló Kft. (PTT Kft.) (Registered seat: 1037 Budapest, Montevideo u.1/b.). The Association also retained its original participation of 30% in the newly established PTT Kft., and later in the course of the year it acquired the remaining 70% business share of PTT Kft., hence gaining 100% ownership. In relation to this acquisition, HUF 854 542 thousand positive business value was booked.
- 3.4. As of December 1, 2007, Kőolajtároló Zrt., IPR Vámosgyörk Zrt. and PTT Kft. merged into OPAL Zrt. (Registered seat: 1037 Budapest, Montevideo u. 16.), 100% owned by the Association.
- 3.5. Due to changes in the Accounting Act, accounting regulations concerning the accounting of business value or goodwill were amended, accordingly, the opening book value of business value or goodwill in 2016 was accounted as a modifying item against the Association's participation in OPAL Szolgáltató Zrt.
- 3.6. In 2004, the Association held a major participation of HUF 39 600 thousand (90%) in ÁMEI Zrt. (Registered seat: 2040 Budaörs, Gyár u. 2.). In 2005, the owners increased the capital stock, as a result, the ownership of the Association rose to HUF 140 000 thousand (93%). In 2009, OPAL Tartálypark Zrt. acquired an ownership of 31.8% in ÁMEI Zrt. through a cash deposit of HUF 70 000 thousand, thus the participation of the Association decreased to 63.6%. During its session on December 16, 2016, the General Meeting of the Association decided on transferring its participation in ÁMEI Zrt. to OPAL Szolgáltató Zrt. as an in-kind contribution, which was registered by the Court of Registration of the Budapest-Capital Regional Court on January 26, 2017.
- 3.7. In 2006, MSZKSZ Biztonsági Földgáztároló Zrt. was founded by the Association with a capital of HUF 1 000 000 thousand. In the Agreement on Shareholders and the Allotment of Shares concluded on January 3, 2007, the Association sold 62% of its ownership to MOL Plc. In this agreement, the owners decided on a capital increase of HUF 9 020 000 thousand, HUF 3 000 000 thousand of which was contributed by the Association, thus the ownership of the Association equals to HUF 3 380 000 thousand, which represents a participation of 33.73%. As registered on October 4, 2007, the name of the company was changed to MMBF Földgáztároló Zrt. With a further increase in the capital stock registered on July 25, 2008, the share capital of the company was raised to HUF 22 395 000 thousand. The Association contributed to the capital increase with HUF 2 786 800 thousand, thus the value of its investment rose to HUF 6 166 800 thousand, representing a participation of 27.54%. In 2011, a decision was taken to dematerialise the shares of the company. In order to address the discrepancies (between the nominal value of the shares and the total share capital) arising from the rounding of figures, the

owners decided on decreasing the share capital, which did not entail a significant change in ownership ratios.

In 2013, the majority owner, MOL Plc decided on selling its participation. In compliance with the Share Purchase Agreement concluded between MOL Plc as seller, and Hungarian Development Bank Private Limited Company (MFB Zrt.) and HUSA as buyers, MFB Zrt. became the majority owner (51%) of the company as of December 30, 2013. At the same time HUSA increased its participation to 49%. In the course of 2014, MMBF Zrt. relocated to its new registered seat at 1037 Budapest, Montevideo u. 16/B.

### 3.8. The Association holds major participations in the following affiliated companies:

- Petrotár Petroleum Storage Limited Liability Company (Petrotár Kft.), (Registered seat: 1143 Budapest, Besnyői u.13.), where, in 2008, the owners decided on an increase of HUF 100 000 thousand in the capital stock, to which the Association did not contribute. As a result, its participation decreased from 30% to 20%, the value of which remained HUF 60 000 thousand. In 2009, Petrotár Projekt Kft. was established by the company through demerger. The equity was also divided during the demerger, however, the Association retained its participation of 20% in both companies with a capital of HUF 40 000 thousand and HUF 20 000 thousand, respectively. On February 16, 2011, the capital decrease of Petrotár Projekt Kft. to HUF 3 000 thousand was registered by the Court of Registration, thus the investment capital of the Association fell to HUF 600 thousand, while retaining a participation of 20%. Petrotár Projekt Kft. was dissolved without going into liquidation and the Court of Registration of the Budapest-Capital Regional Court ruled its removal from the register of companies as of February 6, 2013. During its session on December 16, 2016, the General Meeting of the Association decided on transferring its participation in Petrotár Kft. to OPAL Szolgáltató Zrt. as an in-kind contribution, which was registered by the Court of Registration of the Court of Registration of the Budapest-Capital Regional Court on January 26, 2017.
- Terméktároló Zrt. (Registered seat: 2440 Százhalombatta, Olajmunkás utca 2.), where the Association held a participation of HUF 420 000 thousand (25.93%). As a consequence of the capital reduction of Terméktároló Zrt. on May 5, 2014, the value of the Association's participation fell to HUF 8 400 thousand.

### 3.9. The entries "Long-Term Participations in Affiliates" contain the items below:

Participation (Company name)	Book value of participation 31/12/2016 (HUF thousand)	Ownership ratio	Remark
OPAL Zrt.	14 406 796	100.0%	Subsidiary
ÁMEI Zrt.	140 000	63.6%	Subsidiary
MMBF Zrt.	12 750 569	49.0%	Associated undertaking
TERMÉKTÁROLÓ Zrt.	8 400	25.9%	Associated undertaking
PETROTÁR Kft.	40 000	20.0%	Associated undertaking
<b>Total</b>	<b>27 345 765</b>		

The equity of the affiliated companies on December 31, 2016 is indicated in the table below:

Company name (HUF thousand)	Shareholders' equity	Share capital	Capital reserve	Profit reserve	Fixed reserve	Revaluation reserve	Retained earnings
OPAL Zrt.	19 839 199	4 000 000	3 223	13 333 275	930 000		1 572 701
ÁMEI Zrt.*	628 300	220 000	7 464	384 847	0	0	15 989
MMBF Zrt.	64 001 000	26 022 000	87 000	27 410 000	1 091 000	0	9 391 000
TERMÉKTÁROLÓ Zrt.	1 009 097	32 400	0	0	0	0	976 697
PETROTÁR Kft.*	1 335 167	200 000	0	1 113 948	0	0	21 219

\*Not final data

### 3.10. Book value of stocks on December 31, 2016

		Stored quantity	Stock value	Proportion according to stock value
	<i>unit</i>		<i>(HUF thousand)</i>	<i>(%)</i>
<b>Crude oil</b>	ton	530 963	80 244 510	34.9
<b>Gasoline RON 95</b>	15°C litre	360 800 755	53 909 179	23.4
<b>Diesel fuel EN 590</b>	15°C litre	624 710 456	95 788 090	41.7
			<b>229 941 779</b>	<b>100.0</b>
<b>Natural gas</b>	kWh	9 753 158 379	64 091 935	
			<b>294 033 714</b>	

In case of natural gas stock both the stored quantity and its stock value remained unchanged during the reporting period. Nevertheless, the unit of measurement was switched from GJ to kWh in conformity with Section (2) of Appendix 9 of Decree No. 1/2013 (11/07/2013) of the Hungarian Energy and Public Utility Regulatory Authority (MEKH) on gas network access fees, on the rules of using incentives for improving service quality by the network operator by means of network access pricing, on applicable network fees depending on service quality, and on the conditions of applying network access fees, which entered into force as of October 1, 2015.



3.11. The Association had no outstanding accounts receivable on the date of the balance sheet.

3.12.

<b>Other receivables (HUF thousand)</b>	<b>31/12/2015</b>	<b>31/12/2016</b>
Advance payments	4 260	4 260
Receivables from employees	6 060	4 430
Local taxes, sickness allowance overpayment	16	2
Crude oil contribution fee account	1 138 144	1 187 553
Natural gas contribution fee account	653 430	686 149
Deferred technical VAT advances	287 992	268 269
Other receivables from affiliated companies	24 038	0
Fringe benefits		94
Value added tax	2 083 975	2 638 972
	<b>4 197 915</b>	<b>4 789 729</b>

In terms of natural gas contribution fees, loss in value was accounted (50% of the outstanding amount) in case of one partner in regard to the fact that the settlement of the claim was uncertain. The amount of the accounted loss in value was HUF 54 477 thousand. The rest of our partners settled their contribution fee payment obligations by the date of the preparation of the balance sheet.

3.13.

	<b>31/12/2015</b>	<b>31/12/2016</b>
<b>ACCRUALS (HUF thousand)</b>	<b>11 913</b>	<b>9 173</b>
Office rental fee, operating costs	6 273	4 642
Insurance fees	3 583	2 679
Subscription fees for technical periodicals	80	84
Fees related to electronic signature	17	18
Collateral agent's fee	429	417
<b>Prepaid expenses</b>	<b>10 382</b>	<b>7 840</b>
Interests on fixed-term deposits	1 531	1 333
<b>Accrued income</b>	<b>1 531</b>	<b>1 333</b>

3.14. The movements of equity are shown in the following table:

Capital elements	Opening	Increase	Transfer	Closing
Share capital	-	-	-	-
Called-up capital	-	-	-	-
Capital reserve	200 436 954	-	- 587 984	199 848 970
Profit reserve	-	-	-	-
Fixed reserve	-	-	-	-
Revaluation reserve	-	-	-	-
Retained earnings	- 587 984	6 088 921	587 984	6 088 921
<b>Equity</b>	<b>199 848 970</b>	<b>6 088 921</b>	<b>-</b>	<b>205 937 891</b>

- 3.15. In the business year of 2016, a provision of HUF 11 306 thousand was created for a particular liability disputed by the Association. Apart from the latter, provisions under other titles were not required.
- 3.16. Long-term acquisition loans were repaid on March 20, 2014 in accordance with the contractual obligations, since then no further acquisitions have been executed, hence the Association has no liabilities related to acquisition loans on the date of the balance sheet.
- 3.17. None of the long-term loans had portions maturing in 2017, thus no reclassification was made.
- 3.18. Charges related to loans:

On June 15, 2015, the Association entered into a pledge and security agreement with the loan providing banks in order to secure the repayment of the stock financing loan agreements. In this agreement, lien was established and registered in connection with the stockpiling activities of the Association on the insurance revenues from insurance contracts concluded by the contracting partner storage companies of the Association, on the one hand, and on the revenue derived from the sales of stocks, on the other hand.

- 3.19. Total accounts payable amounted to HUF 1 276 736 thousand, of which short-term liabilities to other associated undertakings represented HUF 768 059 thousand, short-term liabilities to undertakings linked by virtue of major participating interests totalled HUF 387 276 thousand, whereas accounts payable to suppliers equalled to HUF 121 401 thousand. Accounts payable were fully settled by the closing date of the balance sheet.
- 3.20.

<b>Other short-term liabilities (HUF thousand)</b>	<b>31/12/2015</b>	<b>31/12/2016</b>
Tax and contributions	12 495	11 837
Crude oil contribution fee account	617	578
Natural gas contribution fee account	307 411	411 601
Commitment fee	4 801	0
Remuneration	129	0
	<b>325 453</b>	<b>424 016</b>

In the category of other liabilities, the amount of contribution fee recoveries is recorded on the crude oil and natural gas contribution fee accounts.

- 3.21. The average statistical headcount of the Association's staff is 9 persons. In the course of the year, they were paid HUF 182 263 thousand in wages and received fringe benefits worth HUF 2 958 thousand. In 2016, no company loans were disbursed, and the repayment of the overall existing loan amount was performed in accordance with the loan agreements. Therefore, on December 31, 2016, the amount of company loans was HUF 27 441 thousand. All employees belong to the white-collar category.
- 3.22. The Board of Directors and the Supervisory Board of the Association received fees worth HUF 92 302 thousand. No guarantee, loans or advance payments were granted to the members.
- 3.23. The Association had no ongoing lawsuits in 2016.

3.24. Pursuant to the applicable provisions of law, the Association has no such obligatory tasks related to environmental protection that would require the creation of provisions. Furthermore, the Association has neither hazardous waste nor noxious substance in its possession, and holds no tangible assets directly intended for environmental protection.

3.25.

	31/12/2015	31/12/2016
<b>DEFERRALS (HUF thousand)</b>	<b>58 701</b>	<b>59 253</b>
Bank charges	0	121
Auditing fees	1 740	1 740
Telephone service charges, Internet, mobile parking	0	142
Ellipszis Kft. public utility charges	143	0
Office rental fee refund from Ellipszis Kft.	1 853	0
Operating fee refund from Ellipszis Kft.	402	0
<b>Accrued expenses</b>	<b>4 138</b>	<b>2 003</b>
Revenue from capacity sales	54 563	57 250
<b>Deferred income</b>	<b>54 563</b>	<b>57 250</b>

Changes in accrued expenses were generated by the reduction in 2015 of the office space rented by the Association. The increase in prepaid income is attributed to the change in the revenue derived from the secondary sales of interruptible injection and withdrawal capacities reserved in the gas storage facility operated by MMBF Zrt., which was influenced by indexation and exchange rate fluctuations.

3.26. "Extraordinary revenues, costs and expenditures" relate to stock replacements prescribed by the Oil Stockpiling Act as well as to the storage of stocks. Extraordinary revenues are incurred from the sales of stocks, as part of the replacement of stocks, whereas extraordinary expenditures result from the derecognition of the above stocks. Extraordinary costs are connected to the storage of strategic stocks. In the case of the emergency stockpiling of natural gas the total amount of the annual storage fee falls into the category of extraordinary costs, as it is linked to a single service provider. As for petroleum products, only a certain part of the storage fees appear in the category of extraordinary costs due to the numerous service providers. The numerical summary of the actual year is as follows:

- total extraordinary revenues: HUF 27 471 113
- total extraordinary costs and expenditures: HUF 50 805 095 thousand, of which expenditures related to sales of stocks: HUF 28 697 263 thousand, storage costs of stocks: HUF 22 107 832 thousand.

### 3.27. Assets of the company

#### 3.27.1. Changes in the asset structure

Description	31/12/2015	31/12/2016	Percentage (%)		Change (%)
	HUF thousand	HUF thousand	2015	2016	2016/2015
Assets employed	27 442 073	27 408 009	8.60	8.25	99.88
Current assets	291 557 570	304 855 530	91.39	91.75	104.56
Accruals	11 913	9 173	0.00	0.00	77.00
Total assets	319 011 556	332 272 712	100.00	100.00	104.16

#### 3.27.2. Changes in the liability structure

Description	31/12/2015	31/12/2016	Percentage (%)		Change (%)
	HUF thousand	HUF thousand	2015	2016	2016/2015
Equity (capital reserve)	199 848 970	205 937 891	62.65	61.98	103.05
Provisions	0	11 306	0.00	0.00	0.00
Liabilities	119 103 885	126 264 262	37.34	38.00	106.01
Deferrals	58 701	59 253	0.02	0.02	100.94
Total liabilities	319 011 556	332 272 712	100.00	100.00	104.16

#### 4. Cash flow statement

##### Cash flow from ordinary activities (HUF thousand)

	2015	2016
1 Profit before taxation*	-1 618 115	1 023 242
2 Accounted depreciation	28 731	12 298
3 Accounted loss in value and reversal	0	54 477
4 Difference of provisions created and used	0	11 306
4 Profit/loss on sales of assets employed	202	4 038
5 Change in accounts payable	-943 167	-81 696
6 Change in other short-term liabilities	-134 689	98 563
7 Change in deferrals	-5 702	552
8 Change in accounts receivable	806 449	6
9 Change in current assets (w/o acc. receivable, cash)	-2 413 703	-15 199 594
10 Change in accruals	3 823 840	2 740
<b>Operating cash flow (lines 1-10)</b>	<b>-456 154</b>	<b>-14 074 068</b>

\*Adjusted with dividend received

##### Cash flow from investment activities (HUF thousand)

	2015	2016
11 Purchase of assets employed	-17 304	-4 147
12 Sales of assets employed	327	21 875
13 Dividend received	1 565 138	5 065 678
<b>Cash flow from investment (lines 11-13)</b>	<b>1 548 161</b>	<b>5 083 406</b>

##### Change in liquid assets resulting from financial activities (HUF thousand)

	2015	2016
16 Loans received	14 744 705	38 556 531
17 Liquid assets received definitely	-	0
18 Redemption of shares (capital reduction)	-	0
19 Repayment of bonds	-	0
20 Repayment of loans	-13 991 450	-31 413 020
21 Liquid assets transferred definitely	-	-
<b>Cash flow from financing (lines 16-21)</b>	<b>753 255</b>	<b>7 143 511</b>

##### Change in liquid assets (±II±III): (HUF thousand)

	2015	2016
	1 845 262	-1 847 151

## 5. Indicators of assets, financial position and revenues

### 5.1. Indicators of assets

#### 5.1.1. Equity ratio

	<b>31/12/2015</b>		<b>31/12/2016</b>
<u>Equity</u>	199 848 970	= 0.63	<u>205 937 891</u>
Total assets	319 011 556		332 272 712 = 0.62

#### 5.1.2. Borrowed capital ratio

	<b>31/12/2015</b>		<b>31/12/2016</b>
<u>Borrowed capital</u>	119 162 586	= 0.37	<u>126 334 821</u>
Total assets	319 011 556		332 272 712 = 0.38

#### 5.1.3. Leverage ratio

	<b>31/12/2015</b>		<b>31/12/2016</b>
<u>Borrowed capital</u>	119 162 586	= 0.60	<u>126 334 821</u>
Equity	199 848 970		205 937 891 = 0.61

The Association was established with "0" founder's asset. Its assets are financed from short-term and medium-term loans.

#### 5.1.4. Coverage of assets employed

	<b>31/12/2015</b>		<b>31/12/2016</b>
<u>Equity+Long-term liabilities</u>	293 158 730	= 10.68	<u>301 732 051</u>
Assets employed	27 442 073		27 408 009 = 11.01

#### 5.1.5. Working capital

	<b>31/12/2015</b>		<b>31/12/2016</b>
<u>Current assets – Short-term liabilities</u>	265 763 445	= 1.33	<u>274 385 428</u>
Equity	199 848 970		205 937 891 = 1.33

The above indicators show that the assets employed of the Association are amply covered with long-term sources. Meanwhile, the major part of current assets not financed from short-term sources is also covered with own sources.

## 5.2. Financial liquidity indicators

### 5.2.1. Liquidity Ratio

	31/12/2015		31/12/2016	
Current assets	291 557 570	= 11.30	304 855 530	= 10.01
Short-term liabilities	25 794 125		30 470 102	

A ration higher than 1 indicates good liquidity position.

### 5.2.2. Long-term Indebtedness Ratio

	31/12/2015		31/12/2016	
Total debt	117 420 000	= 0.40	124 563 510	= 0.41
Long-term liabilities+Equity	293 158 730		301 732 051	

### 5.2.3. Profitability indexes

The calculation of profitability indexes is practically irrelevant due to the non-profit nature of the Association.

## 6. Balance Sheet and Profit and Loss Statement of the Oil and Gas Sections

### BALANCE SHEET "A" ASSETS (HUF thousand)

Line no.	Description of items	Oil Section 31/12/2016	Gas Section 31/12/2016	Total
a	b	c	d	e
1	<b>A. Assets Employed</b>	14 626 316	12 781 693	27 408 009
2	I. INTANGIBLE ASSETS	616	618	1 234
3	Capitalised Value of Foundation and Restructuring			0
4	Capitalised Value of Research and Development			0
5	Rights Representing Assets	243	244	487
6	Intellectual Property	373	374	747
7	Goodwill			0
8	Advance Payments on Intangible Assets			0
9	Value Adjustment of Intangible Assets			0
10	II. FIXED ASSETS	18 834	18 835	37 669
11	Land, Buildings and Connected Property Rights	7 514	7 515	15 029
12	Machinery and Equipment			0
13	Other Equipment, Fixtures and Vehicles	11 320	11 320	22 640
14	Breeding Stock			0
15	Investments, Renovations			0
16	Advance Payments on Investments			0
17	Value Adjustment of Fixed Assets			0
18	III. FINANCIAL INVESTMENTS	14 606 866	12 762 240	27 369 106
19	Long-Term Participations in Affiliated Undertakings	14 546 796		14 546 796
20	Long-Term Loans Granted to Affiliated Undertakings			0
21	Long-Term Participations	8 400	12 750 569	12 758 969
22	Long-Term Loans Granted to Undertakings Linked by Virtue of Major Participating Interests			0
23	Other Long-Term Participations	40 000		40 000
24	Long-Term Loans Granted to Other Associated Undertakings			0
25	Other Long-Term Loans	11 670	11 671	23 341
26	Long-Term Debt Securities			0
27	Value Adjustment of Financial Investments			0
28	Valuation Difference of Financial Investments			0



## ASSETS (CONT.)

BALANCE SHEET "A"  
ASSETS (HUF thousand)

Line no.	Description of items	Oil Section 31/12/2016	Gas Section 31/12/2016	Total
a	b	c	d	e
29	<b>B. Current Assets</b>	234 271 566	70 583 964	304 855 530
30	I. INVENTORIES	229 941 778	64 091 936	294 033 714
31	Materials			0
32	Work in Progress and Semi-Finished Products			0
33	Animals for Breeding and Fattening and Other Livestock			0
34	Finished Goods			0
35	Goods	229 941 778	64 091 936	294 033 714
36	Advance Payments on Inventories			0
37	II. RECEIVABLES	2 144 162	2 645 567	4 789 729
38	Receivables from Goods and Service Rendered to Clients			0
39	Receivables from Affiliated Undertakings			0
40	Receivables from Undertakings Linked by Virtue of Major Participating Interests			0
41	Receivables from Other Associated Undertakings			0
42	Bills Receivable			0
43	Other Receivables	2 144 162	2 645 567	4 789 729
44	Valuation Difference of Receivables			0
45	Valuation Difference of Derivative Instruments			0
46	III. SECURITIES	0	0	0
47	Participations in Affiliated Undertakings	0		0
48	Major Participations			0
49	Other Participations			0
50	Own Shares and Holdings			0
51	Debt Securities Held for Trading			0
52	Valuation Difference of Securities			0
53	IV. LIQUID ASSETS	2 185 626	3 846 461	6 032 087
54	Cash on Hand, Cheques	319	318	637
55	Bank Deposits	2 185 307	3 846 143	6 031 450
56	<b>C. Accruals</b>	4 586	4 587	9 173
57	Accrued Income	666	667	1 333
58	Prepaid Expenses	3 920	3 920	7 840
59	Deferred Expenses			0
60	<b>Total Assets</b>	248 902 468	83 370 244	332 272 712

**BALANCE SHEET "A"**  
**LIABILITIES (HUF thousand)**

Line no.	Description of items	Oil Section 31/12/2016	Gas Section 31/12/2016	Total
a	b	c	d	e
61	<b>D. Shareholder's equity</b>	105 703 112	100 234 779	205 937 891
62	I. SHARE CAPITAL			0
63	of which Stocks Repurchased at Par Value			0
64	II. UNPAID SHARE CAPITAL			0
65	III. CAPITAL RESERVE	101 723 782	98 125 188	199 848 970
66	IV. ACCUMULATED PROFIT RESERVE			0
67	V. DEPOSITED RESERVE			0
68	VI. VALUATION RESERVE			0
69	Valuation Reserve for Adjustments			0
70	Fair Value Reserve			0
71	VII. RETAINED EARNINGS	3 979 330	2 109 591	6 088 921
72	<b>E. Provisions</b>	11 306	0	11 306
73	Provisions for Expected Liabilities	11 306		11 306
74	Provisions for Future Costs			0
75	Other Provisions			0
76	<b>F. Liabilities</b>	48 689 365	77 574 897	126 264 262
77	I. SUBORDINATED LIABILITIES	0	0	0
78	Subordinated Liabilities to Affiliated Undertakings			0
79	Liabilities to Undertakings Linked by Virtue of Major Participating Interests			0
80	Subordinated Liabilities to Other Associated Undertakings			0
81	Other Subordinated Liabilities			0
82	II. LONG-TERM LIABILITIES	36 461 925	59 332 235	95 794 160
83	Long-Term Debts			0
84	Convertible Bonds			0
85	Bonds Payable			0
86	Investment and Development Loans			0
87	Other Long-Term Debts	36 461 925	59 332 235	95 794 160
88	Long-Term Liabilities to Affiliated Undertakings			0
89	Long-Term Liabilities to Undertakings Linked by Virtue of Major Participating Interests			0
90	Long-Term Liabilities to Other Associated Undertakings			0
91	Other Long-Term Liabilities			0

LIABILITIES (CONT.)

**BALANCE SHEET "A"**  
**LIABILITIES (HUF thousand)**

Line no.	Description of items	Oil Section 31/12/2016	Gas Section 31/12/2016	Total
a	b	c	d	e
92	III. SHORT-TERM LIABILITIES	12 227 440	18 242 662	30 470 102
93	Short-Term Debts			0
94	of which: Convertible Bonds			0
95	Short-Term Loans	10 950 416	17 818 934	28 769 350
96	Advances Received from Customers			0
97	Accounts Payable to Suppliers	115 192	6 209	121 401
98	Drafts Payable			0
99	Short-Term Liabilities to Affiliated Undertakings	768 059		768 059
100	Short-Term Liabilities to Undertakings Linked by Virtue of Major Participating Interests	387 276		387 276
101	Short-Term Liabilities to Other Associated Undertakings			0
102	Other Short-Term Liabilities	6 497	417 519	424 016
103	Valuation Difference of Liabilities			0
104	Negative Valuation Difference of Derivative Instruments			0
105	<b>G. Deferrals</b>	1 001	58 252	59 253
106	Prepaid Income		57 250	57 250
107	Accrued Expenses	1 001	1 002	2 003
108	Deferred Income			0
109	<b>Total Liabilities</b>	154 404 784	177 867 928	332 272 712

**PROFIT AND LOSS STATEMENT (HUF thousand)**

Line no.	Description of items	Oil Section 31/12/2016	Gas Section 31/12/2016	Total
a	b	c	d	e
1	1 Net Domestic Sales Revenues	34 042 706	226 339	34 269 045
2	2 Net Export Sales Revenues			0
3	<b>I. Net Sales Revenues (01+02)</b>	34 042 706	226 339	34 269 045
4	3 Changes in Inventories of Own Production ±			0
5	4 Capitalised Value of Assets from Own Production			0
6	<b>II. Capitalised Value of Own Performance (±03+04)</b>	0	0	0
7	<b>III. Other Revenues</b>	8 253 043	14 513 759	22 766 802
8	of which: Contribution Fees, Oil Section	8 237 770		8 237 770
9	Contribution Fees, Gas Section		14 498 487	14 498 487
10	5 Material Expenses	21 175	21 175	42 350
11	6 Value of Services Used	11 405 911	15 323 871	26 729 782
12	7 Value of Other Services	2 383	2 383	4 766
13	8 Purchase Value of Goods Sold	29 668 949		29 668 949
14	9 Value of Services Sold (Mediated)	37	38	75
15	<b>IV. Material and Material Type Costs (05+06+07+08+09)</b>	41 098 455	15 347 467	56 445 922
16	10 Salaries and Wages	91 131	91 132	182 263
17	11 Other Payments to Personnel	54 827	54 827	109 654
18	12 Social Security Contributions	37 064	37 065	74 129
19	<b>V. Personnel Expenses (10+11+12)</b>	183 022	183 024	366 046
20	<b>VI. Depreciation</b>	6 149	6 149	12 298
21	<b>VII. Other Expenses</b>	20 506	63 677	84 183
22	of which: Loss in Value		54 477	54 477
23	<b>A. OPERATING PROFIT (I±II+III-IV-V-VI-VII)</b>	987 617	-860 219	127 398

PROFIT AND LOSS STATEMENT (CONT.)

PROFIT AND LOSS STATEMENT (HUF thousand)

Line no.	Description of items	Oil Section 31/12/2016	Gas Section 31/12/2016	Total
a	b	c	d	e
24	13 Dividends Received	1 728 790	3 336 888	5 065 678
25	of which: from Affiliated Undertakings	1 416 074		1 416 074
26	14 Exchange Rate Gain on Sold Participations			0
27	of which: from Affiliated Undertakings			0
28	15 Interest Income and Exchange Gain on Financial Investments			0
29	of which: from Affiliated Undertakings			0
30	16 Other Interests or Interest Bearing Income	1 537 809	39 844	1 577 653
31	of which: from Affiliated Undertakings			0
32	17 Other Income from Financial Activities	622 043	1 094 796	1 716 839
	of which: Valuation Difference			0
33	<b>VIII. Income from Financial Activities (13+14+15+16+17)</b>	<b>3 888 642</b>	<b>4 471 528</b>	<b>8 360 170</b>
	18 Expenditures and Exchange Rate Loss on Participations			
	of which: to Affiliated Undertakings			
34	19 Expenditures and Exchange Rate Loss on Financial Investments (securities, loans)			0
35	of which: to Affiliated Undertakings			0
36	20 Interest Paid	579 076	942 295	1 521 371
37	of which: to Affiliated Undertakings			0
38	21 Loss in Value on Participations, Securities and Bank Deposits			0
39	22 Other Expenses of Financial Activities	317 853	559 423	877 276
	of which: Valuation Difference			0
40	<b>IX. Expenses of Financial Activities (18+19±20+21)</b>	<b>896 929</b>	<b>1 501 718</b>	<b>2 398 647</b>
41	<b>B. PROFIT/LOSS OF FINANCIAL ACTIVITIES (VIII-IX)</b>	<b>2 991 713</b>	<b>2 969 810</b>	<b>5 961 523</b>
42	<b>C. PROFIT BEFORE TAXATION (±A±B)</b>	<b>3 979 330</b>	<b>2 109 591</b>	<b>6 088 921</b>
43	<b>X. Tax Liabilities</b>			<b>0</b>
48	<b>D. PROFIT AFTER TAXATION (±C-X)</b>	<b>3 979 330</b>	<b>2 109 591</b>	<b>6 088 921</b>

Budapest, May 3, 2017

Dr. Béla Attila Bártfai  
CEO

Zsuzsanna Dávid  
Deputy CEO

**HUNGARIAN HYDROCARBON STOCKPILING ASSOCIATION**

**BUSINESS REPORT / 2016 ANNUAL REPORT**

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## 1. Introduction

### 1.1. Activity of the Hungarian Hydrocarbon Stockpiling Association

The Hungarian Hydrocarbon Stockpiling Association (hereinafter "HUSA" or "the Association") seeks to ensure the proper fulfilment of the responsibilities laid down in Act No. XXIII of 2013 on the emergency stockpiling of imported crude oil and petroleum products (hereinafter "the Oil Stockpiling Act") as well as in Act No. XXVI of 2006 on the emergency stockpiling of natural gas (hereinafter "the Gas Stockpiling Act", together also referred to as "the Stockpiling Acts") exercising the rights provided by the above acts.

The Association conducts its activities according to the following principles:

- transparency,
- competitive neutrality,
- non-interference in the market,
- awarding of service, supply and loan agreements through competitive tendering.

The Association performs the activities set out by the Stockpiling Acts, defined in detail in the Association's Statutes (hereinafter the "Statutes"), and fulfils all tasks closely related thereto.

The organisational structure of HUSA consists of the crude oil and petroleum product stockpiling section (hereinafter "Oil Section") and the natural gas stockpiling section (hereinafter "Gas Section").

Based on the number of members invited to the 2016 ordinary Annual General Meeting, the number of active members of the Association is 87, which shows an increase on the previous year's figure (79 members). In the course of the previous years the number of active members was as follows:

Table 1  
Number of member companies

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Oil Section	24	25	30	40	29	31	36	37	45	54
Gas Section	20	20	20	24	29	34	31	36	35	34
<b>Total*</b>	<b>43</b>	<b>44</b>	<b>49</b>	<b>63</b>	<b>57</b>	<b>64</b>	<b>65</b>	<b>72</b>	<b>79</b>	<b>87</b>

\* members conducting activities in both sections are indicated once in the total figure

The Association

- finances storage costs, expenditures related to the qualitative and quantitative maintenance of the stocks, interests on stock financing loans and the operating costs of the Association's work organisation from the collected contribution fees, the capital reserve and other sources of revenue (dividends received, secondary sales of surplus storage capacities, interest received),
- prepares a budget which indicates the cost and revenue structures of the Gas and Oil Sections separately,
- stores the stocks in its own storage facilities as well as in facilities rented from other storage companies,
- finances the purchase of products to be stored from bank loans, and repays the principals of the stock financing loans only when the stocks are sold.



## 1.2. Achievement of main objectives in 2016

The Association is responsible for the stockpiling, safe storage, quantitative and qualitative maintenance of stocks of crude oil, petroleum product and natural gas stocks prescribed by the effective legislation. Related to the above responsibilities, the major tasks of the Association were as follows:

- optimisation of the storage, financing and operational costs and revenues from contribution fees,
- definition of the stockpiling obligations,
- adjustment of the stock levels in line with the stockpiling obligations,
- fulfilment of the product replenishment obligation due every six years, at the lowest possible costs,
- regular inspection of the qualitative parameters of the stored stocks.

HUSA performed its tasks for the year 2016 in accordance with the decisions of the General Meeting and the Board of Directors.

The Association continuously monitors and analyses the economic and market developments and changes that influence its activities. The drastic fall in global crude oil prices as well as the domestic economic developments had a favourable impact on fuel consumption, which in turn led to an increase of the crude oil stockpiling obligations in the Oil Section. In order to fulfil the stockpiling obligations, the Board of Directors of the Association decided on the purchase of crude oil and petroleum products. Accordingly, in the course of 2016, the Association purchased almost 100 kt of stocks and reserved the required storage capacities.

With regard to the product replenishment obligation due every six years, set out by the Oil Stockpiling Act and the Statutes, stock replacements of 74.5 kt of petroleum products were implemented at the lowest possible costs in 2016.

The Board of Directors of the Association exercising its authorisation defined in point b of Decision No. 8/2015 (16/12/2015) of the General Meeting, decided to raise the contribution fee in the Gas Section by 10% from HUF/GJ 71.67 to HUF/GJ 78.84 as of May 1, 2016. Subsequently, with Decision No. 4/2016 (27/05/2016) the General Meeting decided on a further increase in the gas contribution fee to HUF/GJ 93.55 as of October 1, 2016. The principal objective of the contribution fee increases was to enable the Gas Section to repay its liabilities to the Oil Section from its hence accumulated budget surplus by the end of 2017.

As of January 1, 2016, HUSA and its majority-owned subsidiaries underwent group level restructuring<sup>1</sup> in order to streamline their operations, make use of synergies existing between parallel activities and thus cut costs. The restructuring led to a reduction in headcount, the elimination of most managerial positions and the outsourcing of functional tasks (accounting, finance, information technology) to OPAL Szolgáltató Zrt.<sup>2</sup> (hereinafter OPAL Szolgáltató Zrt. or OPAL) owned by HUSA. The restructuring of operations resulted in significant savings at group level, with a considerable decrease in the operating costs of HUSA.

## 1.3. Economic environment<sup>3</sup>

In 2016, the global economy was characterised by expansion. Apart from a drop in raw material prices and low yields, economic developments were influenced by the performance of the transforming Chinese economy.

In 2016, the volume of GDP calculated for the whole of the OECD, which comprises dominantly of developed countries, exceeded the level of the previous year by 1.7% besides demonstrating continuous growth. Concerning dominant national economies, the increase of the Chinese economic performance averaged 6.7%, whereas the

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<sup>1</sup> The group level restructuring concerned the Association, OPAL Szolgáltató Zrt. owned 100% by HUSA and Ásványolajtermék Minőségellenőrzési Zrt. (ÁMEI).

<sup>2</sup> Up to May 31, 2016, OPAL Tartálpark Zrt.

<sup>3</sup> Source: Hungarian Central Statistical Office (KSH), National Bank of Hungary, EUROSTAT

economic growth rate of the United States was 1.6% and the performance of the Japanese economy improved by 1.0%. According to available preliminary data, the economic performance of the European Union member states improved for the whole of 2016 compared to the previous year. As for the most influential national economies, the United Kingdom demonstrated a growth rate of 1.8% and Germany 1.9%.

Nevertheless, the growth of the global economy remained fragile with significant disparities in growth rate among particular regions. Whilst the majority of developed countries were characterised by economic recovery, the region of emerging market economies showed diverse growth prospects.

Inflation rates continued to shape moderately in line with the inflation targeting of the central bank. As for major global central banks, the Fed raised its benchmark interest rate by 25 base points, whereas the ECB expanded its bond purchase programme. Following an interest rate cut in March 2016, the ECB did not modify its interest rate policy. In terms of further prospects, it is significant that interest rate levels might remain low in the long term, even after monetary easing ends. Other countries were also characterised by an environment of loose monetary policy, serving as an impetus for economic growth. In terms of the major currency pair in the foreign exchange markets, autumn saw a turnaround in trends, although in November, the accelerated strengthening of the dollar did not appear obviously steady yet. In the months of June and July, the decline in the EUR/USD pair led to exchange rates below 1.1 for the first time since early March.

Since 2013, the Hungarian economy has seen a balanced and sustainable expansion with an average growth rate of around 3%. On the other hand, the temporary slowdown in GDP growth is largely attributable to the cyclical utilization of EU funds. In spite of the moderate use of EU grants, it is reassuring that the performance of the Hungarian economy was up by 2%, which was primarily driven by firm domestic demand. In an international comparison, the expansion of the Hungarian economy exceeded the EU average, thus constantly catching up with more advanced member states of the Union. In addition, external and internal balances remained favourable. The structure of public debt improved, consequently lessening the external vulnerability of the economy. Disciplined fiscal policy, reduction in public debt and the improved performance of the Hungarian economy were acknowledged by all three leading credit rating agencies, as they upgraded the Hungarian sovereign debt to investment grade in the course of 2016. In the bond markets short-term bond yields remained low thanks to the changes in the monetary instruments of the National Bank of Hungary and the base rate cut. Meanwhile, long-term yields were significantly impacted by inflation movements, developed market yields and the upgrade of the Hungarian sovereign debt.

On the whole, the dynamic growth of fuel consumption, driven by economic expansion, rise in domestic demand and low crude oil prices, had a positive impact on the Association's finances. The favourable interest rate environment also contributed to the strengthening of the company's financial position (on the liabilities side).

Macroeconomic indicators characterising the economic context and the main planning conditions taken into account for the Annual Report and the budget planning are summarised as follows.

### ***1.3.1. Performance of the Hungarian economy (Gross Domestic Product)***

According to the first release by the Hungarian Central Statistical Office (KSH) the Hungarian gross domestic product grew by 1.6% in the fourth quarter of 2016 and by 2% in the year 2016 compared to the previous year, predominantly triggered by market services and the agricultural sector. However, economic expansion was held back by the performance of the construction sector.

GDP figures in the last five-year period are indicated below:

Table 2  
GDP volume indexes in the period 2012-2016

Same period of the previous year = 100.0

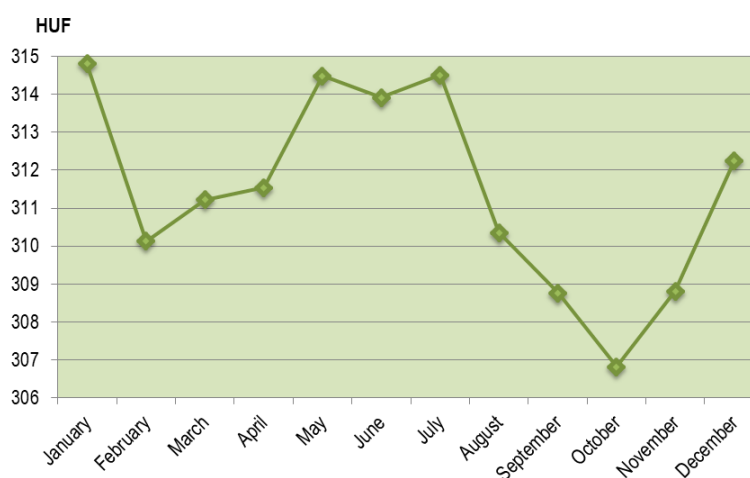
Year	Non-adjusted (raw) data (%)	Data adjusted for calendar effects (%)
<b>2012</b>	98.3	98.3
<b>2013</b>	102.1	102.2
<b>2014</b>	104.0	103.9
<b>2015</b>	103.1	103.1
<b>2016</b>	102.0	101.8

Source: Central Statistical Office (KSH)

### 1.3.2. Forint/Euro exchange rate

In 2016, the Euro to Hungarian Forint exchange rate moved in the range of EUR/HUF 306-315 with an annual average exchange rate of EUR/HUF 311.46, which was lower than anticipated in the budget plan (EUR/HUF 315). Variations from the average exchange rate were primarily due to the Brexit referendum of June 23, the upgrade of the Hungarian sovereign debt, the American presidential elections held on November 8 and the Hungarian macroeconomic developments. On December 31, 2016, the annual average closing rate was EUR/HUF 311.02, 0.7% lower than the closing rate of the previous year (EUR/HUF 313.12).

Diagram 1  
Monthly average EUR/HUF exchange rate in 2016



Source: National Bank of Hungary

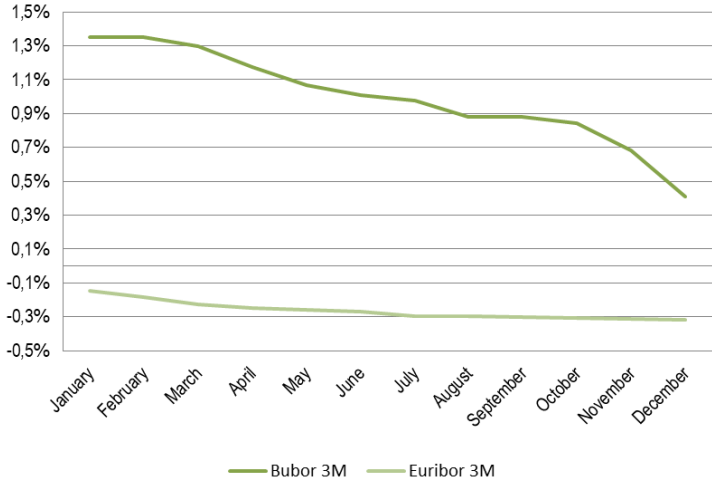
### 1.3.3. Interest rate environment

In the course of 2016, major euro interest rates in the European Economic Area continued to slump with an annual average three-month EURIBOR interest rate of -0.26%. This rate was lower than the 0.2% level projected in the Budget for 2016.

In 2016, the Monetary Council of the National Bank of Hungary cut the base rate further to a record low of 0.9%. Subsequently, no further changes to the base rate were made by the central bank. Continuous base rate cuts were facilitated by the deflationary environment and the international financial and economic situation. The base rate cut induced a considerable decline in short-term forint-denominated company loan interest rates, with the annual

average of the three-month BUBOR at 0.99% and its end-of-year value at 0.41%. The end-of-year level of the average interest rate was projected at 1.36% in the Budget for 2016.

*Diagram 2  
Indicative interest rates in 2016*



Sources: National Bank of Hungary, European Central Bank

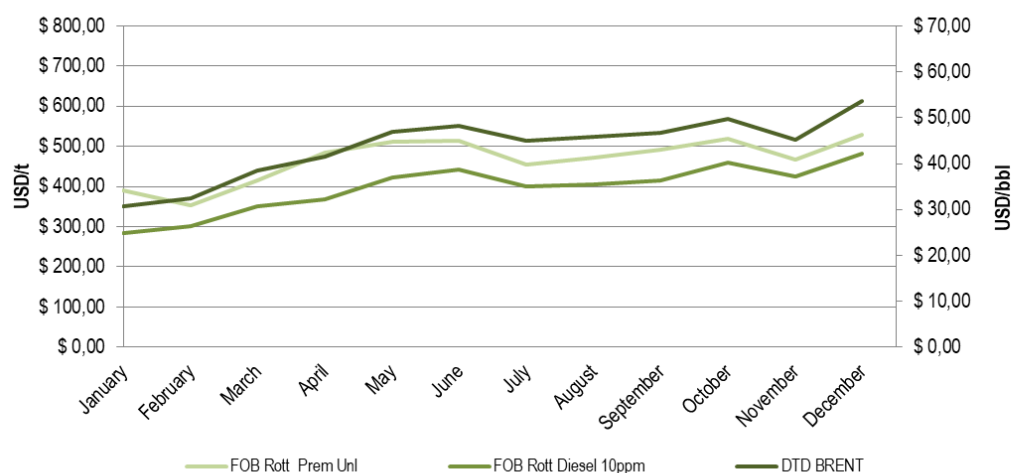
**1.3.4. Price quotes for energy sources and products**

In the third quarter of 2014, the world market price of crude oil embarked on a steep decline and hit an all time low of slightly below 28 USD/bbl in January of 2016. The plunge of over 70% was triggered by a fall in global demand and a parallel increase in supply generated by OPEC members in an attempt to retain their market share. These impacts were enhanced by Iran’s return to the global market after sanctions against it had been lifted.

The year 2016 was marked by strong volatility, at times, prices were temporarily pushed up by production cuts, at other times, they were dragged down by bulging inventories. Low oil prices proved unsustainable for several oil producing economies, which depleted their financial reserves, devaluated their currencies and took numerous austerity measures. As OPEC initiated negotiations on output cuts, crude oil prices began to rise. OPEC and other non-OPEC oil exporting nations reached a final agreement on production cuts in November of 2016. As a result of the agreement, oil prices soared from USD 30/bbl in early 2016 to USD 53/bbl by the end of the year.

The prices of petroleum products followed the movements of crude oil prices as usual. On European markets, Diesel fuel prices rose from USD 280/ton to over USD 480/ton, whilst price quotes for gasoline were up from an opening level of 390 USD/ton to 530 USD/ton by the end of the year.

*Diagram 3*  
*FOB Rotterdam product indexes and Brent DTD crude oil indexes in 2016*



### **1.3.5. Domestic petroleum product consumption**

In 2016, the previous years' growing trend in consumption persisted in the domestic fuel demand. The rise was attributable on the one hand to a decrease in consumer prices due to low oil prices, on the other hand, to the recovery of the Hungarian economic environment triggered by domestic consumption. In response to restored consumer confidence, retail consumption increased in several sectors including fuel consumption. As a result, in 2016, total fuel consumption soared by 3.3% compared to the previous year. On the motor gasoline market prices exhibited a surge of 4.2%, whilst Diesel fuel prices showed a rise of 3%.

According to data released by the Hungarian Mineral Oil Association indicating the domestic retail turnover of major oil companies, in the course of 2016, gasoline sales were up by 4.1% and the demand for Diesel fuel, in turn, grew by 6.4% compared to the previous year. The figures show that the strong growth in demand in the retail sector, witnessed in the recent years, continued in 2016. Meanwhile, the growth rate of wholesale turnover, fundamentally concentrated on Diesel fuel, showed a downward trend, which can be apparently explained by a "readjustment" of the market, for a part of end consumers, who used to purchase from wholesalers in previous years, obtained the fuel quantity to fill up their storage tanks directly at or through filling-stations.

Kerosene consumption continued to expand in 2016, yet it had no impact on the revenues of the Association owing to contribution fee recoveries.

In 2016, the demand for fuel oils continued to decline, as their annual volume amounted to altogether 8.4 kt.

Table 3  
Consumption of petroleum products in 2012-2016

Unit: kt

Product group	2012	2013	2014	2015	2016	Change (2016/2015) (%)
Gasoline	1 171.8	1 172.0	1 215.0	1 269.3	1 322.4	4.2%
Gas oil	2 660.8	2 777.5	2 977.7	3 240.2	3 337.8	3.0%
<b>Fuel</b>	<b>3 832.6</b>	<b>3 949.5</b>	<b>4 192.7</b>	<b>4 509.5</b>	<b>4 660.2</b>	<b>3.3%</b>
Kerosene	169.6	164.0	170.2	178.1	203.8	14.4%
Fuel oil	34.4	33.1	29.9	24.0	8.4	-64.9%
<b>Total</b>	<b>4 036.6</b>	<b>4 146.5</b>	<b>4 392.7</b>	<b>4 711.7</b>	<b>4 872.4</b>	<b>3.4%</b>

### 1.3.6. Domestic natural gas prices

The import price of natural gas from Russia, fundamentally determining the domestic wholesale price of natural gas, is based on the weighted average of fuel oil and gas oil quote prices in the nine months preceding the relevant quarter. Low oil prices already affected “oil based” wholesale price levels in 2016, and the oil-indexed price of gas originated from Russia approached European commodity exchange price levels.

In the first four months of 2016, the price of natural gas quoted at the Dutch stock market (TTF), which fundamentally defines European wholesale natural gas prices, carried on with the downward trend it embarked on in the previous year. It picked up during the injection period and reached a level of over 18 Euro/MWh by the end of the year. Price developments were partly attributed to the expansion of LNG supply used as a “replacement product”, as well as to the variations in oil prices.

Diagram 4  
Natural gas prices in 2016



Sources: [www.indexmundi.com](http://www.indexmundi.com); [www.theice.com](http://www.theice.com)

### 1.3.7. Domestic natural gas consumption

The available annual data of the natural gas transmission system operator (FRI) indicates that after reaching its lowest point in 2014, the downward trend in gas consumption turned around, and the natural gas market embarked on a slow recovery. In 2015, domestic consumption based on physical transmission of gas soared, with a volume of 8 778 million m<sup>3</sup> it exceeded the consumption of the previous year by 6.2%. In 2015, base effect played a key role in consumption growth. As illustrated in Table 4, natural gas demand was rather moderate in 2014 as unusually mild winter temperatures led to considerably lower gas consumption in the 2014 heating period.

Compared with the previous year, in 2016, natural gas consumption showed a further growth of 6.6% due to the following factors:

- households increased the proportion of more convenient gas consumption as opposed to alternative heating fuels thanks to a rise in real wages,
- the rise in electricity consumption in the summer period was catered for with the expanded production of natural gas-fired power plants,
- owing to the considerably colder weather (during the period between October of 2016 and January of 2017, the aggregated number of heating degree days<sup>4</sup> amounted to 1 731 in contrast with 1 420 days<sup>5</sup> for the same period one year earlier), gas consumption grew over the end-of-year heating period of 2016 in comparison with the previous year.

Table 4  
Annual natural gas consumption based on data released by FRI

	2008	2009	2010	2011	2012	2013	2014	2015	2016
million m <sup>3</sup>	12 402	10 924	11 700	10 939	9 978	9 028	8 262	8 779	9 357

Planning the contribution fee revenues, the Association expected similar stagnation in natural gas consumption as in 2015, nevertheless, natural gas consumption calculated from contribution fee declarations for 2016 demonstrated an increase of 3.1%<sup>6</sup> compared to the previous year. The above rise was predominantly attributed to increased household consumption, which has no significant impact on contribution fee revenues as contribution fee payments on household consumption are recovered by member companies pursuant to Sections (8)-(10) of Article 8 of the Gas Stockpiling Act. Non-household consumption, which is of primary importance in terms of contribution fee revenues, exceeded the 5.5 billion m<sup>3</sup> set in the budget despite the fact that due to the law amendment in effect as of September 1, 2016, contribution fee revenues were further decreased by the recovery of contribution fees paid for natural gas utilised as raw material for the chemical industry. Consequently, in 2016, the actual volume of consumption liable to contribution fee payment, reduced with the recovered amounts, equalled to the budgeted 5.5 billion m<sup>3</sup>.

<sup>4</sup> Number of heating degree days: is a measure of temperatures below the temperature threshold expressed in proportion to the quantity of cold of the relevant heating period, as defined by the Business and Commercial Code of the Hungarian Natural Gas System (ÜKSZ), (Source: Government Decree No. 19/2009 (30/01/2009) on the implementation of the provisions of Act XL of 2008 on the National Gas Supply).

<sup>5</sup> Source: own calculations based on the temperature graphs of the National Meteorological Service (OMSZ)

<sup>6</sup> The cause of discrepancy between the natural gas consumption figures released by FRI and the figures calculated by HUSA based on contribution fee declarations: data (GJ) from declarations that appear in the records of HUSA come from invoices issued for the sale of natural gas, which contain fulfilment dates in line with Act CXXVII of 2007 on Value Added Tax (hereinafter „VAT Act“) in accordance with point a) of Section 5 of Art. 8 of Act XXVI of 2006 on the Strategic Stockpiling of Natural Gas (hereinafter „Gas Stockpiling Act“). As a consequence, the quantitative data recorded by HUSA follow the figures on natural gas consumption it receives from FRI (which refer to the physical purchase date of natural gas) with a delay of two or three months.

## 2. Fulfilment of the stockpiling obligation

### 2.1. Volume of stocks

#### 2.1.1. Liquid hydrocarbons

At the end of 2016, total gross stocks (including immobile stocks) of the Oil Section accounted for 1 322.8 kt corresponding to 1 313.1 ktoe in crude oil equivalent (hereinafter “ktoe”), the measurement unit used for the calculation of the stockpiling obligation. The volume of strategic stocks grew by 98.7 kt compared with the opening stock at the beginning of 2016. Major proportion of the above stock expansion (96.9 kt) was the result of crude oil, motor gasoline and Diesel fuel purchases in compliance with the decision of the Board of Directors to fulfil the stockpiling obligation for 2016. Stock levels increased by 1.6 kt owing to stock replacements, whilst the end-of-year stock level in 2016 exceeded the level measured at the beginning of the year by 0.2 kt, which was attributed to the storage and transportation of stocks.

Table 5  
Changes in stocks in the Oil Section in 2016 (kt)

Stocks	Opening stocks* 01/01/2016	Change within year relative to stock sales and purchases in 2016 (balance of sales and purchases)	Change within year relative to stock replacements in 2016 (balance of sales and purchases)	Closing stocks* 31/12/2016	Change in stocks due to storage manipulation (loss/surplus)
Crude oil	491.4	38.0	1.4	530.9	0.1
Gasoline	254.6	14.0	0.0	268.7	0.1
Diesel fuel	478.1	44.9	0.2	523.2	0.0
<b>Total</b>	<b>1 224.1</b>	<b>96.9</b>	<b>1.6</b>	<b>1 322.8</b>	<b>0.2</b>

\*inventoried gross volume of stocks

In accordance with the Oil Stockpiling Act and the requirements of the European Union, the stockpiling obligation of HUSA is defined on the basis of the net imports of crude oil and petroleum products in the previous year. For the above calculation, the balance of exports and imports of refinery feedstocks<sup>7</sup> adjusted for change in stocks is further adjusted for the annual domestic naphtha yield<sup>8</sup>, to which the net imports of petroleum products<sup>9</sup> adjusted for change in stocks, expressed in crude oil equivalent (multiplied by 1.065) are added.

The stockpiling obligation is determined by the volume of annual net imports projected for 90 days.

Table 6 exhibits the data for the year 2015, which provide the basis of the calculation of net imports required to establish the stockpiling obligation for 2016.

<sup>7</sup> Refinery feedstocks: crude oil, natural gas condensates (NGL), raw materials for refineries, additives, oxygenates, other carbohydrates.

<sup>8</sup> The yield reduced by return stream to refineries from chemical industrial production.

<sup>9</sup> Petroleum products: refinery gas (non liquefied), ethane, liquefied gas (LPG), motor gasoline, aviation gasoline, gasoline-type jet fuel, kerosene-type jet fuel, other kerosene, gas oil/Diesel fuel, heating oil for commercial and industrial uses, fuel oil with low sulphur content (sulphur content lower than 1%), fuel oil with high sulphur content (sulphur content of 1% or higher), white spirit and other special gasoline, lubricants, bitumen, paraffin waxes, petroleum coke, other refinery products.



Table 6

Calculation and fulfilment of liquid hydrocarbon stockpiling obligations in 2016

Refinery feedstocks		kt
a	Imports of refinery feedstocks	6 640
b	Exports of refinery feedstocks	102
c	Change in stocks of refinery feedstocks	-222
	a-b+c	6 316

Petroleum products		kt
d	Imports of petroleum products	2 208
e	Exports of petroleum products	2 789
f	Change in stocks of petroleum products	-220
	d-e+f	-801

Calculation of industrial gasoline yield		kt
h1	Industrial gasoline production	904
h2	Return stream to refineries from industrial production	361
h3	Refinery feedstocks used	7 680
h	Industrial gasoline yield (%) $(h1-h2)/h3*100$	7.1
g	$1-h/100$ or 0.96 if $h < 7\%$	0.929

Net imports		ktoe
N	Annual net imports $(a-b+c)*g + (d-e+f)*1.065$	5 016
A	Average daily net imports $(N/365)$	13.7
	90 days' net imports: $A*90$	1 233

In 2015, net imports accounted for 5 016 kt expressed in crude oil equivalent, therefore, the 90 days' stockpiling obligation amounted to 1 233 ktoe for the period prescribed by law, that is, between April 1, 2016 and March 31, 2017.

In compliance with the authorisation of the Board of Directors, HUSA reviewed its stockpiling strategy. In its review, the Association forecasted a further increase in domestic fuel consumption and a gradual decline in domestic crude oil extraction. These factors were expected to entail a growth in imports in 2016 and a subsequent rise in stockpiling obligations. In view of the above projections, the Board of Directors approved the purchase of stocks and the reservation of required storage capacities, in the framework of which the Association acquired 38 kt of crude oil, 14 kt of motor gasoline and 44.9 kt of Diesel fuel in the period between March and August of 2016. The level of stocks including the purchased quantities was equivalent to 96 days' net imports.

*Table 7*  
*Net closing stocks and days of stocks on December 31, 2016*

	Net volume (without immobile stocks)	
	<i>kt</i>	<i>ktoe</i>
Crude oil	530.4	458.3
Petroleum products	791.5	854.8
<b>Total</b>	<b>1 321.9</b>	<b>1 313.1</b>
<b>Number of stock days</b>	<b>96</b>	

### 2.1.2. Natural gas

HUSA's opening stocks of natural gas on January 1 as well as its closing stocks on December 31, 2016, amounted to 9 753.2 million kWh (920.6 million m<sup>3</sup>). Decree No. 13/2015 (31/03/2015) of the Ministry of National Development "on the Extent of Strategic Natural Gas Storage" set the mandatory level of natural gas stocks at 915 million m<sup>3</sup>, which remained at the same level in the course of 2016.

*Table 8*  
*Level of stocks of the Gas Section in 2016*

	Opening stock 01/01/2016		Change within year (balance of sales and purchases)		Closing stock 31/12/2016	
	million m <sup>3</sup>	kWh	million m <sup>3</sup>	kWh	million m <sup>3</sup>	kWh
Natural gas stock	920.6	9 753 158 379	0.0	0.0	920.6	9753158379

## 2.2. Storage of stocks

On December 31, 2016, the Association held its stocks in the storage facilities below:

Table 9  
Inventoried gross volume of crude oil and petroleum product stocks  
at the storage plants (kt)

Storage company	Storage plant	Gasoline	Diesel fuel	Crude oil
OPAL Szolgáltató Zrt.	Százhalombatta			261.8
	Tiszaújváros	14.1	15.0	131.2
	Cellödömök	29.6	66.5	
	Vámosgyörk	29.2	66.8	
	Pétfürdő	44.4	67.0	
	Mád		8.3	
	Szajol	14.7	32.6	
	Komárom		14.0	
<b>OPAL Szolgáltató Zrt. in total</b>		<b>131.9</b>	<b>270.2</b>	<b>393.0</b>
MOL Nyrt.	Százhalombatta			46.5
	Tiszaújváros			53.5
Moltrade-Mineralimpex Zrt.	Tiszaújváros			38.0
<b>MOL group in total</b>		<b>0.0</b>	<b>0.0</b>	<b>137.9</b>
Terméktároló Zrt.	Tiszaújváros	87.7	85.8	
	Komárom	16.9	14.1	
	Szajol	32.2	153.0	
<b>Terméktároló Zrt. in total</b>		<b>136.8</b>	<b>252.9</b>	<b>0.0</b>
<b>Altogether</b>		<b>268.7</b>	<b>523.2</b>	<b>530.9</b>

Table 10  
Inventoried volume of natural gas stocks at the storage plants

Storage company	Storage plant	Volume	
		million m <sup>3</sup>	kWh
MMBF Zrt.	Szőreg I.	920.6	9 753 158 379

HUSA utilises the storage plants within the framework of custody agreements.

### 3. Fulfilment of the budget

The budget of the Association has a special structure due to the cash accounting principle applied for the calculation of revenues from contribution fees. It differs from the business plan model used by business entities. As a consequence, the report on the fulfilment of the business plan is also different from the structure applied by business entities. In accordance with Section (1) of Article 37 of the Oil Stockpiling Act, the business report comprises detailed numeric and textual information on budget fulfilment.

Sections (2) and (3) of Article 37 of the Oil Stockpiling Act stipulate that the annual finances and assets of the Association also have to be presented in the Balance Sheet and the Profit and Loss Statement prescribed in Act C of 2000 on Accounting (Accounting Act).

The two structures differ significantly, with the Budget Report representing the Association's objectives, therefore, this chapter focuses on the fulfilment and evaluation of the latter. The differences between the Budget Report and the Profit and Loss Statement specified by the Accounting Act are to be described through the derivation of profit before taxation according to the Accounting Act from the profit at the budget level. The financial position, assets and liabilities of the Association are recorded in the Balance Sheet prepared in compliance with the Accounting Act.

#### 3.1. Profit at the budget level

Table 11  
Budget result (HUF million)

	Oil Section			Gas Section			Total		
	2016 plan	2016 act	act/plan	2016 plan	2016 act	act/plan	2016 plan	2016 act	act/plan
<b>2015 budget reserve</b>	<b>3 000</b>	<b>3 439</b>	<b>115%</b>	<b>0</b>	<b>0</b>	<b>0%</b>	<b>3 000</b>	<b>3 439</b>	<b>115%</b>
Contribution fee payments	8 623	8 569	99%	20 713	23 440	113%	29 336	32 010	109%
Recovery of contribution fee payments	-282	-332	118%	-7 310	-8 943	122%	-7 592	-9 274	122%
<b>Net revenue from contribution fees</b>	<b>8 341</b>	<b>8 238</b>	<b>99%</b>	<b>13 402</b>	<b>14 498</b>	<b>108%</b>	<b>21 744</b>	<b>22 736</b>	<b>105%</b>
Dividend received+capital reduction	1 660	1 729	104%	3 219	3 337	104%	4 879	5 066	104%
Ticket sales / Capacity reservation	0	0	-	230	226	98%	230	226	98%
Interest received	20	62	312%	0	0	-	20	62	312%
Sales of fixed assets	0	2	-	0	2	-	0	4	-
<b>Other revenues</b>	<b>1 680</b>	<b>1 793</b>	<b>107%</b>	<b>3 449</b>	<b>3 565</b>	<b>103%</b>	<b>5 129</b>	<b>5 358</b>	<b>104%</b>
<b>TOTAL REVENUE</b>	<b>13 021</b>	<b>13 470</b>	<b>103%</b>	<b>16 851</b>	<b>18 063</b>	<b>107%</b>	<b>29 873</b>	<b>31 533</b>	<b>106%</b>
Storage and stock maintenance fees	-11 879	-11 349	96%	-15 268	-15 267	100%	-27 146	-26 615	98%
Interests payable, other costs	-730	-562	77%	-1 172	-960	82%	-1 903	-1 521	80%
<b>Storing costs</b>	<b>-12 609</b>	<b>-11 910</b>	<b>94%</b>	<b>-16 440</b>	<b>-16 226</b>	<b>99%</b>	<b>-29 049</b>	<b>-28 137</b>	<b>97%</b>
<b>Operating costs of HUSA</b>	<b>-285</b>	<b>-265</b>	<b>93%</b>	<b>-285</b>	<b>-265</b>	<b>93%</b>	<b>-570</b>	<b>-529</b>	<b>93%</b>
<b>TOTAL EXPENDITURES</b>	<b>-12 894</b>	<b>-12 175</b>	<b>94%</b>	<b>-16 725</b>	<b>-16 491</b>	<b>99%</b>	<b>-29 619</b>	<b>-28 666</b>	<b>97%</b>
<b>BUDGET RESULT</b>	<b>127</b>	<b>1 295</b>	<b>1017%</b>	<b>126</b>	<b>1 572</b>	<b>1244%</b>	<b>254</b>	<b>2 867</b>	<b>1130%</b>

## 3.2. Revenues

In 2016, total revenues of HUSA accounted for HUF 31 533 million, 6% higher than budgeted, as the revenues of both Sections exceeded the forecasted values. The proportion of the Oil Section amounted to HUF 13 470 million, whilst the share of the Gas Section was HUF 18 063 million as indicated in Table 12.

### 3.2.1. Contribution fee revenues

The General Meeting and the Board of Directors of HUSA approved the following contribution fees per unit for 2016:

Table 12  
Contribution fees in 2016

Product	Unit	01/01/2016- 30/04/2016	01/05/2016- 30/09/2016	01/10/2016- 31/12/2016	Combined nomenclature 01/01/2016-31/12/2016
Gasoline type fuel	HUF/1000 litres <sub>15</sub>		1 500		2710 1231 , 1241, 1245, 1249, 1251, 1259, 1270
Kerosene	HUF/1000 litres <sub>15</sub>		1 252		2710 19 21
Gas oil	HUF/1000 litres <sub>15</sub>		1 405		2710 1943, 1946, 1947, 1948, 2011, 2015, 2017, 2019
Fuel oil	HUF / t		1 275		2710 19 62, 1964, 1968, 2031, 2035, 2039
Natural gas	HUF / GJ	71.67	78.84	93.55	2711

In 2016, the members of the Oil Section paid HUF 8 238 million in contribution fees to HUSA, which was 1.2% lower than the budgeted revenue (HUF 8 341 million) as the growth of fuel consumption proved more moderate than planned.

In the course of 2016, member companies recovered HUF 332 million contribution fees on 208.4 kt of petroleum products. The majority of the recoveries were related to petroleum products applied to power aircrafts operating in international aviation. Meanwhile, a smaller proportion concerned aviation fuel utilised by the Hungarian Defence Force as well as non-energy related use.

In the case of the Gas Section, net contribution fee revenues of HUF 13 402 million, reduced with recoveries on volumes sold to households, were planned in the Budget for 2016. The effectively realised revenues of HUF 14 498 million were HUF 1 096 million higher than planned, fundamentally induced by the increase of contribution fees imposed as of May 1, 2016.

As indicated in Point 1.3.7., in the year of 2016, total natural gas consumption exceeded the budgeted volume, yet, primary increase was demonstrated in sales to households, on which contribution fees of HUF 8 330 million were recovered by member companies. Besides, owing to the amendment of the Gas Stockpiling Act, the volume of natural gas consumption, which form the basis of net (reduced with recoveries) contribution fee revenues, continued to narrow as of September 1, 2016. In the last four months of 2016, contribution fee payments on natural gas used as feedstock for the chemical industry recovered by member companies totalled HUF 199.8 million, causing a total revenue loss of HUF 613 million.

Total revenues of the two Sections accounted for HUF 22 736 million, which was altogether 5% higher than budgeted (HUF 21 744 million).

### **3.2.2. Other revenues (other than contribution fees)**

In 2016, dividend revenue exceeded the projected amount in both Sections.

In the Oil Section, dividend received from Terméktároló Zrt. (HUF 293 million) was HUF 33 million higher than planned, whilst HUF 16 million non budgeted dividend was paid by ÁMEI Zrt. and HUF 20 million non budgeted dividend by Petrotár Kft.

In the Gas Section, MMBF Zrt. paid HUF 3 337 million in dividends, which exceeded the anticipated amount by HUF 118 million.

In the Oil Section, revenues from the “ticket” sales of a part of surplus stocks above the obligatory level are accounted among other revenues. The Association did not plan or book revenues from this source for 2016.

In the Gas Section, HUF 226 million other revenues were incurred from the secondary sales of interruptible injection and withdrawal capacities reserved in gas storage facilities.

From the fixed term deposits of the temporary surplus of liquid assets, the Association earned revenues of HUF 62 million, which was HUF 42 million higher than budgeted.

Revenues from the sales of fixed assets are indicated in the entry “Sales of Fixed Assets”. In January of 2016, the Association sold a major part of its assets (mainly information technology equipment) to OPAL Szolgáltató Zrt., since financial, accounting and information technology services are provided for the Association by OPAL Szolgáltató Zrt. as of January 1, 2016.

### **3.2.3. Utilisation of budget reserve carried forward from 2015**

In compliance with the decision of the General Meeting, the budget reserve of HUF 3 439 million, created in the 2015 budget, was carried forward to raise the budget revenues of the Oil Section in 2016. Upon approval of the Annual Budget for 2016, only preliminary data was available for 2015, in which this figure was projected at HUF 3 000 million. The actual budget reserve in 2015 exceeded this amount by HUF 439 million, which increased the revenues of the Oil Section.

## **3.3. Expenditures**

### **3.3.1. Storage and stock maintenance costs**

In the Oil Section, total annual storage costs in 2016 were 4% lower than planned due to the following factors:

- the rental of 60 000 m<sup>3</sup> spare storage tanks planned during the preparation of the Annual Budget for 2016, in order to optimise the schedule of tank revisions and stock replacements, was not needed,
- in 2016, stock purchases were carried out a few months later than planned, thus the rental fees of required storage capacities put a strain on the budget for a shorter period of time,
- inflation figures applied for the indexation of custody fees were more favourable than projected.

Total storage and maintenance costs of crude oil and petroleum products amounted to HUF 11 349 million.

In the Gas Sector, storage costs almost exactly met the planned level, with a discrepancy of only minus HUF 1 million.

Total storage costs of the two Sectors accounted for HUF 26 615 million, which was HUF 531 million lower than expected.

### 3.3.2. Financing costs

The major part of financing costs comprises the interest on stock financing loans and the smaller part is constituted by other costs related to loan agreements. The actual amount of interest costs of stock financing loans (HUF 1 521 million) were lower than forecasted (HUF 1 903 million) as a result of the factors below:

- the average interest premium was lower than estimated, as the Association benefited from the favourable bids it received in response to its call for tenders for the refinancing of loans which are to expire in 2016. In addition to refinancing its maturing loans, HUSA made early repayments on its loans due to expire at a later maturity date, as well as took out new loans with longer durations and lower interest premiums,
- EURIBOR rates, which provide the basis for the EUR/HUF exchange rate, showed a more favourable trend than expected,
- the total amount of loans taken out by the Association was lower than projected in the budget.

### 3.3.3. Operating costs

Operating costs were considerably lower than budgeted with only 93% of the available funds used. In 2016, total actual operating costs amounted to HUF 529 million, which was HUF 41 million lower than planned (HUF 570 million). The major part of the savings is constituted by the reduction in operating costs resulting from the group level restructuring described earlier in this report.

In terms of material and material type costs, expenditures on fuel as well as utility fees were lower than expected.

Personnel expenses were kept within the budgeted limits.

Costs presented in the entry "Costs of Services" were 12% lower than anticipated. The costs of repair and maintenance, telecommunication, office rent and legal services were successfully reduced compared to the plans.

As regards other expenses, the Association made savings on insurance fees and bank transaction fees.

Contrary to plans, no tangible assets were purchased, as information technology services, including equipment, are provided for the Association by OPAL Szolgáltató Zrt. as of January 1, 2016.

Table 13  
Main cost elements (HUF million)

	2016		
	plan	actual	actual/plan
Material and material type costs	5	3	60%
Personnel costs	370	366	99%
Services used	130	115	88%
Other costs	12	5	42%
Other expenditures	48	40	83%
Purchase of fixed assets	5	0	-
<b>Total</b>	<b>570</b>	<b>529</b>	<b>93%</b>

### 3.4. Budget result

In the 2016 Annual Budget of the Association, HUF 254 million budget reserve was planned. The achieved budget reserve amounted to HUF 2 867 million, thus exceeding the targeted value by HUF 2 613 million. The contribution of the Oil Section was HUF 1 295 million, whilst the Gas Section closed the year with a budget reserve of HUF 1 572 million as follows:

- The budget reserve of the Oil Section was well above the projected HUF 127 million, that is, by HUF 1 168 million, as a result of the budget reserve carried forward from 2015, the rise in dividend and interest revenues as well as the savings on storage and operating costs.
- In the Gas Section, the budget reserve was HUF 1 446 million higher than the HUF 126 million targeted for 2016 owing to more favourable contribution fee revenues caused by the increase in fees as of May 1, 2016, higher than expected dividend revenues as well as savings on financing and operating costs.

### 3.5. Profit before taxation, retained earnings, capital reserve

Apart from the revenues and expenses presented in the budget structure, the total revenues and expenses of other economic events (sales of stocks, purchases of tangible assets and other events not planned or not involving movement of money) are to be taken into account in the Profit and Loss Statement prepared in accordance with the Accounting Act.

Profit before taxation according to the Accounting Act is obtained from the budget result adjusted with the items detailed below. In the case of HUSA, the amount of profit before taxation equals to the amount of retained earnings as the Association is not subject to Act LXXXI of 1996 on Corporate Tax and Dividend Tax.

Table 14

Profit before taxation/capital reserve in 2016 (HUF million)

<b>Profit at the budget level (budget result)</b>	<b>2 867</b>
<b>- budget reserve</b>	<b>-3 439</b>
Profit from stock sales and stock replacement	4 384
<i>of which: Crude oil</i>	
<i>revenue</i>	17 130
<i>costs</i>	-15 254
<i>profit/loss</i>	1 876
<i>Stock replacement of gas oil</i>	
<i>revenue</i>	7 331
<i>costs</i>	-5 712
<i>profit/loss</i>	1 620
<i>Stock replacement of gasoline</i>	
<i>revenue</i>	9 581
<i>costs</i>	-8 694
<i>profit/loss</i>	887
Loss in value, creation of provision	-66
Revenue from hedging	1 515
Exchange rate variations of for.ex.loans, for.ex.	840
Depreciation	-12
<b>Total correction items</b>	<b>6 661</b>
<b>Retained earnings / capital reserve</b>	<b>6 089</b>



### **3.5.1. Stock sales, purchases and replacements**

In 2016, the accounting earnings from crude oil stock replacements (sale and purchase) amounted to HUF 4 384 million, which is attributable to the fact that the sales price exceeded the settlement price at which the stocks were registered. During the accounting of stock replacements, the sales price of the sold stocks appear as revenue, whilst the value of the sold stocks registered at settlement price is booked on the cost side. The difference of the two values is considered earnings from an accounting point of view, therefore, it must be included in the Profit and Loss Statement.

In 2016, in the frame of stock replacements the Association purchased and sold 43.6 kt of motor gasoline and 30.9 kt of Diesel fuel. In connection with stock replacements, HUSA also sold 80 kt of crude oil for stock coverage purposes.

### **3.5.2. Budget reserve in 2015**

The HUF 3 439 million budget reserve carried forward from 2015 was recorded as income in the 2016 Annual Budget, however, from an accounting point of view it is not considered income, hence this amount reduces accounting earnings.

### **3.5.3. Loss in value, creation of provision**

In terms of natural gas contribution fee revenues, loss in value was accounted for (50% of the amount of the receivables) in the case of receivables from one member company, with regard to the fact that the recovery of the receivables was uncertain. The amount of the booked loss in value was HUF 54.5 million. All other partners of the Association settled their outstanding contribution fee payments by the date of the Balance Sheet.

In the 2016 business year, a provision of HUF 11.3 million was created in relation to a liability disputed by the Association.

### **3.5.4. Revenue from hedging**

In 2016, the Association concluded swap agreements for fuel purchases with the aim of hedging, the revenues thereof (HUF 1 515 million) were used to diminish the financing needs of stock purchases, which entailed a reduction in the amount of stock financing loans taken out by the Association. As a result, this amount did not appear in the budget as income, however, in accordance with the provisions of the Accounting Act, it must be accounted among "Other Interests or Interest Bearing Income".

### **3.5.5. Foreign currency loans, exchange rate variations of foreign exchange**

The exchange rate difference accounted in the course of the year (upon refinancing) together with the exchange rate difference booked when translated to the exchange rate on the year-end rollover date meant HUF 840 million exchange rate gains in 2016.

### **3.5.6. Depreciation**

From an accounting point of view, depreciation is accounted on the cost side, nonetheless, as it entails no cash expenditure, it does not form an element of the budget structure. HUF 12 million depreciation was booked for 2016.

On the whole, the balance of items increasing and decreasing the tax base amounts to HUF 3 222 million (corrective items of HUF 6 661 million reduced with HUF 3 439 million budget reserve). Adding this amount to the budget result (HUF 2 867 million), we receive the profit before taxation in accordance with the Accounting Act (corresponding to the retained earnings), which amounts to HUF 6 089 million.

## 4. 2016 Balance Sheet, financial position of the Association

### 4.1. 2016 Balance Sheet

The year-end balance of assets and liabilities accounted for HUF 332 273 million. Assets employed amounted to HUF 27 408 million, the major part thereof composed of the net value of the Association's participations in various affiliated companies.

The value of current assets was HUF 304 856 million, of which the book value of stocks represented HUF 294 034 million. Receivables totalled HUF 4 790 million, whilst liquid assets amounted to HUF 6 032 million.

Accruals amounted to HUF 9 million.

In terms of the Association's sources, the value of equity equalled to HUF 205 938 million, which is composed of the financial result realised in previous years as well as in 2016, booked in accordance with the Accounting Act.

Liabilities accounted for HUF 126 264 million with short-term liabilities representing HUF 30 470 million, the majority thereof (HUF 28 769 million) is constituted by short-term loans as well as the part of long-term loans maturing in the course of 2016. Accounts payable to suppliers added up to HUF 121 million, and liabilities toward affiliated undertakings meant HUF 1 155 million, all of which were accounts payable to suppliers. Other liabilities amounted to HUF 424 million.

Deferrals totalled HUF 59 million, mainly composed of the income from the secondary sale of interruptible injection and withdrawal capacities reserved in the gas storage facility due in 2016.

The Annual Report contains the 2016 Balance Sheet and Profit and Loss Statement of the Association.

### 4.2. Financial position, liquidity

As reflected by balance sheet figures and the related Supplementary Notes, the financial position of the Association is stable overall and in terms of the given maturity horizons. At all times the Association disposed of sufficient amount of liquidity to perform its activities and fulfilled its payment obligations accurately by the due date.

On December 31, 2016, the settlement price (book value) of stocks amounted to HUF 294 034 million. The total principal of the stock financing loans was EUR 400.5 million (HUF 124 564 million)<sup>10</sup>. The market value of the above stocks totalled HUF 294 960 million on December 31, 2016.

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<sup>10</sup> Calculated with the exchange rate of December 31, 2016 of the National Bank of Hungary

Table 16  
Loans of the Association on December 31, 2016

<b>Foreign exchange loan</b>	<b>Interest rate</b>	<b>Average interest surcharge</b>	<b>Credit line</b>	<b>Amount drawn</b>
Loans for stock financing	EURIBOR	1.02	417.0	400.5
<b>Total EUR (m)</b>			<b>417.0</b>	<b>400.5</b>
<i>Total HUF (m)</i>			129 695.3	124 563.5

The following indicators demonstrate the changes in the financial position of the Association for the last five years:

Table 17  
Main indicators of HUSA's financial position

		2012	2013	2014	2015	2016	Change 2016/2015
<b>Equity ratio</b>							
Equity	%	58	69	63	63	62	99
Total sources							
<b>Liquidity ratio</b>							
<u>Liquid assets+receivables</u>	%	35	43	41	46	36	77
Short-term liabilities							
<b>Indebtedness ratio</b>							
<u>Liabilities+Accrued expenses</u>	%	74	45	59	59	61	103
Equity							

## 5. Activity of affiliated companies in 2016

### 5.1. Affiliated companies

The participations of the Association are illustrated in Table 18 below:

Table 18  
Affiliated companies of HUSA (December 31, 2016)

Company name	Ownership Ratio of HUSA (%)	Participation (HUF million)
OPAL Szolgáltató Zrt.	100.0	14 407
Terméktároló Zrt.	25.9	8
Petrotár Kft.	20.0	40
MMBF Földgáztároló Zrt.	49.0	12 751
ÁMEI Zrt.	63.6	140
<b>Total</b>		<b>27 346</b>

By virtue of its participations in the storage companies, the Association is entitled to participate in the management of the companies as well as to perform the professional monitoring of their operations. As a part owner of these constantly stable, exceptionally profitable and dividend paying companies, the Association indirectly plays an active role in the stockpiling market. The main features of HUSA's affiliated companies are introduced below.

### 5.2. Activity and financial position of storage companies

#### **OPAL Szolgáltató Zrt.**

In 2016, the registered capital of OPAL Szolgáltató Zrt. was HUF 4 billion. HUSA has a 100% ownership in the company, which has operated in its present form since December 1, 2007, established with the merger of Kőolaj Tároló Zrt., IPR Vámosgyörk Zrt. and Péti Terminál Tároló Kft. At its five storage plants, the total storage capacity of OPAL Szolgáltató Zrt. comprises 480 thousand m<sup>3</sup> crude oil and 380 thousand m<sup>3</sup> fuel storage capacity, including two 20 000 m<sup>3</sup> storage tanks put into operation in Pétfürdő in 2014.

#### **MMBF Natural Gas Storage Private Limited Company (MMBF Földgáztároló Zrt.)**

The company was founded by the Association with a registered capital of HUF 1 billion in 2006 in order to facilitate the fulfilment of the obligations specified in the Gas Stockpiling Act, initially in the frame of a project, subsequently, as a storage company.

Following the sale of majority ownership in the company (62%) to MOL Plc in 2007, the owners increased the capital in two steps.

On December 30, 2013, MOL Plc sold its participation to Hungarian Development Bank Private Limited Company (MFB Zrt.) and HUSA. As a result of the transaction, MFB Zrt. became the majority owner of the company (51%), whilst the participation of HUSA increased from 27.54% to 49%.

As of December 15, 2009, the storage company has the capacity to store strategic natural gas stocks of 1 200 million m<sup>3</sup> in accordance with the custody agreement. In compliance with legal requirements, the level of the strategic natural gas stock remained constantly 920.6 million m<sup>3</sup> in the course of 2016.

### **Terméktároló Zrt.**

Terméktároló Zrt. was established by MOL Plc and HUSA. In 2014, its capital stock of HUF 1 620 million was reduced to HUF 32.4 million by its owners through withdrawal of equity. The capital reduction was necessary as the company was not able to realise high-yield investments, also, its operation is stable and financially secured in the long term, therefore, it does not require a high capital stock. The participation of HUSA remained 25.9 % currently corresponding to HUF 8.4 million.

The company owns storage capacities of 330 000 m<sup>3</sup> in Tiszaújváros and Szajol. As of October 2015, with the purchase of 15 kt Diesel fuel, HUSA utilised the maximum capacity level of 490 000 m<sup>3</sup> stipulated in the custody agreement, including tank capacities rented from MOL Plc.

### **Petrotár Kft.**

Petrotár Kft. was founded by Petrodyne-Pét Kft., HUSA and Extercom Kft. with a registered capital of HUF 800 million, in which HUSA held 30%, namely, HUF 240 million. Following several changes in ownership, the company is presently owned by HUSA and Petrotár Invest Tanácsadó Kft.

Petrotár Kft. currently possesses a storage capacity of 43 000 m<sup>3</sup> and also conducts commercial storage activities. In 2008, the company executed a capital increase of HUF 100 million, in which HUSA did not participate, thus its ownership ratio decreased to 20%.

On December 30, 2011, Petrotár Kft. and OPAL terminated their existing service and operational agreement and entered into a capacity reservation and operational agreement for the delivery of loading and unloading tasks at OPAL's Pétfürdő storage terminal as well as for the reservation of the company's truck loading facility for one year, and the company's rail loading and unloading facility for ten years as of January 1, 2012. During its session on December 16, 2016, the General Meeting of the Association decided on transferring its participation in Petrotár Kft. to OPAL Szolgáltató Zrt. as an in-kind contribution, which was registered by the Court of Registration of the Budapest-Capital Regional Court on January 26, 2017.

### **5.3. ÁMEI Zrt.**

ÁMEI Zrt. is specialised in the quality control of mineral oil products. In 2009, the capital stock of the company was increased to HUF 220 million due to the HUF 70 million cash contribution by OPAL. Hence the new investor acquired a share of 31.8% while reducing the participation of HUSA to 63.6% and that of the Hungarian Mineral Oil Association to 4.6.

In the case of ÁMEI Zrt. the investment was mainly of strategic importance, as the decisive majority ownership of HUSA ensures the independent status of ÁMEI Zrt., enabling it to operate as a transparent, accredited quality control organisation. During its session on December 16, 2016, the General Meeting of the Association decided on transferring its participation in ÁMEI Zrt. to OPAL Szolgáltató Zrt. as an in-kind contribution, which was registered by the Court of Registration of the Budapest-Capital Regional Court on January 26, 2017.

### **5.4. Activity and financial position of affiliated companies in 2016**

The data and information on the 2016 performance of the storage companies indicate that they duly met their contractual obligations. Loan repayments are consistent and the financial position of the companies is satisfactory.

In 2016, in accordance with its ownership ratio, the Association received a dividend of HUF 1 400 million from OPAL Szolgáltató Zrt., HUF 292.7 million from Terméktároló Zrt., HUF 3 336.9 m from MMBF Zrt., HUF 20 million from Petrotár Kft. and HUF 16.1 million from ÁMEI Zrt. for the 2015 business year. The financial result and the changes in equity of the affiliated companies are included in the Supplementary Notes.

## 6. Monitoring activity of the Association in 2016

The monitoring activity of HUSA covers two major areas:

- supervision of contribution fee payments, which provide the Association's basic source of revenue, with respect to ensuring that the calculation and payment of the fees comply with the requirements laid down in the Oil Stockpiling Act, the Gas Stockpiling Act and the Statutes.
- conducting inspections at the storage companies and their storage sites in order to assure the fulfilment of their obligations stipulated in the storage agreements as well as the preservation of the quantity and quality of the strategic stocks owned by the Association. (The storage conditions, which comprise complex technical, safety and environment protection criteria, are specified in the contracts concluded with the storage companies.)

### 6.1. Monitoring of contribution fee payments

The Association conducts its monitoring activity based on the risk rating of member companies' contribution fee payments. Lower-risk companies were inspected in the frame of administrative reviews once a year. Meanwhile, higher-risk members received on-site inspections. The risk rating of the member companies was established based on objective criteria, in consideration of relevant information and data on contribution fee payments as well as experience gained from communication and during on-site inspections. In 2016, inspections were carried out at member companies in 72 cases.

In 2016, in the Oil Section collection letters were sent to two member companies, in one of these cases an executive director's decision was issued subsequently. Following the non-fulfilment of the payment obligation by due date, the case was reviewed. It was established that the costs of declaring the member company insolvent and filing for its liquidation would almost correspond to the outstanding amount, therefore, the company's debt of HUF 162 thousand was written off.

In the Gas Section, collection letters and executive director's decisions were sent to one member company as it constantly failed to fulfil its contribution fee payment obligations in the course of 2016. In this case, loss in value was also accounted for as mentioned above (point 3.5.3). The booked loss in value amounted to HUF 54.5 million. On December 31, 2016, the member companies of the Gas Section held HUF 149 million overdue debts, of which HUF 81 million debts were more than 30 days overdue. The majority of debts less than 30 days overdue result from one or two days' payment delays by member companies.

### 6.2. Monitoring of storage companies and storage sites

Another key area of HUSA's monitoring activity involves controlling the creation of emergency stocks and the proper fulfilment of stockpiling conditions prescribed by the storage agreements concluded with the storage companies and the Statutes.

On-site inspections are conducted at the storage plants annually in order to check the adequacy of operating conditions, licences of the plants and the storage tanks as well as the volume and quality of stocks. The findings of the inspections are recorded in an inspection report.

The stock registration information system provides significant support in the quantitative monitoring of the stocks by facilitating chronological queries based on various parameters for the analysis of changes in stocks and for monitoring stock movements. The information system automatically receives the daily tank measurement data of the crude oil and petroleum product stocks of HUSA from the registration systems of the storage companies on a daily basis as well as records the major parameters of custody agreements.

## **7. Organisational structure of the Association**

On the date of the balance sheet, the permanent staff of the Association consisted of 10 persons, of whom 8 full-time employees, 1 person on child care allowance and 1 person on maternity leave. The average statistical headcount was 9 persons in 2016.

## **8. Protection of the environment**

Pursuant to the applicable provision of law, the Association has no such obligatory tasks related to environmental protection that would require the formation of provisions. Furthermore, the Association has no hazardous waste, noxious substance in its possession, and holds no tangible assets directly intended for environmental protection.

## **9. International relations**

In 2016, the Association continued its activities in the field of international relations it embarked on in the previous years. HUSA actively participates in the work of the international organisation, ACOMES (Annual Coordinating Meeting of Entity Stockholders). It also maintained its memberships in two subgroups of ACOMES, namely, Benchmark Group and Best Practice Group, whose sessions address permanent topics, such as the comparison of cost analyses of member organisations, financing solutions, cost reviews of storage tank investments, introduction of industry practices as well as exchange of experience.

The Association provided active professional support to the government in performing its stockpiling responsibilities as a result of Hungary's EU and IEA memberships. In the emergency review conducted by the IEA (International Energy Agency) in October 2016, the Association gave a detailed account on the domestic practice of the emergency stockpiling of crude oil and natural gas.

Budapest, May 3, 2017

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