

# BUDGET FOR THE YEAR 2017

Prepared by: Directorate, Hungarian Hydrocarbon Stockpiling Association (HUSA)

Approved by: Board of Directors, HUSA, November 16, 2016

General Meeting, HUSA, December 16, 2016

## **BUSINESS POLICY OF THE HUNGARIAN HYDROCARBON STOCKPILING ASSOCIATION**

The Hungarian Hydrocarbon Stockpiling Association (referred to as „the Association” or „HUSA”) aims to ensure full compliance with the requirements of Act No. XXIII of 2013 on creating strategic reserves of imported crude oil and petroleum products (referred to as „the Oil Stockpiling Act”) and those prescribed in Act No. XXVI of 2006 on the strategic stockpiling of natural gas (referred to as „the Gas Stockpiling Act”; the two acts referred to together as “the Stockpiling Acts”), exercising the rights provided for in the Stockpiling Acts.

In connection with these objectives, the Association has to:

- determine stockpiling obligations;
- adjust stocks to meet compulsory levels;
- ensure the safe storage of stocks, the quantitative and qualitative maintenance of products held in own storage facilities and in rented storage units; regularly control quality parameters.

The purchase of products to be stored is realised with external financing; principal repayments on stock purchase loans and other external funds are made when stocks are sold or external funds are refinanced. The Association finances its activity from own revenues; income from contribution fees and other sources are used to cover storage costs, interest on loans and other external funds, the operating expenses of the Association’s work organisation, and other costs related to the qualitative and quantitative maintenance of stocks. The Association is committed to performing these functions in a cost-effective way, so as to optimise storage, financing and operating costs and revenues from contribution fees.

The Association’s activities are guided by the following principles:

- transparency,
- neutrality in competition,
- non-interference in the market,
- awarding of service, product supply and credit contracts through competitive tendering procedure.

The Association pursues exclusively the activities provided for in the Stockpiling Acts and in the Statutes, and fulfils the tasks closely related thereto.

All procurements or sales by the Association (including the fulfilment of storage space requirements and the use of other services) are done through open or restricted competitive tendering or equivalent procedures. HUSA is not subject to Act No. CVIII of 2011 on Public Procurement. In order to ensure the price level of purchases and sales, as well as the fulfilment of the annual budget estimates, the Association may conclude derivative, forward and option contracts on the commodity exchange and financial markets as needed and possible.

The Association ensures external resources for its operations from banks and other financial service providers by competitive tendering, and strives to obtain the most favourable conditions possible. On the financial and capital markets, risks and costs are optimised.

The Association cooperates with the international organizations concerned or engaged in the strategic stockpiling of hydrocarbon energy sources, primarily with the competent bodies of the International Energy Agency (IEA) and the European Commission. The Association plays an active role in consultations and coordination efforts with foreign partner institutions, and participates in the Annual Coordination Meetings of Strategic Stockpiling Organizations (ACOMES).

## BUDGET FOR THE YEAR 2017

The fundamental mission of the Hungarian Hydrocarbon Stockpiling Association is to ensure the purchase, sale, safe storage and the quantitative and qualitative maintenance of the stocks of crude oil, petroleum products and natural gas, in accordance with the effective requirements of law.

To meet these requirements, the following tasks need to be accomplished in 2017:

- determine the stockpiling obligations for 2017 and adjust the level of stocks to the prescribed level of stockpiling, in accordance with statutory requirements;
- maintain existing stocks, safeguard the quantity and quality of stored products;
- define and fulfil a financing plan to procure funds for stock replacements and stock purchases, and for refinancing loans reaching maturity;
- in the Oil Section, define the 2017 level of contribution fees by product groups, so as to comply with the „+0” budget position requirement for HUSA.
- In the Gas Section, a major goal
- The level of contribution fees in the Gas Section was defined primarily in the aim of allowing the reimbursement in full of the Gas Section’s debt to the Oil Section, by the end of 2017. In this way, the Gas Section’s budget will be balanced for the first time since 2012; a decrease of contribution fees should be possible from 2018 in function of gas consumption.

The main elements of the system are the following:

- In the budget of the Association, the contribution fee revenues and cost structures of the natural gas and crude oil stockpiling sections are presented separately,
- Stocks are stored in the Association’s own facilities and in rented storage areas,
- The purchase of products to be stored is realised with external financing; principle repayments on stock purchase loans and other external funds are made when the stocks are sold or the external funds are refinanced,
- Contribution fee revenues are used to cover storage costs, the interest due on loans and other external funds, the operating costs of the Association, and other expenditures related to the qualitative and quantitative maintenance of stocks.

## 1. Stockpiling Obligation

### 1.1. Oil Section

#### 1.1.1. Expected Stockpiling Obligation for 2017

Pursuant to the effective Oil Stockpiling Act, the final deadline for determining the 90 days' stockpiling obligation for 2017 is 31 March 2017. All purchases required for the fulfilment of the stockpiling obligation have to be completed by 31 July 2017. In order to ensure a well-founded budget, it was also necessary to anticipate the level of stocks expected for the following year. The estimate was based on actual net import data registered in the first seven months of 2016 and the domestic consumption data of the first nine months of the year.

The moderate consumption growth is reflected in imports figures; this will not significantly affect the extent of stockpiling obligations. The following factors affecting net imports will have a more important role:

- Ratio of net imports of finished products to net imports of refinery raw materials;
- Naphta production size and refinery yield ratio;
- Expected level of commercial stocks at the end of the year.

The stockpiling obligation estimated accordingly for 2017 is presented in Table 1 below.

*Table 1*  
*Estimated Stockpiling Obligation for 2017*

	Volume (oil equivalent, kt)
Annual net imports (year 2016)	4 949.0
Daily net imports (year 2016)	13.6
<b>90 days' net imports (year 2016)</b>	<b>1 224.0</b>

#### 1.1.2. Volume of Stocks

Under the Oil Stockpiling Act, in accordance with Directive 2009/119/EC (14 September 2009) on imposing an obligation of Member States to maintain minimum stocks of crude oil and/or petroleum products, and in line with the regulations of the International Energy Agency, only mobile stocks can be taken into account (stocks that can be withdrawn from storage tanks by traditional methods) when calculating stock levels, and

- a) the volume of gross strategic stocks has to be reduced by 10% for the purposes of calculating, and
- b) conversions into oil equivalent are based on a multiplier of 0.96 for crude oil and 1.2 for petroleum products.

Accordingly, the volume of strategic stocks will be approximately 1 312.5 kt in oil equivalent, by the end of 2016.

Table 2  
Expected Volume of Stocks for 31/12/2016

	Gross stocks (kt)	Net stocks (kt of oil equivalent)
Crude oil	529.0	457.1
Petroleum products	792.0	855.4
<b>Total</b>	<b>1 321.0</b>	<b>1 312.5</b>

The above figures also correspond to the opening level of stocks in January 2017, which should be equal to 97 days' net imports for the stockpiling period April 1, 2017 through March 31, 2018 ( $1\,312.5:13.6 = 97$ ).

The level of stockpiling obligations for 2017 is influenced by several variable factors which have to be estimated; however, the 2017 opening level of strategic stocks of crude oil and petroleum products will certainly satisfy the 90 days' stockpiling obligation, which means that no additional stock purchases will be necessary in 2017.

Table 3  
Fulfilment of Stockpiling Obligations in 2017

	Gross stocks (kt)	Net stocks (kt of oil equivalent)	Daily net imports (kt of oil equivalent)	Number of stock days
Crude oil	529.0	457.1	<b>13.6</b>	<b>97</b>
Petroleum products	792.0	855.4		
<b>Total</b>	<b>1 321.0</b>	<b>1 312.5</b>		

### 1.1.3. Stock Replacement

The quality of stocks in the Oil Section is expected to comply fully with effective product standards on January 1, 2017. Stock replacements will be made during the year as required by the 6 years' replacement period rule of the Oil Stockpiling Act. Net funding needs of stock replacements are expected to be EUR 9 Mn (HUF 2 808 Mn).

## 1.2. Gas Section

Decree No. 13/2015 (31/03/2015) of the National Ministry of Development (hereinafter: Decree) concerning the level of strategic gas reserves, applicable in the budget planning period, prescribes 915 Mn m<sup>3</sup> mandatory reserves. Accordingly, HUSA holds 920.6 Mn strategic gas stocks since July 1, 2014.

For the security of national energy supply, strategic gas stocks have major importance. In the event of disruption of Russian gas imports from Ukraine, strategic gas stocks are essential to guarantee uninterrupted supplies in Hungary in the winter period, without imposing major limitations on energy consumption, taking also account of gas coming from domestic production, gas stored in commercial stocks, and gas imported via Austria.

The Association initiated a legislative proposal for the complete replenishment of strategic storage capacities in 2017 in order to safeguard the security of supply, taking account of (a) the existence of “take or pay” contracts for strategic gas storage payment, (b) currently low gas prices, and (c) most favourable financing conditions. Net funding needs of the 279.4 Mn m<sup>3</sup> strategic gas purchase planned for the year amount to EUR 57.3 Mn. Although the amended Decree raising the level of stocks is not yet published, the Association included the increased level of gas stocks in the 2017 budget, using the prudence principle.

## 2. Costs and Revenues

### 2.1. Revenues

Total expected revenues for 2017 amount to HUF 33 167.1 Mn, of which HUF 12 710.8 Mn are the revenues of the Oil Section and HUF 20 456.3 Mn of the Gas Section. The major part of total revenues are the net revenues coming from contribution fees (HUF 27 000.2 Mn). Additional items include other revenues (HUF 4 075.9 Mn) and the revenue surplus created in the 2016 budget year, available to be brought forward to 2017, plus the savings on expenditures; these two items are expected to total HUF 2 091.0 Mn. The calculations of expected revenues detailed in the manner explained above and according to sections, are as follows.

#### 2.1.1. Contribution fee revenues

The revenues from contribution fees are determined by the expected consumption of fuel in the Oil Section and by the expected consumption of natural gas in the Gas Section for 2017.

##### **Oil Section**

Following the upward trend started in the second half of 2013; demand growth for fuel consumption slowed down in the first nine months of 2016; consumption was lower than planned. Based on economic forecasts and the projections of market players, market expansion is expected to be minimal in 2017, only 0.5 % in comparison to 2016. Accordingly, budgeted revenues from contribution fees were calculated on the basis of an estimated fuel consumption of 4 620 kt (5.68 Mn m<sup>3</sup>), 10 kt fuel oil consumption, and kerosene<sup>1</sup> consumption remaining at the level of 175 kt.

Lower fuel consumption on the market, and the costs (projected for the annual level) of the scheduled entry into service of new storage capacities in 2016, justify the 15 % increase of the unit contribution fee by product group in 2017. According to preliminary forecasts, this is sufficient to ensure budgetary balance in the Oil Section over the long term.

Accordingly, net contribution fee revenues (adjusted for fee recoveries) in the Oil Section are expected to be HUF 9 384.4 Mn in 2017.

##### **Gas Section**

The forecast of contribution fee revenues in the **Gas Section** needs to take account of the further decline in gas consumption, constituting the basis of net contribution fee revenues (adjusted for fee recoveries), following the September 1, 2016 amendment of the Gas Stockpiling Act. The amendment allows contribution fee payment recovery not only for household consumption<sup>2</sup>, but also in case of use as feedstock in chemical production. Based on industry estimates and experts' analyses, only the sectors concerned by contribution fee recovery are expected to expand considerably in 2017, while overall stagnation is likely in other sectors in comparison to 2016 (consumption increase in gas-based electricity production is counterbalanced by the expected consumption decline in other industrial segments). Therefore, the assessment of net contribution fee revenues for 2017 was based on

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<sup>1</sup> Subject to fulfilment of the conditions set out in Article 41 (2) of the Oil Stockpiling Act, the contribution fee paid on kerosene can be reclaimed. The projected kerosene consumption was taken into account for calculating the estimated contribution fee refund.

<sup>2</sup> Universal service providers and eligible gas traders recover the contribution fee paid by them on household consumption since 2013, in accordance with Article 8 (8)-(10) of the Gas Stockpiling Act.

4.8 Bn m<sup>3</sup> gas consumption in sectors other than household consumption and use as feedstock for chemical production.

Due to the decrease in gas consumption providing a basis for contribution fee payment, for the reasons mentioned above, the unit contribution fees in the Gas Section need to be raised by 20 % to 112.26 HUF/GJ (3.817 HUF/m<sup>3</sup>), from 93.55 HUF/GJ (3.18 HUF/m<sup>3</sup>)<sup>3</sup>, effective from October 1, 2016. This is necessary to ensure sufficient coverage for expected costs and for debt repayment toward the Oil Section, from the sum of net revenues (taking account of fee recoveries) and other revenues. The Gas Section's debt, which stood at HUF 4 558 Mn in the beginning of 2016, will be reduced to HUF 3 687 Mn, with the expected HUF 871 Mn budget reserve. The 2017 budget plan foresees the repayment of the debt in order to achieve budgetary balance.

Expected gross revenues based on increased contribution fees amount to HUF 32 238.5 Mn. After deduction of contribution fee refunds related to household consumption and use as feedstock in chemical production (HUF 14 622.7 Mn), net revenues amount to HUF 17 615.8 Mn.

Total gross contribution fee revenues in the two sections are estimated to be HUF 41 941.1 Mn in 2017; taking account of the HUF 14 940.9 Mn fee recovery by member companies, the adjusted net revenue from contribution fees will amount to HUF 27 000.2 Mn.

### **2.1.2. Other revenues (in addition to contribution fees)**

Based on the expected after-tax profit of Terméktátoló Zrt in 2016, HUF 245.5 Mn dividend income is expected for 2017 in the Oil Section. OPAL Zrt is expected to pay HUF 980 Mn dividend from its 2016 after-tax profit.

The interest income from the tying-up of disposable excess liquidity temporarily available is estimated to be HUF 10 Mn. Accordingly, total other revenues are expected to be HUF 1 235.4 Mn in the Oil Section.

In the Gas Section, HUF 2 608.3 Mn dividend income is expected for 2017, based on the expected 2016 after-tax profit of MMBF Földgáztároló Zrt, which is partly owned by HUSA (49%).

From the secondary sale of interruptible injection and withdrawal capacities booked in gas storage facilities, HUF 232.2 Mn revenues are expected.

Considering that disposable liquid funds are minimal due to tight budget constraints of the gas area, no interest income was budgeted. Accordingly, the Gas Section's total other revenues are expected to be HUF 2 840.5 Mn in 2017.

Total other revenues (not coming from membership fees) of the two Sections amount to HUF 4 075.9 Mn.

### **2.1.3. Surplus revenue and savings on expenditures in the 2016 budget, increasing revenues in 2017**

Budget reserve for 2016 is expected to be HUF 2 091.0 Mn of which HUF 1 220.0 Mn comes from the Oil Section and HUF 871.0 Mn from the Gas Section. The additional revenue comes from the contribution fee increase made

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<sup>3</sup> In accordance with Decision 8/2015 (December 16) point b), of the General Meeting, the Board of Directors decided to increase the contribution fee in the Gas Section by 10 %, from 71.67 HUF/GJ to 78.84 HUF/GJ, effective on May 1, 2016. The primary objective was to achieve higher than planned budget reserves for the Gas Section in 2016, so as to reduce the debt toward the Oil Section. Subsequently, by Decision 4/2016 (v.27) the General Meeting further increased the contribution fee to 93.55 HUF/GJ, effective on October 1, 2016, to ensure full repayment of the remaining HUF 4 558 debt to the Oil Section by the end of 2017, from the budget reserves created in 2016 and 2017.



in the course of the year in the Gas Section and, on the other hand, from the higher than planned dividend income. Savings on expenditures result from lower than planned operating, storage and financing costs.

Under Article 24 (1) c) of the Oil Stockpiling Act, the Board of Directors shall submit a proposal to the General Meeting for the use of surplus revenues and savings on expenditures created in the budget, and the General Meeting takes the decision concerning the use. The 2016 budget was prepared with the assumption that, on the proposal of the Board of Directors, the General Meeting approves the use of the total expected 2016 budget reserve for increasing the 2017 revenues of the Oil Section. The loan conceded by the Oil Section to the Gas Section in 2014 would be partly repaid.

If the Gas Section starts repaying its debt, this means fulfilling the requirement of the 2014 Annual Report of HUSA, according to which: *“Therefore, the Gas Section has a debt in the value of HUF 5 774 Mn toward the Oil Section, which needs to be repaid in subsequent years; the Gas Section is expected to start repayment from the surplus available in the 2016 budget year.”*

## **2.2. Expenditures**

In 2017, the estimated total expenditures of HUSA amount to HUF 29 380.7 Mn, of which the expenditures of the Oil Section are HUF 12 618.4 Mn and those of the Gas Section are HUF 16 762.3 Mn. These include HUF 28 770.7 Mn stockpiling costs (stock reservation, maintenance and financing) and HUF 610 Mn operating costs of HUSA as described below.

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

Stocks in the Oil Section are stored within the framework of long-term custody agreements. The fulfilment of storage tasks set for 2017 is ensured under the existing agreements. Cost estimates were made taking account of the termination of the provisional one-year crude oil storage agreement mentioned in 1.1.2, and the renting of new oil storage capacities available for the long term. Storage fee variations are negligible due to the low rate of inflation. The total storage and stock maintenance costs of the Oil Section are expected to be HUF 11 640.5 Mn in 2017.

All strategic stockpiles of the Gas Section are stored in the Szőreg-1 facilities of MMBF Zrt. In the 2017 Business Plan, HUSA took account of the conditions of the long-term storage agreement. On the basis of these, the indexed capacity booking fee in the Gas Section will amount to HUF 15 266.4 Mn.

The total storage and stock maintenance costs of the two sections are expected to be HUF 26 906.9 Mn.

### **2.2.2. Financing Costs**

In 2017, expected financing costs in the Oil Section are HUF 672.9 Mn, which is lower than the amount approved in the 2016 budget. The cost increase caused by the higher debt level is offset by the positive effects of the lower base rate of interest and the average interest margin.

In the Gas Section, interest costs will be HUF 1 190.9 Mn, which is only HUF 18.5 Mn higher than the amount planned in the 2016 budget. The purchase of 280 Mn m<sup>3</sup> natural gas represents EUR 73 Mn additional funding needs, which significantly increases the financing costs for 2017; however, this is mostly compensated by the favourable interest rate context.

In 2017, total financing costs in the two sections are expected to be HUF 1 863.8 Mn, which remains under the level planned in the 2016 budget.

### **2.2.3 Operating Expenses**

Total expected operating expenses in 2017 amount to HUF 610 Mn, is somewhat higher (by HUF 40 Mn) than in 2016. This is mainly due to higher personnel costs, which constitute a major part of operating expenses; this is explained by the wage increases planned for 2017. Wages in HUSA did not increase in recent years; to retain employees, wage levels had to be settled.

The costs of services expected for 2017 amount to HUF130 Mn, which includes the value of financial and accounting activities, rental of IT devices and IT management. These services are provided by OPAL Zrt to the Association. This budget line also includes the costs of repair and maintenance, telecommunications and office rental.

The budget for other expenditures (HUF 50 Mn) remains the same as in 2016. The major part of this (HUF 40 Mn) is constituted by the cost of fuel allocated within the framework of the co-operation agreement with the National Tax Authority (NAV), and the various tax-type payments also appear on this line of the budget. HUF 10 Mn was budgeted for other costs, HUF 5 Mn was allocated for materials and material-type expenses, and HUF 5 Mn for the purchase of tangible assets.

### 3. Level of contribution fees

As a basic requirement, the Association's budget has to close a "+0" budget position. Funding needs for 2017 were planned so as to satisfy the primary requirement of a balanced budget, also taking account of the Gas Section's intent to clear its debt to the Oil Section by the end of 2017.

Based on the total expected costs outlined above, the funding needs of the 2017 budget of HUSA amount to HUF 29 380.7 Mn, of which the funding needs of the Oil Section are HUF 12 618.4 Mn and those of the Gas Section are HUF 16 762.3 Mn. Further resources are deemed necessary in the Gas Section in order to ensure repayment of the remaining debt toward the Oil Section, amounting to HUF 3 687 Mn (debt amount reduced by the budget reserve expected for 2016).

In the Oil Section, as a result of the decline in fuel consumption, the unit contribution fee by product group has to be raised by 15 % on January 1, 2017; the revenues based on a higher contribution fee level and the budget reserve brought forward from 2016 are to cover the 2017 expenses of the Oil Section.

In the Gas Section, the balance of costs and revenues in 2017 and the repayment of the remaining debt can only be ensured through a 20 % increase of the unit contribution fee, from 93.55 HUF/GJ (3.18 HUF/m<sup>3</sup>) to 112.26 HUF/GJ (3.817 HUF/m<sup>3</sup>).

Under the planned amendment of the Gas Stockpiling Act (entering into force on January 1, 2017), the quantity of natural gas constituting the basis of contribution fee payment needs to be defined in kilowatt-hour (kWh) instead of gigajoule (GJ). According to the official position of the Hungarian Energy and Public Utility Regulatory Authority, to convert gas contribution fees set in HUF/GJ, into HUF/kWh (into HUF/MWh in order to minimise rounding differences), the Association shall apply the  $K_{\text{energy}}$  conversion factor for gas group 2H between MJ and kWh (3.2488), figuring in Section 3 of the Quality Accounting Rules of FGSZ Földgázszállító Zrt. Accordingly, the 112.26 HUF/GJ contribution fee level, to be introduced on January 1, 2017, corresponds to 364.71 HUF/MWh.

Table 4 details the unit contribution fees to be introduced on January 1, 2017.

Calculating with the increased unit contribution fees, total net revenues for 2017 amount to HUF 27 000.2 Mn, of which HUF 9 384.4 Mn is expected in the Oil Section and HUF 17 615.8 Mn in the Gas Section. Under other items (sale of booked capacities, dividend, interest income), total expected revenues amount to HUF 4 075.9 Mn, of which revenues of the Oil Section are HUF 1 235.4 Mn and those of the Gas Section are HUF 2 840.5 Mn. Moreover, in case of approval by the General Meeting, the revenues of the two Sections will be increased by the HUF 2 091 Mn budget reserve expected for 2016.

Accordingly, the 2017 Budget will include HUF 92.4 Mn budget reserves for the Oil Section; the HUF 3 694 Mn surplus expected in the Gas Section will be used to repay the debt existing toward the Oil Section.

Table 4  
Contribution fees effective from January 1, 2017

Product group	Combined nomenclature number	Statutory Contribution Fees	
		From January 1, 2017	
Gasoline-type fuel	2710 12 31	1 725	Ft/ 1000 litres <sub>15</sub>
	2710 12 41		
	2710 12 45		
	2710 12 49		
	2710 12 51		
	2710 12 59		
	2710 12 70		
Kerosene	2710 19 21	1 440	Ft/ 1000 litres <sub>15</sub>
Gas oil	2710 19 43	1 616	Ft/ 1000 litres <sub>15</sub>
	2710 19 46		
	2710 19 47		
	2710 19 48		
	2710 20 11		
	2710 20 15		
	2710 20 17		
	2710 20 19		
Fuel oil	2710 19 62	1 486	Ft/ ton
	2710 19 64		
	2710 19 68		
	2710 20 31		
	2710 20 35		
	2710 20 39		
Natural gas	27111100	364.71	HUF / MWh
	27112100		

#### 4. Budget implementation: risks and considerations

The Budget was based on the information available in the budgeting period (October 2016). The assumptions taken include the parameters applied by crude oil and natural gas companies, determined in budget committees and the projections made by the Hungarian National Bank and the financing banks. Obviously, these are of a hypothetical nature.

In the overall structure of expenditures, storage fees constitute the major item; these are fixed in long-term agreements, so their planning presents relatively little uncertainty. The second largest item is the cost of financing, which is basically determined by the amount of loans, the interest rate context, the average interest margins and the EUR/HUF exchange rate. The third and smallest item is operating costs, which are also easily planned and kept under control. As a whole, the expenditure side of the budget is fairly easy to foresee and the risk of overspending is low.

The following table shows the cost structure of the 2016 and 2017 Budgets.

*Table 5*  
*Structure of Costs (HUSA )*

	2016	2017
Storage fees, stock maintenance costs	91.5%	91.6%
Financing costs	6.5%	6.3%
Operating costs, asset purchases	2.0%	2.1%
Total	100.0%	100.0%

The major budgetary risks are the following for the two Sections:

##### Oil Section:

- The budget reserve planned for 2017 provides only minimal coverage for compensating a deficit that may result from lower than planned revenues or higher than planned expenditures.
- Considering the conservative approach taken for planning fuel consumption, there is only a low risk on the revenue side of lower than planned fuel consumption, which could require an increase of contribution fees.
- The exact amount of the 2016 budget reserve which will be carried forward to 2017 is not yet known and may slightly change, given that the amount included in the 2017 Budget is the end-of-year result for 2016. However, in all probability, the amount is not subject to major variation, considering that costs and revenues for the remaining part of 2016 can be easily estimated.

##### Gas Section:

- The major risk factor for the budget balance is gas consumption (non-household gas consumption reduced by gas used as feedstock for chemical production), which constitutes the basis of net contribution fee payment. If the actual value of such gas consumption is lower than 4.8 Bn m<sup>3</sup>, this will cause further loss

of revenue. To quantify the impact of such decrease, every time that there is a fall of consumption by 100 Mn m<sup>3</sup>, net contribution fee revenues will shrink by HUF 381.7 Mn.

- In the Gas Section, the expected dividend income was calculated from the expected after-tax profit of MMBF Zrt for 2016. If the actual after-tax profit is lower, less dividend can be paid.
- The risk of an increase in financing costs could appear in the event that the Association needs to purchase the surplus stocks. Higher financing costs could result from higher than expected gas purchase prices and/or higher than planned interest margins for forint financing.

In order to partially offset the risks outlined above, the General Meeting is advised to authorise the Board of Directors to modify the level of contribution fees in the course of the year, with respect to petroleum products and natural gas, by  $\pm 10\%$ .

## 5. Financial Plan

In decision No. 8/2015 (16.12.2015) the General Meeting authorised the Directorate to contract loans for stock financing within the limit of maximum EUR 417 Mn (credit limit.)

On January 1, 2017, loans financing stocks amount to EUR 401 Mn in the portfolio of the Association; this does not exceed the credit limit approved by the General Meeting. The credit facility available to HUSA amounts to EUR 417.

According to Chapter 1 concerning the fulfilment of stockpiling obligations, stock replacements in the Oil Section require EUR 12 Mn additional funding, and the financing needs of 280 Mn m<sup>3</sup> gas purchases amount to EUR 73 Mn. This means that the necessary amount of loans financing stocks is expected to increase by EUR 85 Mn by the end of 2017, from EUR 401 Mn to EUR 486 Mn. When assessing these funding needs, we calculated with gross costs for purchases and stock replacements, considering that the Association is not able to finance even temporarily from own resources the value-added tax of the high amounts in question. In accordance with its financing policy, the Association uses the VAT refund for loan repayment.

Considering the significant decrease of HUF financing costs in the recent period, approaching the level of EUR financing costs, HUSA assumed in the 2017 Budget to finance from HUF loans 100 % of gas purchase costs and 50 % of loans reaching maturity on June 30, 2017. This would greatly lower the exchange rate exposure of the Association's budget with a slight increase of interest costs.

If the General Meeting approves the raising of the borrowing limit and the possibility of forint financing, the Association will invite bids for both HUF and EUR financing in the calls for tender for the financing of stocks. If the banks' bids submitted in response to the tender generate higher than expected interest rate costs as a result of higher than expected forint interest rates, the Association will continue to finance its complete credit portfolio from EUR loans in order to maintain the budget balance.

Budapest, November 8, 2016

1. Oil and Gas Inventory Plan, 2017
2. Expected Credit Portfolio for 2017
3. HUSA Participation in Affiliated Companies
4. Planning Assumptions
5. Summary Tables of the 2017 Budget

## Oil and Gas Inventory Plan

2017

### Oil Section

	Gross opening stocks (01/01/2017)(kt)	Change within the year (kt)	Closing stocks (31/12/2017)		
			Gross stocks (kt)	Net stocks (kt)	Net stocks (ktoe)
Crude oil	529.0	0.0	529.0	476.1	457.1
Petroleum products	792.0	0.0	792.0	712.8	855.4
<i>Gasoline</i>	269.0	0.0	269.0	242.1	290.5
<i>Gas oil</i>	523.0	0.0	523.0	470.7	564.8
<b>Total</b>	<b>1 321.0</b>	<b>0.0</b>	<b>1 321.0</b>	<b>1 188.9</b>	<b>1 280.6</b>

### Gas Section

	Opening stocks (01/01/2017)	Change within the year (sale)	Change within the year (purchase)	Closing stocks (31/12/2017)
Natural gas (Mm <sup>3</sup> )	920.6	0.0	279.4	1 200.0
Natural gas (kWh)	9 753 158 379.0	0.0	2 970 485 951.0	12 723 644 330.0



**EXPECTED CREDIT PORTFOLIO FOR 2017 (LOANS FINANCING STOCKS)**

Portfolio values and items	Loans (EUR Mn)	Loans (HUF Mn)
Opening value on 01/01/2017	<b>401</b>	125 371
Loans needed for stock replacements (gross)	12	3 756
Loans needed for gas purchase (gross)	73	22 849
Loans reaching maturity on 30/06/2017	-109	-34 117
Refinancing of loans reaching maturity	109	34 117
Closing value on 31/12/2017	<b>486</b>	151 976

EUR/HUF exchange rate: 313

## HUSA Participation in Affiliated Companies

*Expected for December 31, 2016*

Company name	HUSA participation (%)	Investment value (HUF Mn)
OPAL Szolgáltató Zrt	100.0	13 552.3
Terméktároló Zrt	25.9	8.4
Petrotár Kft	20.0	40.0
MMBF Földgáztároló Zrt	49.0	12 750.5
ÁMEI Zrt	63.6	140.0
<b>Total</b>		<b>26 491.2</b>

## Planning Assumptions for Budget 2017

	Period	Unit	Value
Gas oil consumption*	2017	thousand m <sup>3</sup>	3 920
		kt	3 310
Gasoline consumption*	2017	thousand m <sup>3</sup>	1 760
		kt	1 310
Fuel oil consumption*	2017	kt	10
Natural gas consumption**	2017	Bn m <sup>3</sup>	4.754
		thou. MWh	49 752.52
		Mn GJ	161.6
EUR/HUF exchange rate	Annual average for 2017	HUF	313
EUR/USD exchange rate	Annual average for 2017	USD	1.12
3-months EURIBOR	Annual average for 2017	%	0.01
3-months BUBOR	Annual average for 2017	%	0.9
Dated Brent Price	Annual average for 2017	USD/bbl	50
Natural Gas Price (TTF)	Average for Q3 2017	EUR/MWh	15
Consumer Price Index***	2016	%	100.5
Producer Price Index***	2016	%	98.1
Consumer Price Index***	08/2015 - 08/2016	%	99.9
Producer Price Index***	08/2015 - 08/2016	%	97.2

\* Consumption subject to contribution fee payment under the Oil Stockpiling Act.

\*\* Consumption subject to contribution fee payment under the Gas Stockpiling Act, adjusted for fee recoveries.

\*\*\* Indicators for indexing Custody Fees.

**SUMMARY TABLE – BUDGET 2017**

**OIL SECTION**

HUF Mn

	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
<b>2016 BUDGET RESERVE</b>	<b>2 091.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2 091.0</b>
Gross contribution fee income	615.9	681.5	777.6	805.9	827.0	860.9	873.4	872.6	870.1	874.4	840.4	802.8	9 702.6
Contribution fee refund	21.5	23.5	26.9	25.1	29.7	32.2	29.4	28.7	28.1	26.1	25.5	21.4	318.2
<b>NET CONTRIBUTION FEE INCOME</b>	<b>594.5</b>	<b>657.9</b>	<b>750.8</b>	<b>780.8</b>	<b>797.3</b>	<b>828.7</b>	<b>844.0</b>	<b>843.9</b>	<b>841.9</b>	<b>848.3</b>	<b>815.0</b>	<b>781.4</b>	<b>9 384.4</b>
Dividend received	0.0	0.0	0.0	0.0	1 225.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1 225.4
Income from capacity sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest received	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	10.0
<b>OTHER INCOME</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1 225.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>10.0</b>	<b>1 235.4</b>
<b>TOTAL INCOME</b>	<b>2 685.5</b>	<b>657.9</b>	<b>750.8</b>	<b>780.8</b>	<b>2 022.7</b>	<b>828.7</b>	<b>844.0</b>	<b>843.9</b>	<b>841.9</b>	<b>848.3</b>	<b>815.0</b>	<b>791.4</b>	<b>12 710.8</b>
Storage and stock maintenance costs	983.4	883.6	978.1	946.6	978.1	962.5	994.6	994.6	962.5	994.6	962.5	999.5	11 640.5
Interest due, other costs	0.0	0.0	156.5	0.0	0.0	162.1	0.0	0.0	176.7	0.0	0.0	177.6	672.9
<b>TOTAL STOCKPILING COSTS</b>	<b>983.4</b>	<b>883.6</b>	<b>1 134.6</b>	<b>946.6</b>	<b>978.1</b>	<b>1 124.6</b>	<b>994.6</b>	<b>994.6</b>	<b>1 139.2</b>	<b>994.6</b>	<b>962.5</b>	<b>1 177.1</b>	<b>12 313.4</b>
<b>OPERATING COSTS OF HUSA</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>305.0</b>
<b>TOTAL EXPENDITURES</b>	<b>1 008.8</b>	<b>909.0</b>	<b>1 160.1</b>	<b>972.0</b>	<b>1 003.5</b>	<b>1 150.0</b>	<b>1 020.0</b>	<b>1 020.0</b>	<b>1 164.6</b>	<b>1 020.0</b>	<b>987.9</b>	<b>1 202.5</b>	<b>12 618.4</b>
<b>BALANCE OF INCOME AND EXPENDITURES</b>	<b>1 676.7</b>	<b>-251.0</b>	<b>-409.3</b>	<b>-191.2</b>	<b>1 019.2</b>	<b>-321.3</b>	<b>-176.0</b>	<b>-176.1</b>	<b>-322.7</b>	<b>-171.7</b>	<b>-173.0</b>	<b>-411.1</b>	<b>92.4</b>

**SUMMARY TABLE – BUDGET 2017**  
**GAS SECTION**

HUF Mn

	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
<b>2016 BUDGET RESERVE</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Gross contribution fee income	3 210.8	3 529.6	3 996.9	3 315.5	2 780.6	2 308.1	2 086.8	1 755.3	1 545.8	1 930.2	2 450.6	3 328.3	32 238.5
Contribution fee refund	1 331.0	1 790.6	1 829.5	1 563.8	1 251.7	1 077.4	905.1	812.1	644.8	826.4	1 135.7	1 454.6	14 622.7
<b>NET CONTRIBUTION FEE INCOME</b>	<b>1 879.8</b>	<b>1 739.0</b>	<b>2 167.4</b>	<b>1 751.7</b>	<b>1 528.9</b>	<b>1 230.7</b>	<b>1 181.7</b>	<b>943.2</b>	<b>901.1</b>	<b>1 103.8</b>	<b>1 314.9</b>	<b>1 873.7</b>	<b>17 615.8</b>
Dividend received	0.0	0.0	0.0	0.0	2 608.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2 608.3
Income from capacity sale	0.0	0.0	0.0	232.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	232.2
Interest received	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>OTHER INCOME</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>232.2</b>	<b>2 608.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2 840.5</b>
<b>TOTAL INCOME</b>	<b>1 879.8</b>	<b>1 739.0</b>	<b>2 167.4</b>	<b>1 983.9</b>	<b>4 137.1</b>	<b>1 230.7</b>	<b>1 181.7</b>	<b>943.2</b>	<b>901.1</b>	<b>1 103.8</b>	<b>1 314.9</b>	<b>1 873.7</b>	<b>20 456.3</b>
Storage costs	1 272.2	1 272.2	1 272.2	1 272.2	1 272.2	1 272.2	1 272.2	1 272.2	1 272.2	1 272.2	1 272.2	1 272.2	15 266.4
Interest due, other costs	0.0	0.0	245.5	0.0	0.0	250.9	0.0	0.0	322.0	0.0	0.0	372.5	1 190.9
<b>TOTAL STOCKPILING COSTS</b>	<b>1 272.2</b>	<b>1 272.2</b>	<b>1 517.7</b>	<b>1 272.2</b>	<b>1 272.2</b>	<b>1 523.1</b>	<b>1 272.2</b>	<b>1 272.2</b>	<b>1 594.2</b>	<b>1 272.2</b>	<b>1 272.2</b>	<b>1 644.7</b>	<b>16 457.3</b>
<b>OPERATING COSTS OF HUSA</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>25.4</b>	<b>305.0</b>
<b>TOTAL EXPENDITURES</b>	<b>1 297.6</b>	<b>1 297.6</b>	<b>1 543.1</b>	<b>1 297.6</b>	<b>1 297.6</b>	<b>1 548.5</b>	<b>1 297.6</b>	<b>1 297.6</b>	<b>1 619.7</b>	<b>1 297.6</b>	<b>1 297.6</b>	<b>1 670.1</b>	<b>16 762.3</b>
<b>BALANCE OF INCOME AND EXPENDITURES</b>	<b>582.2</b>	<b>441.3</b>	<b>624.3</b>	<b>686.3</b>	<b>2 839.5</b>	<b>-317.8</b>	<b>-115.9</b>	<b>-354.4</b>	<b>-718.6</b>	<b>-193.8</b>	<b>17.3</b>	<b>203.6</b>	<b>3 694.0</b>

**SUMMARY TABLE – BUDGET FOR YEAR 2017**

HUF Mn

	OIL	GAS	TOTAL
<b>2016 BUDGET RESERVE</b>	2 091.0	0.0	2 091.0
Gross contribution fee income	9 702.6	32 238.5	41 941.1
Contribution fee refund	-318.2	-14 622.7	-14 940.9
<b>NET CONTRIBUTION FEE INCOME</b>	<b>9 384.4</b>	<b>17 615.8</b>	<b>27 000.2</b>
Dividend received	1 225.4	2 608.3	3 833.7
Income from capacity sale	0.0	232.2	232.2
Interest received	10.0	0.0	10.0
<b>OTHER INCOME</b>	<b>1 235.4</b>	<b>2 840.5</b>	<b>4 075.9</b>
<b>TOTAL INCOME</b>	<b>12 710.8</b>	<b>20 456.3</b>	<b>33 167.1</b>
Storage and stock maintenance costs	-11 640.5	-15 266.4	-26 906.9
Interest due, other costs	-672.9	-1 190.9	-1 863.8
<b>TOTAL STOCKPILING COSTS</b>	<b>-12 313.4</b>	<b>-16 457.3</b>	<b>-28 770.7</b>
<b>OPERATING COSTS OF HUSA</b>	<b>-305.0</b>	<b>-305.0</b>	<b>-610.0</b>
<b>TOTAL EXPENDITURES</b>	<b>-12 618.4</b>	<b>-16 762.3</b>	<b>-29 380.7</b>
<b>BUDGET RESULT</b>	<b>92.4</b>	<b>3 694.0</b>	<b>3 786.4</b>