

BUDGET
FOR THE YEAR
2018

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

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BUSINESS POLICY OF THE HUNGARIAN HYDROCARBON STOCKPILING ASSOCIATION

The Hungarian Hydrocarbon Stockpiling Association (hereinafter the “Association” or “HUSA”) 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 aforementioned acts.

Related to the above responsibilities, the major tasks of the Association are as follows:

- definition of the stockpiling obligation,
- adjustment of the stock levels in line with the stockpiling obligation,
- safe storage of stocks, quantitative and qualitative maintenance of goods stored in storage facilities rented from companies owned by the Association as well as from other companies; regular control of qualitative parameters.

The Association holds the stocks in storage facilities rented from its own companies as well as from other companies. The purchases of products to be stored are financed from external resources. Fundamentally, principal repayments on stock financing loans and other external resources are made only when stocks are sold or external resources are refinanced, meanwhile, the Association constantly seeks to reduce its debt level with early repayments, thus improving the coverage of its loans. The Association finances its operation from own revenues; contribution fee revenues and income from other sources are utilised to cover storage and stock maintenance costs, interests on loans and other resources, the operating expenses of the Association’s work organisation and the expenditures related to the qualitative and quantitative maintenance of stocks. The Association constantly strives to perform the above duties in a cost-efficient manner as well as optimise storage, financing and operating costs and contribution fee revenues.

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 exclusively the activities set out in the Stockpiling Acts, defined in detail in the Association’s Statutes (hereinafter the “Statutes”), and accomplishes all tasks closely related thereto.

The procurements and sales of the Association, including the fulfilment of storage space requirements and the use of other services, are executed in the framework of open or restricted competitive tenders or equivalent procedures. The Association is not subject to Act No. CXLIII of 2015 on Public Procurement. In order to ensure the price level of purchases and sales as well as the achievement of the annual budget estimates, the Association may conclude derivative, forward and option contracts on the commodity exchange and the financial markets as far as necessary and possible.

The Association ensures external resources for its operations from banks and other financial services companies by competitive tendering and seeks to obtain the most favourable conditions possible. The Association is also committed to the optimisation of risks and costs on financial and capital markets.

The Association cooperates with the international organisations involved 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 harmonisation efforts with foreign partner institutions, and participates in the Annual Coordinating Meeting of Entity Stockholders (ACOMES).

BUDGET FOR THE YEAR 2018

The principal obligation of the Association is to ensure the purchase, sale, safe storage, quantitative and qualitative maintenance of the stocks of crude oil, petroleum products and natural gas specified in the effective legislation.

In order to fulfil the above requirements, the main tasks of the Association for 2018 are the following:

- Define the stockpiling obligation for 2018, adjust the volume of stocks to the prescribed level of stockpiling obligation in line with the statutory requirements.
- Ensure the mandatory replacement of stocks laid down in the relevant provision of law, provide the qualitative and quantitative maintenance of stocks.
- Elaborate and implement a financing plan on the procurement of funds required for the refinancing of the maturing loan portfolio.
- Determine the 2018 level of contribution fees by product group in order to comply with the “0+” budget position requirement for the Association.

As of 2018, the Association’s main objective is to create its budget so as to ensure stable and predictable operations and level of contribution fees in the long term, meanwhile gradually improving the coverage of its loan portfolio with early repayments in the two Sections.

By the end of 2017, the Association is to deliver its primary goal of restoring balance in the budget of the Gas Section, as the Gas Section is to reimburse its loan toward the Oil Section, which serves as the collateral of its debts accumulated in the period between 2013 and 2015. (The budget imbalance in the Gas Section resulted from the December 28, 2012 amendment of the Gas Stockpiling Act, which allowed the recovery of the contribution fees on natural gas sold in the framework of universal service, causing significant revenue losses in the budget of the Gas Section. As in this period it was not possible to raise the unit level of natural gas contribution fee, which would have enabled the Gas Sector to recover its losses, the temporary budget deficit of the Gas Section was financed from a loan granted by the Oil Section from its reserves accumulated over the previous years. By the end of 2017, the above temporary status is to cease and the budget balance of the Gas Section is to be restored.)

Restored budget balance in the Gas Section as well as recurring increase in natural gas consumption enabled the Association to return to the budget preparation manner applied prior to 2014, namely, the budget reserve accumulated over the previous year is not carried forward from one year to another or from one Section to the other, instead, it is utilised for the early repayment of existing stock financing loans. As a result, the coverage ratio of the Association’s loans is to improve gradually, and in the case of a prospective major decrease in raw material prices, the adequate coverage of loans can be guaranteed without the involvement of significant additional funds. Regarding the Association’s stable long-term operations, it is vitally important that a more moderate loan portfolio entails lower interest costs even in an interest rate context which is less favourable than the current one. From this respect, beside the amount of the budget reserve, the dividend income paid by the companies operating with the Association’s participation is used for the early repayment of the stock financing loans.

The 2018 budget plan (with the revenues and cost structures of the Gas Section and the Oil Section presented separately) was prepared in line with the new objective. Accordingly, contribution fee levels in the two Sections were defined so that the amount of contribution fee revenues in 2018 cover the Association’s stockpiling (storage, maintenance and financing of stocks) and operating expenses projected for 2018.

In addition to diminishing the loan portfolio, the above measures allow more predictable levels of product group specific contribution fees in the long term as well as reduced year-on-year volatility.

With regard to the above changes, the 2018 budget was compiled in the following manner. Firstly, the stockpiling obligation, required stock purchases and stock replacements were determined for the two Sections. Necessary funding resources were calculated and the financing strategy was defined. Subsequently, based on the fulfilment of the 2017 budget, the Association's expected 2017 budget reserve and the anticipated dividend income from the 2017 after-tax profit of the companies operating with the Association's participation were projected. The total of these two items constitutes the amount of the Association's early loan repayments planned for 2018, also scheduled in the financing plan to the end of 2018.

Net stockpiling (storage and interest) costs were calculated accordingly, and operating expenses were planned, hence the expenditure side of the budget was created. These expenses have to be covered by the Association's net contribution fee revenues beside a minimal budget reserve. Subsequent to forecasting the expected fuel and natural gas consumption, which serve as the basis for contribution fee payment, the 2018 level of unit contribution fees required for ensuring a balanced budget was defined for the two Sections.

1. Stockpiling Obligation

1.1. Oil Section

1.1.1. Expected Stockpiling Obligation for 2018

In accordance with the effective Oil Stockpiling Act, the final deadline for defining the 90 days' stockpiling obligation for 2018 is March 31, 2018. All purchases prospectively required for the fulfilment of the stockpiling obligation have to be realised by July 31, 2018. In order to put forward a well-founded budget, it is already necessary to predict the volume of stocks expected for the following year.

During the preparation of the forecast, the Association took into consideration the legal harmonisation amendment expected to take effect as of 2018, pursuant to which the definition of the stockpiling obligation prescribed in the Oil Stockpiling Act fully complies with the methodology specified in Directive 2009/119/EC (hereinafter "Directive") imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products. This implies that the Hungarian legal provision, in accordance with the Directive, also provides choice in the calculation as to reduce the quantity of imported refinery feedstocks with either the naphtha yield or the volume of domestic naphtha consumption.

The stockpiling obligation was projected based on available net imports data recorded in the first seven months of 2017 and domestic consumption figures for the first eight months of the year, furthermore, assuming the choice granted by the above law amendment, the net quantity of imported refinery feedstocks was reduced with the volume of domestic naphtha consumption.

The stockpiling obligation estimated accordingly for 2018 is indicated in Table 1 below.

Table 1
Estimated Stockpiling Obligation for 2018

	Volume (kt of oil equivalent)
Annual net imports (year 2017)	4 732.9
Daily net imports (year 2017)	13.0
90 days' net imports (year 2017)	1 167.0

1.1.2. Volume of Stocks

Under the Oil Stockpiling Act, in accordance with the Directive and the regulations of the International Energy Agency, only mobile stocks can be taken into account (stocks than can be withdrawn from storage tanks by traditional methods) for the fulfilment of the stockpiling obligation, and

- the volume of gross strategic stocks has to be reduced by 10 % for calculation purposes, whilst
- multipliers of 0.96 for crude oil and 1.2 for petroleum products have to be applied for conversions into oil equivalent.

Consequently, the volume of strategic stocks expressed in oil equivalent will be approximately 1 314.5 kt by the end of 2017.

Table 2
Expected Volume of Stocks for December 31, 2017

	Gross stocks (kt)	Net stocks (kt of oil equivalent)
Crude oil	541.7	468.0
Petroleum products	783.8	846.5
Total	1 325.5	1 314.5

The above figures also correspond to the opening level of stocks in January 2018, which is expected to be equivalent of 101 days' net imports for the stockpiling period between April 1, 2018 and March 31, 2019 ($1\,314.5:13.0=101$).

Even though the level of stockpiling obligation for 2018 is influenced by several factors based on estimations, the 2018 opening level of strategic crude oil and petroleum product stocks will significantly exceed the 90 days' stockpiling obligation. As a result, the Association plans the sales of two tanks of gas oil stocks in the course of 2018.

Table 3
Fulfilment of the Stockpiling Obligation in 2018

	Gross stocks (kt)	Net stocks (kt of oil equivalent)	Daily net imports (kt of oil equivalent)	Number of stock days
Crude oil	541.7	468.0	13.0	101
Petroleum products	783.8	846.5		
Total	1325.5	1314.5		

1.2. Gas Section

Decree No. 13/2015 (31/03/2015) of the Ministry of National Development "on the Extent of Strategic Natural Gas Stocks" (hereinafter "Decree") effective in the budget planning period, sets the mandatory level of strategic natural gas stocks at 1 200 million m³ as of October 31, 2017. Correspondingly, the Association executed the required stock replenishment, thus holding 1 200 million m³ strategic natural gas stocks since September 30, 2017.

Strategic natural gas stocks are of vital importance for the security of the national energy supply. In the event of disruption of Russian gas imports from Ukraine, strategic natural gas stocks are crucial to ensure uninterrupted supplies in Hungary in the winter period, without imposing major limitations on energy consumption, also resorting to gas coming from domestic production, gas stored in commercial stocks and gas imported via Austria. Consequently, the Association does not plan any changes to the level of its natural gas reserves in 2018.

2. Early Repayment of Loans

The 2018 budget was created on the assumption that the 2017 budget reserve and the annual dividend income for the given year are utilised to make early loan repayments, recorded only as “interim” items in the budget, appearing on both the revenue and the expenditure sides.

2.1. Surplus Revenue and Savings on Expenditures in the Budget for 2017 (collectively budget reserve)

The 2017 budget reserve is expected to amount to HUF 8 403.6 Mn, of which HUF 1 499.1 Mn comes from the Oil Section and HUF 6 904.5 Mn from the Gas Section, respectively. Surplus revenue arises from increased contribution fee revenues caused by higher than planned consumption, and on the other hand, from higher than projected dividend income. Meanwhile, savings on expenditures result from lower than planned operating expenses and financing costs.

The Gas Section is to reimburse its HUF 2 986 Mn debt toward the Oil Section from its expected 2017 budget reserve, and the total amount hence available for the two Sections (Oil Section: HUF 4 485.1 Mn, Gas Section: 3 918.5 Mn) will be utilised to prepay the Association’s existing loans in the course of 2018.

2.2. Dividend Income

In the Oil Section, HUF 250.7 Mn dividend income was projected based on the forecasted 2017 after-tax profit of Terméktároló Zrt., whereas OPAL Szolgáltató Zrt. is expected to pay HUF 980 Mn in dividends from its after-tax profit for 2017.

In the Gas Section, HUF 2 631.3 Mn dividend income is calculated for 2018, taking account of the anticipated 2017 after-tax profit of MMBF Földgáztároló Zrt., which is partly owned (49%) by the Association.

2.3. Early Repayment of Loans

In line with the total of the above two items, HUF 5 715.8 Mn is allocated for the early repayment of loans in the Oil Section and HUF 6 549.8 Mn in the Gas Section in 2018. Altogether HUF 12 265.6 Mn is budgeted for the early repayment of loans in 2018.

3. Stockpiling Costs and Operating Expenses

The Association’s total net expenditures in 2018 are estimated to account for HUF 30 973.4 Mn, of which the total expenditures of the Oil Section are expected to make up HUF 14 707.6 Mn, whilst expenditures of the Gas Section will amount to HUF 16 265.8 Mn.

Expenditures include net storage and stock maintenance costs of HUF 28 878.6 Mn, net financing costs (HUF 1 504.8 Mn) and the Association’s operating expenses (HUF 590 Mn) explained in detail below.

3.1. Storage and Stock Maintenance Costs

In the Oil Section, stocks are stored within the framework of long-term custody agreements. Storage tasks set for 2018 are implemented in the frame of the existing agreements. Regarding the expected obligation for stock creation, the reservation of further storage capacities is not required, therefore, variations in storage fee levels only include indexation adjusted for the effects of inflation. Stock maintenance costs comprise the expenses of mandatory stock replacements prescribed in the Oil Stockpiling Act. A significantly large stock replacement of 160

kt of petroleum products is to be executed in the course of 2018. Storage and stock maintenance costs in the Oil Section are projected to total HUF 13 845.2 Mn in 2018. The increase in costs from the previous year is fundamentally attributable to stock maintenance costs.

In the Gas Section, strategic stocks are stored in the Szőreg-1 underground gas storage facility of MMBF Zrt. in the framework of a long-term custody agreement concluded with MMBF Zrt. On account of changes in market conditions, the Association initiated the modification of the custody fee stipulated in the custody agreement. Until the conclusion of the agreement, the stockpiling costs of strategic natural gas stocks are calculated on the basis of the unmodified 2017 fee, thus amounting to HUF 15 266.4 Mn.

Revenues derived from the secondary sales of interruptible injection and withdrawal capacities booked in the gas storage facility are expected to be HUF 233.0 Mn¹.

Total net storage and stock maintenance costs (adjusted for revenues) of the two Sections account for HUF 28 878.6 Mn, which exceeds the level planned in the 2017 budget, due to fuel stock maintenance costs.

3.2. Financing Costs

In 2018, financing costs in the Oil Section are projected to reach HUF 577.4 Mn, which is below the amount approved in the 2017 budget, essentially induced by the positive impact of the lower average interest premium.

Interest revenues from the fixed term deposits of the temporary surplus of liquid assets are estimated to amount to HUF 10 Mn, thus, net financing costs (adjusted for revenues) in the Oil Section account for HUF 567.4 Mn.

In the Gas Section, interest costs add up to HUF 942.4 Mn, which remains considerably below the level budgeted for 2017. The average debt level increased reflecting the funding required for the purchase of 280 million m³ natural gas in 2017, nevertheless, the resulting growth in financing costs is fully offset by favourable interest rate levels.

Interest revenues derived from the fixed term deposits of the temporary surplus of liquid assets equal to HUF 5 Mn, hence the net (adjusted for revenues) financing costs of the Gas Section are HUF 937.4 Mn.

In 2018, net financing costs in the two Sections are expected to total HUF 1 504.8 Mn, which is lower than the level planned in the 2017 budget.

3.3. Operating Expenses

In 2018, the allocated budget for operating expenses is HUF 590 Mn, which is HUF 20 Mn below the amount approved in the 2017 budget. The budget for personnel costs (HUF 410 Mn), material and material type costs (HUF 5 Mn), other costs (HUF 10 Mn) and purchase of fixed assets (HUF 5 Mn) was not increased, consequently equalling to the levels approved for 2017. The projected amount of other expenditures was reduced by HUF 40 Mn to HUF 10 Mn compared to the 2017 budget as the section of the co-operation agreement between the National Tax and Customs Administration of Hungary (NAV) and the Association, pursuant to which the Association provided fuel for excise tax audits conducted by NAV as well as financed the development and maintenance costs of the IT system for the declaration of the contribution fee payment obligation, was terminated on the initiative of NAV. Even though the allocation of fuel will cease, further developments and maintenance of the IT system for the declaration of the contribution fee payment obligation will remain necessary in the future, therefore, HUF 20 Mn was budgeted for this purpose under the entry "Services used".

¹ Calculated with the annual EUR/HUF exchange rate average projected for 2018.

Table 4
Main Elements of Operating Expenses (HUF million)

	2017	2018
	plan	plan
Material and material type costs	5	5
Personnel costs	410	410
Services used	130	150
Other costs	10	10
Other expenditures	50	10
Purchase of fixed assets	5	5
Total	610	590

4. Revenues, Level of Contribution Fees

As a fundamental requirement, the Association's budget has to close a "+0" budget position. In the projection of funding needs for 2018, the primary objective was to ensure a balanced budget in 2018.

By virtue of proposed amendments as of 2018, the 2017 budget reserve and the 2018 dividend income are utilised to make early repayments, thus, net stockpiling costs (storage and financing costs) and operating expenses have to be covered by the Association's net contribution fee revenues.

As a result, a total coverage of HUF 14 707.6 Mn has to be created in the Oil Section and HUF 16 265.8 Mn in the Gas Section, respectively.

In the Oil Section, the Association's contribution fee revenues are determined by the expected annual fuel consumption, whereas, in the Gas Section, contribution fee revenues depend on the projected annual natural gas consumption in 2018.

4.1. Oil Section

In 2018, fuel consumption is estimated to see further increases. Economic forecasts and market expectations predict a more modest growth for 2018 than the expected scale in 2017, which was based on figures for the first three quarters of 2017. Fuel consumption in 2017 is forecasted to reach 4 815 kt (5.93 million m³), up by 3.3% from fuel turnover in 2016. In the 2018 budget, a market expansion of approximately 2% was anticipated in fuel consumption, which serves as the basis for contribution fee revenues. This brings projected fuel consumption to 4 900 kt (6.03 million m³), which implies a further moderate growth in both gas oil and gasoline consumption. The expansion of the construction sector this year continues to play a dominant role in the rise of gas oil consumption in 2018, however, the scale of growth will be less intense compared to 2017. As for gasoline, a hike in real wages, as well as the increased demand for gasoline-powered cars due to the scandals relating to the emissions from diesel-powered passenger vehicles continues to boost consumption. The annual consumption of fuel oil is projected to reach 9 kt, whilst annual kerosene² consumption is expected to amount to 220 kt.

²Subject to the fulfilment of the conditions prescribed in Section (2) of Article 41 of the Oil Stockpiling Act, contribution fee payments on kerosene can be recovered. The estimated contribution fee refund was calculated on the basis of the forecasted kerosene consumption.

In the Oil Section, on account of the expected level of consumption, the unit contribution fee by product group has to be raised by 0.8-0.95 HUF/litre as of January 2018 so that revenues calculated with the increased level of contribution fees ensure a balanced budget.

Based on the consumption data and contribution fee level projected above, in the Oil Section, net contribution fee revenues adjusted for refunds are predicted to correspond to HUF 14 876.6 Mn in 2018.

4.2 Gas Section

For the projection of contribution fee revenues in the Gas Section, we need to take into account two factors. First, contribution fee payments on household consumption and natural gas utilised as feedstocks for chemical production can be recovered by members³, second, the majority of actual natural gas consumption figures appear in the contribution fee declarations with a delay of two to three months as the sales of natural gas are declared upon the fulfilment dates of VAT payments.

Data on contribution fee payments from the first three quarters of 2017 as well as expert analyses predict substantial growth in non-household natural gas consumption for the whole of 2017.

According to analyses by industry players and experts, the rise in natural gas demand in the first half of 2017 is primarily attributable to the utilisation of natural gas for heating purposes due to extreme cold weather. Furthermore, the increased utilisation of load following power plants due to the favourable trend in natural gas and electricity price levels induced a rise in consumption. In both cases, expectations concerning the future variations in the factors generating the growth are considerably uncertain. Due to economic expansion, the uptrend may persist in the future, yet the growth rate is significantly influenced by weather conditions. In order to exclude the latter uncertainty factor, the projection of natural gas consumption in 2018 was based on the 2016 level of consumption instead of the 2017 figures, which were prominently high owing to the extreme cold weather. With natural gas consumption in an average cold winter heating season (weather with 2324⁴ average annual heating degree days) and increased natural gas utilisation in power plants, total annual gas consumption is planned to reach 9.6 billion m³ (101 million MWh). Natural gas consumption, - less household consumption and feedstocks for chemical production, - which serves as the basis for net contribution fee revenues, is projected to amount to 5.3 billion m³ (56 million MWh).

In the Gas Section, based on the anticipated level of consumption, the unit contribution fee can be reduced from the currently effective rate by 36.11 HUF/MWh to 292.13 HUF/MWh (3.06 HUF/m³).

Total gross revenues calculated with the above data on natural gas consumption and contribution fee level correspond to HUF 29 128.1 Mn, adjusted for HUF 12 762.4 Mn total expected recoveries on household consumption and feedstocks for chemical production, result in net revenues of HUF 16 365.7 Mn.

The Association's total gross contribution fee revenues from the two Sections are projected to equal to HUF 44 625.2 Mn, of which HUF 13 382.9 Mn is recovered by member companies, therefore, net contribution fee revenues adjusted for refunds account for HUF 31 242.3 Mn.

Table 5 contains the unit contribution fees valid as of January 1, 2018.

Accordingly, the 2018 budget is to include HUF 169.0 Mn budget reserve for the Oil Section and HUF 99.9 Mn for the Gas Section, which add up to a total budget reserve of HUF 286.9 Mn.

³ Pursuant to Sections (8)-(10) of Article 8 of the Gas Stockpiling Act, universal service providers are eligible for recovering contribution fee payments on household natural gas consumption as of 2013, while member companies are entitled for the recovery of contribution fee payments on natural gas utilised as feedstocks for chemical production as of 01/09/2016.

⁴ Average number of annual heating degree days in the period 2006-2016 according to data released by the Natural Gas Transmission Ltd. (FGSZ Zrt.).

Table 5
Unit Contribution Fees Effective as of January 1, 2018

Product group	Combined nomenclature number	Contribution fees		
		up to 31/12/2017	as of 01/01/2018	
Gasoline type fuel	2710 12 31	1 725	2 674	HUF / 1000 litre ₁₅
	2710 12 41			
	2710 12 45			
	2710 12 49			
	2710 12 51			
	2710 12 59			
	2710 12 70			
Kerosene	2710 19 21	1 440	2 232	HUF / 1000 litre ₁₅
Gas oil	2710 19 43	1 616	2 505	HUF / 1000 litre ₁₅
	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	2 303	HUF / ton
	2710 19 64			
	2710 19 68			
	2710 20 31			
	2710 20 35			
	2710 20 39			
Natural gas	2711	328.24	292.13	HUF / MWh

5. Budget Implementation: Risks and Considerations

The Budget was prepared based on the information available in the budgeting period (October 2017). The assumptions taken into account include the parameters applied by oil and gas companies, defined in budget committees, and the forecasts of the National Bank of Hungary and the financing banks, which obviously are of a hypothetical nature.

In the overall structure of expenditures, storage fees compose the major part. The cost of financing represents the second largest proportion, which is determined by the size of the loan portfolio, the interest rate context, the average interest premium and the EUR/HUF exchange rate. The third and smallest part is constituted by operating expenses, which are easily foreseen and controlled, showing a further decrease from the projection for the previous year.

The cost structures of the 2017 and 2018 budgets are indicated in the table below.

Table 6
Cost Structure of HUSA

	2017	2018
Storage fees, stock maintenance costs	91.5%	93.2%
Financing costs	6.5%	4.9%
Operating expenses, asset purchases	2.0%	1.9%
Total	100.0%	100.0%

On the revenue side of the budget, net contribution fee revenues represent the major item, fundamentally influenced by consumption and the level of contribution fees. Interest income and revenue from the secondary sales of interruptible injection and withdrawal capacities booked in the gas storage facility are easy to plan, and negligible in terms of volume compared to the total revenue. The budget reserve of the previous year as well as the dividend income are only interim items as the Association plans to utilise them to make early repayments in 2018, therefore they also appear as expenditures.

The major budgetary risk for the two Sections is posed by the tight budget leeway resulting from the significantly low budget reserve. This means a risk on the revenue side in particular, as in both Sections, the forecasts on consumption growth are only preliminary estimates made with the prudence concept in mind. Nonetheless, even a minor shortfall of these projections entails a volume of revenue loss for which the budget reserve is insufficient to provide coverage:

- In case fuel consumption is 100 million litre lower in comparison with the planned level, contribution fee revenues drop by HUF 250 Mn.
- In case natural gas consumption adjusted for household consumption and natural gas utilised as feedstocks for chemical production falls 100 million m³ short of the budgeted quantity, it incurs HUF 310 Mn losses in contribution fee revenues.

In order to offset the risks presented above, the General Meeting of the Association is advised to authorise the Board of Directors to modify the level of unit contribution fees by +/- 10% in the course of the year.

6. Financing Plan

In Decision No. 2/2016 (16/12/2016), the General Meeting authorised the Board of Directors to take out loans for stock financing within the limit of maximum EUR 486 Mn (credit limit).

On January 1, 2018, the Association's stock financing loan portfolio is expected to account for EUR 475 Mn, this amount does not exceed the credit limit approved by the General Meeting.

According to Chapter 1 regarding the fulfilment of strategic stockpiling, the Association does not plan the purchase of stocks in either Section, furthermore, the expenses of stock replacements are financed from contribution fee revenues. Consequently, the Association does not plan to involve additional funding in 2018. Of the existing credit line, loans of EUR 140 Mn are to mature at the end of June 2018, for the refinancing thereof the Association is to publish a call for tenders.

In the first quarter of 2018, the existing loan portfolio and the amount of the available credit line are to decrease as EUR 9 Mn, derived from the 2018 recovery of value added tax after gas purchases executed in 2017, is to be used for repayment in accordance with the stipulations of the loan agreements. Revenues from the sale of two tanks of gas oil stocks (approximately EUR 16 Mn) will also be utilised by the Association for the repayment of existing loans in order to meet the obligations laid down in the loan agreements.

In the course of 2018, the existing credit line will further reduce as the total dividend income from the affiliated companies (EUR 12 Mn) planned in the 2018 budget and the amount of the 2017 budget reserve (approximately EUR 27 Mn) will be used for the early repayment of existing loans.

As a result of the transactions outlined above, the Association's loan portfolio is expected to decrease to EUR 411 Mn by the end of 2018.

Budapest, November 15, 2017

LIST OF APPENDIXES

1. Oil and Gas Inventory Plan for 2018
2. Expected Loan Portfolio for 2018
3. HUSA Participation in Affiliated Companies
4. Planning Assumptions
5. Summary Tables of the 2018 Budget

Oil and Gas Inventory Plan

2018

Oil Section

	Gross opening stocks (01/01/2018)	Change within the year (kt)	Closing stocks (31/12/2018)		
			Gross stocks (kt)	Net stocks (kt)	Net stocks (ktoe)
Crude oil	541.7	0.0	541.7	487.5	468.0
Petroleum products	783.8	-27.5	756.3	680.7	816.8
<i>Gasoline</i>	269.0	0.0	269.0	242.1	290.5
<i>Gas oil</i>	514.8	-27.5	487.3	438.6	526.3
Total	1 325.5	-27.5	1 298.0	1 168.2	1 284.8

Gas Section

	Opening stocks (01/01/2018)	Change within the year (sale)	Change within the year (purchase)	Closing stocks (31/12/2018)
Natural gas (Mm ³)	1 200.0	0.0	0.0	1 200.0
Natural gas (kWh)	12 723 644 330.0	0.0	0.0	12 723 644 330.0

EXPECTED LOAN PORTFOLIO FOR 2018 (STOCK FINANCING LOANS)

Portfolio values and items	Loans EUR Mn	Loans HUF Mn
Opening value on 01/01/2018	475	147 250
Early loan repayment from VAT refunds	-9	-2 790
Early loan repayment from expected 2017 budget reserve	-27	-8 370
Early loan repayment from expected 2018 dividend income	-12	-3 720
Early loan repayment from stock sales	-16	-4 960
Loans maturing on 30/06/2018	-140	-43 400
Refinancing of maturing loans	140	43 400
Closing value on 31/12/2018	411	127 410
<i>EUR/HUF exchange rate</i>		310.0

HUSA Participation in Affiliated Companies

Expected for December 31, 2017

Company name	HUSA participation (%)	Investment value (HUF Mn)
OPAL Szolgáltató Zrt.	100.0	15 137.8
Terméktároló Zrt.	25.9	8.4
MMBF Földgáztároló Zrt.	49.0	12 750.5
Total		27 896.7

Planning Assumptions for the 2018 Budget

	Period	Unit	Value
Gas oil consumption*	2018	thous m ³	4 142
		kt	3 500
Gasoline consumption*	2018	thous m ³	1 892
		kt	1 400
Fuel oil consumption*	2018	kt	9
Natural gas consumption**	2018	billion m ³	5.3
		thous MWh	56 021.98
EUR/HUF exchange rate	Annual average for 2018	HUF	310
EUR/USD exchange rate	Annual average for 2018	USD	1.18
3-months EURIBOR	Annual average for 2018	%	0
Consumer price index ***	2017	%	102.4
Producer price index***	2017	%	102.8

* 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 2018

OIL SECTION

HUF million

		January	February	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.	TOTAL
Gross contribution fee income	MHUF	1 064.6	1 010.9	1 206.3	1 318.0	1 312.6	1 322.6	1 431.1	1 404.6	1 417.3	1 447.2	1 387.6	1 174.3	15 497.1
Contribution fee refund	MHUF	-42.8	-41.0	-46.5	-47.8	-55.8	-58.9	-58.3	-58.3	-54.0	-57.1	-50.3	-49.6	-620.5
NET CONTRIBUTION FEE INCOME	MHUF	1 021.8	969.9	1 159.8	1 270.2	1 256.8	1 263.6	1 372.8	1 346.2	1 363.3	1 390.1	1 337.4	1 124.7	14 876.6
Storage and stock maintenance costs	MHUF	-1 077.6	-1 014.6	-1 158.7	-1 080.3	-1 014.8	-982.1	-1 096.1	-1 115.6	-1 130.1	-1 515.1	-1 470.7	-1 189.5	-13 845.2
Interest due, other costs	MHUF	-51.1	-46.2	-51.1	-49.5	-51.1	-47.6	-47.3	-47.3	-45.8	-47.3	-45.8	-47.3	-577.4
Income from capacity sale	MHUF	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	MHUF	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
NET STOCKPILING COSTS	MHUF	-1 128.7	-1 060.8	-1 209.9	-1 129.8	-1 066.0	-1 029.7	-1 143.4	-1 162.9	-1 175.9	-1 562.4	-1 516.4	-1 226.7	-14 412.6
OPERATING EXPENSES OF HUSA	MHUF	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-295.0
TOTAL NET EXPENDITURES	MHUF	-1 153.3	-1 085.4	-1 234.5	-1 154.4	-1 090.6	-1 054.3	-1 168.0	-1 187.5	-1 200.4	-1 587.0	-1 541.0	-1 251.3	-14 707.6
2017 budget reserve	MHUF	4 485.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4 485.1
Dividend received	MHUF	0.0	0.0	0.0	0.0	1 230.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1 230.7
Early repayment of stock financing loans	MHUF	0.0	0.0	0.0	0.0	0.0	-5 715.8	0.0	0.0	0.0	0.0	0.0	0.0	-5 715.8
"INTERIM" ITEMS	MHUF	4 485.1	0.0	0.0	0.0	1 230.7	-5 715.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE OF INCOME AND EXPENDITURES	MHUF	4 353.7	-115.5	-74.7	115.8	1 396.9	-5 506.5	204.8	158.8	162.8	-196.9	-203.6	-126.7	169.0

SUMMARY TABLE BUDGET 2018
GAS SECTION

HUF million

		January	February	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.	TOTAL
Gross contribution fee income	MHUF	3 165.8	3 473.3	3 749.3	3 183.1	2 540.8	1 993.5	1 774.3	1 611.5	1 623.8	1 455.3	1 945.4	2 612.0	29 128.1
Contribution fee refund	MHUF	-1 393.1	-1 613.0	-1 589.9	-1 508.4	-1 148.6	-916.4	-765.7	-661.2	-707.3	-533.6	-881.1	-1 044.1	-12 762.4
NET CONTRIBUTION FEE INCOME	MHUF	1 772.7	1 860.3	2 159.4	1 674.7	1 392.2	1 077.1	1 008.6	950.3	916.5	921.7	1 064.3	1 567.9	16 365.7
Storage and stock maintenance costs	MHUF	-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	MHUF	-83.8	-75.7	-82.6	-78.8	-81.4	-77.1	-78.0	-78.0	-75.5	-78.0	-75.5	-78.0	-942.4
Income from capacity sale	MHUF	0.0	0.0	0.0	233.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	233.0
Interest received	MHUF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	5.0
NET STOCKPILING COSTS	MHUF	-1 356.0	-1 347.9	-1 354.8	-1 118.0	-1 353.6	-1 349.3	-1 350.2	-1 350.2	-1 347.7	-1 350.2	-1 347.7	-1 345.2	-15 970.8
OPERATING EXPENSES OF HUSA	MHUF	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-24.6	-295.0
TOTAL NET EXPENDITURES	MHUF	-1 380.6	-1 372.5	-1 379.4	-1 142.6	-1 378.2	-1 373.9	1 374.8	1 374.8	-1 372.3	-1 374.8	-1 372.3	-1 369.8	-16 265.8
2017 budget reserve	MHUF	3 918.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3 918.5
Dividend received	MHUF	0.0	0.0	0.0	0.0	2 631.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2 631.3
Early repayment of stock financing loans	MHUF	0.0	0.0	0.0	0.0	0.0	-6 549.8	0.0	0.0	0.0	0.0	0.0	0.0	-6 549.8
"INTERIM" ITEMS	MHUF	3 918.5	0.0	0.0	0.0	2 631.3	-6 549.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE OF INCOME AND EXPENDITURES	MHUF	4 310.6	487.8	780.0	532.1	2 645.3	-6 846.6	-366.2	-424.5	-455.8	-453.1	-308.0	198.1	99.9

SUMMARY TABLE - BUDGET FOR THE YEAR 2018

	HUF million		
	OIL	GAS	TOTAL
Gross contribution fee income	15 497.1	29 128.1	44 625.2
Contribution fee refund	-620.5	-12 762.4	-13 382.9
NET CONTRIBUTION FEE INCOME	14 876.6	16 365.7	31 242.3
Storage and stock maintenance costs	-13 845.2	-15 266.4	-29 111.6
Interest due, other costs	-577.4	-942.4	-1 519.8
Income from capacity sale	0.0	233.0	233.0
Interest received	10.0	5.0	15.0
NET STOCKPILING COSTS	-14 412.6	-15 970.8	-30 383.4
OPERATING EXPENSES OF HUSA	-295.0	-295.0	-590.0
TOTAL NET EXPENDITURES	-14 707.6	-16 265.8	-30 973.4
2017 budget reserve	4 485.1	3 918.5	8 403.6
Dividend received	1 230.7	2 631.3	3 862.0
Early repayment of stock financing loans	-5 715.8	-6 549.8	-12 265.6
"INTERIM" ITEMS	0.0	0.0	0.0
BUDGET RESULT	169.0	99.9	268.9