HUNGARIAN
HYDROCARBON
STOCKPILING
ASSOCIATION

ANNUAL REPORT 2018

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

2018

Budapest, May 8, 2019 Head (Representative) of Entity

L.S.

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BALANCE SHEET "A" Assets

HUF million

Line no.		Description of item	31/12/2017	Adjustments of prior year(s)	31/12/2018
a		b	e	d	e
1	**A.**	**Non-current assets**	27 965	0	27 942
2	I.	INTANGIBLE ASSETS	1	0	1
3	1.	Capitalised value of formation/ restructuring expenses			
4	2.	Capitalised value of research and development			
5	3.	Concessions, licences and similar rights			
6	4.	Intellectual property products	1		1
7	5.	Goodwill			
8	6.	Advance payments on intangible assets			
9	7.	Adjusted value of intangible assets			
10	II.	TANGIBLE ASSETS	44	0	26
11	1.	Land and buildings and rights to immovables	10		8
12	2.	Plant and machinery, vehicles			
13	3.	Other fixtures and fittings, tools and equipment, vehicles	34		18
14	4.	Breeding stock			
15	5.	Assets in the course of construction			
16	6.	Advance payments on tangible assets in the course of construction			
17	7.	Adjusted value of tangible assets			
18	III.	NON-CURRENT FINANCIAL ASSETS	27 920	0	27 915
19	1.	Long-term participations in affiliated companies	15 138		15 138
20	2.	Long-term loans to affiliated companies			
21	3.	Long-term major participating interests	12 759		12 759
22	4.	Long-term loans to companies linked by virtue of major participating interests			
23	5.	Other long-term participations			
24	6.	Long-term loans to other companies linked by virtue of participating interests			
25	7.	Other long-term loans	23		18
26	8.	Long-term debt securities			
27	9.	Adjusted value of non-current financial assets			
28	10.	Valuation margin of non-current financial assets			

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BALANCE SHEET "A" Assets

HUF million

Line no.		Description of item	31/12/2017	Adjustments of prior year(s)	31/12/2018
a		b	e	d	e
29	**B.**	**Current assets**	317 973	0	319 391
30	I.	INVENTORIES	294 017	0	300 953
31	1.	Raw materials and consumables			
32	2.	Work in progress and intermediate goods			
33	3.	Rearing animals, hogs and other livestock			
34	4.	Finished products			
35	5.	Goods	294 017		300 953
36	6.	Advance payments on inventories			
37	II.	RECEIVABLES	10 223	0	5 880
38	1.	Trade receivables	2 130		178
39	2.	Receivables from affiliated companies			
40	3.	Receivables from companies linked by virtue of major participating interests			
41	4.	Receivables from other companies linked by virtue of participating interests			
42	5.	Bills receivable			
43	6.	Other receivables	8 093		5 702
44	7.	Valuation margin of receivables			
45	8.	Positive valuation margin of derivative instruments			
46	III.	SECURITIES	0	0	0
47	1.	Participations in affiliated companies			
48	2.	Major participating interests			
49	3.	Other participating interests			
50	4.	Own shares and own partnership shares			
51	5.	Debt securities held for trading			
52	6.	Valuation margin of securities			
53	IV.	CASH AND CASH EQUIVALENTS	13 733	0	12 558
54	1.	Cash in hand, checks	1		0
55	2.	Cash at bank	13 732		12 558
56	**C.**	**Accrued and deferred assets**	10	0	19
57	1.	Accrued income			3
58	2.	Accrued expenses	10		16
59	3.	Deferred expenses			
60		**Total assets**	345 948	0	347 352

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BALANCE SHEET "A" Liabilities

HUF million

Line no.		Description of item	31/12/2017	Adjustments of prior year(s)	31/12/2018
a		b	e	d	e
61	**D.**	**Equity**	193 548	0	196 768
62	I.	SHARE CAPITAL			
63		Of which: ownership shares repurchased at nominal value			
64	II.	SHARE CAPITAL UNPAID (-)			
65	III.	CAPITAL RESERVE	205 938		193 548
66	IV.	RETAINED EARNINGS			
67	V.	TIED-UP RESERVE			
68	VI.	VALUATION RESERVE			
69	1.	Valuation reserve for adjustments			
70	2.	Fair value reserve			
71	VII.	PROFIT AFTER TAXATION	-12 390		3 220
72	**E.**	**Provisions**	11	0	11
73	1.	Provisions for contingent liabilities	11		11
74	2.	Provisions for future expenses			
75	3.	Other provisions			
76	**F.**	**Liabilities**	152 322	0	150 506
77	I.	SUBORDINATED LIABILITIES	0	0	0
78	1.	Subordinated liabilities to affiliated companies			
79	2.	Subordinated liabilities to companies linked by virtue of major participating interests			
80	3.	Subordinated liabilities to other companies linked by virtue of participating interests			
81	4.	Subordinated liabilities to other economic entities			
82	II.	LONG-TERM LIABILITIES	107 308	0	114 779
83	1.	Long-term loans			
84	2.	Convertible and equity bonds			
85	3.	Debenture loans			
86	4.	Investment and development credits			
87	5.	Other long-term credits	107 308		114 779
88	6.	Long-term liabilities to affiliated companies			
89	7.	Long-term liabilities to companies linked by virtue of major participating interests			
90	8.	Long-term liabilities to other companies linked by virtue of participating interests			
91	9.	Other long-term liabilities			

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HUF million

Line no.		Description of item	31/12/2017	Adjustments of prior year(s)	31/12/2018
a		b	e	d	e
92	III.	CURRENT LIABILITIES	45 014	0	35 727
93	1.	Short-term loans			
94		Of which: convertible and equity bonds			
95	2.	Short-term credits	40 318		33 437
96	3.	Advances received from customers			
97	4.	Trade payable	2 279		9
98	5.	Bills payable			
99	6.	Short-term liabilities to affiliated companies	1 100		1 226
100	7.	Short-term liabilities to companies linked by virtue of major participating interests	381		390
101	8.	Short-term liabilities to other companies linked by virtue of participating interests			
102	9.	Other short-term liabilities	936		665
103	10.	Valuation margin of liabilities			
104	11.	Negative valuation margin of derivative instruments			
105	**G.**	**Accruals and deferred income**	67	0	67
106	1.	Accrued and deferred income	58		58
107	2.	Deferred costs and expenses	9		9
108	3.	Deferred income			

109		**Total liabilities**	345 948	0	347 352

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PROFIT AND LOSS STATEMENT "A"
(nature of expense method) HUF thousand

Line no.		Description of item	31/12/2017	Adjustments of prior year(s)	31/12/2018
a		b	e	d	e
1	01.	Net domestic sales	44 520		51 184
2	02.	Net external sales			
3	**I.**	**Total net sales (01+02)**	44 520	0	51 184
4	03.	Variation in inventories of finished goods and in work in progress			
5	04.	Own work capitalised			
6	**II.**	**Work performed by the company for its own purposes and capitalised (±03+04)**	0	0	0
7	**III.**	**Other income**	30 974		34 220
8		Of which: impairment loss reversed			1 373
9		Contribution fees, Oil Section	9 809		16 089
10		Contribution fees, Gas Section	21 153		16 753
11	05.	Raw materials and consumables	17		4
12	06.	Value of services used	27 027		28 173
13	07.	Cost of other services	7		6
14	08.	Cost of goods sold	50 628		50 852
15	09.	Value of services sold (mediated)			
16	**IV.**	**Material costs (05+06+07+08+09)**	77 679	0	79 035
17	10.	Wages and salaries	214		315
18	11.	Other personnel expenses	105		18
19	12.	Contributions on wages and salaries	67		61
20	**V.**	**Personnel expenses (10+11+12)**	386	0	394
21	**VI.**	**Depreciation**	8		6
22	**VII.**	**Other expenditures**	13 228		2 299
23		Of which: impairment loss	13 197		2 286
24	**A.**	**RESULTS OF OPERATING ACTIVITIES (I±II+III-IV-V-VI-VII)**	-15 807	0	3 670

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PROFIT AND LOSS STATEMENT "A"

(nature of expense method) HUF million

Line no.		Description of item	31/12/2017	Adjustments of prior year(s)	31/12/2018
a		b	e	d	e
25	13.	Dividends and profit-sharing receivable	4 080		5 771
26		Of which: from affiliated companies	980		2 500
27	14.	Income from participating interests, foreign exchange gains	551		
28		Of which: from affiliated companies	551		
29	15.	Income from non-current financial investments (equity shares, loans), foreign exchange gains			
30		Of which: from affiliated companies			
31	16.	Other interest receivable and similar income	21		21
32		Of which: from affiliated companies			
33	17.	Other finance income	842		3 126
34		Of which: valuation margin			
35	**VIII.**	**Total finance income (13+14+15+16+17)**	5 494	0	8 918
36	18.	Expenses and foreign exchange losses on participating interests			
37		Of which: to affiliated companies			
38	19.	Expenses on non-current financial assets (equity shares, loans), foreign exchange losses			
39		Of which: to affiliated companies			
40	20.	Interests (paid) payable and similar charges	1 220		976
41		Of which: to affiliated companies			
42	21.	Losses on shares, securities, long-term loans and bank deposits			
43	22.	Other finance expenses	857		8 392
44		Of which: valuation margin			
45	**IX.**	**Total finance expense (18+19+20+21+22)**	2 077	0	9 368
46	**B.**	**FINANCE RESULT (VIII-IX)**	3 417	0	-450
47	**C.**	**PROFIT BEFORE TAXATION (±A±B)**	-12 390	0	3 220
48	**X.**	**Tax liability**			
49	**D.**	**PROFIT AFTER TAXATION (±C-X)**	-12 390	0	3 220
50	**E.**	**Profit after taxation deposited in capital reserve**	-12 390	0	3 220

Dated Budapest, May 8, 2019

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Hungarian Hydrocarbon Stockpiling Association

SUPPLEMENTARY NOTES TO THE ANNUAL REPORT FOR 2018

1. General information

Name of business entity: Hungarian Hydrocarbon Stockpiling Association (hereinafter referred to as "Association", " HUSA")

Abbreviated company name: HUSA

Website of the company: www.husa.hu

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

Year of establishment: 1993

Start of operation: 1993

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

Owners: N/A

Method of accounting: double entry book-keeping

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

Closing date of the balance sheet: March 1, 2019

Profit and loss statement: type "A", nature of expense 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 ("Accounting Act"), in compliance with the discrepancies set out in Act XXIII of 2013 on the creation of strategic stocks of imported crude oil and petroleum products ("Oil Stockpiling Act") and Act XXVI of 2006 on the creation of strategic stocks of natural gas ("Gas Stockpiling Act").

The Association disposes of the regulations required for its operation including the consolidated Statutes, 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, all approved by the competent minister.

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 Association's participations in other companies. It is not required to compile a consolidated annual report in compliance with the provisions of Article 10 of the Accounting Act, either, independent of the fact that it holds a majority participation in OPAL Szolgáltató Zrt. as the Association is not classified as an enterprise but other incorporated entity defined in a separate provision of law as stipulated in point 4.r of Section (1) of Article 3 of the Accounting Act. Accordingly, the Association also prepared annual reports in the previous years, with a content conforming to the principles of Article 15 of the Accounting Act. Under Section (1) of Article 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. Pursuant to point 11.4.2. of the Statutes of the Hungarian Hydrocarbon Stockpiling Association, the amount of the profit before taxation, which corresponds to the profit after taxation, enters the capital reserve, as no tax liability is incurred in accordance with Section (1) of Article 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 as well as with the requirements laid down in the Rules on Valuation, which constitutes an appendix of the Association's Accounting Policy.

In the balance sheet, intangible assets and tangible assets are recorded at a value corresponding to the difference between the ordinary and the extraordinary depreciation booked in consideration of the acquisition value and the residual value, whereas non-current financial assets are indicated at historical cost.

For the valuation of inventories, the Association records its inventories at settlement price. The value presented in the balance sheet corresponds to the aggregate amount of the settlement price, its related price difference, the impairment and the reversal of impairment on the balance sheet date. As of 2018, a new methodology was created for the valuation of stocks. The Oil Stockpiling Act and the Statutes of the Association prescribe the mandatory replenishment of the stored petroleum products every six years. In consideration of this special feature, in the year-end valuation of crude oil and petroleum product stocks the market price is determined based on the average of the quotes of the current year and the quotes of the preceding five years in order to support the calculation of impairment. Impairment is calculated for the total volume of each type of stock. The market price calculated in this manner was stipulated in the future contracts for stock replenishment. In 2017, impairment was calculated for the volume of stock replenishments planned for 2018, in consideration of prices laid down in the contracts based on international quotes in the period preceding the current year. As a result of the switch to the new valuation method, the impairment created in 2017 was fully ceased upon the sale of the stock in question and during the year-end valuation. By December 31, 2018, petroleum products were valued by the Association with the new methodology detailed above, and impairment was created accordingly.

Receivables and liabilities are inspected and reconciled, their valuation is in line with the Accounting Act. Receivables have to be recorded in the balance sheet at historical cost, which implies the book value reduced with bad debts (point 10 of Section (4) of Article 3 of the Accounting Act) and impairment loss (Section (1)-(2) of Article 55 of the Accounting Act), increased with the reversal of impairment (Section (3) of Article 55 of the Accounting Act).

Foreign exchange loans disbursed by financial institutions constitute the Association's major liabilities. In the balance sheet, foreign exchange loans are presented in the disbursed amount as well as in the sum reduced with repayments, in Hungarian forint value converted according to Section (2) of Article 60 of the Accounting Act.

The value of cash and cash equivalents is supported with status reports and inspected by audit procedures. In the balance sheet, the value of bank deposits has to be recorded as the value corresponding to the bank statement of the Hungarian forint account deposited at the financial institution on the balance sheet date of the business year, whereas the value of foreign exchange deposited on a foreign exchange account has to be indicated corresponding to the value in the bank statement of the foreign exchange account converted into forint in accordance with Section (2) of Article 60 of the Accounting Act.

The Association opted for the official foreign exchange rate of the National Bank of Hungary for the balance sheet date valuation of its foreign currency, its foreign exchange deposited on the foreign exchange account as well as the receivables and liabilities arising in foreign exchange, - most significant thereof are foreign exchange denominated loans.

2.5. In the Accounting Policy of the Association, the amount of extraordinary revenues, costs and expenditures was 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. An error revealed by inspection or self-revision is classified as an error of significant value by the Association in case in the year the error was observed, the errors and consequences of errors established during inspections relevant to the same year result in an increase or decrease in the aggregate value of profit and loss, equity (irrespective of positive or negative sign) exceeding 2 percent of the balance sheet total of the inspected business year. In 2018, no error of significant value was identified.

2.7. The annual Balance Sheet of the Association is prepared in version "A" in compliance with Appendix 1 of the Accounting Act, while the profit and loss statement is compiled with nature of expense method in version "A" in accordance with Appendix 2 of the Act. Pursuant to Section (3) of Article 32 of the Oil Stockpiling Act, in its internal accounting 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 and presents the aforementioned figures in the Supplementary Notes to the Annual Report.

2.8. Pursuant to Paragraphs (2)-(3) of Article 155 of the Accounting Act, auditing is mandatory at the Association. Based on the approval of the General Meeting, audits are conducted by Katalin Kiss, registered auditor of Ecovis

Audit Könyvizsgáló és Tanácsadó Kft. (member of the Budapest Organisation of the Chamber of Hungarian Auditors, membership identity card number: 005037, registration number: 008489). The annual fee of the audit is HUF 2 800 000. Ecovis Audit Könyvvizsgáló és Tanácsadó Kft. provided no other services for the Association. Krisztina Kelenvölgyi (1119 Budapest, Etele út 27. 7/23., registration number: 006205), Senior Accounting and Tax Expert of OPAL Szolgáltató Zrt. 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 tangible assets (HUF thousand)

	Gross value	Depreciation	Net value
I. Intangible assets			
Concessions, licences and similar rights			
- Opening value 01/01/2018	32	32	0
- Increase	0	0	
- Decrease	0	0	
- Closing value 31/12/2018	32	32	0
Intellectual property products			
- Opening value 01/01/2018	1	0	1
- Increase	0	0	
- Decrease	0	0	
- Closing value 31/12/2018	1	0	1
II. Tangible assets			
Land and buildings and rights to immovables			
- Opening value 01/01/2018	43	33	10
- Increase	0	2	
- Decrease	0	0	
- Closing value 31/12/2018	43	35	8
Other fixtures and fittings, tools and equipment, vehicles			
- Opening value 01/01/2018	64	30	34
- Increase	0	4	
- Decrease	14	2	
- Closing value 31/12/2018	50	32	18
Total closing value 31/12/2018	**126**	**99**	**27**

All increase in depreciation accounted in 2018 was ordinary straight-line depreciation.

The decrease recognised in the entry of other fixtures and fittings, tools and equipment, vehicles is attributable to the disposal of a non-operational asset (HUF 12 million) as well as from the scrapping of office and administrative equipment and devices (gross value and recorded impairment: HUF 2 million).

3.2. The Association's participations

3.2.1. On December 1, 2007 Kőolajtároló Zrt., IPR Vámosgyörk Zrt. and Péti Terminál Tároló Kft. merged into OPAL Tartálypark Zrt., - as of June 1, 2016, OPAL Szolgálató Zrt., - (Registered seat: 1037 Budapest, Montevideo u. 16.), 100% owned by the Association. In addition to its core activity of storing crude oil and petroleum products, OPAL Szolgáltató Zrt. provides financial and accounting as well as information technology services for other organisations.

3.2.2. In 2006, MSZKSZ Biztonsági Földgáztároló Zrt. was established by the Association with a capital stock 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 Nyrt.. In this agreement, the owners decided on a capital increase of HUF 9 020 000 thousand, HUF 3 000 000 of which was contributed by the Association, thus the ownership of the Association corresponded to HUF 3 380 000 thousand, representing a participation of 33.73%. As registered on October 4, 2007, the name of the company was modified to MMBF Földgáztároló Zrt. (MMBF Natural Gas Storage Nyrt.). 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, therefore, the value of its investment rose to HUF 6 166 800 thousand, which constitutes a participation of 27.54%. In the business year of 2010, the company switched to euro-based book-keeping, during the same period its equity exceeded its share capital. In 2011, a decision was made 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 the reduction of the share capital, which did not involve a significant change in ownership ratios. In 2013, the majority owner, MOL Nyrt. resolved to sell its participation. In accordance with the Share Purchase Agreement concluded between MOL Nyrt. as seller, and Magyar Fejlesztési Bank Zrt. (Hungarian Development Bank Nyrt., 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.

The business activities of MMBF Zrt. includes strategic stockpiling of natural gas for HUSA, commercial storage of natural gas for its contractual partners as well as hydrocarbon extraction.

Presently, the Association is conducting negotiations with Magyar Fejlesztési Bank Zrt. on the sale of its current 51% participation in MMBF Földgáztároló Zrt. Subsequent to reaching an agreement on the contractual terms, the parties are to put forward a proposal regarding the transaction to their relevant decision-making bodies as well as obtain all official and other authorisations required. In order to finalise the transaction, several conditions independent of the parties have to be fulfilled, thus the date of implementation is not precisely predictable at present.

3.2.3. ***The Association holds a major participation in Terméktároló Zrt. (Registered seat: 2440 Százhalombatta, Olajmunkás utca 2.). Terméktároló Zrt. was founded in 1996, its majority owner is MOL Nyrt. with 74.1% of the votes. The core activities of Terméktároló Zrt. comprise the storing and stockpiling of petroleum products.***

The headings related to participations contain the items below:

Participation (Company name)	Book value of participation 31/12/2018 (HUF million)	Ownership ratio	Remark
OPAL Zrt.	15 138	100.0%	Subsidiary
Long-term participations in affiliated companies	**15 138**		
MMBF Zrt.	12 751	49.0%	Associated company
TERMÉKTÁROLÓ Zrt.	8	25.9%	Associated company
Long-term major participating interests	**12 759**		
Total	**27 897**		

The equity of the affiliates on December 31, 2018 is indicated in the table as follows:

Company *(HUF million)*	**Equity**	**Share capital**	**Capital reserve**	**Retained earnings**	**Tied-up reserve**	**Valuation reserve**	**Profit after taxation**
OPAL Zrt.	19 276	4 731	3	11 745	1 900	0	897
MMBF Zrt.	73 972	26 022	87	34 124	2 492	0	11 247
TERMÉKTÁROLÓ Zrt.	1 175	32	0	0	0	0	1 143

Társaság *(Adatok ezer Ft-ban)*	**Saját tőke**	**Jegyzett tőke**	**Tőketartalék**	**Eredménytartalék**	**Lekötött tartalék**	**Értékelési tartalék**	**Adózott eredmény**
OPAL Zrt.	20 878 852	4 731 000	3 223	13 425 976	1 430 000	0	1 288 653
MMBF Zrt.	68 835 000	26 022 000	87 000	26 547 000	5 535 000	0	10 644 000
TERMÉKTÁROLÓ Zrt.	1 102 854	32 400	0	0	0	0	1 070 454

3.3. Inventories

Book value of inventories on December 31, 2018:

Product	Unit	Stored quantity	Stock value (HUF million)	Proportion according to stock value (%)
Crude oil	ton	608 529	78 775	35.85
Gasoline RON 95	15ºC litre	360 940 379	50 641	23.04
Gas oil EN 590	15ºC litre	598 666 982	90 337	41.11
Heating oil for power plants	ton	0	0	
			219 753	100.0
Natural gas	MWh	12 705 343	81 200	
			300 953	

In addition to the fulfilment of the mandatory stock replenishments, in 2018, the Association procured 48 kt of crude oil stocks in order to comply with the 90 days' stockpiling obligation prescribed by the Oil Stockpiling Act.

Changes in inventories in the current year – impairment (HUF million)

Product	Crude oil	Gasoline RON 95	Gas oil EN 590	Natural gas	Total
Opening book value 01/01/2018	**72 526**	**52 077**	**88 111**	**81 303**	**294 017**
Historical cost	80 719	54 166	91 026	81 303	307 214
Impairment	-8 193	-2 089	-2 915	0	-13 197
Decrease in the current year					
Historical cost	31 878	11 711	18 994	117	62 700
Impairment*	6 820	2 087	2 915	0	11 822
Reversal of impairment	1 373	0	0	0	1 373
Increase in the current year					
Historical cost	29 934	10 200	18 549	14	58 697
Impairment	0	-2 012	-244	0	-2 256
Closing book value 31/12/2018	**78 775**	**50 641**	**90 337**	**81 200**	**300 953**
Historical cost	78 775	52 655	90 581	81 200	303 211
Impairment	**0**	**-2 014**	**-244**	**0**	**-2 258**

* Derecognition of impairment due to disposal of stocks

In the course of 2018, considerable changes were made to the valuation of inventories, explained in detail in point 2.4 of the Supplementary Notes.

3.4. The Association held HUF 178 million outstanding trade receivable on the balance sheet date of December 31, 2018, the settlement thereof was fulfilled by the due date. The significantly higher outstanding trade receivable (HUF 2 130 million) at the end of 2017 contained the items connected to stock replenishments, the due date thereof was extended into January 2018. Nevertheless, at the end of 2018, items related to stock replenishments were settled (compensated) already in December of the current year.

3.5. Other receivables (HUF million):

Description	31/12/2017	31/12/2018
Value added tax	5 357	2 790
Natural gas contribution fee account	1 628	1 346
recognised impairment loss	-54	-84
Crude oil contribution fee account	751	1 237
Deferred technical VAT advances	347	307
Receivables from employees	6	21
Advance payments	4	1
Other receivables	**8 093**	**5 702**

In terms of natural gas contribution fees, impairment was recognised in the case of two member companies.

ENERGOTT Kft. has failed to fulfil its contribution fee payment obligation by the due date for several years. The National Tax and Customs Administration of Hungary permitted ENERGOTT Kft. to settle its contribution fee payments by instalments. Taking into account the agreement on instalment payment as well as ENERGOTT Kft.'s attitude to contribution fee payments, the recognition of 50% impairment remains reasonable. For the business year of 2018, further HUF 16 million impairment was booked in addition to HUF 54 million impairment recorded on December 31, 2017.

The natural gas trading licence of Kárpát-Gáz Kft. was suspended by the Hungarian Energy and Public Utility Regulatory Authority, furthermore, almost 70% of its overdue debt is already in the process of forcible collection. The current situation of the company presumes its inability to repay its debt, consequently, 100% impairment (HUF 14 million) was recognised for the business year of 2018.

3.6. Accrued and deferred assets (HUF million):

Description	31/12/2017	31/12/2018
Interests on fixed-term deposits, current account interests	0	3
Accrued income	**0**	**3**
Office rental fee, operating expenses	5	14
Insurance premiums	3	1
Subscription fees for technical periodicals	2	1
Accrued expenses	**10**	**16**
Accrued and deferred assets	**10**	**19**

3.7. The movements of equity are presented in the table below:

CHANGES IN EQUITY (HUF million)

Capital element	Opening	Increase	Transfer	Closing
Equity	-	-	-	-
Share capital unpaid	-	-	-	-
Capital reserve	205 938		- 12 390	193 548
Retained earnings	-	-	-	-
Tied-up reserve	-	-	-	-
Valuation reserve	-	-	-	-
Profit after taxation	- 12 390	3 220	12 390	3 220
Equity	**193 548**	**3 220**	**-**	**196 768**

3.8. In the business year of 2016, a provision of HUF 11 million was created for a particular liability disputed by the Association. The business year of 2017 and 2018 witnessed no substantial developments in relation to the disputed liability, as a result, no additional provisions were created and the existing one was not released, either. Currently, expert evidence is in process in the litigation, which affects the legal ground of the receivable.

3.9. None of the long-term loans have portions reaching maturity in 2019, therefore, no reclassification was made.

Proportion of loans according to maturity, on December 31, 2018:

Currency	Maturing within 1 year	Maturing in over 1 year				Total
		Within 2 years	Within 3 years	Within 4 years	Within 5 years	
EUR	104 000 000	99 000 000	102 000 000	75 000 000	81 000 000	461 000 000
HUF million	33 437	31 830	32 794	24 113	26 042	148 216

3.10. Charges related to loans:

On June 15, 2015, the Association entered into a pledge and security agreement with the loan providing banks as a security for the loan agreements connected to the financing of stocks. In the aforementioned agreement, concerning the stockpiling activities of the Association, lien was established and registered on the insurance revenues from insurance contracts concluded by the storage companies that are in contractual relation with the Association, on the one hand, and on the revenues derived from the disposal of stocks, on the other hand.

3.11. Off balance sheet liabilities:

The Association undertook HUF 2 billion suretyship for OPAL Szolgáltató Zrt's investment loan contract of HUF 2 billion with a duration of five years (maturity date: December 30, 2022).

3.12. On December 31, 2018, total outstanding trade payable corresponded to HUF 1 625 million, of which short-term liabilities to affiliated companies amounted to HUF 1 226 million in relation to OPAL Szolgáltató Zrt., whereas short-term liabilities to companies linked by virtue of major participating interests represented HUF 390 million to Terméktároló Zrt.. Trade payable to external partners totalled HUF 9 million. The major cause of substantially higher trade payable (HUF 3 760 million) on December 31, 2017 was the fact that the due date of the trade payable to MOL Nyrt. and MOLTRADE Mineralimpex Zrt., which were related to stock replenishments and custody fees, extended into January 2018.

3.13. Other short-term liabilities (HUF million):

Description	**31/12/2017**	**31/12/2018**
Natural gas contribution fee account	925	653
Taxes and contributions	11	12
Other short-term liabilities in total	**936**	**665**

In the category of other short-term liabilities, the amount of contribution fee recoveries is recorded on the natural gas contribution fee account.

3.14. Accruals and deferred income (HUF million):

Description	31/12/2017	31/12/2018
Proceeds from capacity disposal	58	58
Accrued and deferred income	**58**	**58**
Interests payable	7	7
Bank charges, custody fees	0	1
Auditing fees	2	1
Deferred costs and expenses	**9**	**9**
Accruals and deferred income	**67**	**67**

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

3.16. Net proceeds from disposal according to core activities (HUF million):

Description	31/12/2017	31/12/2018
Proceeds from disposal of stocks	44 287	50 949
Of which: Crude oil	23 325	25 039
Gasoline	8 931	9 701
Gas oil	12 031	16 040
Natural gas	0	169
Disposal of booked capacities	233	235
Net sales revenue	**44 520**	**51 184**

3.17. A major proportion of the value of services used is constituted by the storage costs of stocks.

Description	31/12/2017	31/12/2018
Storage costs of stocks	26 905	28 025
Of which: Storage costs of oil stocks	11 639	12 491
Storage costs of gas stocks	15 266	15 534
Other services used	122	148
Value of services used	**27 027**	**28 173**

3.18. Personnel expenses

The average statistical headcount of the Association is 10 persons. In the course of the year, staff was paid HUF 222 million in wages and received fringe benefits worth HUF 7 million. After the aforementioned payments, altogether HUF 45 million contributions on wages and salaries were accounted for, namely, social contribution tax: HUF 43 million, personal income tax payable by the employer: HUF 1 million and health care contribution: HUF 1 million.

In 2018, HUF 24 million employee loan was disbursed by the Association. The repayments of existing loans were performed in accordance with the conditions of the loan agreements, consequently, employee loans totalled HUF 38 million on December 31, 2018.

All employees belong to the white collar category.

The Board of Directors and the Supervisory Board of the Association received remuneration worth HUF 93 million. No guarantees, loans or advance payments were granted to the members.

The headings under personnel expenses of the Profit and Loss Statement demonstrate changes compared to the previous year. Remuneration and compensation are presented under the heading of wages and salaries.

Description	31/12/2017	Adjusted 31/12/2017	31/12/2018
Wages and salaries	214	309	315
Other personnel expenses	105	10	18
Contributions on wages and salaries	67	67	61
Personnel expenses	**386**	**386**	**394**

The total of remuneration and compensation booked in 2018 amounted to HUF 95 million.

3.19. “Extraordinary revenues, costs and expenditures” are related to stock replenishments prescribed by the Oil Stockpiling Act. Extraordinary revenues arise from disposal of stocks that form part of stock replenishments, whereas extraordinary expenditures result from the derecognition of the above stocks.

The numerical summary of the current year is as follows:

- extraordinary revenues: HUF 18 888 million
- extraordinary costs and expenditures: HUF 26 737 million.

4. Cash flow statement

Change in cash and cash equivalents from ordinary activities (HUF million)

		2017	2017 adjusted*	2018
I. Cash flow from operations		**-18 865**	**-18 183**	**-10 500**
1.a	Profit before taxation	-12 390	-12 390	3 220
	Of which: financial subsidies received for operations	0	0	0
	Dividends received	-4 080	-4 080	-5 771
	Unrealised exchange rate difference	0	682	-2 949
1 b.	Adjustments to profit before taxation	-4 080	-3 398	-8 720
1.	Adjusted profit before taxation	-16 470	-15 788	-5 500
2.	Accounted depreciation	8	8	6
3.	Accounted impairment and reversal	13 197	13 197	915
4.	Difference of provisions created and used	0	0	0
5.	Profit and loss on disposal of non-current assets	12	12	0
6.	Change in trade payable	2 483	2 483	-2 135
7.	Change in other short-term liabilities	512	512	-271
8.	Change in accruals and deferred income	7	7	0
9.	Change in trade receivable	-2 130	-2 130	1 952
10.	Change in current assets (w/o trade receivable, cash)	-16 483	-16 483	-5 458
11.	Change in accrued and differed assets	-1	-1	-9
12.	Income taxes paid	0	0	0
13.	Dividends paid, participations	0	0	0

Change in cash and cash equivalents resulting from investing activities (HUF million)

		2017	2017 adjusted*	2018
II. Cash flow from investing activities		**3 503**	**3 503**	**5 786**
14.	Procurement of non-current assets	-586	-586	15
15.	Disposal of non-current assets	9	9	0
16.	Repayments, elimination, redemption of long-term debts and bank deposits	0	0	0
17.	Long-term debts and bank deposits	0	0	0
18.	Dividends received, participations	4 080	4 080	5 771

Change in cash and cash equivalents resulting from financing activities (HUF million)

		2017	2017 adjusted*	2018
III. Cash flow from financing activities		**23 063**	**22 382**	**3 566**
19.	Proceeds from equity issuance, increase of share capital	0		0
20.	Proceeds from issuance of bonds and debt securities	0		0
21.	Borrowings	80 842	80 161	151 193
22.	Cash and cash equivalents received definitely	0	0	0
23.	Repurchase of equity, decrease of share capital	0	0	0
24.	Repayments of bonds and debt securities	0	0	0
25.	Repayments of borrowings	-57 779	-57 779	-147 627
26.	Cash and cash equivalents transferred definitely	0	0	0

Change in cash and cash equivalents (lines I.+II.+III.)

		2017	2017 adjusted*	2018
IV. Change in cash and cash equivalents		**7 701**	**7 702**	**-1 148**
27.	Currency translation of foreign exchange denominated cash and cash equivalents	0	-1	-27
V. Change in cash and cash equivalents according to balance sheet		**7 701**	**7 701**	**-1 175**

* In order to provide an adequate comparison, the cash flow statement of 2017 was reconciled with the amendment to Act XLI of 2018 concerning the derivation of cash flow.

5. Indicators of assets, financial position and revenues

5.1. Indicators of assets

5.1.1. Changes in the asset structure

Description	31/12/2017 HUF million	31/12/2018 HUF million	Proportion (%) 2017	Proportion (%) 2018	Change (%) 2018/2017
Non-current assets	27 965	27 942	8.08	8.04	99.92
Current assets	317 973	319 391	91.92	91.95	100.45
Accrued and deferred assets	10	19	0.00	0.01	190.00
Total assets	345 948	347 352	100.00	100.00	100.41

5.1.2. Changes in the liability structure

Description	31/12/2017 HUF million	31/12/2018 HUF million	Proportion (%) 2017	Proportion (%) 2018	Change (%) 2018/2017
Equity (capital reserve)	193 548	196 768	55.95	56.65	101.66
Provisions	11	11	0.00	0.00	100.00
Liabilities	152 322	150 506	44.03	43.33	98.81
Accruals and deferred income	67	67	0.02	0.02	100.00
Total liabilities	345 948	347 352	100.00	100.00	100.41

5.2. Indicators of assets

5.2.1. Equity ratio

	31/12/2017		31/12/2018	
Equity / Total assets	193 548 / 345 948	= 0.56	196 768 / 347 352	= 0.57

5.2.2. Borrowed capital ratio

	31/12/2017		31/12/2018	
Borrowed capital / Total assets	152 400 / 345 948	= 0.44	150 584 / 347 352	= 0.43

5.2.3. Leverage ratio

	31/12/2017		31/12/2018	
Borrowed capital / Equity	152 400 / 193 548	= 0.79	150 584 / 196 768	= 0.77

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

5.2.4. Coverage of non-current assets

	31/12/2017		31/12/2018	
Equity+Long-term liabilities / Non-current assets	300 856 / 27 965	= 10.76	311 547 / 27 942	= 11.15

5.2.5. Working capital

	31/12/2017		31/12/2018	
Current assets – Short-term liabilities / Equity	272 959 / 193 548	= 1.41	283 664 / 196 768	= 1.44

The above indicators demonstrate that the Association's non-current assets are amply covered with long-term sources. In addition, the major part of current assets not financed from short-term sources is also covered with own sources.

5.3. Financial liquidity indicators

5.3.1. Liquidity ratio

	31/12/2017		31/12/2018	
Current assets / Short-term liabilities	317 973 / 45 014	= 7.06	319 391 / 35 727	= 8.94

A ratio higher than 1 reflects good liquidity position.

5.3.2. Long-term indebtedness ratio

	31/12/2017		31/12/2018	
Total debt / Long-term liabilities+Equity	147 626 / 300 856	= 0.49	148 216 / 311 547	= 0.48

5.4. Profitability indices

The calculation of profitability indices 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 million

Line no.		Description of item	Oil Section 31/12/2018	Gas Section 31/12/2018	Total
a		b	e	d	e
1	**A.**	**Non-current assets**	15 169	12 773	27 942
2	I.	INTANGIBLE ASSETS	1	0	1
3	1.	Capitalised value of formation/ restructuring expenses			0
4	2.	Capitalised value of research and development			0
5	3.	Concessions, licences and similar rights			0
6	4.	Intellectual property products	1		1
7	5.	Goodwill			0
8	6.	Advance payments on intangible assets			0
9	7.	Adjusted value of intangible assets			0
10	II.	TANGIBLE ASSETS	13	13	26
11	1.	Land and buildings and rights to immovables	4	4	8
12	2.	Plant and machinery, vehicles			0
13	3.	Other fixtures and fittings, tools and equipment, vehicles	9	9	18
14	4.	Breeding stock			0
15	5.	Assets in the course of construction			0
16	6.	Advance payments on tangible assets in the course of construction			0
17	7.	Adjusted value of tangible assets			0
18	III.	NON-CURRENT FINANCIAL ASSETS	15 155	12 760	27 915
19	1.	Long-term participations in affiliated companies	15 138		15 138
20	2.	Long-term loans to affiliated companies			
21	3.	Long-term major participating interests	8	12 751	12 759
22	4.	Long-term loans to companies linked by virtue of major participating interests			
23	5.	Other long-term participations			
24	6.	Long-term loans to other companies linked by virtue of participating interests			
25	7.	Other long-term loans	9	9	18
26	8.	Long-term debt securities			
27	9.	Adjusted value of non-current financial assets			
28	10.	Valuation margin of non-current financial assets			

ASSETS (CONT.)

BALANCE SHEET "A" Assets

HUF million

Line no.		Description of item	Oil Section 31/12/2018	Gas Section 31/12/2018	Total
a		b	e	d	e
29	**B.**	**Current assets**	228 702	90 689	319 391
30	I.	INVENTORIES	219 753	81 200	300 953
31	1.	Raw materials and consumables			0
32	2.	Work in progress and intermediate goods			0
33	3.	Rearing animals, hogs and other livestock			0
34	4.	Finished products			0
35	5.	Goods	219 753	81 200	300 953
36	6.	Advance payments on inventories			0
37	II.	RECEIVABLES	2 796	3 084	5 880
38	1.	Trade receivables		178	178
39	2.	Receivables from affiliated companies			0
40	3.	Receivables from companies linked by virtue of major participating interests			0
41	4.	Receivables from other companies linked by virtue of participating interests			0
42	5.	Bills receivable			0
43	6.	Other receivables	2 796	2 906	5 702
44	7.	Valuation margin of receivables			0
45	8.	Positive valuation margin of derivative instruments			0
46	III.	SECURITIES	0	0	0
47	1.	Participations in affiliated companies			
48	2.	Major participating interests			
49	3.	Other participating interests			
50	4.	Own shares and own partnership shares			
51	5.	Debt securities held for trading			
52	6.	Valuation margin of securities			
53	IV.	CASH AND CASH EQUIVALENTS	6 153	6 405	12 558
54	1.	Cash in hand, checks			0
55	2.	Cash at bank	6 153	6 405	12 558
56	**C.**	**Accrued and deferred assets**	9	10	19
57	1.	Accrued income	1	2	3
58	2.	Accrued expenses	8	8	16
59	3.	Deferred expenses			0
60		**Total assets**	243 880	103 472	347 352

BALANCE SHEET "A" Liabilities

HUF million

Line no.		Description of item	Oil Section 31/12/2018	Gas Section 31/12/2018	Total
a		b	e	d	e
61	**D.**	**Equity**	99 721	97 047	196 768
62	I.	SHARE CAPITAL			
63		Of which: ownerhsip shares repurchased at nominal value			
64	II.	SHARE CAPITAL UNPAID (-)			
65	III.	CAPITAL RESERVE	96 774	96 774	193 548
66	IV.	RETAINED EARNINGS			
67	V.	TIED-UP RESERVE			
68	VI.	VALUATION RESERVE			
69	1.	Valuation reserve for adjustments			
70	2.	Fair value reserve			
71	VII.	PROFIT AFTER TAXATION	2 947	273	3 220
72	**E.**	**Provisions**	11	0	11
73	1.	Provisions for contingent liabilities	11		11
74	2.	Provisions for future expenses			
75	3.	Other provisions			
76	**F.**	**Liabilities**	57 942	92 564	150 506
77	I.	SUBORDINATED LIABILITIES	0	0	0
78	1.	Subordinated liabilities to affiliated companies			
79	2.	Subordinated liabilities to companies linked by virtue of major participating interests			
80	3.	Subordinated liabilities to other companies linked by virtue of participating interests			
81	4.	Subordinated liabilities to other economic entities			
82	II.	LONG-TERM LIABILITIES	43 616	71 163	114 779
83	1.	Long-term loans			
84	2.	Convertible and equity bonds			
85	3.	Debenture loans			
86	4.	Investment and development credits			
87	5.	Other long-term credits	43 616	71 163	114 779
88	6.	Long-term liabilities to affiliated companies			
89	7.	Long-term liabilities to companies linked by virtue of major participating interests			
90	8.	Long-term liabilities to other companies linked by virtue of participating interests			
91	9.	Other long-term liabilities			

LIABILITIES (CONT.)

BALANCE SHEET "A" Liabilities

HUF million

Line no.		Description of item	Oil Section 31/12/2018	Gas Section 31/12/2018	Total
a		b	e	d	e
92	III.	CURRENT LIABILITIES	14 326	21 401	35 727
93	1.	Short-term loans			
94		Of which: convertible and equity bonds			
95	2.	Short-term credits	12 706	20 731	33 437
96	3.	Advances received from customers			
97	4.	Trade payable	1	8	9
98	5.	Bills payable			
99	6.	Short-term liabilities to affiliated companies	1 223	3	1 226
100	7.	Short-term liabilities to companies linked by virtue of major participating interests	390		390
101	8.	Short-term liabilities to other companies linked by virtue of participating interests			
102	9.	Other short-term liabilities	6	659	665
103	10.	Valuation margin of liabilities			
104	11.	Negative valuation margin of derivative instruments			
105	**G.**	**Accruals and deferred income**	4	63	67
106	1.	Accrued and deferred income		58	58
107	2.	Deferred costs and expenses	4	5	9
108	3.	Deferred income			
109		**Total liabilities**	157 678	189 674	347 352

PROFIT AND LOSS STATEMENT "A" (nature of expense method)

HUF million

Line no.		Description of item	Oil Section 31/12/2018	Gas Section 31/12/2018	Total
a		b	e	d	e
1	01.	Net domestic sales	50 781	403	51 184
2	02.	Net external sales			
3	**I.**	**Total net sales (01+02)**	50 781	403	51 184
4	03.	Variation in inventories of finished goods and in work in progress			
5	04.	Own work capitalised			
6	**II.**	**Work performed by the company for its own purposes**	0	0	0
7	**III.**	**Other income**	17 463	16 757	34 220
8		Of which: impairment loss reversed	1 373		1 373
9		Contribution fees, Oil Section	16 089		16 089
10		Contribution fees, Gas Section		16 753	16 753
11	05.	Raw materials and consumables	2	2	4
12	06.	Value of services used	12 565	15 608	28 173
13	07.	Cost of other services	3	3	6
14	08.	Cost of goods sold	50 735	117	50 852
15	09.	Value of services sold (mediated)			0
16	**IV.**	**Material costs (05+06+07+08+09)**	63 305	15 730	79 035
17	10.	Wages and salaries	158	157	315
18	11.	Other personnel expenses	9	9	18
19	12.	Contributions on wages and salaries	31	30	61
20	**V.**	**Personnel expenses (10+11+12)**	198	196	394
21	**VI.**	**Depreciation**	3	3	6
22	**VII.**	**Other expenditures**	2 263	36	2 299
23		Of which: impairment loss	2 256	30	2 286
24	**A.**	**RESULTS OF OPERATING ACTIVITIES (I±II+III-IV-V-VI-VII)**	2 475	1 195	3 670

PROFIT AND LOSS STATEMENT (CONT.)

PROFIT AND LOSS STATEMENT "A" (nature of expense method)

HUF million

Line no.		Description of item	Oil Section 31/12/2018	Gas Section 31/12/2018	Total
a		b	e	d	e
25	13.	Dividends and profit-sharing receivable	2 777	2 994	5 771
26		Of which: from affiliated companies	2 500		2 500
27	14.	Income from participating interests, foreign exchange gains			0
28		Of which: from affiliated companies			0
29	15.	Income from non-current financial investments (equity shares, loans), foreign exchange gains			0
30		Of which: from affiliated companies			0
31	16.	Other interest receivable and similar income	10	11	21
32		Of which: from affiliated companies			0
33	17.	Other finance income	1 256	1 870	3 126
34		Of which: valuation margin			0
35	**VIII.**	**Total finance income (13+14+15+16+17)**	4 043	4 875	8 918
36	18.	Expenses and foreign exchange losses on participating interests			
37		Of which: to affiliated companies			
38	19.	Expenses on non-current financial assets (equity shares, loans), foreign exchange losses			0
39		Of which: to affiliated companies			0
40	20.	Interests (paid) payable and similar charges	371	605	976
41		Of which: to affiliated companies			0
42	21.	Losses on shares, securities, long-term loans and bank deposits			0
43	22.	Other finance expenses	3 200	5 192	8 392
44		Of which: valuation margin			0
45	**IX.**	**Total finance expense (18+19+20+21+22)**	3 571	5 797	9 368
46	**B.**	**FINANCE RESULT (VIII-IX)**	472	-922	-450
47	**C.**	**PROFIT BEFORE TAXATION (±A±B)**	2 947	273	3 220
48	**X.**	**Tax liability**			
49	**D.**	**PROFIT AFTER TAXATION (±C-X)**	2 947	273	3 220
50	**E.**	**Profit after taxation deposited in capital reserve**	2 947	273	3 220

Budapest, May 8, 2019

Dr. Béla Attila Bártfai	Zsuzsanna Dávid
CEO	Deputy CEO

HUNGARIAN HYDROCARBON STOCKPILING ASSOCIATION

BUSINESS REPORT / 2018 ANNUAL REPORT

TABLE OF CONTENTS

1. Introduction

1.1. Activity of the Hungarian Hydrocarbon Stockpiling Association

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

The Association pursues 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 its activities set out by the Stockpiling Acts, defined it detail in the Statutes of the Association (hereinafter referred to as **"Statutes"**), and accomplishes all tasks closely related thereto.

The organisation of the Association consists of an oil and petroleum product stockholding section (hereinafter referred to as **"Oil Section"**) and a natural gas stockholding section (hereinafter referred to as **"Gas Section"**).

The number of active member companies of the Association was 83 according to the state of affairs on December 31, 2018, showing a slight change compared to 86 members a year earlier. The number of active member companies in the previous years is demonstrated in the following table:

Table 1
Number of member companies

	2014	2015	2016	2017	2018
Oil Section	37	45	54	51	49
Gas Section	36	35	34	36	35
Total*	**72**	**79**	**87**	**86**	**83**

** member companies conducting activities in both Sections are indicated once in the total figure*

The Association

- prepares a budget which presents the contribution fee revenues and cost structures of the Gas and Oil Sections separately,
- stores the stocks in storage facilities rented from its own companies as well as from other companies,
- finances the procurement of products to be stored from external sources,
- opts to repay the principals of stock financing loans and other sources only when the stocks are sold and the sources are refinanced, however, it constantly strives to reduce its debt level by making early repayments, thus improving the coverage of its loans,
- finances its operation from its own proceeds by utilising contribution fee revenues to fund storage and stock maintenance costs, interests on loans and other sources, the operating expenses of the Association's work organisation as well as costs related to the qualitative and quantitative maintenance of stocks.

1.2. Achievement of main objectives in 2018

The primary responsibility of the Association comprises the procurement, disposal, safe storage, quantitative and qualitative preservation and maintenance of crude oil, petroleum product and natural gas stocks in compliance with the Stockpiling Acts.

In relation to the above obligations, the major tasks of the Association for the year 2018 were as follows:

- Determine the stockpiling obligation for 2018, adjust the volume of stocks to the prescribed level of stockpiling obligation in accordance with the statutory requirements.
- Maintain the stocks, execute mandatory stock replenishments laid down by the legislation, preserve the quality and quantity of stored stocks.
- Elaborate and implement a financing plan for the procurement of funds required for the refinancing of its maturing loans.
- Define the 2018 level of contribution fees by product group in the two Sections in order to comply with the “+0” budget position requirement for the Association.
- Revamp the Association’s practice of planning and finances in order to ensure stable and predictable operations and contribution fee revenues in the long term, besides gradually improving the coverage of its loans with prepayments in the two Sections.

HUSA accomplished its tasks planned for the year 2018 in line with the decisions of the General Meeting and the Board of Directors.

In the Oil Section, in order to fulfil the stockpiling obligation, 48 kt of crude oil was procured in 2018 in accordance with the authorisation granted by the Board of Directors.

With regard to mandatory product replenishments due every six years as set out by the Oil Stockpiling Act and the Statutes, 161.6 kt of petroleum products were replaced by the Association at the lowest possible costs in 2018.

In line with Government Decree No. 296/2015 (13/10/2015) on final natural gas emergency service and the procedure applicable as a result of a situation threatening the natural gas supply of consumers in the case of a natural gas trader’s failure to provide gas, the Association sold 18 300.831 MWh strategic natural gas stocks to the assigned natural gas trader in the final quarter of 2018.

The Association provided the external sources required for financing, extended its loans reaching maturity in the course of 2018, therefore, its financial position is stable.

With Decision No. 2/2017 (14/12/2017), the General Meeting of the Association decided on the modification of the level of unit contribution fees by product group effective as of January 1, 2018. Accordingly, the level of contribution fee on petroleum products rose by 55%, whereas the level of contribution fee on natural gas dropped by 11%.

In 2018, the Association revamped its practice of planning and finances in order to ensures stable and predictable operations and contribution fee revenues in the long term, besides gradually improving the coverage of its loans with early repayments in the two Sections. The major changes to the previous years’ practice were as follows:

- The level of contribution fees in the two Sections were determined so that net contribution fee revenues of the current year provide coverage for net stockpiling costs (storage and maintenance costs as well as financing costs of stocks) and operating expenses planned by the Association for the same year. The total of the previous year’s budget reserve along with the dividend income received from HUSA’s subsidiaries are utilised for the prepayment of loans in order to improve the coverage of the debt level.

- The manner of financing stock replenishment costs and related freight charges was also modified. As opposed to the previous years' practice of financing the above items from loans, they are funded from contribution fee revenues.

The accounting of the Association was also revamped to a considerable extent. A new methodology for the valuation of inventories was elaborated and introduced, which conforms to the Association's unique operation. The Oil Stockpiling Act and the Statutes prescribe the mandatory replenishment of petroleum product stocks every six years. In consideration of this special feature, for the valuation of crude oil and petroleum product stocks on the year-end balance sheet date as well as for the calculation of impairment recognised on stocks, the market price is determined based on the average of the quotes of the current year and the quotes of the preceding five years. The calculation is prepared for the total volume of stocks of each product group. As a result of the new valuation methodology, the book value of inventories follows the long-term movements of market prices by softening the impact of high-volatility price movements with the calculation of the six-year average price. In its 2018 Annual Report, HUSA applied the new valuation methodology for the calculation of impairment on stocks, which was fully approved by the Association's auditor.

1.3. Economic environment[1]

The global economy including the economic output of the Eurozone continued to expand in 2018, nevertheless, risks to growth prospects strengthened. In 2018, the volume of GDP calculated for the whole of the OECD, comprising mainly developed countries, exceeded the level of the previous year by 2.4% on average. As for dominant national economies, China's economic performance rose by 6.55%, whereas the economic growth rate of the United States was 2.9%, and the performance of the Japanese economy surged by 0.9% on average compared to a year earlier. Based on available preliminary data, the economic performance of the European Union member states was up by 1.9% throughout 2018 in comparison to the year before. The German economy expanded by 1.6%, while the United Kingdom witnessed an economic growth of 1.3% amid market uncertainties triggered by Brexit negotiations. Central Eastern Europe continued to remain the centre of economic expansion within the European Union.

Global inflation rates rose slightly compared to the year before, with the increase in price levels exceeding inflation targets in certain countries. In the course of 2018, the Fed raised its benchmark interest rate by 25-25 base points on four occasions, however, no further hikes are expected owing to the diminishing prospects of economic recovery. The European Central Bank reduced its net asset purchase programme, meanwhile maintaining an exceptionally supportive, loose monetary policy. Analysts expect the first interest rate hikes to be implemented in 2020.

In the foreign exchange markets, the EUR/USD exchange rate continuously decreased in the course of the year. From its level of around 1.25 in early 2018, the dollar strengthened to approximately 1.15 percentage point by the end of the year. The weakening of the euro was enhanced by deteriorating outlook for Eurozone growth.

Since 2013, the Hungarian economy has maintained a balanced and sustainable expansion with an average growth rate of 3%. In 2018, GDP improved substantially in comparison with the previous year mainly as a result of the cyclical absorption of EU funds. The upturn was also fuelled by a surge in domestic demand. The rise in consumption was generated by dynamic growth in real wages, high net financial wealth and the secondary effects of the housing market boom. In an international comparison, Hungary's economic expansion exceeded the European Union average in 2018, hence continually catching up with more advanced member states of the Union.

Table 2
GDP volume indices in the period 2013-2018

Same period of the previous year = 100.0

[1] Sources: Central Statistical Office (KSH), National Bank of Hungary, EUROSTAT, OECD

Year	Non-adjusted (raw) data (%)	Data adjusted for calendar effects (%)
2013	102.1	102.2
2014	104.0	103.9
2015	103.1	103.1
2016	102.0	101.8
2017	104.0	104.2
2018	104.9	105.0

Source: Central Statistical Office (KSH)

Furthermore, external and internal balances remained favourable. According to preliminary data on financial accounts, the 2018 budget deficit corresponded to 2.2% of the GDP, below the 2.4% target laid down in the budget act. In 2018, the rate of public debt decreased by 2.5 percentage points to 70.9%. Hungary's favourable economic processes and reduced vulnerability were acknowledged by international rating agencies as S&P and Fitch Ratings upgraded the country's debt rating from "BBB-" to "BBB".

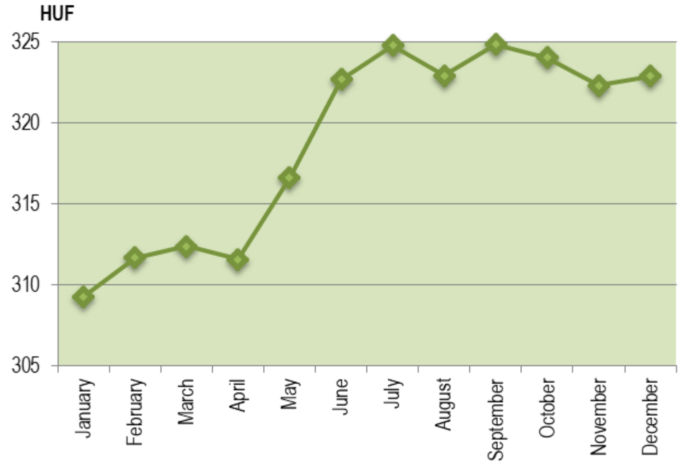
On the whole, it can be established that the persisting growth in fuel and natural gas consumption driven by economic expansion and a rise in domestic demand had a positive impact on the Association's finances. The favourable interest rate environment also contributed to the strengthening of the company's financial position (on the liabilities side).

The major planning conditions taken into account for the planning of the annual budget are summarised below.

1.3.1. Euro / Forint exchange rate

In 2018, the euro/forint exchange rate varied within the range of EUR/HUF 308-330, with an annual average exchange rate of EUR/HUF 318.87 exceeding the level forecasted in the budget plan (EUR/HUF 310). Following the appreciation of the forint in April, the exchange rate left the range of EUR/HUF 305-315 in May and continued to weaken to HUF 330 in July. Thenceforth, the exchange rate range advanced by HUF 10 varying in the range of HUF 315-325. On December 31, 2018, the closing rate stood at EUR/HUF 321.51, 3.7% higher than the closing rate of one year earlier.

Diagram 1
Monthly average EUR/HUF exchange rate in 2018



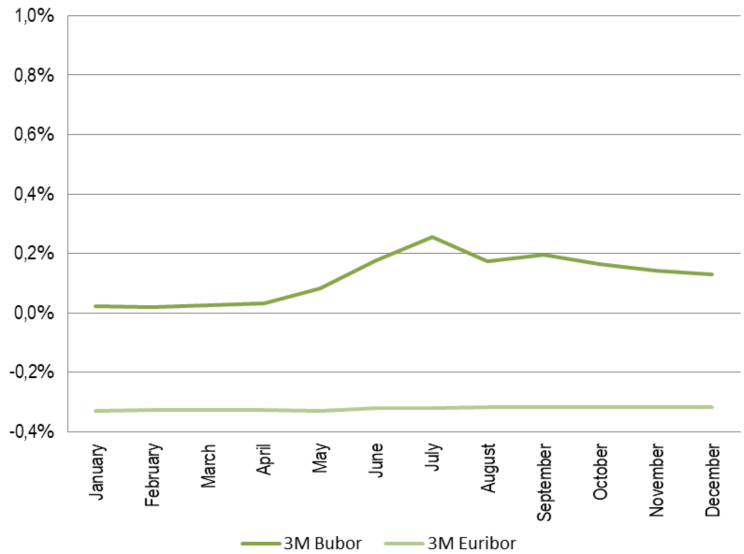
Source: National Bank of Hungary

1.3.2. Interest rate environment

In the course of 2018, major euro interest rates in the European Economic Area remained negative and failed to recover in spite of previous expectations. The annual average three month EURIBOR interest rate was -0.32%, therefore, its value determining the Association's quarterly interest payments pursuant to the loan agreements corresponded to 0, which equals to the budgeted value.

In 2018, the Monetary Council of the National Bank of Hungary did not modify the base rate, which stood at a constant level of 0.9% throughout the year. Nevertheless, costs of forint denominated financing continued to remain even lower, as a result of the non-conventional instruments of the central bank. The three month BUBOR rose from 0.03% at the beginning of 2018 to 0.13% by the end of the year, with an annual average of 0.12%.

Diagram 2
Indicative interest rates in 2018



Source: National Bank of Hungary, European Central Bank

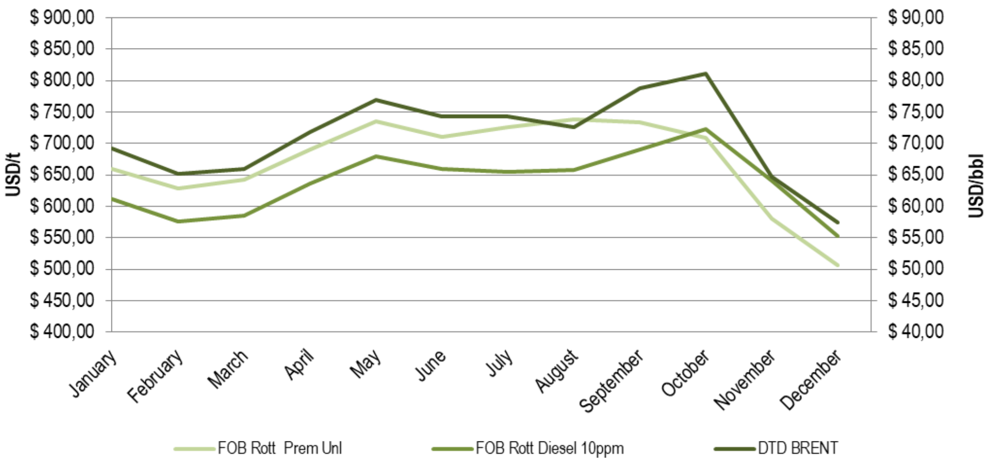
1.3.3. Price quotes of energy sources and products

In the first three quarters of 2018, the price of crude oil strengthened, bolstered by the extension of the former agreement on output cuts among OPEC and non-OPEC oil exporting nations as well as by the growth rate of the global economy. In early October, a further increase in the price of crude oil was triggered by concerns over reimposed US sanctions on Iran causing the loss of a considerable volume of oil from global supply potentially leading to the depletion of reserves as well as supply shortages in certain regions. Consequently, major oil producers, namely Saudi Arabia, Russia and the United States ramped up their production in order to offset the loss of Iranian crude oil output. Contrary to expectations, the sanctions on Iran proved to be less severe, thus the supply of crude oil decreased to a smaller extent. The United States midterm elections also exerted political pressure on the issue of oil production and oil prices. All these factors brought about serious oversupply in the market, which sent oil prices plunging. Following an opening price level of USD 69/bbl at the start of 2018, crude oil Brent price reached its annual peak at USD 81/bbl in October and closed the year at USD 57/bbl.

The prices of petroleum products followed the movements of crude oil prices as usual. In the European markets, the price of gas oil declined from the level of USD 610/ton to almost USD 550/ton, whereas the price quote for gasoline dropped from its opening price level of approximately USD 660/ton to around USD 500/ton by the end of the year.

Diagram 3

FOB Rotterdam product indices and Brent DTD crude oil indices in 2018



Source:www.pmc.platts.com

1.3.4. Domestic petroleum product consumption

In 2018, domestic fuel consumption sky-rocketed compared to previous years, showing an increase of 6.0% on 2017 levels, in which the 6.8% hike in gas oil demand played a major role. The motor gasoline market demonstrated an expansion of 4.0%. The upward trend was largely influenced by economic growth including the dynamic expansion of consumption in the construction industry, besides, retail consumption rose due to a further increase in real wages driven by the favourable economic environment.

According to data released in 2018 by the Hungarian Petroleum Association (hereinafter referred to as **"MÁSZ"**) representing the domestic retail turnover of major oil companies, gas oil sales rose by 8.9%, whereas gasoline consumption increased by 5.0% in comparison with the previous year. The figures indicate that member companies of MÁSZ achieved higher gas oil and gasoline turnover within the total fuel consumption in 2018.

In the course of 2018, kerosene consumption soared by 20.2% compared to a year earlier thanks to the boom in aviation, yet this bore no relevance to the Association's revenues due to contribution fee recoveries.

Consumption of fuel oils showed a considerable decline in comparison with previous years. Sales dropped by 54.5% compared to 2017. The volume of consumption sustained the downward trend of the previous years, and persisted at an exceptionally low level with a total annual volume of 5.6 tons.

Table 3

Consumption of petroleum products in the period 2014-2018

Unit: kt

Product group	2014	2015	2016	2017	2018	Change (2018/2017)
Gasoline	1 215.0	1 269.3	1 322.4	1 357.6	1 412.2	4.0%
Gas oil	2 977.7	3 240.2	3 337.8	3 461.9	3 698.0	6.8%
Fuel	**4 192.7**	**4 509.5**	**4 660.2**	**4 819.5**	**5 110.2**	**6.0%**
Kerosene	170.2	178.1	203.8	212.5	255.4	20.2%
Fuel oil	29.9	24.0	8.4	12.3	5.6	-54.5%
Total	**4 392.8**	**4 711.6**	**4 872.4**	**5 044.3**	**5 371.2**	**6.5%**

1.3.5. Natural gas prices

As of spring 2018, natural gas prices demonstrated an almost monotonous increase all around Europe. The rise in prices was driven by several factors. Gas storage facilities were depleted to an unusual extent as a result of the cold weather at the beginning of the year. With the arrival of the summer period, the gas storage facilities were injected with natural gas, thus generating surplus demand. A serious supply shortage was caused by the substantial cut in gas extraction from the European Union's largest natural gas field, the Dutch Groningen field owing to risks of earthquakes. The LNG dumping forecasted in the previous years failed to reach Europe, being absorbed by Asian and other emerging markets. Furthermore, 2018 faced an overall price increase in the energy market, led by crude oil prices rallying to four year high over the year, with the prices of carbon and carbon-dioxide quota sky-rocketing.

The oil-indexed price of Russian originated gas based on the average of the fuel oil and gas oil quotes in the nine months preceding the relevant quarter, which fundamentally determines the domestic wholesale price of natural gas, also demonstrated a growing trend. From a level of 22 EUR/MWh in early 2018, it hit its peak at 31 EUR/MWh in September, closing the year at 27 EUR/MWh.

The price of natural gas quoted at the Dutch stock market (TTF), which essentially defines European wholesale natural gas prices, followed the same trend below the oil-indexed level, rising from 18 EUR/MWh in early 2018 to 24 EUR/MWh by the end of the year.

Diagram 4
Natural gas prices in 2018

Source: www.indexmundi.com; www.theice.com

1.3.6. Domestic natural gas consumption

The annual data released by the natural gas transmission system operator (FRI) indicate that in 2018, the upward trend experienced in the natural gas market over the previous years made a U-turn, showing a decrease of 3.4% compared to 2017. The downward trend was fundamentally attributable to the temperature, that is, a milder heating period accompanied by lower temperatures in the early summer, the latter resulting in more moderate gas consumption of natural gas-fired power plants. Moreover, increased natural gas prices led to lower competitiveness of domestic power plants, which also contributed to the decline in natural gas consumption.

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

data in mcm

	2014	2015	2016	2017	2018	Change (%)				
						2014/ 2013	2015/ 2014	2016/ 2015	2017/ 2016	2018/ 2017
Volume	8 262.3	8 778.6	9 356.5	9 752.4	9 418.5	-8.5%	6.2%	6.6%	4.2%	-3.4%

2. Fulfilment of the stockpiling obligation

2.1. Volume of stocks

2.1.1. Crude oil and petroleum products

At the end of 2018, total gross inventory (including immobile stocks) of the Oil Section amounted to 1 378.8 kt corresponding to the net volume of 1 356.7 ktoe (reduced with immobile stocks) expressed in crude oil equivalent (hereinafter "ktoe"), the measurement unit used for the calculation of the stockpiling obligation. The volume of strategic stocks rose by 49 kt compared to opening stock levels at the beginning of the year. This increase was essentially caused by the procurement of 48 kt crude oil for the fulfilment of the stockpiling obligation. It was only slightly and transitionally influenced by increases in stock levels resulting from stock replenishments started in 2017 and completed in 2018 as well as from the ones started in 2018 and accomplished in 2019, in addition to discrepancies between start-of-year and year-end measurements due to the storage and transportation of stocks.

Table 5
Changes in stocks in the Oil Section in 2018

data in kt

Stocks	Opening stocks* 01/01/2018	Change within year relative to stock disposal and procurement in 2018 (balance of procurement and disposal)	Change within year relative to stock replenishments in 2018 (balance of procurement and disposal)	Closing stocks* 31/12/2018	Change in stocks due to storage and manipulation (loss/surplus)
Crude oil	566.2	48.0	-5.9	608.5	0.2
Gasoline	268.8	0.0	0.1	268.9	0.0
Gas oil	494.8	0.0	6.4	501.4	0.2
Total	**1 329.8**	**48.0**	**0.6**	**1 378.8**	**0.4**

**inventoried gross volume of stocks*

Under 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 calendar year. For the above calculation, the balance of exports and imports of refinery feedstocks[2] adjusted for change in stocks is further adjusted for the annual domestic naphtha yield[3], to which the net imports of petroleum products[4] 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.

The data for the year 2017, which forms the basis of the calculation of net imports required to establish the stockpiling obligation for 2018, is illustrated by Table 6 below.

[2] Refinery feedstocks:crude oil, natural gas condensates (NGL), raw material for refineries, additives, oxygenates, other carbohydrates.

[3] The yield reduced by return stream to refineries from chemical industrial production.

[4] 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 conent (sulphur content higher than1%), white spirit and other special gasoline, lubricants, bitumen, paraffin waxes, petroleum coke, othe refinery products.

Table 6
Calculation of stockpiling obligation in 2018

Refinery feedstocks		*kt*
a	Imports of refinery feedstocks	6 172
b	Exports of refinery feedstocks	184
c	Change in inventory of refinery feedstocks	12
	a-b+c	6 000
Petroleum products		*kt*
d	Imports of petroleum products	3 210
e	Exports of petroleum products	3 176
f	Change in inventory of petroleum products	-9
	d-e+f	25
Calculation of naphtha yield		*kt*
h1	Naphtha production	879
h2	Return stream to refineries from industrial production	235
h3	Refinery feedstocks used	7 294
h	Naphtha yield (%) (h1-h2)/h3*100	8.8
g	1-h/100 or 0.96 if h<7%	0.912
Net imports		*ktoe*
N	Annual net imports (a-b+c)*g + (d-e+f)*1.065	5 497
A	Average daily net imports (N/365)	15.1
	90 days' net imports: A*90	1 355

Based on net imports in 2017, which amounted to 5 497 kt expressed in crude oil equivalent, the 90 days' stockpiling obligation equalled to 1 355 ktoe for the period between April 1, 2018 and March 31, 2019 set out in the legislation.

The volume of opening stocks in 2018 corresponded to only 87 days' net imports, therefore, the Association, authorised by Decision No. 5/2018 (28/03/2018) of the Board of Direction, procured 48 kt of crude oil in order to fulfil the 90 days' stockpiling obligation.

Table 7
Net closing stocks on December 31, 2018 and the number of stock days

	Net volume (without immobile stocks)	
	kt	*ktoe*
Crude oil	608.0	525.3
Petroleum products	769.8	831.4
Total	**1 377.8**	**1 356.7**
Number of stock days	**90**	

2.1.2. Natural gas

Pursuant to Decree No. 13/2015 (31/03/2015) of the Ministry of National Development "on the Extent of Strategic Natural Gas Storage", the mandatory level of the strategic natural gas stock was set out at 12 723 644 MWh (1 200 mcm) as of October 31, 2017. This value remained unchanged throughout 2018. Due to the failure of two authorised natural gas traders to provide gas, the Association withdrew 18 301 MWh natural gas in October and December 2018 in accordance with the resolutions of the Hungarian Energy and Public Utility Regulatory Authority (hereinafter referred to as **"HEA"**) in order to supply the customers of the natural gas traders concerned. Under the resolutions of HEA, the Association is obliged to replenish the withdrawn volume of natural gas by the end of the 2019 injection period. On January 1, 2018, the opening stock of the Gas Section corresponded to 12 723 644 MWh (1 200 mcm), whereas its closing stock totalled 12 705 343 MWh (1 198.3 mcm) on December 31, 2018.

Table 8

Stock levels of the Gas Section in 2018

	Opening stock 01/01/2018		**Change within year (balance of procurement and disposal)**		**Closing stock 31/12/2018**	
	mcm	MWh	mcm	MWh	mcm	MWh
Natural gas stock	1 200.0	12 723 644	-1.7	-18 301	1 198.3	12 705 343

2.2. Storage of stocks

The Association holds its stocks in the framework of custody agreements. On December 31, 2018, the stocks were stockpiled in the following storage facilities:

Table 9

Inventoried gross volume of crude oil and petroleum product stocks at storage plants

data in kt

Storage company	Storage plant	Gasoline	Gas oil	Crude oil
OPAL Szolgáltató Zrt.	Százhalombatta			303.8
	Tiszaújváros	14.0	15.9	285.7
	Celldömölk	44.5	49.7	
	Vámosgyörk	29.2	66.7	
	Pétfürdő	29.7	83.7	
	Szajol	14.7	27.1	
	Komárom		14.0	
OPAL Szolgáltató Zrt. in total		**132.1**	**257.1**	**589.5**
MOL Nyrt.	Százhalombatta			9.3
	Tiszaújváros		14.3	9.7
MOL Nyrt. in total		**0.0**	**14.3**	**19.0**
Terméktároló Zrt.	Tiszaújváros	87.9	108.1	
	Komárom	17.0		
	Szajol	31.9	121.9	
Terméktároló Zrt. in total		**136.8**	**230.0**	**0.0**
Altogether		**268.9**	**501.4**	**608.5**

Table 10

Inventoried volume of gas stock at the storage plant

Storage company	Storage plant	Volume	
		mcm	kWh
MMBF Zrt.	Szőreg I.	1 198.3	12 705 343 000

3. Fulfilment of the budget

The budget of the Association is composed of a special structure due to the cash accounting principle applied for the calculation of contribution fee revenues. Besides, it differs from the business plan model utilised by business entities. As a result, the report on the fulfilment of the business plan is also different from the structure used 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 the fulfilment of the budget.

Sections (2) and (3) of Article 37 of the Oil Stockpiling Act lay down that the Association's annual finances and assets also have to be demonstrated in the Balance Sheet and the Profit and Loss Statement prescribed in Act C of 2000 on Accounting (hereinafter referred to as **"Accounting Act"**).

The two structures differ significantly, with the Budget Report representing the Association's objectives, thus, this chapter focuses on the fulfilment and the evaluation of the latter. The differences between the Budget Report and the Profit and Loss Statement set out by the Accounting Act are described through the derivation of profit before taxation in compliance with 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 compiled in line with the Accounting Act.

3.1. Profit at the budget level

Table 11
Profit at the budget level

data in HUF million

	OIL SECTION			GAS SECTION			TOTAL		
	2018 plan	2018 actual	actual/plan	2018 plan	2018 actual	actual/plan	2018 plan	2018 actual	actual/plan
Gross contribution fee revenue	15 497.1	16 818.5	109%	29 128.1	29 787.6	102%	44 625.2	46 606.1	104%
Contribution fee refund	-620.5	-729.0	117%	-12 762.4	-13 031.0	102%	-13 382.9	-13 760.0	103%
NET CONTRIBUTION FEE REVENUE	**14 876.6**	**16 089.5**	**108%**	**16 365.7**	**16 756.6**	**102%**	**31 242.3**	**32 846.1**	**105%**
Storage and stock maintenance costs	-13 845.2	-13 988.0	101%	-15 266.4	-15 534.3	102%	-29 111.6	-29 522.3	101%
Interests due, other costs	-577.4	-408.9	71%	-942.4	-667.1	71%	-1 519.8	-1 076.0	71%
Proceeds from capacity disposal	0.0	0.0	-	233.0	235.0	101%	233.0	235.0	101%
Interests received	10.0	10.0	100%	5.0	11.4	228%	15.0	21.4	143%
NET STOCKPILING COSTS	**-14 412.6**	**-14 386.9**	**100%**	**-15 970.8**	**-15 955.0**	**100%**	**-30 383.4**	**-30 341.9**	**100%**
OPERATING EXPENSES OF HUSA	**-295.0**	**-276.2**	**94%**	**-295.0**	**-276.2**	**94%**	**-590.0**	**-552.4**	**94%**
TOTAL NET EXPENDITURES	**-14 707.6**	**-14 663.1**	**100%**	**-16 265.8**	**-16 231.2**	**100%**	**-30 973.4**	**-30 894.3**	**100%**
2017 budget reserve	4 485.1	4 462.0	99%	3 918.5	4 932.0	126%	8 403.6	9 394.0	112%
Dividends received	1 230.7	2 777.0	226%	2 631.3	2 994.0	114%	3 862.0	5 771.0	149%
Prepayment of stock financing loans	-5 715.8	-1 047.3	18%	-6 549.8	0.0	0%	-12 265.6	-1 047.3	9%
Procurement of crude oil stocks	0.0	-6 410.0	-	0.0	0.0	-	0.0	-6 410.0	-
SURPLUS/UTILISATION OF RESERVE	**0.0**	**-218.3**	**-**	**0.0**	**7 926.0**	**-**	**0.0**	**7 707.7**	**-**
BUDGET RESULT	**169.0**	**1 208.1**	**715%**	**99.9**	**8 451.4**	**8 462%**	**268.9**	**9 659.5**	**3 593%**

The 2018 budget of the Association was elaborated in compliance with the new rules of finances. Accordingly, net expenditures of the company (net stockpiling and financing costs as well as the Association's operating expenses) have to be covered from net contribution fee revenues. The budget reserve of the previous year and the dividend income of the current year are utilised to make early repayments on the Association's loans.

3.2. Net contribution fee revenues

The General Meeting of HUSA approved the modifications in product group specific unit contribution fee levels in the two Sections effective as of January 1, 2018. Accordingly, product group specific unit contribution fee levels in 2018 are shown in the table below:

Table 12

Contribution fees in 2018

Product	Unit	01/01/2018 - 31/12/2018	Combined nomenclature
Gasoline type fuel	HUF/1000 $litres_{15}$	2 674	2710 1231 , 1241, 1245, 1249, 1251, 1259, 1270
Kerosene	HUF/1000 $litres_{15}$	2 232	2710 19 21
Gas oil	HUF/1000 $litres_{15}$	2 505	2710 1943, 1946, 1947, 1948, 2011, 2015, 2017, 2019
Fuel oil	HUF/ ton	2 303	2710 19 62, 1964, 1968, 2031, 2035, 2039
Natural gas	HUF/ MWh	292.13	2711 1100, 2711 2100

In 2018, members of the Oil Section paid HUF 16 089.6 million in contribution fees to HUSA exceeding the revenue planned for 2018 (HUF 14 876.6 million) by 8.2% as fuel consumption proved to be considerably more favourable than projected.

In the course of 2018, member companies reclaimed altogether HUF 729.0 million contribution fee payments on 257.65 kt of petroleum products. The majority of the recoveries related to petroleum products applied for the operation of aircrafts engaged in international aviation, whereas a smaller proportion concerned aviation fuel utilised by the Hungarian Defence Force as well as non-energy related use.

As for the Gas Section, net contribution fee revenues, namely, non-household contribution fee revenues reduced with contribution fees paid on natural gas utilised as feedstocks for the chemical industry, totalled HUF 16 756.6 million (contribution fee revenues of HUF 16 753.3 million and late payment interests of HUF 3.3 million) in 2018, which was 2.4% higher than the forecasted level of HUF 16 365.7 million. The minimal discrepancy from the plan arose from the fact that the 2016 consumption figures were used for the planning of the 2018 budget in order to filter the impact of the especially cold winter weather experienced during the 2016/2017 heating period, besides, consumption subject to net contribution fee payment turned out according to plan.

In 2018, member companies reclaimed altogether HUF 13 031.0 million contribution fee payments on 3 495.0 mcm of natural gas sold to households and on 703.5 mcm of natural gas utilised as feedstocks for the chemical industry.

Total net contribution fee revenues of the two Sections accounted for HUF 32 846.1 million, which exceeds the projected amount (HUF 31 242.3 million) by 5.1%.

3.3. Net stockpiling costs

3.3.1. Storage and stock maintenance costs

In the Oil Section, annual storage and stock maintenance costs in 2018 amounted to HUF 13 988.0 million, HUF 142.8 million above the expected level. The discrepancy is attributable to the unplanned, additional costs related to the storage of the crude oil stock procured in order to fulfil the stockpiling obligation.

In the Gas Section storage costs accounted for HUF 15 534.3 million, which exceeded the projected amount by HUF 267.9 million. Back in 2017, the Association initiated the reduction of the custody fee stipulated in the long-term custody agreements with reference to altered market conditions. Based on highly-progressed negotiations, until the conclusion of the agreement HUSA planned the storage costs of the strategic natural gas stock for 2018 on the basis of the previous year at an unmodified fee. However, no agreement was reached with the majority owner of MMBF Zrt., therefore the custody fee was indexed in accordance with the agreement in force, resulting in higher than anticipated storage costs.

Total storage costs of the two Sections amounted to HUF29 522.3 million.

3.3.2. Financing costs

The major part of financing costs include the interest on stock financing loans, whereas the smaller part is composed of other costs related to loan agreements. The actual sum of interest costs (HUF 1 076.0 million) remains below the amount projected in the budget plan (HUF 1 519.8 million) due to the combination of the factors below:

- The average interest premium proved to be lower than projected, as the Association benefited from the favourable bids it received in response to the call for tenders for the refinancing of loans due to reach maturity in the course of 2018. In addition to refinancing its maturing loans, HUSA made early repayments on its loans expiring at a later maturity date by taking out new loans with longer durations and lower interest premiums.
- The above positive impacts were partially offset by the less advantageous EUR/HUF exchange rate and the higher than planned average debt level.

3.3.3. Proceeds from capacity disposal

From the secondary disposal of interruptible injection and withdrawal capacities booked in the gas storage facility, the Association earned proceeds of HUF 235 million, which exceeded the expected level by HUF 2 million owing to the weaker EUR/HUF exchange rate.

3.3.4. Interest revenues

Revenues of HUF 21.4 million were derived from the fixed term deposits of the temporary surplus of liquid assets, which was HUF 6.4 million above the budgeted figure. Even though returns on risk free investments persisted at a significantly low level, higher than planned interest revenues were generated as the level of liquid assets exceeded the forecasted level.

3.4. Operating expenses

Operating expenses remained well below the anticipated level, with only 93.6% of available funds utilised. In 2018, actual operating expenses totalled HUF 552.4 million, HUF 37.6 million lower than planned (HUF 590 million).

In terms of material and material type costs, fuel costs and utility fees did not reach the level approved in the budget.

Personnel expenses were kept within the allocated budget.

Expenditures indicated in the entry services used also remained below the projected level. The expenses of repairs and maintenance, telecommunication, office rent and legal services were successfully curtailed compared to the budgeted level, however, this reduction was in part counterbalanced by the additional costs of consultancy fees related to the acquisition of MFB Zrt.'s 51% participation in MMBF Zrt.

Regarding other costs, the Association cut spending on insurance premiums and bank transaction fees.

Other expenditures proved to be lower than expected as a certain part of expenses planned for the development and operation of the Member Registration Information Technology System (TIR) taken over from the National Tax and Customs Administration of Hungary did not arise in the course of 2018.

No tangible asset of significant value was procured in 2018.

Table 13
Main cost elements

data in HUF million

	2018		
	plan	**actual**	**actual/plan**
Raw materials and consumables, material costs	5	4	80%
Personnel expenses	410	394	96%
Services used*	150	147	98%
Other costs	10	7	70%
Other expenditures	10	0	0%
Procurement and disposal of tangible assets	5	0	0%
Total	**590**	**552**	**94%**

**Services used contain operating expenses, which appear in the budget result, excluding storage costs*

3.5. Utilisation of budget reserve/surplus

The Association's 2018 budget was compiled in a manner that the 2017 budget reserve and the dividend income of the current year are utilised for the prepayment of loans. Recorded on both the income and the expenditure sides, they are considered „interim" items.

In 2018, the amount of the actually realised budget reserve and dividend income surpassed the level projected in the budget planning period.

- Upon approval of the 2018 budget, preliminary data on the 2017 budget reserve was available, in which HUF 8 403.6 million budget reserve was projected. However, the actual 2017 budget reserve turned out to be HUF 909.4 million higher (HUF 9 394.0 million). While the Oil Section achieved approximately the forecasted level (HUF -23.1 million), the surplus was essentially generated by higher budget reserve in the Gas Section as natural gas consumption appeared more favourable than anticipated.
- In the Oil Section, as regards OPAL Szolgáltató Zrt., HUF 980 million dividend was predicted, nonetheless, the Association decided on a dividend withdrawal of HUF 2 500 million. In the case of Terméktároló Zrt., actual dividend

income (HUF 277 million) also exceeded the anticipated level (HUF 251.7 million). In the Gas Section, dividend income received from MMBF Zrt. (HUF 2 994 million) was HUF 362.7 million above projection.

In compliance with Point b of Decision No. 2/2018 (25/05/2018) of the General Meeting of the Association, the unplanned crude oil procurement (HUF 6 410 million) in the Oil Section was financed from the 2017 budget result (HUF 4 462 million) as well as from a certain part of the dividend income of the current year (HUF 2 777 million). HUF 1 047.3 million was utilised for the prepayment of loans, derived partly from reserves not used for crude oil procurement, partly from liquid assets available due to the 2018 budget surplus of the Oil Section.

In the Gas Section, pursuant to Point c of Decision No. 2/2018 (14/12/2018) of the General Meeting, the 2017 budget reserve (HUF 4 932 million) and the 2018 dividend income (HUF 2 994 million) were not utilised for the early repayment of the Association's existing loans until the end of 2018 in order to ensure a balanced budget in 2019, to guarantee an unmodified level of unit contribution fee and to dispose of available own sources required for the potential acquisition of MMBF.

3.6. Budget result

In the Association's Budget for 2018, HUF 268.9 million budget reserve was targeted. The actually realised budget reserve corresponded to HUF 9 659.5 million, HUF 9 390.6 million above expectations. The Oil Section closed the year with a budget reserve of HUF 1 208.1 million, whereas the budget reserve of the Gas Section amounted to HUF 8 451.4 million at the end of 2018 as follows:

- In the Oil Section, the budget reserve of HUF 1 208.1 million was substantially, that is, HUF 1 039.1 million above the forecasted level (HUF 169 million). The positive impact of higher than predicted net contribution fee revenues and savings on financing costs as well as on operating expenses was partially offset by additional storage and stock maintenance costs.
- In the Gas Section, the actual budget result (HUF 8 451.4 million) surpassed the level targeted for 2018 (HUF 99.9 million) by HUF 8 351.5 million as a result of delayed loan prepayments. With the exclusion of this impact, the budget result would amount to HUF 525.4 million, HUF 425.5 million above the projected level. The surplus was primarily caused by higher net contribution fee revenues as well as by savings on financing costs and operating expenses.

3.7. Profit before taxation, profit after taxation, capital reserve

Besides revenues and expenses demonstrated in the budget structure, the revenues and expenses of further economic events (disposal of stocks, procurement of tangible assets as well as other events not planned in the budget or not involving transfer of funds) have to be taken into consideration in the Profit and Loss Statement compiled in compliance with the Accounting Act. Moreover, they have to be adjusted for items entailing transfer of funds and impacting the budget result, which do not appear in the Profit and Loss Statement, as in the accounting they are booked against the balance sheet (prepayment of loans, procurement of stocks etc.).

Profit before taxation under the Accounting Act is obtained from the budget result adjusted for the items detailed as follows. In the case of HUSA, profit before taxation corresponds to profit after taxation as the Association is not subject to Act LXXXI of 1996 on Corporate Tax and Dividend Tax.

Table 14
Profit before taxation/capital reserve 2018

HUF million

Profit at the budget level		**9 660**
Without an impact on accounting earnings	Budget reserve	-9 394
	Procurement of crude oil stocks	6 410
	Prepayment of stock financing loans	1 047
	Stock maintenance costs (items increasing the value of stock procurement)	1 497
Items not involving transfer of funds with an impact on accounting earnings	Profit/loss from stock disposal and stock replenishment	86
	of which: Stock replenishment of crude oil	
	revenue	*25 039*
	costs	*25 044*
	profit/loss	*-5*
	Stock replenishment of gas oil	
	revenue	*16 040*
	costs	*16 078*
	profit/loss	*-38*
	Stock replenishment of gasoline	
	revenue	*9 701*
	costs	*9 624*
	profit/loss	*77*
	Sale of natural gas	
	revenue	*169*
	costs	*117*
	profit/loss	*52*
	Creation of impairment (inventory)	-2 256
	Reversal of impairment (inventory)	1 373
	Realised/unrealised exchange rate variations of foreign exchange loans and foreign exchange	-5 166
	Impairment of receivables	-30
	Derecognition of tangible assets, adjustment of profit and loss	-12
	Surplus (inventory)	11
	Depreciation	-6
Adjusting entries in total		**-6 440**
Profit after taxation/ capital reserve		**3 220**

3.7.1. Items involving transfer of funds without an impact on accounting earnings

3.7.1.1. Budget reserve in 2017

The budget reserve of HUF 9 394 million carried forward from 2017 was recorded as an income in the Budget for 2018, however, it does not qualify as income from an accounting point of view, thus reducing accounting earnings.

3.7.1.2. Procurement of stocks

In 2018, 48 kt of crude oil was procured by the Association at the expense of HUF 6 410 million recorded in the budget result as an expenditure. Nevertheless, it does not impact accounting earnings, therefore, accounting earnings have to be increased with this item.

3.7.1.3. Prepayment of loans

In 2018, the Association spent HUF 1 047 million on the early repayment of its loans, which appear in the budget result as an expenditure, yet it does not affect accounting earnings, thus accounting earnings have to be raised with this amount.

3.7.1.4. Stock maintenance costs

The costs of stock maintenance (premium price and delivery costs of fresh products) totalled HUF 1 497 million in 2018. This item belongs to the expenditure side of the budget result, however, it does not impact accounting earnings (with respect to increasing the historical cost of stocks), accordingly, it raises accounting earnings.

3.7.2. Items not involving transfer of funds with an impact on accounting earnings

3.7.2.1. Disposal, procurement and replenishment of stocks

In 2018, accounting earnings from petroleum product stock replenishments (disposal and procurement) and the sale transaction of the natural gas stock totalled HUF 86 million. The average market prices of the sales were realised at a level below the prices of the stocks in question registered at clearing price, that is, at average purchase price, consequently, losses were incurred. (When accounting for stock replenishments and sale transactions of stocks, the selling price of the sold stocks appears as income, whereas the value of the sold stocks registered at clearing price is booked on the expenditure side. The difference between the two values is considered earnings from an accounting point of view, therefore, it has to be taken into account in the Profit and Loss Statement.) Nevertheless, during the approval of the 2017 Annual Report, this item was already recorded, since impairment was booked in 2017 for the expected losses resulting from stock replenishments carried out in 2018. Upon the actual implementation of the stock replenishments, the impairment accounted for in 2017 was derecognised as part of COGS, offsetting the losses recognised on stock replenishments. As a consequence, proceeds from stock disposals and stock replenishments totalled HUF 86 million.

In the frame of stock replenishments in 2018, the Association sold 58.2 kt of motor gasoline and103.4 kt of gas oil, whereas it purchased 58.3 kt of motor gasoline as well as 109.8 kt of gas oil. In relation to the stock replenishments, HUSA also procured 223.6 kt of crude oil and sold 217.7 kt for coverage purposes. The discrepancy between the sold and procured stock volumes, which arose in the course of the stock replenishments, is attributable to the transactions started in 2017 and finalised in 2018 as well as from transactions initiated in 2018 and finalised in 2019.

3.7.2.2. Creation of impairment

As of 2018, a new methodology was elaborated for the valuation of stocks. The Oil Stockpiling Act and the Statutes prescribe the mandatory stock replenishment of stored petroleum products every six years. On account of this unique feature, for the valuation of crude oil and petroleum product stocks on the year-end balance sheet date the market price is determined based on the average of the quotes of the current year and the quotes of the preceding five years. The calculation is prepared for the total volume of stocks of each product group. As a result of the introduction of the six-year average price, HUF 2 256 million impairment was booked.

3.7.2.3. *Reversal of impairment*

HUF 1 373 billion reversal of impairment was recorded among other income, which corresponds to the residual value of impairment recognised at the end of 2017 for the losses in relation to stock replenishments implemented in the course of 2018, not released in connection with the actual stock replenishments carried out in 2018 as the stock impaired in 2017 was not fully sold. With the introduction of the new valuation method, the aforementioned item was derecognised, and impairment was created for the complete inventory at the end of 2018 based on the new methodology explained above.

3.7.2.4. *Foreign currency loans, exchange rate variations of foreign exchange*

The exchange rate difference accounted for in the course of the year (upon refinancing) and the exchange rate difference booked when translated to the exchange rate on the year-end balance sheet date triggered altogether HUF 5 166 million exchange rate loss in 2018. This value impacts accounting earnings only, with no influence on the budget.

3.7.2.5. *Impairment of receivables*

Impairment of receivables qualifies as an expenditure from an accounting perspective, however, it does not entail cash expenses, therefore, it does not affect accounting earnings. In 2018, impairment of receivables amounted to HUF 30 million.

3.7.2.6. *Procurement/disposal of tangible assets, profit and loss adjustment*

The procurement of tangible assets involves cash expenditure, thus appearing in the budget result. Nevertheless, it does not diminish accounting earnings as it is recognised in the balance sheet. Tangible asset purchases reduce accounting earnings through depreciation. In the case of disposal of tangible assets, the derecognition of the book value of the asset to be sold does not incur cash expenditure, yet, it does decrease accounting earnings.

3.7.2.7. *Stock surplus*

The surplus of stocks within the norm, which occurred in the year-end inventory, was recorded in the Profit and Loss Statement under the heading cost of goods sold as an entry increasing accounting earnings.

3.7.2.8. *Depreciation*

From an accounting point of view, depreciation qualifies as a cost. Nevertheless, as it does not entail cash expenditure, it does not form an element of the budget structure.

Overall, the balance of adjusting entries equals to HUF -6 440 million (HUF -440 million entries involving transfer of funds not impacting accounting earnings plus HUF -6 000 million adjusting entries not involving transfer of funds). Reducing the budget result (HUF 9 660 million) with this amount, we receive the profit before taxation in accordance with the Accounting Act (corresponding to the profit after taxation), which accounts for HUF 3 220 million.

4. 2018 Balance Sheet, financial position

4.1. 2018 Balance Sheet

The year-end balance of assets and liabilities was HUF 347 352 million. Non-current assets amounted to HUF 27 942 million, the majority thereof constituted by the net value of HUSA's participations in affiliated companies

The value of current assets totalled HUF 319 391 million, of which the book value of stocks corresponded to HUF 300 953 million. Receivables added up to HUF 5 880 million, whereas cash and cash equivalents made up HUF 12 558 million.

The value of accrued and deferred assets equal to HUF 19 million.

As regards the Association's liabilities, the value of equity corresponded to HUF 196 768 million, which comprises the profit and loss realised in previous years as well as in 2018, accounted for in compliance with the Accounting Act.

Liabilities totalled HUF 150 506 million with short-term liabilities corresponding to HUF 35 727 million, the major part thereof (HUF 33 437 million) composed of short-term loans and portions of long-term loans reaching maturity in 2018. Trade payable represented altogether HUF 1 625 million, including HUF 1 226 million liabilities to affiliated companies and HUF 390 million liabilities to companies linked by virtue of major participating interests. Meanwhile, other liabilities added up to HUF 665 million.

Accruals and deferred income totalled HUF 67 million, the majority thereof contains the proportion of the proceeds from the secondary disposal of interruptible injection and withdrawal capacities booked in the storage facility due in 2019.

The 2018 Balance Sheet and Profit and Loss Statement are contained in the Association's Annual Report.

4.2. Financial position, liquidity

As indicated by the figures of the 2018 Balance Sheet and the related Supplementary Notes, the Association's financial position is stable overall as well as in terms of the given maturity horizons. At all times, the Association possessed adequate amount of liquidity to perform its activities and met its payment obligations accurately by the due date.

On December 31, 2018, the book value of inventories equalled to HUF 300 953 million. The total actual principal of the stock financing loans was EUR 461 million (HUF 148 216 million) [5].

The market value of the above stocks corresponded to HUF 335 486 million on December 31, 2018.

[5] Calculation based on the exchange rate of the National Bank of Hungary on December 31, 2018

Table 15

Loans of the Association on December 31, 2018

Foregin exchange loans	Interest rate	Average interest surcharge	Credit line	Amount drawn
Stock financing loans	EURIBOR	0.53	461.0	461.0
Total EUR million			461.0	461.0
Total HUF million			*148 216.0*	*148 216.0*

The changes in the Association's financial position over the past five years are demonstrated by the indicators below:

Table 16

Main indicators of the Association's financial position

	2014	2015	2016	2017	2018	Value of 2018 indicators projected to base
Equity ratio (%) Equity / Total sources	63	63	62	56	57	102%
Liquidity ratio (%) Liquid assets+receivables / Short-term liabilities	41	46	36	53	52	98%
Indebtedness ratio (%) Liabilities+Accruals and deferred income / Equity	59	59	61	79	77	97%

5. Activity of affiliated companies in 2018

5.1. Affiliated companies of HUSA

Participations of the Association are indicated in Table 17 below:

Table 17
Affiliated companies of HUSA (December 31, 2018)

Company name	Ownership ratio of HUSA (%)	Value of participation (HUF million)
OPAL Szolgáltató Zrt.	100.0	15 138
Terméktároló Zrt.	25.9	8
MMBF Földgáztároló Zrt.	49.0	12 751
Total		**27 897**

By virtue of its participations in the storage companies, the Association is entitled to take part in the management of the companies and perform professional monitoring of their operations. Moreover, as a part owner of these permanently stable, highly 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 as follows.

5.2. Storage companies

OPAL Szolgáltató Zrt.

In 2018, the share capital of OPAL Szolgáltató Zrt. was HUF 4.7 bn. HUSA holds 100% ownership in the company, which was established with the merger of Kőolaj Tároló Zrt., IPR Vámosgyörk Zrt. and Péti Terminál Tároló Kft. and has been in operation in its present form since December 1, 2007. At its five storage sites, the total storage capacity owned by OPAL Szolgáltató Zrt., adequate for the stockpiling of strategic stocks, comprises 480 tcm crude oil and 380 tcm fuel storage capacities. In 2018, in addition to the company's own storage capacity, 235 tcm crude oil and 120 tcm fuel storage capacities were rented, of which 175 tcm crude oil storage capacity has been rented by OPAL Szolgáltató Zrt. since the third quarter of 2018 with regard to the need for further storage capacities due to the amendment to the custody agreement concluded between OPAL Szolgáltató Zrt. and the Association.

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

The company was founded by HUSA with a capital stock of HUF 1 bn in 2006 in order to facilitate the fulfilment of the Association's obligations laid down in the Gas Stockpiling Act, initially in the framework of a project, subsequently, as a storage company.

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

On December 30, 2013, MOL Nyrt. sold its participation in the company to Magyar Fejlesztési Bank Zrt. (Hungarian Development Bank Nyrt.) (hereinafter referred to as **"MFB Zrt."**) and to HUSA. As a result of the transaction, MFB Zrt. became the majority owner of the company (51%), whereas the Association's participation rose from 27.54% to 49%.

As of December 15, 2009, the storage facility has the capacity to store a strategic natural gas stock of 1 200 mcm in conformity with the custody agreement. In 2018, the level of the strategic natural gas stock was replenished in accordance with legal requirements, thus the available storage capacity has been fully exploited ever since.

Terméktároló Zrt.

Terméktároló Zrt. was established by MOL Nyrt. and the Association. In 2014, its capital stock of HUF 1 620 million was reduced to HUF 32.4 million by the shareholders through withdrawal of equity. The reason for the capital reduction was that Terméktároló Zrt. was unable to realise high-yield investments, besides, its operation was stable and financially secured in the long term, therefore, it did not require a high capital stock. The Association's participation remained 25.9%, which currently corresponds to HUF 8.4 million.

The company owns storage capacities of 330 tcm in Tiszaújváros and Szajol. In 2018, HUSA utilised 490 tcm storage capacity as stipulated by the custody agreement. The additional tank capacity required for the storage of the product stock guaranteed in the custody agreement is rented by Terméktároló Zrt. from MOL Nyrt., secured with long-term contracts.

5.3. Activity and financial position of affiliated companies in 2018

Available data and information on the performance of the storage companies in 2018 indicate that they duly fulfilled their contractual obligations. Loan repayments are consistent and the financial positions of the companies are satisfactory.

In 2018, HUSA received HUF 2 500 million dividend from OPAL Szolgáltató Zrt., HUF 277 million from Terméktároló Zrt. and HUF 2 994 million from MMBF Zrt. after their 2017 business year in line with the Association's ownership ratio in the companies. The profit and loss and changes in equity of the affiliated companies are contained in the Supplementary Notes.

6. Inspection activity in 2018

The inspection activity of HUSA includes two major fields:

- Supervision of contribution fee payments, which provide the Association's basic revenue source, with respect to ensuring that the calculation and payment of fees fulfil the requirements set out in the Oil Stockpiling Act, the Gas Stockpiling Act and the Statutes.
- Conducting inspections at the storage companies, which are in contractual relations with the Association, as well as at their storage sites in order to guarantee the fulfilment of their obligations laid down in the storage agreements, including the adequate quantitative and qualitative preservation of the emergency stocks owned by the Association.

6.1. Inspection of contribution fee payments

The Association conducts its inspection activity according to the risk rating of member companies' contribution fee payments. Lower-risk companies are inspected in the frame of biannual administrative reviews, higher-risk companies are inspected on-site on a two-year cycle, whereas particularly high-risk members receive annual on-site inspections. The risk ratings of member companies were established based on objective criteria, in consideration of relevant information and data on contribution fee payments as well as experience gained through communication and during on-site inspections. In 2018, the Association conducted inspections in the case of 47 member companies.

In addition to planned annual inspections, HUSA inspected the mandatory submission of contribution fee declarations, data disclosure as well as the fulfilment of contribution fee payments at all member companies on a regular monthly basis.

In the Oil Section, a maximum of one or two days' delay in payment occur in the case of one to four members monthly, arising primarily from inattention as well as from the divergence between the last day and the last working day of the month. Two companies were sent collection letters, both having settled their payment obligations subsequently. On December 31, 2018, the member companies of the Oil Section held HUF 6.0 million overdue debts in total, all resulting from one or two days' delay in payments.

In the Gas Section, five member companies received collection letters in the course of 2018 owing to regular late payment. Apart from two members, the companies fulfilled their payment obligations. In the case of the two member companies, forcible collection of debts is in process at the National Tax and Customs Administration. On December 31, 2018, member companies of the Gas Section held HUF 153.1 million overdue debts, HUF 125.1 million thereof was in the process of forcible collection.

6.2. Inspection of storage companies and storage sites

Another key area of HUSA's inspection activity involves controlling the strategic stocks and the proper fulfilment of the stockpiling conditions in line with the storage agreements concluded with the storage companies, the relevant legislations and the Statutes.

The Association requires the storage sites to provide regular reports on the volume and quality of strategic stocks, on the adequacy of stockpiling conditions as well as on the proper fulfilment of technical, security and environmental requirements at the storage sites, and reviews these annually in the framework of on-site inspections. The findings of the reviews are registered by the Association's inspectors in inspection records.

The information system for the registration of strategic stocks (ONYIR) provides substantial support in the quantitative monitoring of crude oil and petroleum product inventories. Based on various parameters, it enables chronological queries for the analysis of changes in stocks and for the monitoring of stock movements. ONYIR automatically receives the tank measurement data on the Association's crude oil and petroleum product inventories from the registration systems of the storage companies on a daily basis as well as records the major parameters of custody agreements. The volume of natural gas stocks is monitored through the information technology platform of MMBF Zrt., which provides a daily breakdown of the quantity of the Association's inventories in addition to information on stock injections and withdrawals.

7. Organisational structure

On the closing date of the balance sheet, the Association's work organisation comprised 10 persons, of whom 9 full-time employees and 1 part-time employee. In 2018, the average statistical headcount was 10 persons.

The registered seat of the Association is located at 1037 Budapest, Montevideo utca 16./B, the company owns no other premises.

8. Environmental protection

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

9. International relations

In 2018, the Association continued its activities in the field of international relations it embarked on over the previous years:

- It actively participated in the work of the international organisation ACOMES (Annual Coordinating Meeting Entities Stockholding), also maintaining its memberships in two affiliated groups of ACOMES, namely, the Benchmark Group and the Best Practice Group, whose sessions address permanent topics, such as the comparison of cost analyses of member organisations, introduction of industry practices as well as exchange of experience.
- It provided professional support to the government in fulfilling its stockpiling responsibilities arising from Hungary's EU and IEA (International Energy Agency) memberships. In February 2018, the Association took part in the emergency response exercise (ERE) of IEA, furthermore, it continuously contributed to the review of Directive 2009/119/EC imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products. The Directive, which forms the basis of the Oil Stockpiling Act, was amended in October 2018.
- In the frame of Hungary's rotating Presidency of the Visegrád Group, the Ministry for Innovation and Technology organised a regional crude oil supply crisis simulation exercise in order to strengthen cooperation among member states in the field of energy policy. The Association undertook an active role in the preparatory work as well as in the crisis management exercise.

10. Subsequent events

Subsequent to the balance sheet date, no significant event with an impact on the Annual Report of the Association occurred.

Budapest, May 8, 2019

Dr. Béla Attila Bártfai CEO	Zsuzsanna Dávid Deputy CEO