HUNGARIAN HYDROCARBON STOCKPILING ASSOCIATION

BUSINESS REPORT / 2019 ANNUAL REPORT

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1. Introduction

1.1. Activity of the Hungarian Hydrocarbon Stockpiling Association

The Hungarian Hydrocarbon Stockpiling Association (hereinafter referred to as **"HUSA"** or **"Association"**) strives to ensure the proper fulfilment of the responsibilities set forth 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 conducts its activities based on 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 prescribed by the Stockpiling Acts, defined in 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 78 according to the state of affairs on December 31, 2019. The constant change in the number of member companies within the year is attributable to the transition of the market, to legislative changes, as well as to transactions involving changes in business ownership. The number of active member companies in the previous years is demonstrated in the table below.

Table 1
Number of member companies

	2015	2016	2017	2018	2019
Oil Section	45	54	51	49	47
Gas Section	35	34	36	35	32
Total*	**79**	**87**	**86**	**83**	**78**

** 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 the stock financing loans and other sources only when the stocks are sold and the sources are refinanced, nevertheless, it continuously seeks to reduce its debt level by means of 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 the stocks.

1.2. Achievement of main objectives in 2019

The primary responsibility of the Association includes 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.

Concerning the above obligations, the major tasks of the Association for the year 2019 were as follows:

- Release and replenish the strategic crude oil reserve in the event of an emergency situation as required by the applicable legislation.
- Procure additional strategic natural gas stock in compliance with the relevant ministerial decree.
- Replenish the volume of natural gas sold to natural gas traders replacing the traders who failed to provide natural gas in 2018, as specified by the relevant legislation.
- Elaborate and implement a financing plan on the procurement of funds required for the refinancing of loans reaching maturity and for the stock purchases.
- Acquire the 51% share package of Magyar Fejlesztési Bank Zrt. (Hungarian Development Bank Plc) in MMBF Földgáztároló Zrt. (MMBF Natural Gas Storage Plc), (hereinafter referred to as "MMBF").
- Determine the stockpiling obligation for 2019, adjust the volume of stocks to the prescribed level of stockpiling obligation in conformity with the statutory requirements, execute the mandatory stock replacements laid down by the legislation, preserve the quantity and quality of stored stocks.
- Define the 2019 level of contribution fees by product group in the two Sections in order to comply with the "+0" budget position requirement for the Association.

HUSA achieved its tasks planned for the year 2019 in accordance with the decisions of the General Meeting and the Board of Directors as well as in compliance with the relevant legislations.

In the Oil Section, altogether 246 kt of strategic crude oil stock was released in May 2019, in accordance with Decree No 9/2019 (30/04/2019) of the Ministry for Innovation and Technology on the utilisation of the emergency crude oil reserve (hereinafter referred to as "Decree"). The Association sold the released volume to MOL Plc and fulfilled its replenishment by the deadline of December 31, 2019 as stipulated by the Decree.

In order to deliver the mandatory product refreshments due every six years as prescribed by the Oil Stockpiling Act and the Statutes, 150.5 kt of petroleum products were replaced by the Association at the lowest possible costs in 2019.

In 2019, Hungary's gas supply security drew particular attention with special regard to the risk of the potential shutdown of the Ukrainian transit of Russian natural gas on January 1, 2020. In order to mitigate risks to supply security, the minister in charge of energy affairs modified the volume of the strategic natural gas stock to 15 374 000 MWh as of August 1, 2019, with the amendment of Decree No 13/2015 (31/03/2015) of the Ministry of National Development on the extent of the emergency natural gas reserve (hereinafter referred to as "Decree of the Ministry of National Development"), raising it from the previous level of 1 200 mcm to 1 450 mcm. Accordingly, at the end of July 2019, the Association procured 2 650 356 MWh (~250 mcm) natural gas, which was placed in the Szőreg natural gas storage facility of MMBF.

Furthermore, 18 300.831 MWh strategic natural gas stock was replenished in the Gas Section through competitive tendering, which was sold by the Association to the appointed natural gas trader in the fourth quarter of 2018 in compliance 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 the failure of the natural gas trader to provide gas.

In May 2019, the General Meeting of the Association approved the acquisition of Magyar Fejlesztési Bank Zrt.'s 51% share package in MMBF. As a result of the transaction executed in September 2019, the Association became 100% owner of the storage company. Subsequently, HUSA began to revamp the operation and organisational structure of the group established with the acquisition of MMBF based on uniform principles.

The Association provided the external sources required for its financing, extended its loans reaching maturity in the course of 2019, therefore, its financial position is stable.

With Decision No 2/2018 (14/12/2018), the General Meeting of the Association decided that the level of unit contribution fees by product group was to remain unchanged as of January 1, 2019.

1.3. Economic environment[1]

In 2019, the global economy continued to expand, nevertheless, the rate of economic growth reached its lowest level in the past ten years. The volume of GDP calculated for the whole of the OECD comprising mainly developed countries, exceeded the level of the prior year by 1.7% on average. As regards dominant national economies, China's economic performance expanded by 6.1%, the economic growth rate of the United States was 2.3%, and the performance of the Japanese economy surged by 0.7% on average on the previous year. Based on available preliminary data, the economic performance of the European Union member states was up by 1.5% throughout 2019 compared to the year before. The German economy demonstrated a slight increase of 0.6%, whereas the United Kingdom witnessed an economic growth rate of 1.4% in comparison with a year earlier amid market uncertainties resulting from Brexit negotiations. Central Eastern Europe remained the centre of economic expansion within the European Union.

Global inflation did not demonstrate significant changes over the recent period. The inflation rates of the United States, Japan and the Eurozone continue to fall short of the inflation targets of the central banks in contrast with the majority of developed as well as emerging economies, where inflation rates remain around the targets set by the central banks. In the course of 2019, the Fed reduced its benchmark interest rate by 75 base points. In November, the European Central Bank relaunched its net asset purchase programme, besides maintaining an exceptionally supportive, loose monetary policy.

On the foreign exchange markets, the EUR/USD exchange rate constantly decreased over the year. From its level of roughly 1.15 in early 2019, the dollar strengthened to approximately 1.10. The weakening of the euro was triggered by worsening prospects for Eurozone growth.

Since 2013, the Hungarian economy has maintained a balanced and sustainable expansion with an average growth rate of above 3%. In 2019, the GDP improved substantially on the previous year driven by a surge in domestic demand. Services contributed to the GDP growth by 2.3 percentage points, the industry by 1.0 percentage point and the construction industry by 1.0 percentage point. In an international comparison, Hungary's economic expansion exceeded the European Union average in 2019, thus steadily catching up with the more advanced member states of the Union.

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

Table 2
GDP volume indices in the period 2015-2019

Year-on-year = 100.0

Year	Non-adjusted (raw) data (%)	Data adjusted for calendar effects (%)
2015	103.1	103.1
2016	102.0	101.8
2017	104.0	104.2
2018	104.9	105.0
2019	104.9	104.9

Source: Central Statistical Office (KSH)

Furthermore, external and internal balances remained favourable. According to preliminary data on financial accounts, the 2019 budget deficit corresponded to 2.1% of the GDP, which overshot the deficit target, yet demonstrating a drop compared to 2018. In parallel, the debt-to-GDP ratio has displayed a record fall in the past twenty years, shrinking to 66.4% by the end of 2019.

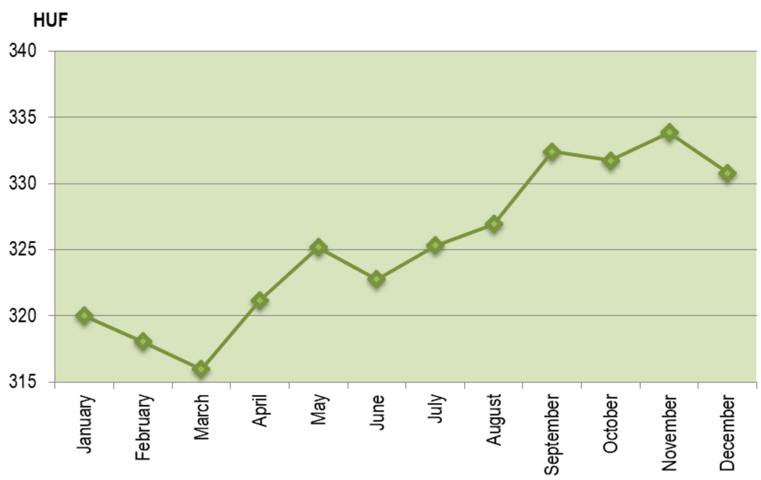
On the whole, it can be established that the persisting growth in fuel and natural gas consumption spurred by economic expansion and rising domestic demand had a positive impact on the Association's finances. The favourable interest rate environment also contributed to the strengthening of the company's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

The major planning conditions taken into consideration for the planning of the annual budget are summarised as follows.

1.3.1. Euro / Forint exchange rate

In 2019, the euro/forint exchange rate moved within the range of EUR/HUF 312-336, with an annual average exchange rate of EUR/HUF 325.35, which roughly corresponds to the level projected in the budget plan (EUR/HUF 325). Following the depreciation of the forint in April, the exchange rate exited the range of EUR/HUF 315-325 in May and the forint weakened to 336 in several waves. Thenceforth, the exchange rate range shifted upwards by HUF 10, varying between 325 and 335 until the end of the year. On December 31, 2019, the closing rate stood at EUR/HUF 330.52, 2.8% above the closing rate of the prior year (EUR/HUF 321.51).

Diagram 1
Monthly average EUR/HUF exchange rate in 2019



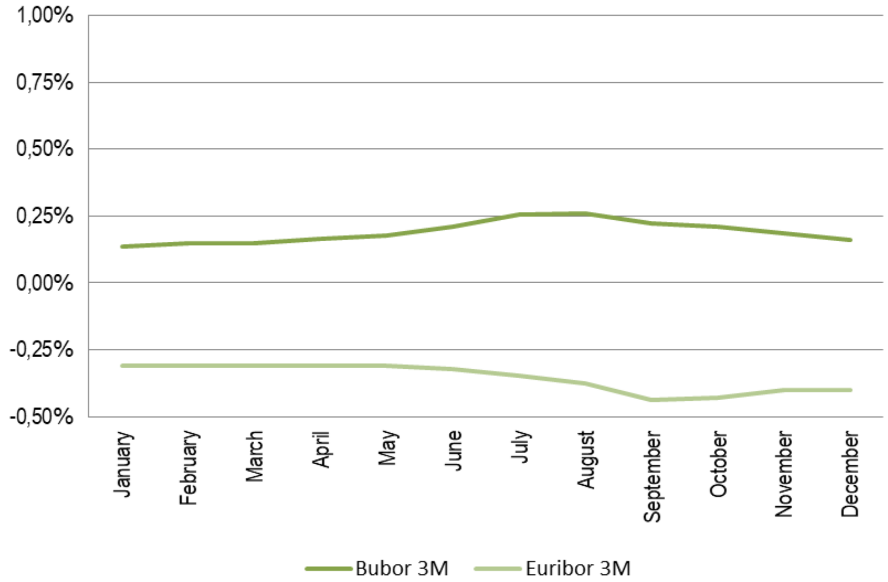
Source: National Bank of Hungary

1.3.2. *Interest rate environment*

In the course of 2019, major euro interest rates in the European Economic Area remained in the negative territory and failed to recover in spite of previous expectations. The annual average three month EURIBOR interest rate was -0.35%, therefore, its value, which determines the Association's quarterly interest payments pursuant to the loan agreements, corresponded to 0% as opposed to the budgeted value of 0.02%.

In 2019, 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. However, the costs of forint denominated financing continued to remain even lower, thanks to the non-conventional instruments of the central bank. In the course of 2019, the three month BUBOR moved within the range of 0.13%-0.27%, with an annual average of 0.19%.

Diagram 2
Indicative interest rates in 2019



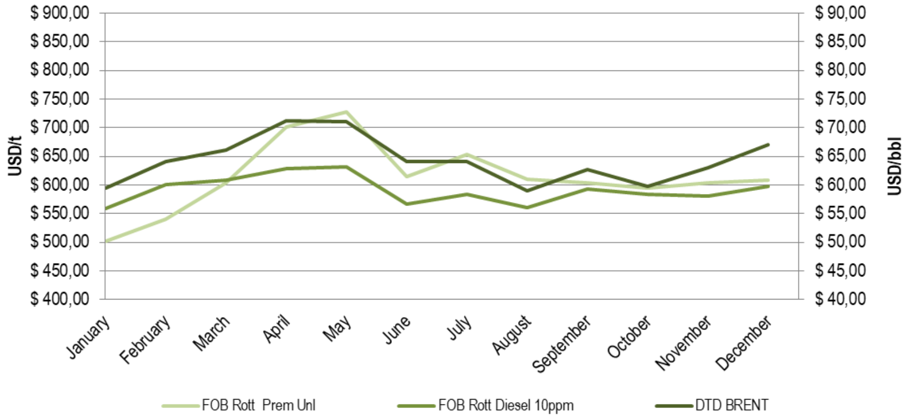
Source: National Bank of Hungary, European Central Bank

1.3.3. *Quotes of energy sources and products*

In order to stabilise the oil market and bring the drop in oil prices, which began in the fourth quarter of 2018, to a halt, OPEC and non-OPEC oil exporting nations agreed to curb oil production by 1.2 million bpd for six months as of January 1, 2019. As a result of the supply cut, Brent oil prices spiked from USD 57/bbl at the beginning of the year to USD 74/bbl in April. In June 2019, OPEC and allies extended the oil output cuts by further nine months, until March 31, 2020, targeting the reduction of global oil stocks. Nevertheless, the increase in oil prices created a favourable environment for a further boom in US shale oil production, which outweighed the impact of OPEC output cuts on the global oil market already in the summer of 2019. Besides, demand for oil failed to increase at the forecasted pace due to the slowdown in global economic growth and escalating geopolitical tensions, fuelled by the trade war between the United States and China in particular. As a consequence of US shale oil output growth and lower than estimated demand, oil prices began to decline. In the second half of 2019, Brent prices ranged from USD 59/bbl to USD 70/bbl, settling at USD 67/bbl by the end of the year.

The prices of petroleum products followed the movements of crude oil prices as usual. On European markets, the price of gas oil surged from the level of USD 550/ton to almost USD 600/ton, whereas the quoted price for gasoline increased from its opening price level of approximately USD 500/ton at the beginning of 2019 to USD 610/ ton by year-end 2019.

Diagram 3
FOB Rotterdam product indices and Brent DTD crude oil indices in 2019



Source: www.pmc.platts.com

1.3.4. Domestic petroleum product consumption

In 2019, domestic fuel consumption rose by 4.0% on 2018 levels, indicating that the demand growth of the previous years continued, albeit at a more moderate pace. The increase in gas oil demand subsided slightly in comparison to the record growth of 2018, corresponding to 3.9%. The hike in gas oil consumption was primarily influenced by the growing demand of the construction industry and the freight sector. Nevertheless, changes in the regulatory environment of the construction industry (e.g. phase-out of the discounted VAT rate in terms of residential properties) coupled with the global economic slowdown had an adverse effect on gas oil consumption. In 2019, gasoline consumption surged by 4.0%, which equalled to the growth rate of the prior two years. The relatively constant increase in consumption, which has persisted for several years, is considerably spurred by rising retail consumption due to growing real wages driven by the strengthening of the domestic economic environment.

According to data released in 2019 by the Hungarian Petroleum Association (hereinafter referred to as "MÁSZ") representing the domestic retail turnover of major oil companies, gas oil sales rose by 5.5%, whereas motor gasoline consumption surged by 4.8% on a year earlier. In respect of both fuels, it is striking that the consumption of premium fuels increased at a higher rate. The figures indicate that among the market players, the member companies of MÁSZ achieved higher gas oil and gasoline turnover within the total fuel consumption in 2019.

In the course of 2019, kerosene consumption expanded by 5.1% in comparison with the prior year. Even though it was not as extraordinary as the 20.2% growth rate of 2018, the boom in air travel persisted throughout 2019. Nevertheless, the increase in kerosene demand bore no relevance to the Association's revenues owing to contribution fee recoveries.

In 2019, fuel oil consumption sustained the downward trend of the previous years, as sales dropped by 27.0% from a year earlier. The volume of consumption persisted at an exceptionally low level with a total annual volume of merely 4.1 kt.

Table 3
Consumption of petroleum products in the period 2015-2019

Unit: kt

Product group	2015	2016	2017	2018	2019	Change (2019/2018)
Gasoline	1 269.3	1 322.4	1 357.6	1 412.2	1 469.2	4.0%
Gas oil	3 240.2	3 337.8	3 461.9	3 698.0	3 843.1	3.9%
Fuel	**4 509.5**	**4 660.2**	**4 819.5**	**5 110.2**	**5 312.3**	**4.0%**
Kerosene	178.1	203.8	212.5	255.4	268.2	5.1%
Fuel oil	24.0	8.4	12.3	5.6	4.1	-27.0%
Total	**4 711.6**	**4 872.4**	**5 044.3**	**5 371.1**	**5 584.6**	**4.0%**

1.3.5. Natural gas prices

As of 2019, natural gas prices embarked on a decline all over the continent. As a result of the mild winter weather across Europe, the natural gas in the storage facilities intended for winter consumption was not depleted, leading to a lack of demand, which triggered a continuous decline in the wholesale prices of natural gas. Apart from the weather conditions, European gas prices were negatively impacted by liquefied natural gas cargos transported from the United States by tankers. Subsequent to the raising of Chinese tariffs, Europe was swamped with cheap natural gas from the US extracted with the American hydraulic fracturing technique. Accordingly, natural gas prices are expected to remain at their currently low level in the long term.

A significant oversupply emerged on the global natural gas market. On the demand side, Asian LNG demand growth stalled, taking the market by surprise. Not only did the warm winter bring about lower consumption in Europe, but in Asia, too. Simultaneously, on the supply side, LNG investments matured, expanding total LNG capacities by 8% in 2019, causing substantial oversupply. Several LNG shipments also arrived in Europe from Qatar beside the United States and Russia.

The natural gas storage market was characterised by a high level of utilisation throughout the year. By the end of the withdrawal period, storage facilities were not depleted on account of lower consumption owing to the mild winter weather. Meanwhile, the end of the injection period witnessed considerably more intensive injections in order to prevent the risks surrounding the expiry of the transit agreement between Russia and Ukraine on December 31, 2019.

The oil-indexed price of Russian originated natural gas based on the average of the fuel oil and gas oil quoted prices in the nine months preceding the relevant quarter, which fundamentally determines the domestic wholesale price of natural gas, also demonstrated a downward trend until the end of the summer, before beginning to improve. From a level of ~28 EUR/MWh in early 2019, it declined to 15-16 EUR/MWh by late summer, afterwards it displayed an upward trend, reaching approximately 20 EUR/MWh by the end of the year.

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 as usual: after sinking from 22-23 EUR/MWh in early 2019 to 10 EUR/MWh by mid-summer, it started to increase, closing the year slightly above 15 EUR/MWh.

Diagram 4
Natural gas prices in 2019

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

1.3.6. Domestic natural gas consumption

Based on the data from the contribution fee declarations submitted by the members of the Association's Gas Section, in 2019, natural gas consumption was 5.1% higher than in 2018. The increase in consumption is attributable to the temperature change, the growth of industrial production and the favourable electricity market environment.

The temperature factor contributed to the growth of natural gas consumption mainly in the second quarter of 2019, as daily average temperatures proved lower than over the same period in 2018, resulting in significant natural gas consumption particularly in May. A sudden cold spell in early autumn also sent gas consumption soaring.

The utilisation of load following power plants remained at a high level all year thanks to the favourable electricity market environment, also contributing to the increase in natural gas consumption.

Table 4
Annual natural gas consumption calculated from contribution fees (based on data from HUSA)

data in mcm

	2015	2016	2017	2018	2019	Change (%)			
						2016/ 2015	2017/ 2016	2018/ 2017	2019/ 2018
Volume	8 609.3	8 872.9	10 497.5	9 607.0	10 097.9	3.1%	18.3%	-8.5%	5.1%

2. Fulfilment of the stockpiling obligation

2.1. Volume of stocks

2.1.1. Crude oil and petroleum products

At the end of 2019, the total gross inventory (including immobile stocks) of the Oil Section accounted for 1 373.0 kt corresponding to the net volume of 1 356.7 ktoe (reduced with immobile stocks) expressed in crude oil equivalent (hereinafter referred to as "ktoe") the measurement unit applied for the calculation of the stockpiling obligation.

The volume of strategic stocks reduced by 5.4 kt compared to opening stock levels at the beginning of the year. This decrease was caused by the changes in stock levels owing to stock replacements commenced in 2018 and completed in 2019 in addition to discrepancies between start-of-year and year-end measurements due to the storage and transportation of stocks.

In April 2019, like several European countries, Hungary temporarily suspended its oil imports via the Druzhba II Pipeline after receiving crude oil contaminated with organic chloride through the pipeline connecting Russia with Europe. In order to prevent a supply crisis in Hungary on account of the missing volume of crude oil, the minister for innovation and technology ordered the release of 400 kt of crude oil by decree issued on April 30, 2019. In May 2019, HUSA sold 246 kt of crude oil from the released stock to MOL Plc that was granted priority access. In compliance with the decree, the Association replenished the released stock by December 31, 2019, consequently, the stock release did not cause changes to the closing stock levels of HUSA in 2019.

Table 5
Stock levels of the Oil Section in 2019

data in kt

Stocks	Opening stocks* 01/01/2019	Change within year relative to stock disposal and procurement in 2019 (balance of procurement and disposal)	Change within year relative to stock replacements in 2019 (balance of procurement and disposal)	Closing stocks* 31/12/2019	Change in stocks due to storage and manipulation (loss/surplus)
Crude oil	608.5	0.0	-19.0	589.5	0.0
Gasoline	268.9	0.0	0.0	268.8	-0.1
Gas oil	501.4	0.0	13.6	514.7	-0.3
Total	**1 378.8**	**0.0**	**-5.4**	**1 373.0**	**-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 based on 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 based on the decision of the Board of Directors[3] either for the annual domestic naphtha yield[4] or for the volume of domestic naphtha consumption, to which the net imports of petroleum products[5] adjusted for change in

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

[3]Pursuant to Point 2.3.2. of Annex 1 to the Oil Stockpiling Act, the decision on which methodology to apply for the calculation of the stockpiling obligation pertains to the competence of the Board of Directors.

[4]The yield reduced with the return stream to refineries from chemical industrial production.

[5]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 household and other uses, fuel oil with low sulphur content (sulphur content lower than 1%), fuel oil with high sulphur content (sulphur content higher than 1%), white spirit and other special gasoline, lubricants, bitumen, paraffin waxes, petroleum coke and other refinery products.

stocks, expressed in crude oil equivalent (multiplied by 1.065) are added. In line with Decision No 6/2019 (27/03/2019) of the Board of Directors, the net imports of refinery feedstocks are reduced with the actual volume of the domestic naphtha consumption for the calculation of the stockpiling obligation in 2019.

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

The data for the year 2018, which form the basis of the calculation of net imports required to establish the stockpiling obligation for 2019, is shown by Table 6 below.

Table 6
Calculation of the stockpiling obligation in 2019

Refinery feedstocks		*kt*
a	Imports of refinery feedstocks	6 875
b	Exports of refinery feedstocks	393
c	Change in refinery feedstock inventory	-74
	a-b+c	6 408
Petroleum products		*kt*
d	Imports of petroleum products	3 427
e	Exports of petroleum products	3 454
f	Change in petroleum product inventory	-1
	d-e+f	-28
Calculation of naphtha yield		*kt*
h1	Naphtha production	1 033
h2	Return stream to refineries from industrial production	247
h3	Refinery feedstocks used	7 878
h	Naphtha yield (%) (h1-h2)/h3*100	10.0
g	1-h/100 or 0.96 if h<7%	0.9
i	Naphtha consumption (reduced with return stream to refineries)	1 107
Calculation of net imports in consideration of naphtha consumption		*ktoe*
N	Annual net imports (a-b+c-i*1.065)+(d-e+f)*1.065	5 199
A	Average daily net imports (N/365)	14.24
	90 days' net imports: A *90	1 283

Based on net imports in 2018, which amounted to 5 199 kt expressed in crude oil equivalent, the 90 days' stockpiling obligation corresponded to 1 283 ktoe for the period between April 1, 2019 and June 30, 2020[6] set forth by the legislation.

The volume of stocks equivalent to 95 days' net imports met the prescribed level, therefore, no further stock procurements were executed in order to fulfil the stockpiling obligation in 2019.

[6] Under the amendment to point a) of Section (2) of Art. 2 of the Oil Stockpiling Act effective as of December 20, 2019, average daily net imports are calculated in consideration of the period between January 1 and June 30 of the penultimate calendar year prior to the current year as of 2020.

Table 7
Net closing stocks on December 31, 2019 and number of stock days

	Net volume (excluding immobile stocks)	
	kt	*ktoe*
Crude oil	589.0	508.9
Petroleum products	783.1	845.7
Total	**1 372.1**	**1 354.6**
Number of stock days	**95**	

2.1.2. Natural gas

As of August 1, 2019, the Ministry for Innovation and Technology raised the level of the strategic natural gas stock to 15 374 000 MWh (~ 1 450 mcm) in the Decree of the Ministry of National Development on the extent of the emergency natural gas reserve, in preparation for the possible impacts of the expiry of the gas transit agreement between Russia and Ukraine at the end of 2019. In order to meet the mandatory level of strategic natural gas stock prescribed by the Decree of the Ministry of National Development, the Association procured 2 650 356 MWh (~ 250 mcm) of natural gas on July 31, 2019, thus raising the volume of the stored emergency natural gas reserve to the level specified by the Decree.

On account of the failure of two authorised natural gas traders to provide gas, the Association withdrew 18 301 MWh of 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. In compliance with the resolutions of HEA the withdrawn volume of natural gas was replenished by the Association in May 2019.

On January 1, 2019, the opening stock of the Gas Section was equivalent of 12 705 343 MWh (1 198.3 mcm), whereas its closing stock totalled 15 374 000 MWh (1 449.9 mcm) on December 31, 2019 as a result of the replenishments stipulated in the resolutions of HEA and the increase in the level of the strategic natural gas stock prescribed by the Decree of the Ministry of National Development.

Table 8
Stock levels of the Gas Section in 2019

	Opening stock 01/01/2019		**Change within year (balance of procurement and disposal)**		**Closing stock 31/12/2019**	
	mcm	MWh	mcm	MWh	mcm	MWh
Natural gas stock	1 198.3	12 705 343	251.6	2 668 657	1 449.9	15 374 000

2.2. Storage of stocks

The Association holds its stocks in the framework of custody agreements. On December 31, 2019, the stocks were placed in the following storage facilities:

Table 9

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

data in kt

Storage company	Storage plant	Gasoline	Gas oil	Crude oil
OPAL Szolgáltató Zrt.	Százhalombatta			240.0
	Tiszaújváros	14.0	15.9	349.5
	Celldömölk	44.5	49.7	
	Vámosgyörk	29.2	66.7	
	Pétfürdő	29.7	83.8	
	Szajol	14.7	27.1	
	Komárom		18.7	
OPAL Szolgáltató Zrt. in total		**132.1**	**261.9**	**589.5**
Terméktároló Zrt.	Tiszaújváros	87.9	108.4	
	Komárom	16.9	22.9	
	Szajol	31.9	121.5	
Terméktároló Zrt. in total		**136.7**	**252.8**	**0.0**
Altogether		**268.8**	**514.7**	**589.5**

Table 10

Inventoried volume of natural gas stock at the storage plant

Storage company	Storage plant	Voume	
		mcm	kWh
MMBF Zrt.	Szőreg I.	1 449.9	15 374 000 000

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. Furthermore, it differs from the business plan model used by business entities. Accordingly, the report on the fulfilment of the business plan is also different from the structure utilised by business entities. In line with Section (1) of Art. 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 Art. 37 of the Oil Stockpiling Act stipulate that the annual finances and assets of the Association also have to presented in the Balance Sheet and the Profit and Loss Statement as provided for 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 specified 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 Mn

	OIL SECTION			GAS SECTION			TOTAL		
	plan	actual	act/plan	plan	actual	act/plan	plan	actual	act/plan
Gross contribution fee revenues	17 070.0	17 490.1	102%	28 228.8	31 316.6	111%	45 298.8	48 806.7	108%
Contribution fee refunds	-705.4	-768.5	109%	-11 493.8	-12 207.2	106%	-12 199.2	-12 975.8	106%
NET CONTRIBUTION FEE REVENUES	**16 364.6**	**16 721.6**	**102%**	**16 735.0**	**19 109.4**	**114%**	**33 099.6**	**35 830.9**	**108%**
Storage and stock maintenance costs	-14 907.8	-14 613.6	98%	-14 853.3	-14 839.0	100%	-29 761.1	-29 452.6	99%
Interests due, other costs	-576.8	-388.7	67%	-1 041.1	-657.8	63%	-1 617.9	-1 046.3	65%
Proceeds from capacity disposal	0.0	0.0	-	248.6	243.0	98%	248.6	243.0	98%
Interests received	2.0	141.7	7 083%	8.0	36.3	453%	10.0	177.9	1779%
NET STOCKPILING COSTS	**- 15 482.6**	**-14 860.6**	**96%**	**-15 637.8**	**-15 217.5**	**97%**	**-31 120.4**	**-30 078.1**	**97%**
OPERATING EXPENSES OF HUSA	**-345.0**	**-331.0**	**96%**	**-395.0**	**-366.2**	**93%**	**-740.0**	**-697.2**	**94%**
TOTAL NET EXPENDITURES	**-15 827.6**	**-15 191.6**	**96%**	**-16 032.8**	**-15 583.7**	**97%**	**-31 860.4**	**-30 775.3**	**97%**
Stock release and replenishment	0.0	607.5	-	0.0	59.2	-	0.0	666.7	-
2019 BUDGET RESULT EXCLUDING RESERVES	**537.0**	**2 137.5**	**398%**	**702.2**	**3 584.8**	**511%**	**1 239.2**	**5 722.3**	**462%**
2018 budget reserve	1 208.1	1 208.1	100%	8 451.4	8 451.4	100%	9 659.5	9 659.5	100%
Dividends and interim dividends received	0.0	296.2	-	0.0	10 000.0	-	0.0	10 296.2	-
CREATION OF BUDGET RESERVE	**1 745.1**	**3 641.9**	**209%**	**9 153.6**	**22 036.2**	**241%**	**10 898.7**	**25 678.1**	**236%**
Acquisition of business share in MMBF	0.0	0.0	-	0.0	-19 500.0	-	0.0	-19 500.0	-
UTILISATION OF BUDGET RESERVE	**0.0**	**0.0**	**-**	**0.0**	**-19 500.0**	**-**	**0.0**	**-19 500.0**	**-**
BUDGET RESULT INCLUDING RESERVES	**1 745.1**	**3 641.9**	**209%**	**9 153.6**	**2 536.2**	**28%**	**10 898.7**	**6 178.1**	**57%**

The 2019 budget of the Association was prepared in compliance with the new rules of finances elaborated a year earlier. 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 of the Association's loans.

3.2. Net contribution fee revenues

The General Meeting of the Association approved the unchanged level of unit contribution fees by product group in the two Sections as of January 1, 2019, as demonstrated in Table 12 below.

Table 12
Contribution fees in 2019

Product	Unit	01/01/2019 - 31/12/2019	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 2019, members of the Oil Section paid HUF 16 721.6 Mn in contribution fees to HUSA exceeding the revenue projected for 2019 (HUF 16 364.6 Mn) by 2.2% as fuel consumption proved significantly more favourable than anticipated.

In the course of 2019, member companies reclaimed altogether HUF 768.5 Mn in contribution fee payments on 343.24 kt of petroleum products. The majority of the refunds were related to petroleum products used 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.

In the Gas Section, net contribution fee revenues, that is, non-household contribution fee income reduced with contribution fees paid on natural gas utilised as feedstocks for the chemical industry[7], totalled HUF 19 109.4 Mn (contribution fee revenues of HUF 19 108.2 Mn and late payment interests of HUF 1.2 Mn) in 2019, which surpassed the budgeted level of HUF 16 735.0 Mn by 14.2%. The substantial surplus revenue arose as 2019 witnessed a surge in consumption as opposed to the decline forecasted in the budget.

In 2019, member companies reclaimed altogether HUF 12 207.2 Mn in contribution fee payments on 3 655.1 mcm of natural gas sold to households and on 285.7 mcm of natural gas utilised as feedstocks for the chemical industry. Total net contribution fee revenues of the two Sections amounted to HUF 35 831 Mn, which exceeds the forecasted amount (HUF 33 099.6 Mn) by 8.3%.

[7] The opportunity to reclaim contribution fees on natural gas utilised as feedstocks for the chemical industry ceased as of May 1, 2019.

3.3. Net stockpiling costs

3.3.1. Storage and stock maintenance costs

In the Oil Section, annual storage and stock maintenance costs in 2019 accounted for HUF 14 613.6 Mn, HUF 294.2 Mn below the expected level. The savings are essentially attributable to the fact that the Association planned to ensure the fulfilment of the stockpiling obligation by means of ticket purchase[8], which turned out unnecessary due to the amendment to the calculation methodology of the stockpiling obligation laid down in the Oil Stockpiling Act, entering into force as of January 1, 2019.

In the Gas Section, a regulated price was introduced in respect of the storage of strategic natural gas reserves as of May 1, 2019, which would have resulted in substantial savings in the storage costs of the Association's Gas Section. Nevertheless, the stored volume was increased in compliance with the Decree of the Ministry of National Development, substantially offsetting the decrease in storage costs as the Association also had to pay storage fees for the additional stocks. These two opposite impacts have already been quantified in the amended budget, accordingly the actual amount of storage costs (HUF 14 839.0 Mn) approximately correspond to the planned level.

The storage costs of the two Sections totalled HUF 29 452.6 Mn.

3.3.2. Financing costs

The major part of financing costs include the interests on stock financing loans, whilst the smaller part is composed of other costs related to the loan agreements. The actual sum of interest expenses (HUF 1 046.5 Mn) was below the amount forecasted in the budget plan (HUF 1 617.9 Mn) owing to the combination of the following factors:

- 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 2019. Apart from refinancing its maturing loans, HUSA made early repayments on the majority of its loans expiring at a later maturity date by taking out new loans with longer durations and lower interest premiums.
- Furthermore, the actual average debt level is lower than the debt level assumed in the amended budget, since the financing of the crude oil replenishment did not require the drawdown of the full amount of the approved credit line. Consequently, by the end of 2019, EUR 577 Mn was drawn down from the contracted credit line of EUR 596 Mn.

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 243.0 Mn, which was HUF 5.6 Mn lower than budgeted as the EUR/HUF exchange rate turned out to be stronger than expected.

3.3.4. Interest revenues

In both Sections, interest revenues significantly surpassed the forecasted levels. In the Oil Section, higher than estimated interest revenues were derived from the fixed term deposit of the high amount of temporary surplus of liquid assets connected to the stock release. In the Gas Section, the fixed term deposit of the amount set aside in reserve for the acquisition of 51% participation in MMBF Zrt. generated interest revenues, which exceeded planned levels.

[8] A ticket ensures the right of disposal of the procured stocks.

3.4. Operating expenses

The actual value of the Association's operating expenses equalled to HUF 697.2 Mn, HUF 42.8 Mn below the level anticipated in the budget (HUF 740.0 Mn). Upon approval of the amended budget, a one-off amount of HUF 50.0 Mn was authorised for the acquisition of 51% participation in MMBF Zrt., indicated in the entry services used. In the course of 2019, the Association utilised a total of HUF 35.3 Mn from the aforementioned sum, which is HUF 14.7 Mn less than estimated.

Independent of the one-off allocated sum, the operating expenses of the Association proved lower than planned, since 96% of the amount approved in the budget was used by the Association.

In terms of material and material type costs, fuel costs and utility fees remained below the level approved in the budget.

Personnel expenses were kept within the frame allocated in the budget plan.

Expenditures presented in the entry services used turned out according to plan. The expenses of repairs and maintenance, telecommunication and information technology services were successfully cut compared to the budgeted level. Nonetheless, this reduction was offset by the additional costs related to the study on natural gas market outlook.

In respect of other costs, the Association decreased its spending on insurance premiums and bank transaction fees.

The value of other expenditures was minimal, nearing the budgeted level.

Regarding the procurement of tangible assets, the actual data emerged as lower since the price of the TIR source code purchased from the National Tax and Customs Administration of Hungary was more favourable than planned.

Table 14
Main cost elements

data in HUF Mn

	2019			2019 excluding one-off allocated sum		
	plan	**actual**	**act/plan**	**plan**	**actual**	**act/plan**
Material and material type costs	5.0	3.3	66%	5.0	3.3	66%
Personnal expenses	430.0	415.3	97%	430.0	415.3	97%
Services used	225.0	209.9	93%	175.0	174.6	100%
Other costs	7.5	4.3	57%	7.5	4.3	57%
Other expenditures	0.5	0.7	140%	0.5	0.7	140%
Procurement and disposal of tangible assets	72.0	63.7	88%	72.0	63.7	88%
Total	**740.0**	**697.2**	**94%**	**690.0**	**661.9**	**96%**

**Services used contain operating expenses presented in the budget result, excluding storage costs.*

3.5. Profit/loss of stock release and replenishment

In the Oil Section, the Association generated additional revenues of HUF 607.5 Mn in connection with the stock releases executed in the course of 2019, as the proceeds from the disposal of stocks exceeded the expenses of stock replenishments.

In the Gas Section, HUF 59.2 Mn unplanned profit was accounted for, as the natural gas sold to the customers of the gas traders failing to provide gas in late 2018 was replenished at a lower price.

3.6. Budget result excluding reserves

In the Oil Section, the budget result of 2019 corresponded to HUF 2 137.5 Mn, well above the expected level (HUF 537.0 Mn). The surplus of HUF 1 600.5 Mn resulted from higher than projected contribution fee income, lower storage, net financing and operating costs as well as from surplus revenue derived from the stock release.

In the Gas Section, the 2019 budget result was equivalent of HUF 3 584.9 Mn, which surpassed the forecasted level (HUF 702.2 Mn), which was essentially caused by higher than planned net contribution fee revenues, by savings on net financing and operating costs as well as by the additional revenue arising from the stock release.

3.7. Creation/utilisation of reserves

Pursuant to Decision No 2/2019 (31/05/2019) of the General Meeting, the 2018 budget reserve of the Oil Section (HUF 1 208.1 Mn) was not utilised for the early repayment of loans, instead it remained at the Association as liquidity reserve. In 2019, the Oil Section received HUF 296.2 Mn dividend income from Terméktároló Zrt. Therefore, at the end of 2019, the reserves of the Oil Section corresponded to HUF 3 641.8 Mn, including HUF 2 137.5 Mn budget result derived from its operations in 2019.

In accordance with Decision No 2/2019 (31/05/2019) of the General Meeting, the budget reserve of the Gas Section available at the end of 2018 (HUF 8 451.4 Mn) was not used for the prepayment of loans as it was placed in reserve to be at the Association's disposal as own resource for the acquisition of 51% participation in MMBF Zrt. With Decision No 5/2019 (31/05/2019) the General Meeting approved the acquisition of Magyar Fejlesztési Bank Zrt.'s (Hungarian Development Bank) 51% share package in MMBF Zrt. The proposal specified that the Association did not need to take out a loan for the acquisition, as the transaction was to be financed from HUSA's own sources, essentially the available reserve and the interim dividend collectable from MMBF Zrt. In 2019, the Association collected HUF 10 000 Mn interim dividend from MMBF Zrt., whereas the purchase price of the participation was HUF 19 500 Mn. As a consequence, the year-end reserve of the Gas Section, including the budget result of HUF 3 584.9 Mn generated from operations in 2019, totalled HUF 2 536.3 Mn.

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

Apart from the revenues and expenses presented 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 anticipated 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. Furthermore, 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 since the Association is not subject to Act LXXXI of 1996 on Corporate Tax and Dividend Tax.

Table 15
Profit after taxation/capital reserve in 2019

data in HUF Mn

Profit at the budget level		**6 178**
Items not impacting accounting earnings	Budget reserve	-9 660
	Acquisition of business share	19 500
	Interim dividend	-10 000
	Stock maintenance costs	1 494
	Stock release and replenishment	-667
	Procurement of tangible assets	64
Items not involving transfer of funds, with an impact on accounting earnings	Profit/loss from stock disposal and stock replacement	4 166
	of which: Stock replacement of crude oil	
	revenue	*65 877*
	costs	*61 326*
	profit/loss	*4 551*
	Stock replacement of gas oil	
	revenue	*25 112*
	costs	*25 524*
	profit/loss	*-412*
	Stock replacement of gasoline	
	revenue	*4 365*
	costs	*4 338*
	profit/loss	*28*
	Disposal of natural gas	
	revenue	*0*
	costs	*0*
	profit/loss	*0*
	Impairment of stocks	-13 086
	Impairment of receivables	-133
	Realised/unrealised exchange rate variations of foreign exchange loans and foreign exchange	-3 914
	Depreciation	6
	Other	-3
Adjusting entries in total		**-12 233**
Profit after taxation/ capital reserve		**-6 055**

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

3.8.1.1. 2018 budget reserve

The budget reserve of HUF 9 660 Mn carried forward from 2018 was recorded as an income in the Budget for 2019, however, it is not classified as an income from an accounting point of view, thus it reduces accounting earnings.

3.8.1.2. Acquisition of business share

In 2019, the Association spent HUF 19 500 Mn on the acquisition of 51% participation in MMBF Zrt., which appears as an expenditure in the budget result, yet it does not impact accounting earnings. Consequently, accounting earnings are increased with this item.

3.8.1.3. Interim dividend

In 2019, HUF 10 000 Mn interim dividend was collected by the Association from MMBF Zrt., which is indicated as an income in the budget result, still it does not affect accounting earnings. Therefore, accounting earnings have to be reduced with this item.

3.8.1.4. Stock maintenance costs

The costs of stock maintenance (premium price and delivery costs of fresh products) totalled HUF 1 494 Mn in 2019. This item is recorded on the expenditure side of the budget result, nevertheless, it does not influence accounting earnings (as it increases the historical cost of stocks), consequently, accounting earnings have to be raised with this item.

3.8.1.5. Cash gains on stock release/replenishment

In 2019, the Association generated revenues of HUF 667 Mn relating to stock releases recorded on the income side of the budget result. This item does not raise accounting earnings, therefore, accounting earnings have to be reduced with it. (The actual effect of these items on accounting earnings appear in the entry disposal, procurement and replacement of stocks.)

3.8.1.6. Procurement of tangible assets

In 2019, the Association spent HUF 64 Mn on the procurement of tangible assets (purchase of TIR source code), which is presented among operating expenses, diminishing the budget result, yet not impacting accounting earnings. Accordingly, accounting earnings have to be increased with this item.

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

3.8.2.1. Disposal, procurement and replacement of stocks

In 2019, accounting earnings from petroleum product stock replacements (disposal and procurement), stock release and replenishment transactions totalled HUF 4 166.6 Mn. The average market prices of the sales were realised at a level above the book value of the stocks in question, thus resulting in profits. (For the accounting of stock replacements and stock disposal transactions, the selling price of the sold stocks appears as an income, whereas the value of 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.)

In the frame of stock replacements in 2019, the Association sold 23.0 kt of motor gasoline and 141.7 kt of gas oil, in addition to purchasing 23.0 kt of motor gasoline and 155.3 kt of gas oil. In relation to the stock replacements, HUSA procured 208.8 kt of crude oil and sold 227.7 kt for coverage purposes. The discrepancy between the sold and procured stock volumes, which arose in the course of the stock replacements, is attributable to the transactions started in 2018 and completed in 2019.

During the stock release in 2019, the Association sold 246 kt of crude oil and replenished the same volume at the end of the year in compliance with the conditions specified by the Decree.

3.8.2.2. Impairment of stocks

As of 2018, a new methodology was elaborated for the valuation of stocks. The Oil Stockpiling Act and the Statutes prescribe the mandatory stock refreshment of stored petroleum products every six years. In consideration 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 quoted prices of the current year and the quoted prices of the preceding five years. The calculation is prepared for the total volume of stocks of each product group. In 2019, the discrepancy between the book value of the stocks and the six-year average price brought about HUF 13 086 Mn impairment.

3.8.2.3. Impairment of receivables

The impairment of receivables is classified as an expenditure from an accounting perspective, however, as it does not entail cash expenses, it does not appear in the budget result. In 2019, HUF 133 Mn impairment of receivables was booked.

3.8.2.4. Exchange rate variations of foreign currency denominated loans and foreign exchange funds

The foreign exchange losses accounted for in the course of the year (upon refinancing) and the foreign exchange losses booked when translated to the exchange rate on the year-end balance sheet date, in addition to other realised foreign exchange gains accounted for resulted in altogether HUF 3 914 Mn foreign exchange losses in 2019, influencing accounting earnings only, with no impact on the budget.

3.8.2.5. Depreciation

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

Overall, the balance of adjusting entries corresponds to HUF -12 233 Mn (HUF 731 Mn entries entailing transfer of funds with no impact on accounting earnings, plus HUF -12 964 Mn adjusting entries, not involving transfer of funds). Reducing the budget result (HUF 6 178 Mn) with this amount, we receive the profit before taxation in accordance with the Accounting Act (corresponding to the profit after taxation), which accounts for losses of HUF 6 055 Mn.

4. 2019 Balance sheet, financial position

4.1. 2019 Balance Sheet

The year-end balance of assets and liabilities was equivalent of HUF 400 189 Mn. Non-current assets accounted for HUF 47 457 Mn, the major part thereof constituted by the net value of HUSA's participations in affiliated companies.

The value of current assets was HUF 352 707 Mn, of which the book value of inventories amounted to HUF 314 487 Mn. Receivables totalled HUF 11 604 Mn, whereas cash and cash equivalents added up to HUF 26 616 Mn.

Accrued and deferred assets made up HUF 25 Mn.

As regards the Association's liabilities, the value of equity was HUF 190 713 Mn, which comprises the profit and loss realised in the previous years as well as in 2019, accounted for in compliance with the Accounting Act.

Liabilities corresponded to HUF 209 402 Mn, with short-term liabilities making up HUF 70 253 Mn, the majority thereof (HUF 51 561 Mn) composed of short-term loans and portions of long-term loans reaching maturity in the course of 2019. Trade payable accounted for HUF 6 820 Mn. Liabilities to affiliated companies represented HUF 11 029 Mn, HUF 10 000 Mn thereof is connected to the interim dividend collected from MMBF Zrt. Liabilities to companies linked by virtue of major participating interests amounted to HUF 408 Mn, whilst the value of other liabilities were HUF 435 Mn.

Accruals and deferred income totalled HUF 63 Mn.

The 2019 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 2019 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 sufficient amount of liquidity to conduct its activities and fulfilled its payment obligations accurately, by the due date.

On December 31, 2019, the book value of inventories represented HUF 314 487 Mn. The total actual principal of the stock financing loans was EUR 577 Mn (HUF 190 710 Mn)[9].

The market value of the above stocks corresponded to HUF 394 515 Mn on December 31.

Table 16

The Association's debt level on December 31, 2019

Foreign exchange loans	Interest rate	Average interest premium	Credit line	Amount drawn
Stock financing loans	EURIBOR	0.54	596	577
Total EUR million			**596**	**577**
Total HUF million			*196 990*	*190 710*

[9] Calculation based on the official exchange rate of the National Bank of Hungary on December 31, 2019.

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

Table 17

Main indicators of the Association's financial position

	2015	2016	2017	2018	2019	Value of 2019 indicators projected to base
Equity ratio (%) Equity / Total sources	63	62	56	57	48	84%
Liquidity ratio (%) Liquid assets+Receivables / Current liabilities	46	36	53	52	54	104%
Indebtedness ratio (%) Liabilities+Accruals and deferred income / Equity	59	61	79	77	110	143%

5. Activity of affiliated companies in 2019

5.1. Affiliated companies of HUSA

Participations of the Association are demonstrated in Table 18 below:

Table 18
Affiliated companies of HUSA (December 31, 2019)

Company name	Ownership ratio of HUSA (%)	Value of participation HUF Mn
MMBF Földgáztároló Zrt.	100.0	32 256.7
OPAL Szolgáltató Zrt.	100.0	15 137.8
Terméktároló Zrt.	25.9	8.4
Total		**47 402.9**

By virtue of its participations in the storage companies, the Association is entitled to participate in the management of the companies and conduct the professional monitoring of their operations. Furthermore, 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 2019, 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, consists of 480 tcm crude oil and 400 tcm fuel storage capacities. In 2019, in addition to the company's own storage capacity, 235 tcm crude oil and 120 tcm fuel storage capacities were rented in order that OPAL Szolgáltató Zrt. would be able to deliver the storage services undertaken in the custody agreement concluded with the Association.

MMBF Földgáztároló Zrt. (MMBF Natural Gas Storage Plc)

The company was founded by the Association with a capital stock of HUF 1 Bn in 2006 in order to facilitate the fulfilment of the Association's obligations set out 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 Plc in 2007, the owners increased the capital in two steps.

On December 30, 2013, MOL Plc sold its participation in the company to Magyar Fejlesztési Bank Zrt. (Hungarian Development Bank Plc), (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%.

With Decision No 5/2019 (31/05/2019), the General Meeting of the Association approved the acquisition of MFB Zrt.'s 51% share package in MMBF. The transaction was executed on September 5, 2019, thus the Association became 100% owner of the storage company.

As of December 15, 2009, the storage facility possesses the capacity to store emergency natural gas reserves of 1 200 mcm as well as commercial natural gas stocks of 700 mcm. As required by the legislation, the level of the strategic natural gas stock was increased in 2019, consequently, the Association booked further 250 mcm of the commercial capacity of the storage facility, besides utilising the full strategic storage capacity of 1 200 mcm.

Terméktároló Zrt.

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

The company owns storage capacities of 330 tcm in Tiszaújváros and Szajol. In 2019, HUSA utilised 490 tcm storage capacity as stipulated in the custody agreement. The additional tank capacity required for the storage of the product stock undertaken in the custody agreement is rented by the company from MOL Plc, secured with long-term contracts.

5.3. Activity and financial position of affiliated companies in 2019

Available data and information on the performance of the storage companies in 2019 imply that they duly met their contractual obligations. Loan repayments are consistent and the financial positions of the companies are satisfactory.

In 2019, HUSA received HUF 296 Mn dividend from Terméktároló Zrt. as well as HUF 10 000 Mn interim dividend from MMBF Zrt. Meanwhile, no dividend income was derived from OPAL Szolgáltató Zrt. in 2019 owing to the particularly high dividend of HUF 2 500 Mn collected to finance the procurement of crude oil stocks in 2018. The profit and loss and changes in equity of the affiliated companies are contained in the Supplementary Notes.

6. Inspection activity in 2019

The inspection activity of the Association covers two major areas:

- Supervision of contribution fee payments, which provide the basic revenue source of the Association's activities, with respect to ensuring that the calculation and payment of fees fulfil the requirements set forth 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 stipulated in the storage agreements, including the adequate quantitative and qualitative preservation of the strategic stocks owned by the Association.

6.1. Inspection of contribution fee payments

The Association carries out its inspection activity based on the risk ratings of the 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 2019, the Association conducted inspections in the case of 47 member companies.

In addition to scheduled annual inspections, HUSA reviewed the mandatory submission of 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, maximum one or two days' payment delays occurred primarily from inattention as well as from the divergence between the last day and the last working day of the month. A collection letter was sent to only one member company, which settled its payment obligation subsequently. On December 31, 2019, the member companies of the Oil Section held HUF 31.495 Mn overdue debts in total, all resulting from one or two days' delay in payments.

In the Gas Section, six member companies received collection letters in the course of 2019, owing to regular late payment. Apart from three members, the companies met their payment obligations subsequent to receiving the collection letter. In the case of the three member companies, the debts are under enforcement proceedings at the National Tax and Customs Administration. On December 31, 2019, members of the Gas Section held HUF 221.101 Mn overdue (principal and penalty interest) debts, HUF 17.502 Mn thereof represented proof of claim by financial creditors in the frame of liquidation processes and HUF 185.845 Mn was under enforcement proceeding.

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 as required by the storage agreements concluded with the storage companies, the relevant legislations and the Statutes.

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

The information system for the registration of strategic stocks (ONYIR) provides essential 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 presents the daily breakdown of the quantity of the Association's inventories in addition to information on stock injections and stock withdrawals.

7. Organisational structure

On the closing date of the balance sheet, the Association's work organisation comprised 12 persons, of whom 11 full-time employees and 1 part-time employee. In 2019, 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 legislation, 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 2019, 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 ensured professional support to the government in the fulfilment of the stockpiling responsibilities arising from Hungary's EU and IEA (International Energy Agency) memberships. Furthermore, the Association continuously contributed to the review of the IEA methodology for defining the stockpiling obligation.
- The Association undertook an active role in the joint regional crude oil supply crisis simulation exercise organised in order to strengthen the cooperation in the field of energy policy among the Visegrád Four member states.

10. Events after the reporting period

The Covid-19 pandemic does not influence the Association's activities significantly in the short term as the undisrupted operation of HUSA is ensured in the current situation. For an indefinite period, the employees of the Association have suspended personal meetings with their business partners as well as their domestic and international travels. Moreover, the majority of the colleagues have shifted to remote work. Employees are permitted to stay in the office only in particularly justified cases, and in a limited number.

However, the Association's mid- and long-term operation may be seriously affected by the macroeconomic impacts of the global and domestic government measures implemented in response to the pandemic aiming to curb/decelerate the spread of the virus. The actual fulfilment of the Budget for 2020 and the financing position of the Association are essentially determined by three macroeconomic factors: 1) crude oil and natural gas consumption serving as a basis for contribution fee revenues, 2) the forint to euro (and the forint to dollar) exchange rates, 3) the global market price of crude oil.

1.) The Association's revenues are fundamentally defined by the domestic fuel and natural gas consumption. At present, it is difficult to forecast the degree and duration of the drop in consumption, nevertheless, the Association anticipates contribution fee revenues to fall short of the projected level in both Sections. The loss of income is expected to be more significant in the Oil Section, with gasoline consumption, which depends on retail consumption, slumping to a greater extent. Nevertheless, the decrease in gas oil consumption is mitigated by the demand of sectors less impacted by the economic crisis, such as the freight sector and the agriculture. In the Gas Section, the Association estimates a smaller decline in consumption taking into account the fact that the heating period has ended, with Covid-19 related restrictions to be lifted by the start of the next heating period according to current prognoses. Meanwhile, the partial or complete shutdown of production plants utilising natural gas and the decrease in the natural gas demand of power plants triggered by a potential fall in electricity demand may have an adverse effect on consumption.

2.) The EUR/HUF exchange rate influences the Association's budget through financing costs since the stocks of HUSA are funded from euro-denominated loans. Like other emerging market currencies, the forint considerably depreciated amid fears of recession, hitting record lows. The current exchange rate of EUR/HUF 355 is ~10% above the EUR/HUF 325 level applied during the preparation of the budget, consequently, interest expenses are projected to rise to a similar extent. Furthermore, the weaker exchange rate entails realised foreign exchange losses related to the repayment of euro-denominated loans in addition to significant unrealised foreign exchange losses in the revaluation of the total debt level.

3.) In March 2020, the quoted prices of crude oil took a nosedive thanks to tensions on the crude oil market coupled with the global spread of the Covid-19 pandemic. The plunge in crude oil quoted prices had serious repercussions for the Hungarian gasoline and gas oil wholesale prices, causing substantial decline. The aforementioned processes do not influence the fulfilment of the Association's budget, yet they have an adverse effect on the debt coverage ratio of its loans. With regard to the severe decrease in oil prices, the Association monitors the changes in the value of its inventories and calculates the coverage of its debt level on a daily basis. In compliance with the financing plan of the Budget for 2020 approved by the General Meeting, at the end of March the Association prepaid EUR 49 Mn of its loans reaching maturity on June 30, 2020, thus reducing its debt level to EUR 528 Mn. Based on available oil price forecasts, it can be assumed that the debt coverage ratio is to meet the required 1.40:1.00 coverage level on the verification dates specified in the loan agreements, beside the current debt level.

In order to reduce the negative impacts of the above factors, the Association took a number of steps. It withdrew the call for tenders for the refinancing of its loans maturing on June 30, 2020, citing the state of emergency caused by the Covid-19 pandemic as well as the extended administrative and decision-making procedures of the banks participating in the tendering procedure. Subsequently, the Association exercised its right for the unilateral extension granted by the loan agreements. On March 27, 2020, HUSA submitted its request for extension in terms of its loans reaching maturity on June 30, 2020 to the five lenders involved. Based on the received bids, the financing of HUSA is ensured until June 30, 2021 at an interest premium slightly lower than currently.

Even though the payment moratorium, announced by the government and set forth in Section (1) of Government Decree No 47/2020 (18/03/2020) published in the Magyar Közlöny (Hungarian Official Journal) on March 18, 2020, also applies to the loan agreements concluded by HUSA, the Association is prepared to settle its interest liabilities in compliance with the agreements.

Simultaneously, the Association assessed the options for maintaining a balanced budget. HUSA's Budget for 2020 was planned in accordance with the legislations so that net contribution fee revenues provide coverage for estimated storage, financing and operating costs, whereas the budget reserve and the dividend income of the previous year are essentially utilised to make early repayments on the Association's loans. Nevertheless, the General Meeting of the Association decides on the actual utilisation of the latter two items upon approval of the annual report every year.

In 2019, the budget result of the Association corresponded to HUF 6 178.1 Mn (HUF 3 641.8 Mn in the Oil Section, HUF 2 536.3 Mn in the Gas Section). The uncertainties concerning the length of the Covid-19 crisis, particularly the unpredictable duration and degree of the resulting economic downturn have to be considered for the projection of the most likely negative consequences in 2020 and in 2021, too. For instance, the drop in consumption in 2020 is certain to affect both the stockpiling obligation and the contribution fee revenues in 2021. Accordingly, the Directorate proposes setting aside HUF 6 178.1 Mn in reserve, the utilisation thereof is to be decided by the General Meeting at the end of the year when consequences of the pandemic are better known of.

Furthermore, the Association revised the options for cutting storage and stock maintenance costs planned for 2020. In the Gas Section, as 100% owner of MMBF Zrt., the Association further reduced the custody fee for 2020 to the minimal level at which the secure operation of the storage company and the repayment of its loans are ensured. With this step, ~ HUF 2 Bn decrease in costs can be achieved compared to the sum allocated in the 2020 Budget. In the Oil Section, stock replacements were rescheduled, cutting stock maintenance costs by half (~ HUF 1 Bn). Besides these measures, the Association fulfils its obligation to provide the adequate quantitative and qualitative maintenance of the stocks as required by the legislation. As a next step, in order to extend the possible cost optimization to the entire group, the Association assessed the delayable investment and maintenance jobs at its subsidiaries, which are not required for the safe storage of strategic stocks in the short term and determined the maximum amount of dividend collectible from the companies accordingly. As a result of the above items, it can be stated that the Association possesses substantial reserves, which guarantee a balanced budget, constant liquidity and stable financing in 2020 even in the event of a dramatic decline in consumption.

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