

UNECE Working Party on Gas

Market and regulation



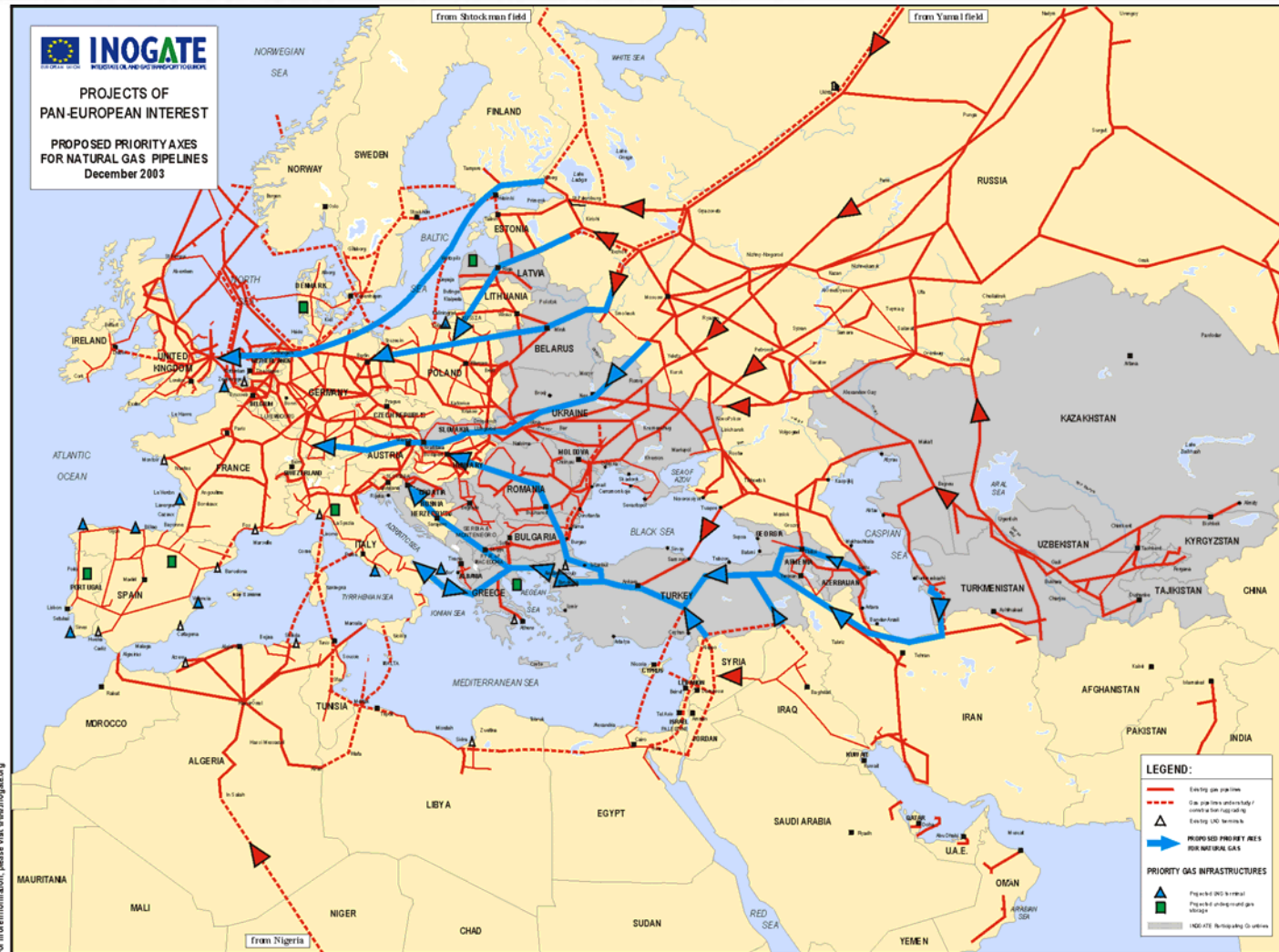
Sándor Fasimon, Managing Director

18th January 2005, Geneva

Contents

1. Europe and the Eastern-European region
2. The Hungarian gas system
 - Description
 - Legal framework
 - Unbundling and Entering the European Union
3. Liberalisation
 - The key players on the Hungarian gas market
 - European comparison
 - Its effects on MOL's gas business

European pipeline-system



Regional pipeline-system

Poland



- 7 UGS
- 1.269 mcm mobile capacity
- 22,8 peak capacity

Slovakia



- 1 UGS
- 2.500 mcm mobile capacity

Hungary

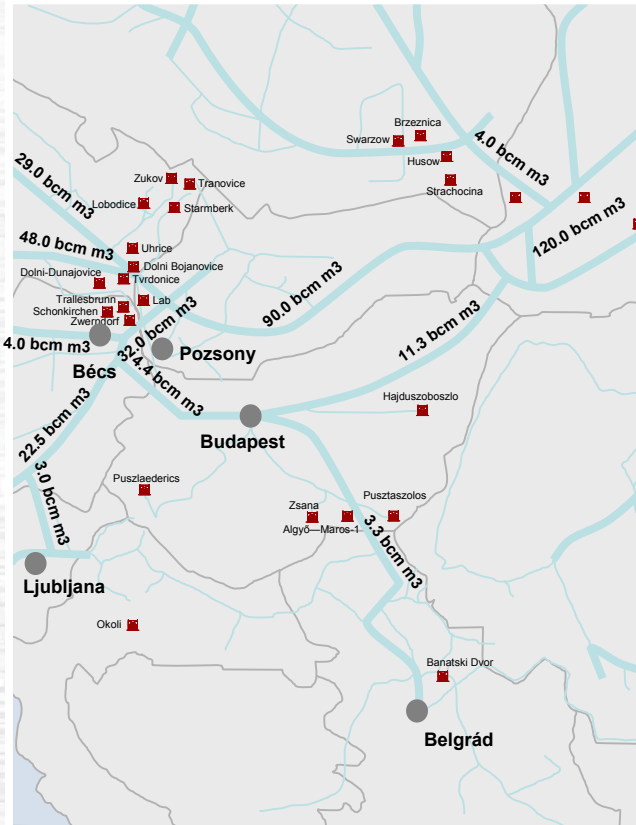


- 5 UGS
- 3.380 mcm mobile capacity
- 44,4 peak capacity

Czech Republik



- 9 UGS
- 2,800 mcm mobile capacity
- 46,5 peak capacity



- UGS
- Pipeline – par of the European system
- Other pipelines

Ukraine



- 13 UGS
- 36.300 mcm mobile capacity

Romania



- 1 UGS
- 2.000 mcm mobile capacity

Austria



- 4 UGS
- 2.900 mcm mobile capacity
- 32,7 peak capacity

Croatia



- 1 UGS
- 500 mcm mobile capacity
- 38 peak capacity

Source: Wood Mackenzie, Cera és MOL

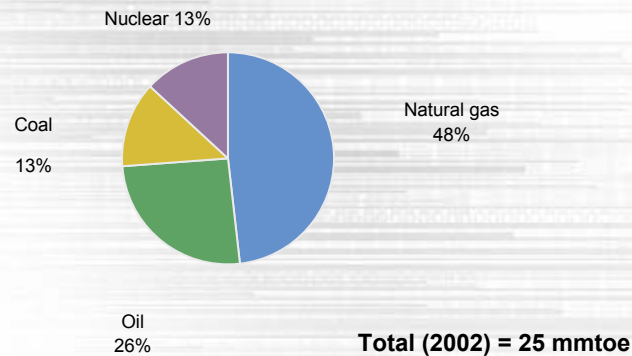


The Hungarian energy consumption is mainly based on natural gas

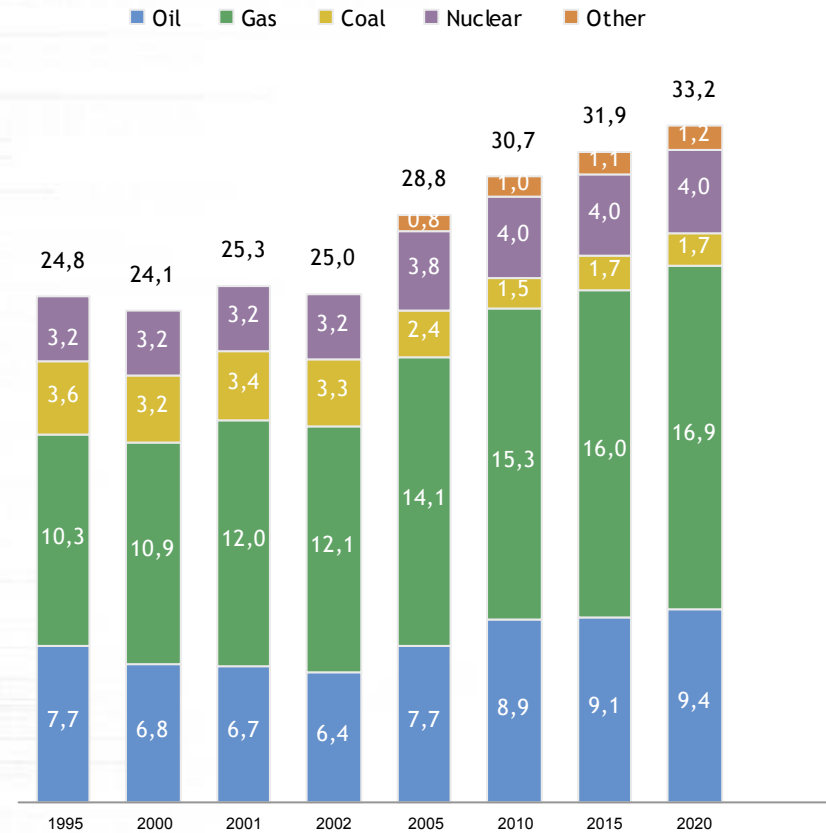
Dynamism

- 48% of Hungary's energy consumption comes from gas
- Gas consumption is forecast to grow by appr. 40 % by 2020

Share of Hungarian primary energy supply by fuel



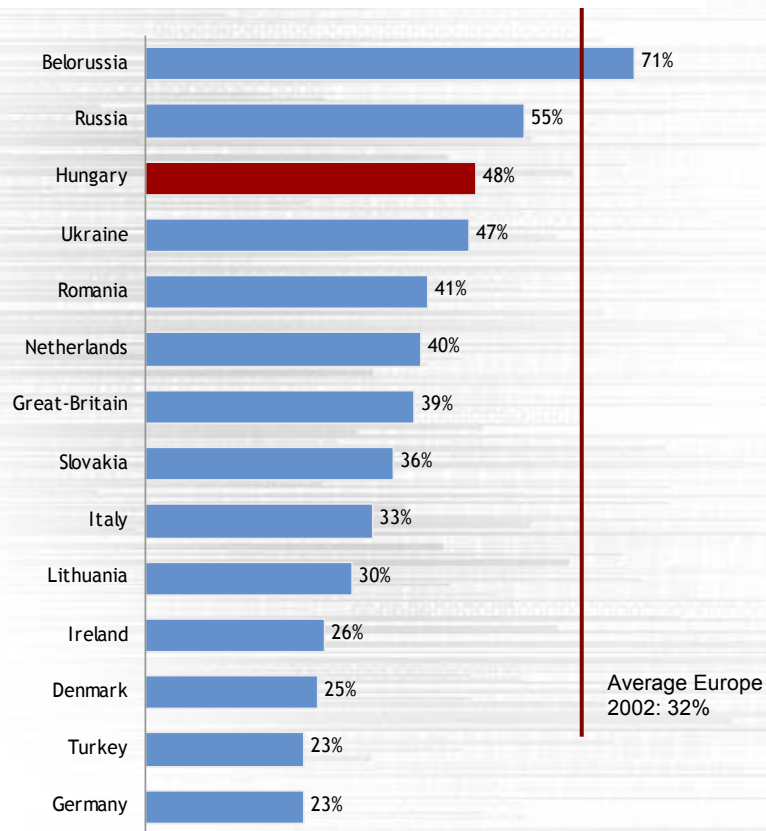
Primary energy consumption by fuel type (Mmtoe)



Source: BP Statistical Review of World Energy (all excl. gas), MOL (gas), Wood Mackenzie

Natural gas import play a key role in the gas supply of Hungary

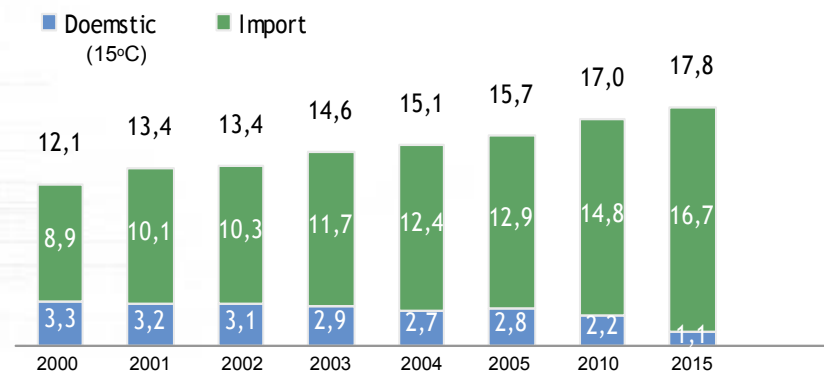
Share of natural gas in primary energy supply



Facts

- Hungary has a relatively high share of natural gas as primary energy supply source
- Natural gas is predominantly sourced from imports (>80 %)
- Share of imports is expected to markedly increase as Hungary's natural gas production decreases

Sources of natural gas supply (bcm)

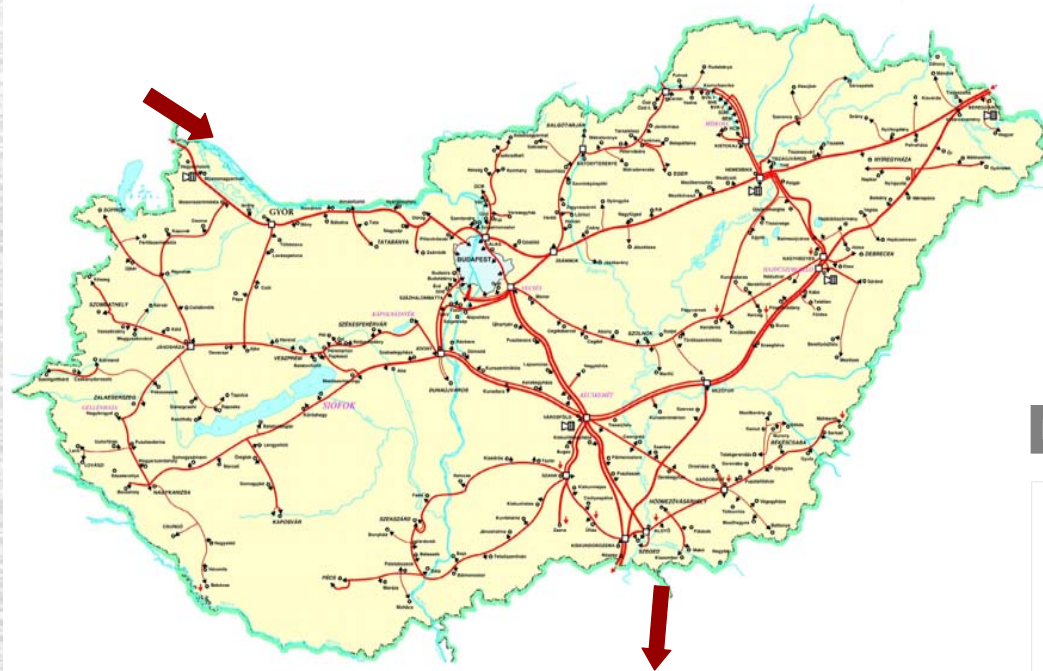


Source: BP Statistical Review of World Energy (all excl. gas), MOL (gas)

The Hungarian high-pressure gas transportation network

HAG pipeline

- From Austria
- 4.4 bcm annual capacity.
- 12 mcm daily peak capacity



Brotherhood pipeline

- From the Ukraine
- 10 bcm annual capacity
- 29.5 mcm daily peak capacity

Domestic production

- 7 entry points
- 3.5 bcm annual capacity
- 11.2 mcm daily peak capacity

Transit

- 12 mcm daily peak capacity

The daily peak capacity of the gas system is 96 mcm (Storage: 44 mcm, domestic production: 11 mcm, import: 41 mcm), whereas the contracted daily peak demand for the winter period 2004/2005 is 89 mcm

The Hungarian storage system

Total

- 44.4 mcm daily peak capacity
- 3,380 mcm mobile capacity
- 4,636 mcm cushion gas

Pusztaderics

- 2.7 mcm daily peak capacity
- 330 mcm mobile capacity
- 347 mcm cushion gas

Zsana

- 18.0 mcm daily peak capacity
- 1,300 mcm mobile capacity
- 1,647 mcm cushion gas

Algyő—Maros-1

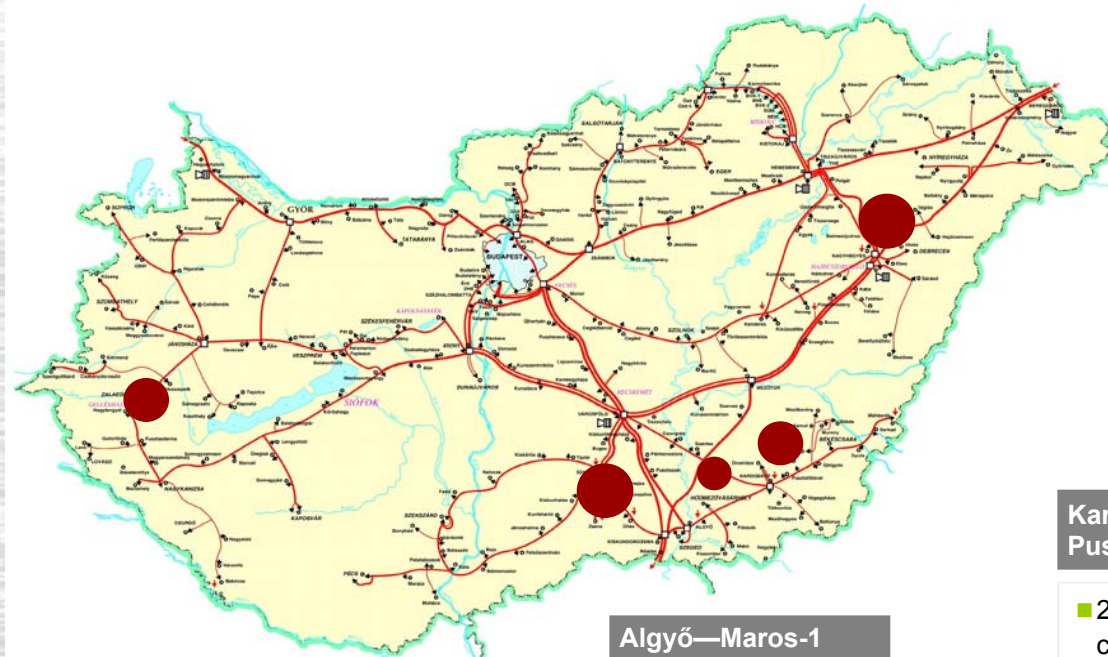
- 2.2 mcm daily peak capacity
- 150 mcm mobile capacity
- 250 mcm cushion gas

Hajdúszoboszló

- 19.2 mcm daily peak capacity
- 1,400 mcm mobile capacity
- 2,133 mcm cushion gas

Kardoskút— Pusztaszőlős

- 2.3 mcm daily peak capacity
- 200 mcm mobile capacity
- 260 mcm cushion gas



Legal framework of the Hungarian gas market

- The new Gas Act (entering into force with effect of 01. 01. 2004)
 - Market split into regulated and competitive markets until July 1, 2007
 - RAB-based returns for storage (10 %) and transmission (8,5 %) businesses
 - Wholesale gas prices in regulated market based on average gas import prices, storage and transportation costs and other accepted costs
 - Compensation fund for the residential sector is based on the increased mining royalty for local production (appr. 3 bcm) paid by MOL
 - Competitive market prices in open market part of wholesale, marketing and trading and in Storage for competitive market, no competitive market pricing exists for transmission
 - Obligatory public supply from single licensed public service wholesaler, with priority over the competitive market
 - Third party access to transmission and storage after allowing for public supply
 - Introduction of several new licences including natural gas trading licence, system operation licence, operation licence of organised natural gas market and cross-border trading license
 - Security of supply based on long term TOP obligations

Unbundling and Entering the European Union

- Even before the accession to the European Union the Gas Act saw for unbundling the gas activities -> Separate legal entities for production, storage, transmission (and system operation) and trade as of 1st January 2004



MOL Natural Gas Supply Plc.



MOL Natural Gas Storage Plc.



MOL Plc. –
Exploration
& Production



- The country opted for no derogation in this respect during the accession talks
- The EU Gas Directive is to be applied to the Hungarian gas market

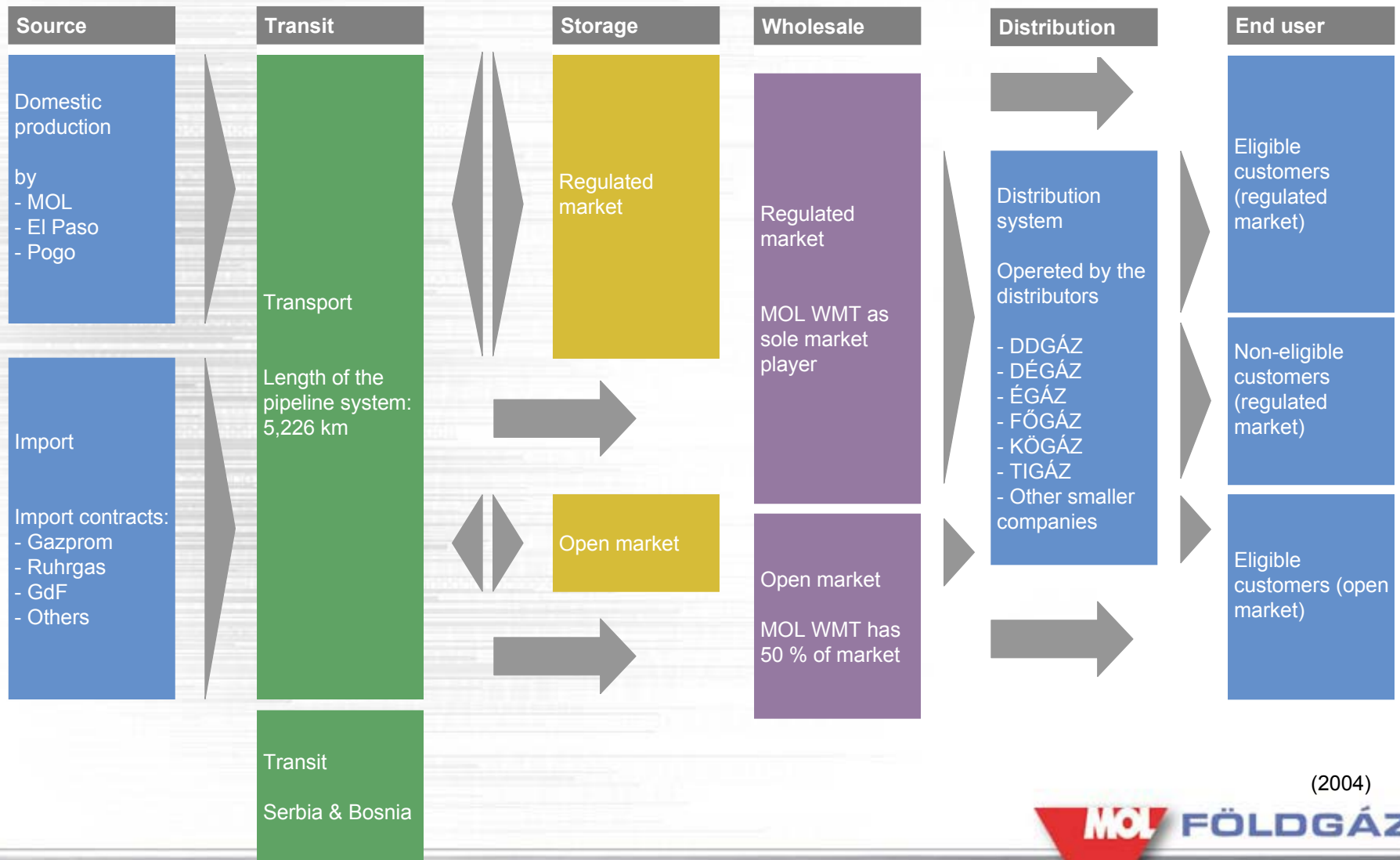


MOL Natural Gas Transmission Plc.

Liberalisation of the Hungarian gas market

- The Western investors have been long present in the distribution companies, the liberalisation is a fact since the mid-90's
- The effective degree of the liberalisation is 70 %, as of 1st July 2007 the residential sector is also free for competition
- Presently we have a dual market – regulated and open market
- Russian gas dominance in the region
- If there is real demand for extra volumes, different alternatives of the present gas supply will have to be taken into consideration
 - LNG, Nabucco – in the phase of a feasibility study

Key players in the Hungarian gas market



(2004)

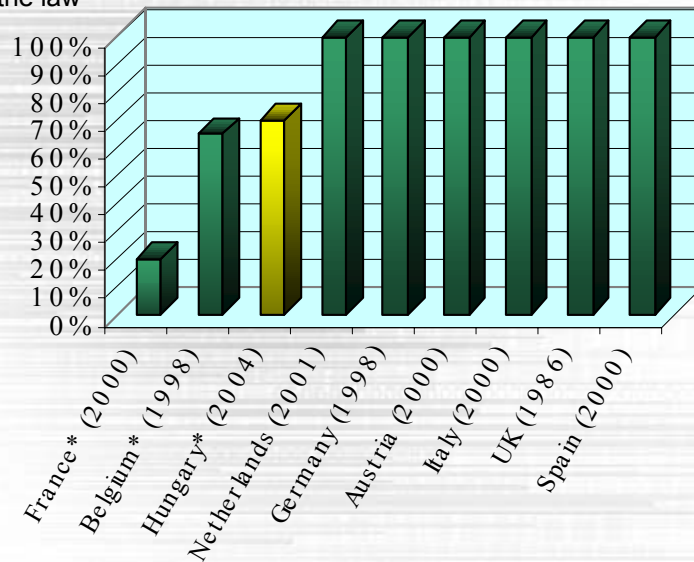


Liberalisation in Hungary and in Europe

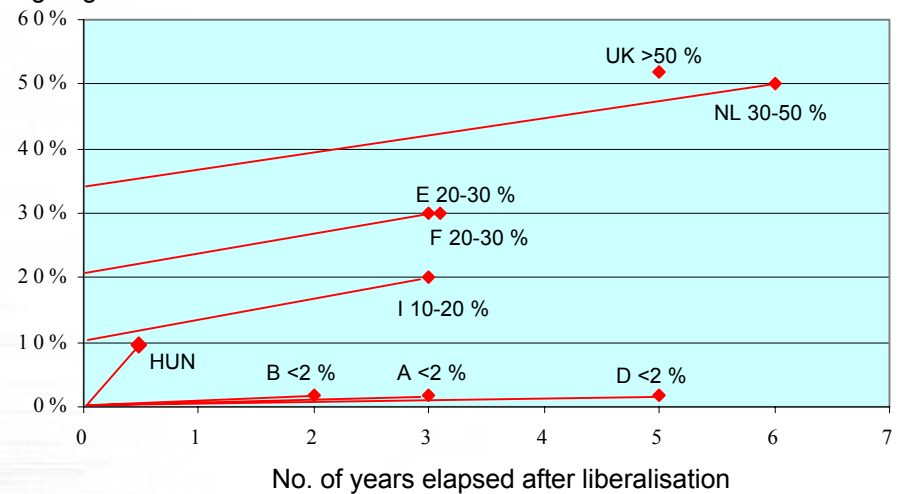
Success story

- Approximately 10 % of the customers who could, opted out for the open market (in volume). Thus the liberalisation of the gas market can be regarded as successful, as after only one year the market is open to a higher degree than most of the European markets

The share of the market that was opened in 2003 by the law



What share of the eligible customers has changed gas-trader



In Europe, changing gas trader is not common, even if the market has been liberalised.

* Full liberalisation by 2007

Partnership and partial change of ownership in the gas business of MOL

- On 4th November 2004, MOL and E.ON Ruhrgas International AG signed a partnership agreement. The transaction is expected to be closed after receiving the approval of the competent authorities (Hungarian Energy Office, Competition Authority) in the first half of 2005
- MOL's intentions have been:
 - Maximising the value of the company for the shareholders
 - Focusing in the oil business activities (E & P, R & D, Petrochemicals)
 - Profiting from operating the gas business activities within a leading energetic company
- The transaction in details
 - E.ON Ruhrgas International has acquired a stake of 75 % minus 1 vote in MOL Natural Gas Supply Plc. and in MOL Natural Gas Storage Plc.
 - MOL is entitled to use a put option in the next 5 years covering the remaining stake of the above companies and also a put option in the next 2 years to sell a stake of minimum 25 % plus 1 vote and maximum 75 % minus 1 vote in MOL Natural Gas Transmission Plc.