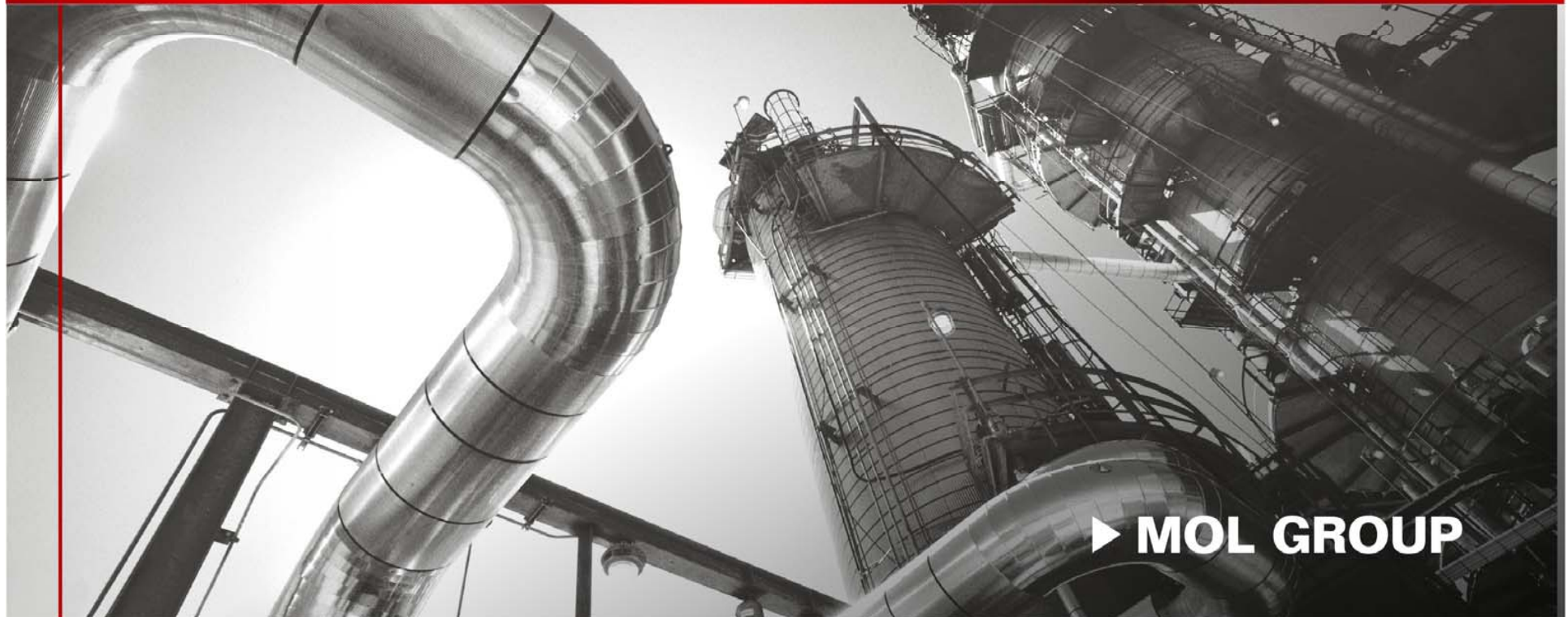


# **Nabucco and NETS: Securing Gas Supply for Europe - Competition, Consolidation, Cooperation-**

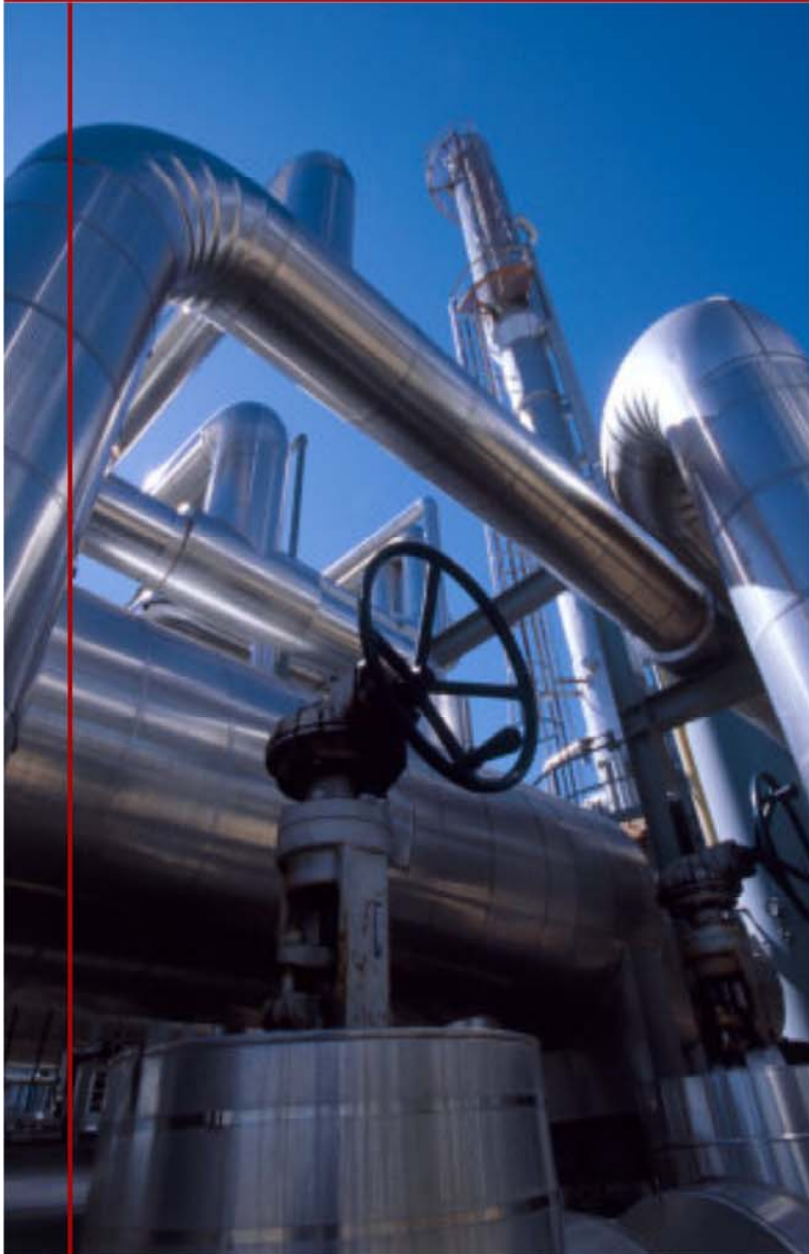
**György Mosonyi**  
CEO

Brussels, 8th of April 2008



► **MOL GROUP**

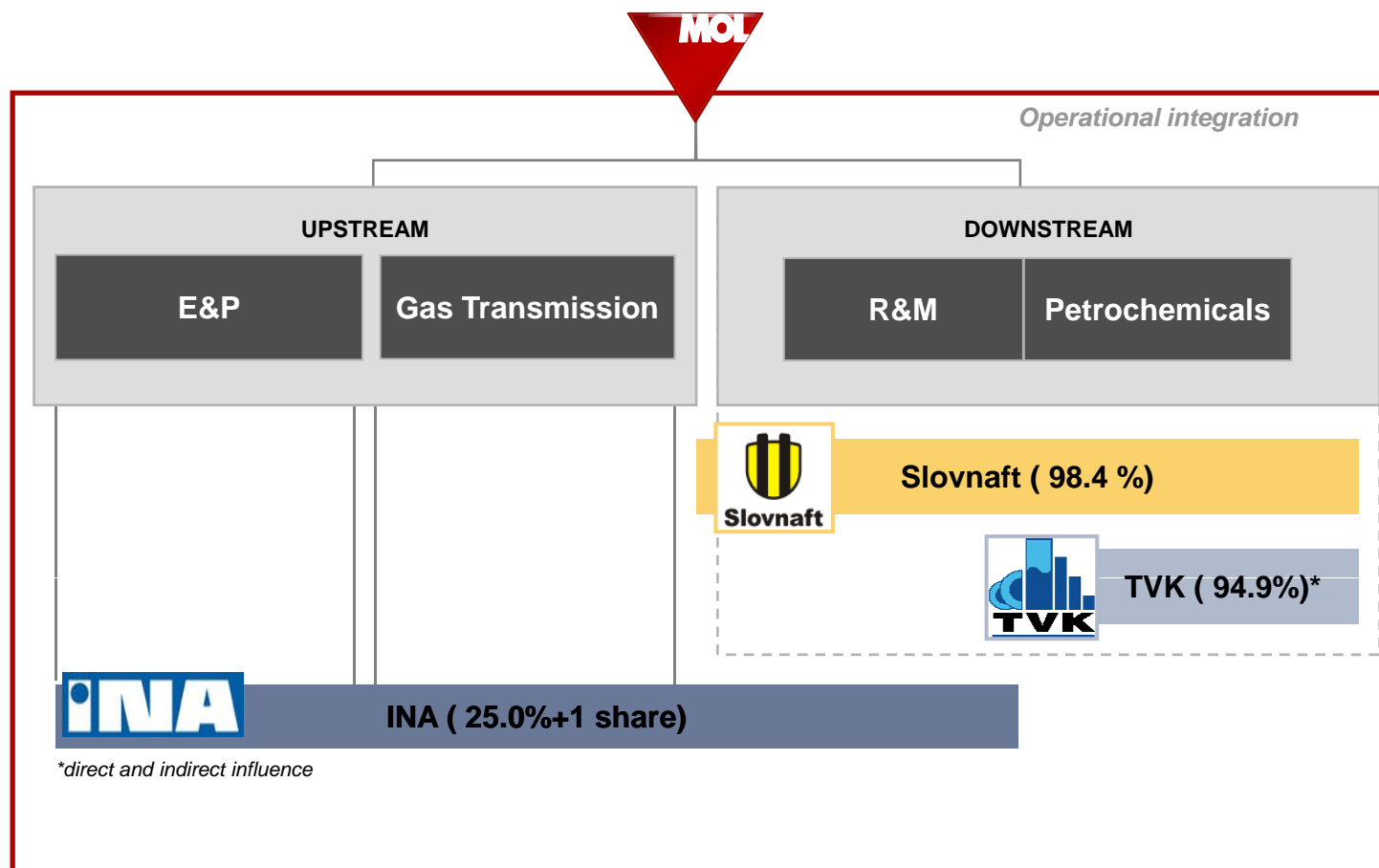
# Agenda



- ▶ **MOL at a glance**

- ▶ **Addressing the gas supply security challenges of Central Europe**

## The largest fully privatized company among the new member states



# Agenda

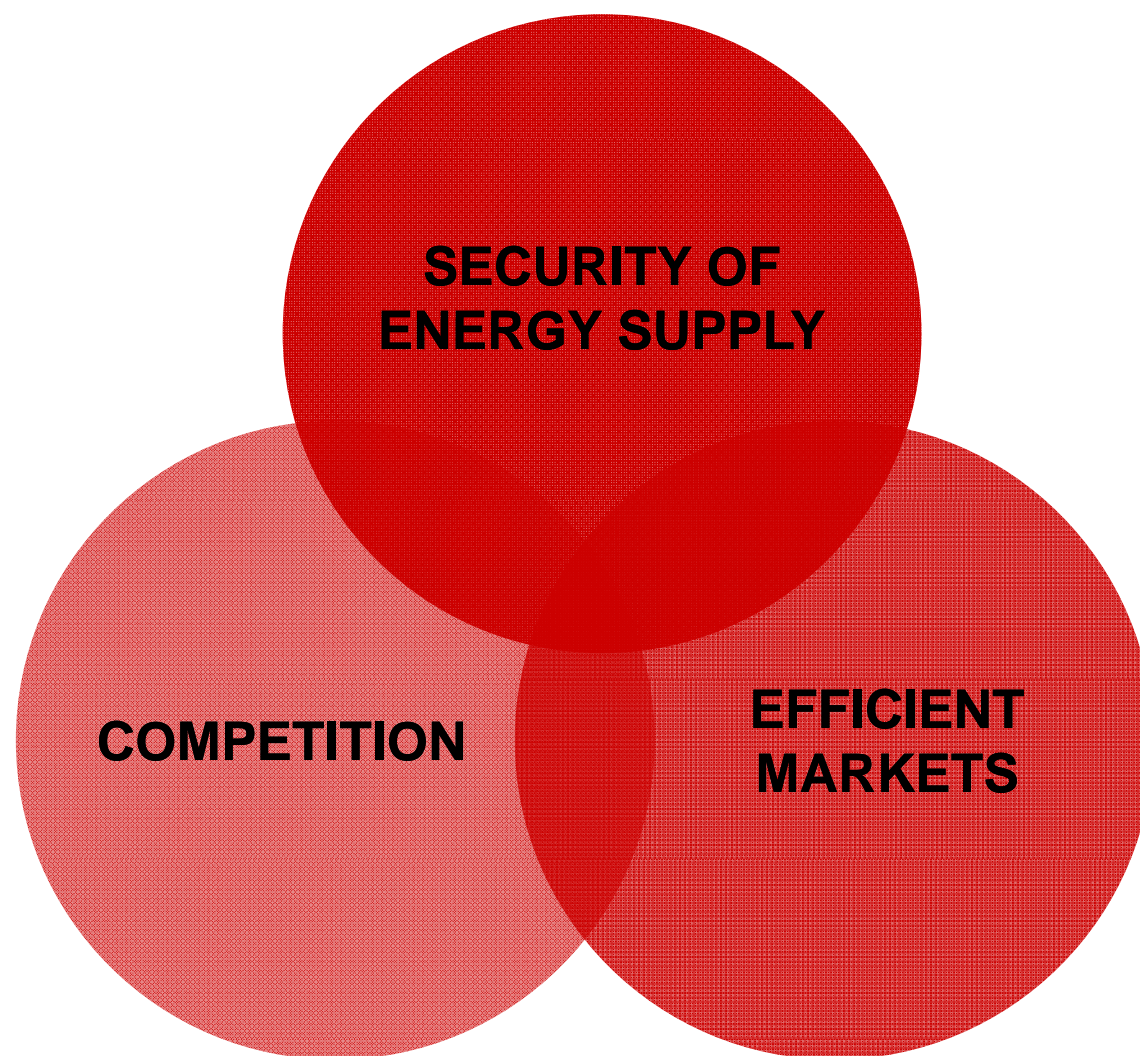


► **MOL at a glance**

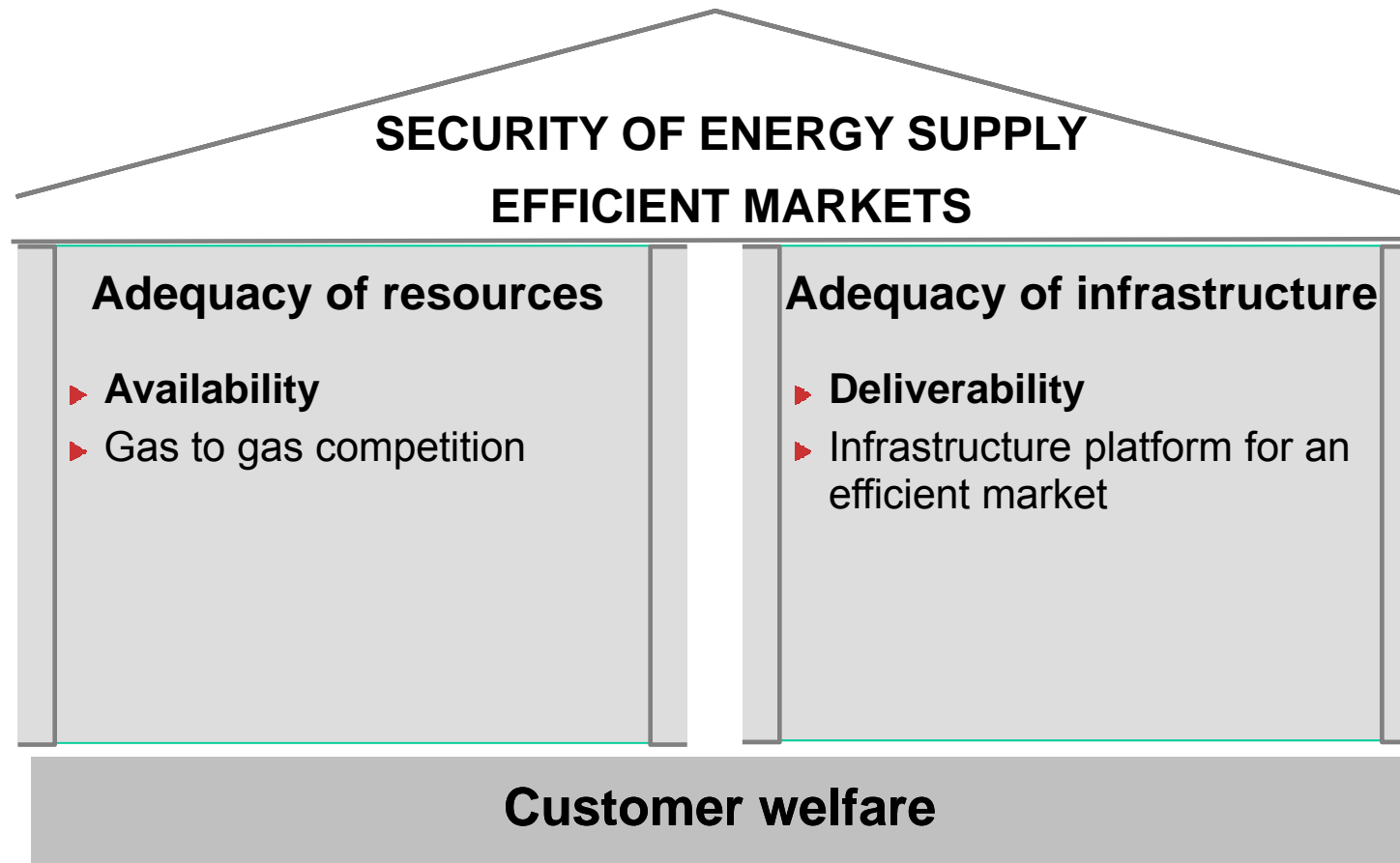
► **Addressing the gas supply security challenges of Central Europe**



## Key drivers

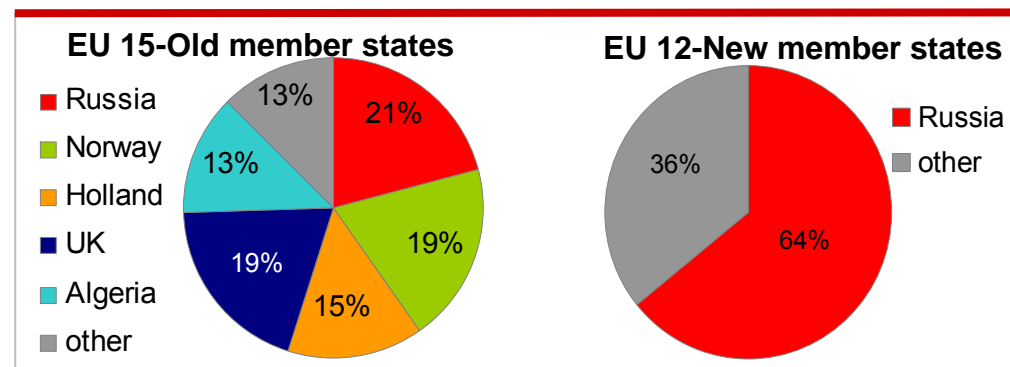


## The two pillars of secure energy supply



# New Europe: gas supply security problem of a different magnitude

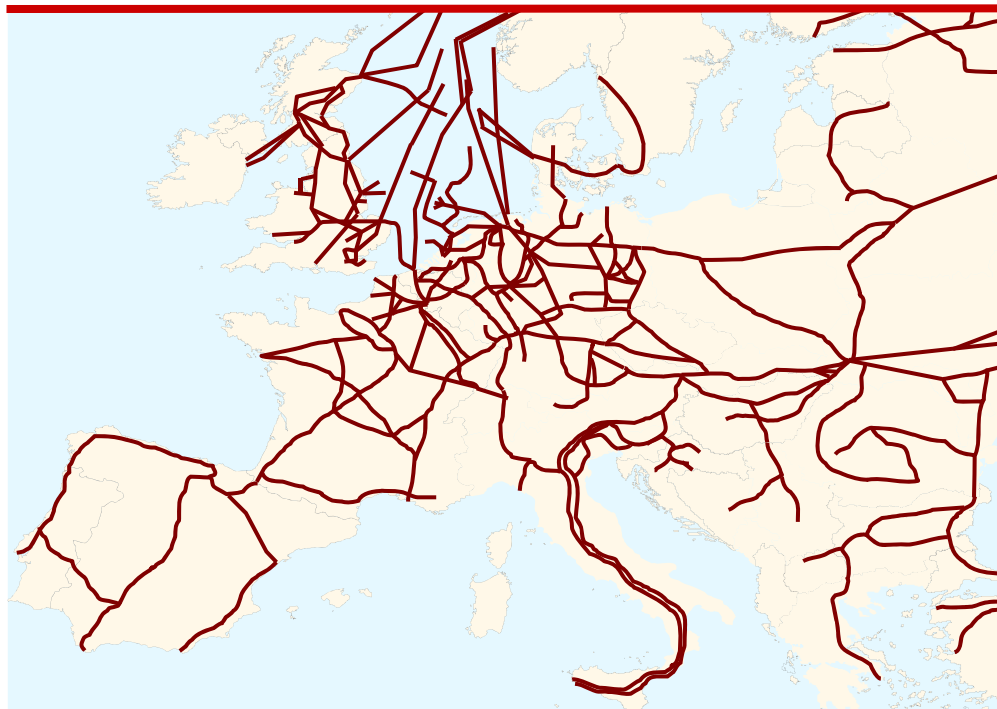
Composition of gas sources in 2006, bcm



Source: BP Statistical Review of World Energy June 2007

**Resources**

Meshed networks vs parallel East-West transit routes



**Infrastructure**

# Nabucco: answer for resource adequacy

## A new gas pipeline connecting the Caspian region, Middle East regions with CEE and West-EU gas markets

### Geographic overview



Source: Nabucco Gas Pipeline International

### Overview and key milestones

- ▶ Shareholders
  - ▶ OMV
  - ▶ MOL
  - ▶ Transgaz
  - ▶ Bulgargaz
  - ▶ Botas
  - ▶ RWE
- ▶ Pipeline length: ~ 3 300 km
- ▶ CAPEX: ~ 5 bill. €
- ▶ Construction:
  - ▶ Step I: 2010-2014
  - ▶ Step II: 2015-2018
- ▶ Start of operation: 2013
- ▶ Transport capacity:
  - ▶ Phase I. 8,0 bcm/y
  - ▶ Phase II. 15,5 bcm/y
  - ▶ Phase III. 25,5 bcm/y
  - ▶ Maximum: 31,0 bcm/y



## NETS: answer for infrastructure adequacy

**A proposal to unite Central and South-Eastern Europe's gas pipeline networks within an independent company**

### **Participating TSOs in the Steering Committee:**

- ▶ BH-Gas (Bosnia Herzegovina)
- ▶ Bulgargaz (Bulgaria)
- ▶ Geoplin Plinovodi (Slovenia)
- ▶ MOL (Hungary)
- ▶ OMV (Austria)
- ▶ Plinacro (Croatia)
- ▶ Srbijagaz (Serbia)
- ▶ Transgaz (Romania)



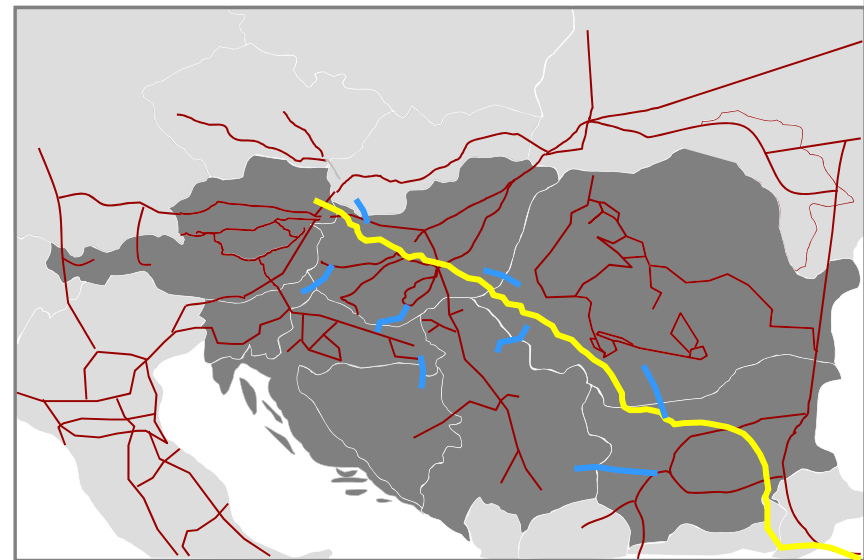
# NETS: a project of genuine European interest

## Market/Business perspective

- ▶ Integrated platform for trading
- ▶ Compliance with unbundling requirements
- ▶ Higher leverage on financial markets
- ▶ Regional regulatory integration
- ▶ NETS and Nabucco mutually reinforces each other

## EU perspective:

- ▶ Development of the project lies largely in Europe's competence and influence
  - ▶ Contributes to Europe's security of supply
  - ▶ Strengthens competition
  - ▶ Reinforces another major project, Nabucco
  - ▶ Complies with unbundling requirements
- 
- ▶ **NETS is a European project**
  - ▶ **EU support makes a difference**



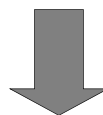
— Potential country connections — Nabucco pipeline

## BACK-UP: NETS

# Potential Vision, Mission & Strategy

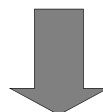
## Vision

- ▶ European leader in gas transmission providing platform for efficient regional gas markets and forming gas bridge between Europe and gas supplier regions through international co-operation



## Mission

- ▶ To be an independent gas transmission company, enabling secure and sustainable supply to Europe, through optimised and efficient network structure and follow world class network quality and HS&E standards
- ▶ Positioned to be the consolidator of European gas infrastructure



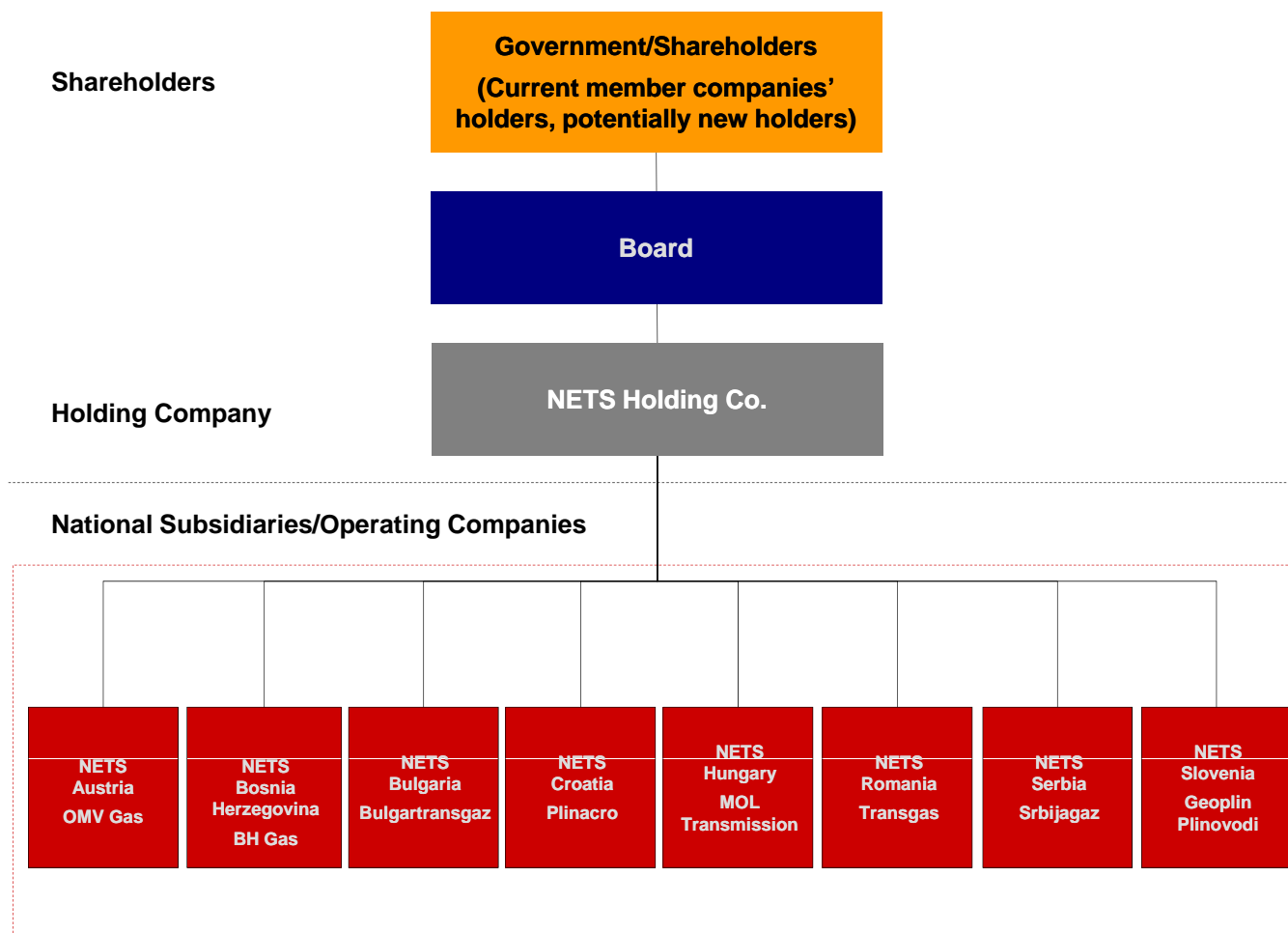
## Strategic Objectives

- |                                     |   |
|-------------------------------------|---|
| ▶ Realise opex and capex synergies  | ▶ Achieve efficient balance sheet and capital structure |
| ▶ Increase operational efficiencies | ▶ Ensure access to capital markets                      |
| ▶ Optimise network reliability      | ▶ Pursue further consolidation and growth opportunities |

# Structure and Governance: Overview

## Illustrative Example

- ▶ National subsidiaries will continue to exist, but will be part of an integrated management structure at the NETS HoldCo level
- ▶ HoldCo to be supervised by a Board of Directors
- ▶ Precise roles and responsibilities of HoldCo vs. operating companies to be defined



# Structure and Governance: Potential Approach and Key Issues

## Shareholders

### Rights and Responsibilities

- ▶ Key issues to be set out in Shareholder Agreement
  - Shareholder reserved rights
- ▶ Alignment of shareholders' interests (government vs. private)
  - Public service obligations vs. Shareholder value maximisation
  - Incentive mechanisms
- ▶ Any specific rights/golden shares
- ▶ Number and delegation of Board Members

### Structural Issues

- ▶ Definition of the shareholding percentage (see Valuation Methodology)
- ▶ Shareholders Agreement should be flexible enough to cater for the addition of new members

## HoldCo Board

- ▶ Identification of matters requiring Board votes
- ▶ Decision making: majority vs. consensus

- ▶ Nature of Board—two tier supervisory/management
- ▶ Number of Board members
- ▶ Representation from each member company/country, e.g.
  - One from TSO, one from main shareholder
  - Or related to size

## HoldCo Management

- ▶ Decision making at Holdco vs. national level
- ▶ Scope of "Holdco level" management vs. "OpCo" management should be defined
  - Certain level of management integration should be ensured to secure synergy benefits

- ▶ Appointments of key executives (CEO, CFO, etc.,)
- ▶ Management should be selected on the basis of "best man for the job" rather than specific national allocations

## National Entities / Operating Companies

- ▶ Role of management
- ▶ Role of government/other National bodies

- ▶ What if any independent governance/board representation at national subsidiary level?

## Other

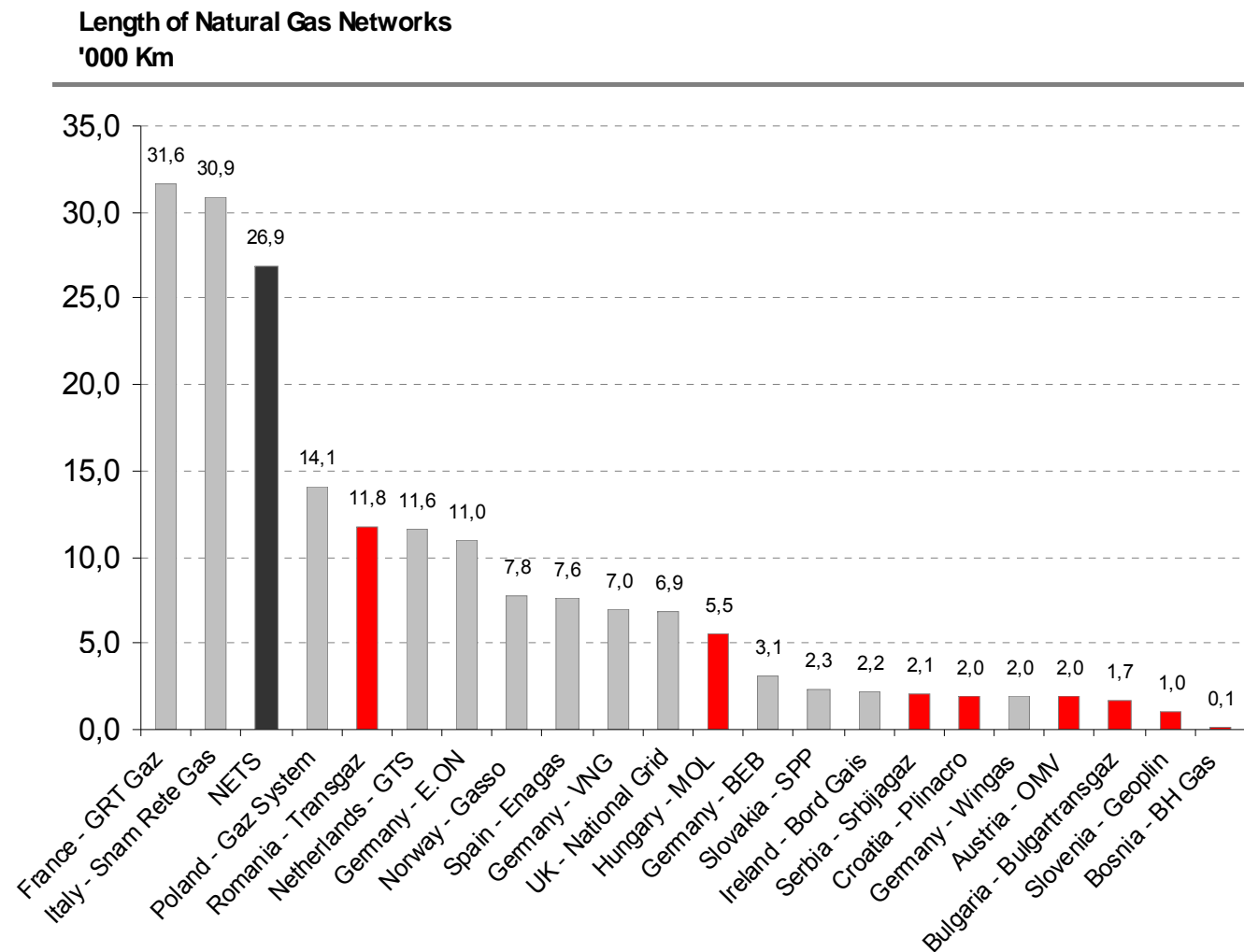
- ▶ NA

- ▶ Country of incorporation
  - Societas Europeanea status could be an option
- ▶ Location of headquarters and key offices
- ▶ Tax consequences of structure
- ▶ Potential incorporation of the Nabucco project into the NETS structure
- ▶ Accounting
  - IFRS/other



## NETS: #3 gas network in Europe

- The combination would create one of the longest natural gas pipeline networks in Europe (27,000 km)

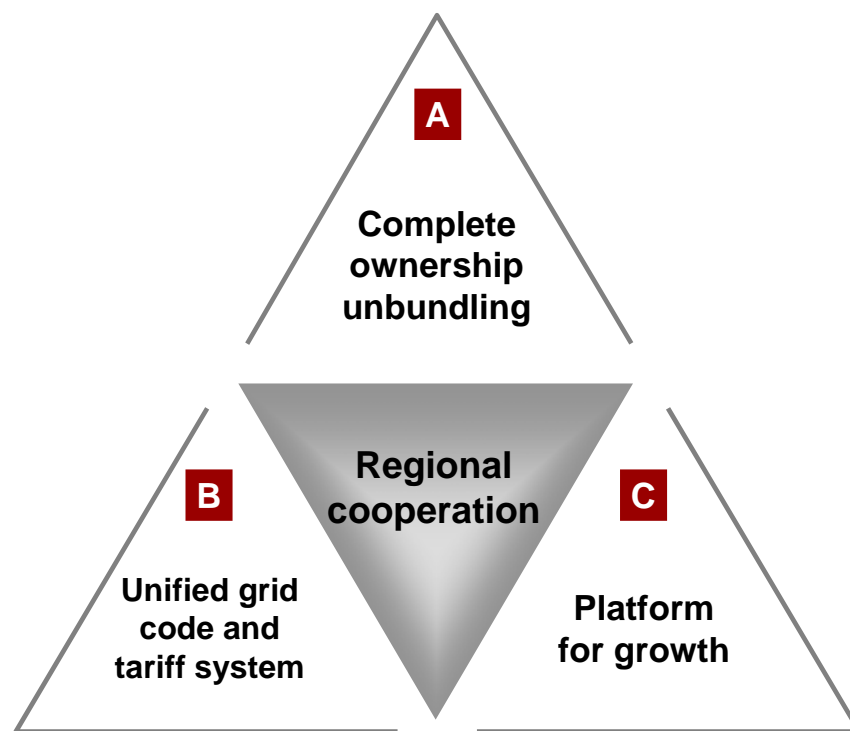


 Potential NETS Member Companies

Source: Company information

# NETS: a growth story for all owners and companies

Major levers of NETS's long term success



## **A Complete ownership unbundling**

- ▶ Regional transmission assets to be pooled into a single corporate framework
- ▶ Value of the transmission assets to be based on enterprise valuation
- ▶ Corporate governance structure to follow the strictest unbundling requirements

## **B Unified grid code and tariff system**

- ▶ NETS Co. to operate as a single regional control zone
- ▶ A unified regional regulatory environment would further facilitate the development of an efficient market

## **C Platform for growth**

- ▶ Well positioned to leverage international capital markets to finance major investments
- ▶ NETS Co. could be an active player in privatization and unbundling-related transactions in line with national policy considerations
- ▶ An eventual IPO could raise further growth

## Benefits provided to stakeholders by NETS

### Customers/ Consumers

- ▶ Higher service level
- ▶ Efficiency gains
- ▶ Unified tariff system

### Shareholders

- ▶ Opportunity for growth
- ▶ Better access to international capital markets
- ▶ Save state funds
- ▶ Improved capital efficiency
- ▶ Better negotiation power with suppliers

### National Interests

- ▶ Enhanced security of supply and system planning
- ▶ Integrated/unbundled structure
- ▶ Network safety and reliability
- ▶ Owners/governments enjoy higher income
- ▶ Enhanced access to EU funds

### EU Policy & Regulation

- ▶ Enhances energy security, efficiency and competitiveness
- ▶ Supports EU principle of supply solidarity
- ▶ Consistent with Commission's proposals on unbundling
- ▶ Adds transparency and independence
- ▶ Supports cohesion and regulatory coordination