



Budapest, 2005-10-03

Mr François Lamoureux
Director-General
European Commission
Directorate-general for energy and transport
Fax: +32 2 296 8355
B-1049 Bruxelles, Belgium

Dear Mr. Lamoureux,

Concerning your letter of 15-07-2005 (E2/WK/BWM D(2005) 115612) referring to our complaint of 21 April 2005 relating to the non-compliance of the Hungarian rail transport legislation with the Community legislation concerning rail services, registered under number SG(2005) A/3938, I would like to call to your attention an article which recently appeared in the Hungarian national daily Népszabadság. I am sending you the English translation of the article.

Yours sincerely,

András Lukács
President

Cc.
Mr. Alejandro Martinez Godin
Directorate-General for Energy and Transport
Unit A5
Services of general economic interest & users' rights
Infringement Coordination
European Commission
B-1049 Bruxelles
Belgium

Chairman on the Shunt-line

Hungarian State Railways' General Staff Reshuffled by the Ministry of Economyⁱ

by Attila Kapitány Szabó

Organizational and personnel changes in the Hungarian State Railways (MÁV) will be announced today. The Company's Chairman Director General Gyula Gaál will remain in his post, but with much reduced power. The Railways Company will in effect be directed by a board, headed by the Minister of Economy, and by the Deputy Director General appointed by the Minister.

The position of MÁV's Chairman Director General, just recently confirmed in his position, has become much weaker as a result of the decisions of János Kóka, Minister of Economy and Transport, who must have read with great interest the organizational proposals submitted by Gyula Gaál. Apparently, however, the Chairman Director General's vision for MÁV's future has proved to be incompatible with the Minister's ideas, formulated within the framework of a long-term railways transformation programme to be completed by 2013. In fact, so much incompatible that the Railways Company's factual leadership will be assigned to István Heinczinger, the General Deputy Director General appointed last week. The Company's formally number one executive will be given the task of strategy preparation, and of course the role of the whipping boy. **It is expected that today the competent minister will force down on the throat of MÁV's Board of Directors and Board of Supervision his plans concerning the new organizational structure as well as the promised changes in the Company's management.**

The current amendments (which are already the thirtieth) of the founding document of MÁV, operating as a closed joint-stock company, are the direct consequences of the modifications announced to be under preparation by the Ministry of Economy and Transport back in August. MÁV had earlier already undergone a registered capital reduction of HUF 128 billion, and today only possesses a registered capital of less than HUF 80 billion. **Part of the decision-making scope of authority necessary for directing the State Railways Company has been seized by the minister.** However, this would not make MÁV a hand-regulated entity, promised the minister in August when he announced the decision. This is now guaranteed by an arrangement in which the decision-making rights drawn into the founder's scope of authority will be exercised by a so-called Ownership Board. **The Board will be headed by the Minister of Economy and Transport.**

In the new structure, any transfer or encumbrance of MÁV property items over a total value of HUF 2 billion will require an Ownership Board decision. Earlier news indicated that the Ownership Board's approval would be necessary for MÁV's organizational remodelling as well. On the other hand, the Hungarian State Railways' Board of Directors will have the right to decide about property transfers belonging to the value range of HUF 1 to 2 billion.

The scope of authority of the Chairman Director General, regarded according to usual business practice as the top executive post of a company, will be much more restricted at MÁV. The Chairman Director General will be entitled to provide mandate for meetings concerning the transformation and restructuring of companies in which the State Railways'

share does not exceed HUF 500 million. On the other hand, in the case of transferring real properties and securities, his scope of authority will cover transactions belonging to the value range between HUF 500 million and 1 billion. Concerning the sale of the Railways' property items, however, he will only have the right to make decisions up to a value limit of HUF 100 million, whereas the General Deputy of the Director General, holding a new position at the State Railways Company, will be entitled to decide within his own scope of authority about property transfers under HUF 500 million.

Besides the limit amounts pertaining to procuration rights, the scopes of responsibilities of MÁV's executives have also been considerably reshaped. **Gyula Gaál managed to avoid becoming only a nominal Chairman Director General, but his room for manoeuvre has been greatly restrained by the competent minister.** Of course, all these changes will not imply that MÁV's top executive will have trouble killing his time. We have been informed that on ordinary working days the Chairman Director General will act on behalf of the Board of Directors. In practice, this means that he will represent the Company towards the owner, the authorities, the travelling public and freight customers. But nothing else.

In addition to these tasks, presumably not very pleasant considering the Railways' present situation, the Chairman Director General will be responsible for managing the Company's work organization and **for elaborating MÁV's strategic concept. Concerning the latter one, though, final decisions will most likely require the Ownership Board's approval.** Only MÁV's Strategy Deputy Director General and his team will operate under the Chairman's supervision. On the other hand, the Chairman Director General's scope of responsibility will comprise the handling of some tough issues like the relationship of the Hungarian State and MÁV, as customer and service provider, and proposals for the normative cost reimbursement system's improvement. He will also be in charge of MÁV's internal auditing activities.

Pursuant to the deed of foundation's latest modification, the General Deputy of MÁV's Director General will be appointed by the Minister of Economy and Transport. Nevertheless, those employer's rights which have not been seized by the Minister will on paper be exercised over István Heinczinger by Gyula Gaál. So, theoretically, **he may make proposals for the salary, severance pay and bonuses of the General Deputy Director General, unless otherwise decided by the Minister of Economy and Transport.**

Independently from that, according to the amendment of the Railways Company's founding document, MÁV's operative management and the Company's safe key will be inherited by the General Deputy Director General from the outgoing Zoltán Mándoki Director General, essentially with all of his former authorities. Accordingly, the management of every organizational unit, with the exception of the strategy area, will belong to the scope of responsibility of the new manager, who has arrived to MÁV from Siemens Rt. Pursuant to the founding document's version to be submitted to the Board of Directors and the Board of Supervision, Heinczinger will exercise the employer's rights over director generals and managing directors of companies which are owned by MÁV or in which MÁV has a majority ownership share. As a result, he will have the authority to decide about their appointment, dismissal and remuneration. His responsibilities will include the preparation and management of railway projects funded by the European Union, and the controlling of the use of EU funds. Supervision of the Railways Company's communication matters will also belong to his scope of duties.

Some executives of MÁV, primarily members of the team which had arrived to the State Railways together with Mándoki from MOLⁱⁱ, will not have to bother with making themselves familiar with the new organizational structure: it is said that some executives who are included in János Kóka's "black list" will be removed from MÁV. The aggregate amount of the severance pay due to these officers would come up to HUF 300 million. Out of that sum, HUF 80 million would be the severance pay of Zoltán Mándoki. It is another matter that the competent ministry has not yet abandoned its plan to withhold these severance pays. In order to attain its goal, the ministry is now applying the method of offering such posts to the managers regarded as redundant at the Railways which are rather hard to accept. Those who do not accept the offered new position and prefer to leave the Company will not be entitled to any severance pay.

We have been informed that earlier, the group of railway executives proposed to be discharged also included Flórián Kugler, Human Resource Policy Deputy Director General. The dismissal of this manager, responsible for trade union relations, is said to have been removed from the agenda. It is still a current issue, however, that Gusztáv Lékay may be removed from his position. He is the Director in charge of conducting MÁV's public procurement procedures (which, in some cases, involve sums in excess of tens of billions of HUF), among them the motor train tender which has been widely regarded as a scandalous transaction. The list, under preparation for several months now, also comprises Balázs Orosz D., General Counsel of MÁV and Andrea Stromajer, Communication Director. The latter executive is expected to be replaced by Judit Kecskeméti, who was the communication manager of the Ministry of Economy and Transport, appointed (and later dismissed) in the period when the ministry was still headed by István Csillag. It is rumoured that Tibor Gulyás, Strategic Project Director, responsible for MÁV's strategy plans (among them the preparation of the freight transportation outsourcing), will also be among those to be dismissed. Similarly, the competent minister intends to remove Mrs. Budai, Zsuzsa Ferenczi Controlling Director and János Mangel EU Project Director.

Translated from Hungarian by Zsolt Jenei

ⁱ This article appeared in Hungarian in *Népszabadság*, the most widely read Hungarian national daily, on 26th September 2005. It can be downloaded from <http://www.nol.hu/cikk/378490/>

ⁱⁱ Hungarian Oil and Gas Corporation