Rules of Selection

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1. BACKGROUND, SPECIFICATION OF PURPOSE, SCOPE AND ACCESS

1.1. Background

FGSZ Földgázszállító Zártkörűen Működő Részvénytársaság /Natural Gas Transmission Company/ (hereinafter: "FGSZ Ltd." or "Company") received the transmission system operating license on 28 June 2012, issued by the Hungarian Energy Office (legal successor: Hungarian Energy and Public Utility Regulatory Authority, hereinafter: "MEKH") under resolution no. 630/2012., on the basis of which FGSZ Ltd. conducts natural gas transmission activity as per Sections 5-10 of Act XL of 2008 on Natural Gas Supply (hereinafter: GSA).

Pursuant to Section 143(1) of Government Decree no. 19/2009 (I. 30.) on the implementation of Act XL of 2008 on Natural Gas Supply (hereinafter: "Implementation Decree"), the transmission system operator (TSO) shall have in place internal selection regulations for the selection and contracting of third persons who perform specific elements of the activity subject to licensing.

Furthermore, Section 100 of the Implementation Decree determines the scope of activities subject to licensing which FGSZ Ltd. as transmission system operator – and transmission system coordinator appointed by MEKH – shall perform within its own organisation, i.e. which may not be outsourced. The outsourcing of activities not subject to licensing requires prior approval by MEKH as per Section 124(1) of the GSA, while Section 21(5b) of Government Decree no. 203/1998 (XII. 19.) on the implementation of Act XLVIII of 1993 on Mining (hereinafter: "Mining Act") requires the reporting of the involvement of contractor and subcontractor to the mining office at least 15 days prior to the commencement date thereof.

1.2. Purpose of the Regulations

In due observance of Section 143 of the Implementation Decree, the purpose of the Selection Regulations (hereinafter: "Regulations") is to provide transparent and uniform guidance to the participants of procurement procedures to ensure the lawful and regular implementation of procedures for the procurement of services, in particular:

- the rules for tendering procedures,
- the conditions of participation in tendering procedures, and
- the opportunities for remedy.

1.3. Scope of the Regulations

1.3.1. Personal scope of the Regulations, external and internal stakeholders

The scope of the Regulations shall extend to every employee of the Company, as well as to the external partners participating in the invitation to tender.

1.3.2. Term of the Regulations

The Regulations shall enter into force on the day MEKH approves them.

As of that day, the provisions of the Regulations shall mandatorily apply.

1.3.3. Subject matter of the Regulations

The subject matter of the Regulations shall be limited exclusively to the selection of third persons for the performance of specific elements of FGSZ Ltd.'s activities subject to licensing under the GSA, and for the selection of third persons for the performance of specific elements of its gas plant activities governed by the Mining Act.

2. DESCRIPTION OF THE REGULATIONS

2.1. General rules

2.1.1. Responsibilities of Procurement

The procurement tasks of the Company shall be performed by the Procurement Department of the Company (hereinafter: "Procurement"). Requesting quotation falls to the exclusive competence of the Procurement.

Key responsibilities of Procurement:

- Strategic procurement:
    - preparation/updating of the annual procurement plan
    - market research
    - processing procedure launching documents
    - compiling invitation to tender
    - conducting procurement procedure
    - conducting competition between partners who are parties to the framework agreement
    - conducting contracting processes.

- Operative procurement:
    - managing established contracts
    - launching request of deliveries based on existing contracts
    - market research
    - placing individual orders
    - conducting competition between partners who are parties to the framework agreement
    - follow-up on orders
    - managing contractual penalty processes

The procurement process is a process supported by electronic systems, comprising process steps that can be traced in the given system, stored in a retrievable manner. Authorisations follow the relevant points of the Decision Making Competence List (DMCL), with certificates that can be retrieved from the systems.

2.1.2. Rules of conduct

The procurement processes shall be conducted in compliance with the applicalbe legal rules and the Company's Code of Conduct.

The main rules of conduct are as follows:

- representation of the interests and aims of the Company
- impartiality and transparency in business
- notification of conflict of interest, confidential treatment of the issues of participants in the selection process
- providing equal opportunity and equal treatment to prospective partners
- sharing the necessary information with prospective partners equally and without discrimination.

2.1.3. Access to the Regulations

The full text of the Regulations and their annexes are accessible on the homepage of the Company.

2.2. Procurement procedure

2.2.1. Purpose of the procurement procedure

As a general rule, FGSZ Ltd. conducts the procurement procedures in electronic systems – including the bidding procedure – as follows:

If our electronic systems are not available (in the cases of emergency), the procurement procedure may be conducted on paper.

The purpose of the procurement procedure is to ensure the selection of the winning supplier with the most favourable conditions for FGSZ Ltd., by observing the principles of transparency and integrity.

If FGSZ Ltd. is required to implement its procurement(s) under public procurement procedures – especially in projects implemented from budgetary or European Union funds where public procurement procedure is mandatory –, the rules specified by the Public Procurement Act (PPA) in force from time to time shall be applied.

2.2.2 Preparation of the procurement procedure

2.2.2.1 Evaluation committee

The evaluation committee (EC) shall consist of a delegate of the requesting department, a representative of Procurement. and of representative(s) of other departments as required. The head of the evaluation committee shall be the representative of Procurement. whose task is to coordinate the work of the evaluation committee.

2.2.2.2 Preparation

In the preparatory phase, the procurer – in collaboration with the evaluation committee and based on the technical content and the procedure launching document – shall compile and determine the invitation to tender and documentation on which the procurement procedure is based, the table of the request for quotation, the draft contract, the prospective suppliers, the set of evaluation criteria, the scheduling of the process, and shall determine the type of the procurement procedure.

<u>Mandatory content and documentation elements of the Invitation to Tender</u>

Procurement shall compile the invitation to tender based on the procurement launching document by using the template in Annex 1 of the Selection Regulations.

In the event of procurements related to IT systems, equipment, security access systems, and conducting auditing activity, in the procurement launching document attention must be called to the provisions of Section 121/E(6) of Act XL of 2008 on Natural Gas Supply (GSA). Compliance with the legal rule set forth above must be ensured in the contracts to be concluded based on the tender procedure.

Quotation request template

The purpose of the quotation request template is to ensure that tenderers submit their tender in a standardised format to make any later comparison simpler and transparent.

Set of evaluation criteria

When specifying the set of evaluation criteria, it must be clearly stated on what criteria the winning tenderer will be selected from the submitted tenders. The evaluation criteria should ideally reflect the expectations relating to the specfic product or service during its whole life cycle.

Elements of the evaluation criteria:

- Eligibility criteria: The purpose of specifying the eligibility criteria is to ensure equal opportunities for tenderers and the framework of the legal rules has to determine the set of conditions, quality expectations and financial guarantees which ensure the identification of risks entailed by the suppliers that could threaten the normal and economical operation of the Company and the mapping of the supplier's resources and quality management system relevant for the Company. The quantity and quality of the eligibility criteria specified in the invitation for tender must be technically justifiable, and the specification of the eligibility criteria may not result in the restriction of competition or in the favouring of specific tenderers. Only such suppliers may be recommended for concluding a contract with, or only such suppliers can participate in the phase following the evaluation in the procurement procedure which meet the objective eligibility criteria that were specified in the Invitation to tender. The eligibility criteria shall be sent in the Invitation to tender or in its annexes to the tenderers with a note that meeting the eligibility criteria is a condition of the contract conclusion.
- Objectively quantifiable criteria – by simple proportioning: To be used in the case of quality/quantity or price criterion whereby the tender is question will be ranked in proportion to the minimum/maximum value belonging to the tenders.
- Objectively quantifiable criteria – by scoring: To be used in the case of quality/quantity criterion whereby the tender in question will be placed in a given evaluation category if it reaches a specific quality/quantity criterion.
- Criteria not quantifiable objectively – by scoring: To be used in the case of a quality criterion when it is difficult to define the evaluation criteria.

In the set of evaluation criteria one criterion may be evaluated only once.

Types of procurement procedure

Restricted procedure: The invitation to tender is sent to a scope of predetermined prospective tenderers. When determining which prospective tenderers to invite, the contracting entity must strive to receive at least 3 evaluable tenders. A special type of restricted procedure is when a single prospective supplier can be identified. In this case the circumstances of and the reason for the uniqueness shall be justified in detail as follows:

- exclusivity,
- maintaining partnership,
- timeliness,
- strategic reason,
- emergency,
- other.

The points of approval for single supplier procedures (SSP) shall follow the DMCL in force at all times. The amendment of contract also qualifies as a single supplier procedure.

If the procedure is aimed at amending an existing contract, any such amendments must be indicated in the SSP by enabling comparison with the original contract.

Open procedure: A widely announced procurement procedure in which all stakeholders can submit a tender.

2.2.3 Conducting the procurement procedure

2.2.3.1 Invitation to tender and documentation, complementary information

The invitation to tender and the documentation with its annexes are sent to the prospective suppliers. This phase also includes the acceptance of the confidentiality declaration. If there is a preliminary application by a tenderer in an open procedure, the invitation to tender and the documentation will be sent upon accepting the confidentiality declaration.

The Tenderer may request additional (explanatory) information concerning the content of the invitation to tender and an on-site visit from the Contracting Entity. If justified by the complexity of the subject matter of the procurement or the necessity to learn the planned site of utilisation, a consultation and/or an on-site inspection must be organised for the interested Tenderers prior to the submission of the tenders.

In the procurement procedure all supplementary information and modifications shall be sent to tenderer simultaneously, prior to the submission of the tenders. No information may be modified in a targeted manner resulting in either an advantage or a disadvantage for any Tenderer.

2.2.3.2 Submission of tenders

Only tenders submitted by tenderers participating in the procedure can be accepted. The tender shall include the comprehensive set of technical and commercial conditions.

It must be ensured that nobody has access to the content of the tenders prior to the commencement of the evaluation. The tenders can be accepted from the launching of the procedure until the expiration of the tender submission deadline.

The procurer shall hand over the tenders to the EC after their receipt.

Should the procedure become necessary to conduct on paper, then:

- *The participants of the opening procedure have to check that the tenders submitted in the closed envelopes are intact.*
- *Minutes have to be kept of the opening procedure which shall be verified by the signatures of the participants of the opening procedure.*

2.2.3.3 Preliminary evaluation of tenders

In the event the Tenderer fails to meet the eligibility criteria either in part or fully, the EC will call for supply of missing information by the Tenderer. If the ineligibility cannot be eliminated by supplying missing information, the evaluation committee shall exclude the supplier who cannot participate in the following phases of the procedure.

2.2.3.4 Negotiation

If necessary, a personal negotiation may also be held in the procurement procedure.

The purpose of the negotiation is to ensure the interest of the Company efficiently regarding the subject matter of the procurement, and that FGSZ Ltd. can reach an agreement with as favourable technical/professional and commercial conditions as possible in relation to its suppliers. Several rounds of negotiations may be conducted within the framework of the same process as necessary.

<u>Documentation of the negotiation</u>

The procurer shall prepare a memo of the personal negotiation/price negotiation.

The memo shall contain the following information:

- Name of the participants
- Venue
- Date
- Brief summary of what was said at the meetings
- (Final price reached at the negotiation/price negotiation)

2.2.3.5 Base tender

It is the tender including a bid price submitted by Tenderer after finalising the technical and commercial conditions of the base tender. In the event the Tenderer's base tender is not complete, the Contracting Entity shall call on the Tenderer to supply missing information. The (final) base tender which meets the technical and commercial requirements set forth in the procurement procedure shall be deemed the base tender; thereafter only the bid price can be modified.

2.2.3.6 Final Tender

During the final call for tenders, the Contracting Entity shall attempt to reach the best conditions for the Company in terms of the price quoted in the base tender.

Bidding procedure

The bidding procedure designed to determine the most favourable tender price after the closing of the technical and commercial evaluation. After the evaluation of the tenders, Procurement decides on the basis of the received tenders whether the final price can be determined by means of bidding. The tenderers invited to the bidding shall have the opportunity to modify the tender several times during the period of the bidding. The ranking established as a result of the bidding – considering that it does not determine the ranking of the final price – may not be identical with the final ranking of the tender procedure, of which tenderers participating in the bidding shall be provided with prior information.

The Tenderers shall be informed on the possibility of bidding in the invitation to tender, as well as on the IT and any legal conditions and the use of the auction system prior to the bidding procedure.

The Contracting Entity shall select the appropriate bidding procedure depending on the procedure.

Final price negotiation

The selection of the Tenderer shall not result in a binding obligation for the Contracting Entity to enter into a contract with the given Tenderer. The Contracting Entity may withdraw its intention to conclude a contract or initiate new negotiations to reach the best possible price for the Company at any time before the contract is signed. The Contracting Entity shall inform the Tenderers about the possibility of a final price negotiation prior to the bidding procedure.

2.2.3.7 Selection of supplier

In the case of a successful procedure, the evaluation committee selects the most favourable offer by considering the evaluation method and evaluation criteria specified in the tender launching document (TLD), prepares a report based on that, and makes a recommendation as to which Tenderer(s) should win. In the case of an unsuccessful procedure, the evaluation committee shall write a report on why the procedure was unsuccessful.

The procurer shall notify the Tenderers about the success/failure of the procedure simultaneously in the case of either a successful or an unsuccessful procedure.

2.2.3.8 Conclusion of contract

As a result of the procedure as detailed above, the Contracting Entity shall conclude the contract with the Tenderer that best meets the set of evaluation criteria. The Contracting Entity reserves the right to conclude contracts with several Tenderers in order to ensure the security of supply.

In the event the contract conclusion fails with the winning Tenderer, the Contracting Entity reserves the right to conclude a contract with the next best Tenderer according to the set of selection criteria.

2.2.3.9 Amendment of contract

The single supplier procedure is used for the amendment of contracts.

2.2.4 Reporting subcontractors involved in performance of the contract

The subcontractors required for the commencement of the performance of the contract will have to be reported to the procurer conducting the procurement procedure before signing the contract. The contract can be signed only once these documents in place. The reporting obligation shall be met by filling in Annex 3.

Similarly, if a subcontractor is (or subcontractors are) involved in the performance of the contract subsequently, FGSZ Ltd. shall be notified by filling in and sending Annex 3.

2.2.5 Reporting outsourced activity to the mining office and MEKH

Pursuant to Section 21(5b) of Government Decree no. 203/1998 (XII. 19.), FGSZ Ltd. shall report the involvement of contractors and subcontractors in the course of the outsourced gas plant activities to the mining office competent on the basis of the place of work with the data content specified in Section 21(7) of the same. Annex 3 as sent by the contractor and completed by the authorised representatives of FGSZ Ltd. shall be attached along with the above data to attest the eligibility of the contractor and subcontractors.

By approving the operating license, MEKH – in accordance with Section 145(2)(a) of the Implementation Decree – has given its consent to the outsourcing of activities listed in Annex 3 of the TSO operating license. For gas plant activities that are not listed in the Annex, the documents listed in Section 147 of the Implementation Decree shall be submitted to MEKH for approving the outsourcing.

2.3 Remedy

In accordance with the provisions of the Civil Code of Hungary and other effective Hungarian laws, the Contracting Entity shall be entitled to seek remedy to any dispute arising in connection with the conduct of the procurement procedure or its result before the competent court with proper authority.

3. ANNEXES

Number of Annex	Title of Annex
Annex 1	Invitation to Tender
Annex 2	Acknowledgement of receipt
Annex 3	Declaration on eligibility for work (and the involvement of subcontractors)

Siófok, ……. 2020

……..
I. Szabolcs Ferencz
President-Chief Executive Officer

……..
Kristóf Lajos Terhes
Chief Executive Officer

<u>Clause:</u>

These Selection Regulations were approved by the Hungarian Energy and Public Utility Regulatory Authority based on its resolution …….. on ……. 2020.