

Selection Rules

1. Antecedents	3
2. Rules	3
2.1. Aim of the Rules	3
2.2. Scope of the Rules	3
2.2.1. Personal scope of the Rules	3
2.2.2. Term of the Regulation	4
2.2.3. The subject matter of the Rules	4
2.3. General rules	4
2.3.1. Tasks of Procurement:	4
2.3.2. Code of Conduct	4
2.3.3. Access to the Rules	5
2.4. Procurement procedure	5
2.4.1. The purpose of the procurement procedure	5
2.4.2. Preparation of the procurement procedure	5
2.4.2.1. Evaluation committee	5
2.4.2.2. Preparation	5
2.4.3. Conducting the procurement procedure	7
2.4.3.1. Invitation to Tender and documentation, complementary information	7
2.4.3.2. Submission of tenders	8
2.4.3.3. Preliminary evaluation of tenders	8
2.4.3.4. Negotiation	8
2.4.3.5. Submission of Base Tender	9
2.4.3.6. Final Tender	9
2.4.3.7. Selection of supplier	9
2.4.3.8. Conclusion of the contract	10
2.4.4. Reporting subcontractors involved in performance of the contract	10
2.4.5. Reporting outsourced activity to the Mining Inspectorate and MEKH	10
2.5. Legal remedy	10
3. Annexes	11

1. ANTECEDENTS

FGSZ Földgázszállító Zártkörűen Működő Részvénytársaság (hereinafter referred to as: FGSZ Ltd. or Company) received the transmission system operator license on 28 June 2012, issued by the Hungarian Energy Office (its legal successor: Hungarian Energy and Public Utility Regulatory Authority hereinafter: MEKH) under resolution no. 630/2012., on the basis of which it performs natural gas transmission activity in accordance with sections 5-10 of Act XL of 2008 on Natural Gas Supply (hereinafter referred to as: GSA).

In accordance with point (1) of Section (143) of the Government Decree 19/2009 (I.30.) (hereinafter referred to as: Implementation Act) on the implementation of Act XL of 2008 on Natural Gas Supply (hereinafter: GET or Gas Supply Act), the transmission system operator (TSO) shall possess selection rules for the selection and contracting of third parties to perform elements of the activity that is the subject of the license.

Further, Section 100 of the Implementation Act determines the scope of licensed activities FGSZ Ltd. as transmission system operation licensee shall perform within the framework of its own organization, i.e. activities which may not be outsourced. In order to outsource any activity subject to licensing that does not fall within the scope of activities forbidden from outsourcing, the prior approval of MEKH is required pursuant to point (1) of Section 124 of GSA and the the utilization of the contractor and the subcontractor must be reported to the Mining Inspectorate at least 15 days prior to such utilization, pursuant to point (5b) of Section 21 of the 203/1998. (XII.19.) Government Decree on the implementation of the Act XLVIII of 1993 on Mining (hereinafter referred to as: Mining Act).

2. RULES

2.1. Aim of the Rules

Having taken into consideration the provisions of Section 143 of the Implementation Act, the aim of the Selection Rules (hereinafter referred to as: Rules) is to provide transparent and unified guidelines to the participants of a procurement procedure so that they can perform the procedure for the procurement of services in compliance with the rules, in particular:

- the rules of tendering procedure
- the requirements for participation in the tendering procedure
- the opportunities for legal remedy.

2.2. Scope of the Rules

2.2.1. Personal scope of the Rules

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

2.2.2. Term of the Regulation

The Rules shall enter into force on the day the Hungarian Energy and Public Utility Regulatory Authority (MEKH) grants its approval.

As of that day, it shall be mandatory to apply the provisions of the Rules.

2.2.3. The subject matter of the Rules

The subject matter of the Rules shall extend exclusively to the selection of third parties by FGSZ Ltd. for the performance of elements of the activities subject to licensing under the GSA or for the selection of such persons by the third parties for the performance of activities related to gas plants under Act XLVIII of 1993 Mining Act.

2.3. General rules

2.3.1. Tasks of Procurement:

The procurement tasks of the Company shall be performed by the Procurement Department of the Company (hereinafter referred to as: Procurement Dept.). Only the Procurement Dept. can publish an invitation to tender

The most important tasks of the Procurement Dept.:

- Strategic procurement:
 - preparation/updating of the annual procurement plan
 - market research
 - processing procedure launching documents
 - compiling invitation to tender
 - conducting the procurement procedure
 - conducting competition between partners who are parties to the framework agreement
 - conclusion of the contracts
- Operative procurement:
 - managing the contracts in force
 - 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

2.3.2. Code of Conduct

The procurement processes must be conducted in compliance with the applicable legal rules and the Company's Code of Conduct.
The main rules of conduct are as follows:

- the representation of the interests and aims of the Company
- impartiality and transparency in business
- notification about conflict of interest, handling participants in the selection process in a confidential manner
- equal treatment and equal evaluation of prospective partners
- sharing the necessary information with prospective partners equally and without discrimination

2.3.3. Access to the Rules

The full text of the Rules and its annexes are accessible on the homepage of the Company.

2.4. Procurement procedure

2.4.1. The purpose of the procurement procedure

The purpose of the procurement procedure is that in the case of procurements not subject to the Act on Public Procurement (hereinafter: PPA) in force now or hereafter is to ensure that FGSZ Ltd. can select the winning supplier with the most beneficial conditions without detriment to transparency and integrity.

2.4.2. Preparation of the procurement procedure

2.4.2.1. Evaluation committee

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

2.4.2.2. Preparation

In the preparatory stage, the evaluation committee shall compile and determine - on the basis of the technical content and the Procedure Launching document - the invitation to tender and documentation on which the procurement procedure is based, the request for quotation schedule, the draft contract, the prospective suppliers, the evaluation system, the scheduling of the process, and shall determine the type of the procurement procedure.

The mandatory content and documentation of the Invitation to Tender

The Procurement Dept. shall compile the invitation to tender based on Procurement Launching document, in line with the template in Annex no.1 of the Selection Rules.

In the case of procurements related to IT systems, equipment, access to security systems, and conducting auditing activity, in the Procurement Launching document attention must be called to the provisions set forth in point (6) of 121/E 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.

Request for quotation template

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

Evaluation criteria

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

The elements of the evaluation criteria:

- Eligibility criteria: The purpose of specifying the eligibility criteria is to ensure the equal treatment of tenderers, and the framework of the legal rules has to determine the system of conditions, quality expectations and financial guarantees which ensure the identification of risks in the suppliers that could threaten the normal and economical operation of the Company, and the mapping of the resources relevant for the Company and the supplier's quality assurance system. The quantity and quality of the eligibility criteria specified in the invitation for tenders 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 contract conclusion, and only such suppliers can participate in the stage following the evaluation procedure that meet the objective eligibility criteria that have been set forth in the Invitation to tender. The eligibility criteria has to be sent to the tenderers in the Invitation to tender or in its Annexes with a note that meeting the eligibility criteria is a precondition of the contract conclusion.
- Objectively quantifiable criteria - by simple proportioning to be used in the case of quality/quantity or price criteria whereby the tender is question will be ranked in proportion to the minimum/maximum value belonging to the tenders.
- Objectively quantifiable criteria - by allocating points to be used in the case of quality/quantity criteria 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 allocating points to be used in the case of a quality criterion when it is difficult to define the evaluation criteria.

In the evaluation criteria system one criterion can be evaluated only once.

Types of procurement procedure

Restricted procedure: The Invitation to tender is sent to a set of predetermined prospective tenderers. When determining which prospective tenderers to invite, the Contracting Entity has to aim at receiving at least 3 viable tenders. A special type of restricted procedure is when the sole prospective supplier can be identified. In this case the circumstances of and the reason for the uniqueness must be justified in detail as follows:

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

It is necessary to use a Procurement Launching document and a supplier selection document even in this case. In the event the process is for the purpose of modifying an existing contract, the Procurement Launching document has to include the total allocation, the extent of change in the total allocation and the new total allocation.

Open procedure: A procurement procedure widely published during which all the interested parties can submit a tender.

2.4.3. Conducting the procurement procedure

2.4.3.1. Invitation to Tender and documentation, complementary information

In the event the confidentiality declaration is accepted, the invitation to tender and the documentation with its annexes will be sent to the prospective suppliers. In case of an open procedure if there is a preliminary application by a tenderer, the invitation to tender and the documentation will be sent out upon accepting the confidentiality declaration.

The Tenderer may request additional information (explanation) concerning the content of the invitation to tender and an on-the-site inspection from the Contracting Entity. If it is justified by the complexity of the subject matter of the procurement or if it is important to be familiar with the planned site of the utilization of the subject matter of the procurement, the Tenderers are entitled to a consultation or to an on-site inspection prior to submitting the tender.

In the procurement procedure all supplementary information and modification shall be sent to the tenderers simultaneously, prior to the submission of the tenders. The information may not be modified in a targeted way with the purpose of creating an advantage or a disadvantage to any tenderer.

2.4.3.2. Submission of tenders

Only tenders submitted by tenderers participating in the procedure can be accepted. The tender must contain a full duplicate copy that contains the technical and commercial conditions and a copy which includes only the technical part without the price.

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 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 will be verified by the signatures of the participants of the opening opening procedure.

2.4.3.3. Preliminary evaluation of tenders

In the event the tenderer fails to meet the eligibility criteria partly or wholly, the evaluation committee (EC) will call on tenderer to supply the missing information or for correction. In the event the ineligibility cannot be eliminated by supplying missing information or by correction, the evaluation committee shall exclude the supplier who will not be allowed to participate in the following stages of the procedure.

2.4.3.4. Negotiation

The purpose of the negotiation is to efficiently ensure the interest of the Company regarding the subject matter of the procurement, and that the Company 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 one procedure if necessary.

Documentation of the negotiation

Everything that has been said at the personal negotiation/price negotiation and its result have to be recorded in the minutes on every occasion.

The minutes of the meeting shall contain:

- Names of the participants
- Signatures of the participants
- Venue
- Date
- Short summary of what was said at the meetings
- The final price reached at the negotiation/price negotiation
- The agreements important from the perspective of the procedure.

2.4.3.5. Submission of Base Tender

After finalizing the technical and commercial requirements, it is the tender submitted by the Tenderer which includes a bid price. 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.

2.4.3.6. Final Tender

During the call for the final 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 is the most suitable procedure to determine the most favourable tender price after the closing of the technical and commercial evaluation. After the evaluation of the tenders, the evaluation committee decides on the basis of the received tenders whether the final price can be determined by the use 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 determines only the ranking of the final price - may not be identical with the final ranking of the tender procedure, of which tenderers participating at the bidding will have to receive prior information.

The tenderers will have to receive preliminary notification about the application of the bidding procedure, its legal and potential IT requirements and use in the Invitation to tender.

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

E-bidding is a special form of bidding procedure which provides a simple, unified and transparent way to ensure the price competition for the Tenderers.

Final price negotiation

The Contracting Entity shall reserve the right to hold another negotiation with the partner that has submitted the best tender on the whole - following the partner's submission of a detailed tender - in order to reach the most favourable price for the Company. The Contracting Entity shall inform the tenderers about the possibility of a final price negotiation prior to the bidding procedure.

2.4.3.7. Selection of supplier

In the case of a successful procedure, the evaluation committee shall select the most favourable tender having considered the evaluation method and evaluation criteria set forth in

the Procurement Launching Document, shall prepare a report based on that and shall make 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.

In the case of a successful or an unsuccessful procedure, the procurer shall notify the Tenderers at the same time about the success/failure of the procedure.

2.4.3.8. Conclusion of the contract

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

2.4.4. 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 only be signed after these documents are created. The reporting obligation shall be fulfilled by filling in Annex 3.

2.4.5. Reporting outsourced activity to the Mining Inspectorate and MEKH

FGSZ Ltd. shall send the concluded contracts for the performance of outsourced gas plant-related activities that are subject to licensing, and the Annex 3 documents sent by the contractors and the subcontractors and filled in by the authorized representatives of FGSZ Ltd. 15 days prior to the commencement of the utilization to the Mining Inspectorate.

By approving the operating license, MEKH has given its permission to outsource the activities listed in Annex 3 of the TSO operating license. In the case of gas plant-related activities that are not listed in the Annex, the documents listed in section 147 of the Implementation Act will have to be submitted to MEKH to get its approval for outsourcing.

2.5. Legal remedy

In the event of violating the provisions of these Rules and the selection procedure set forth herein, the Tenderer, whose right or rightful interest is violated by the Company's procedure, furthermore in the event the Tenderer finds the result of the selection procedure disputable, the Tenderer may seek remedy before the court that has territorial and subject matter jurisdiction in accordance with Act III of 1952 on the Code of Civil Procedure.

3. ANNEXES

Number of Annexes	Title of Annexes
Annex 1	Invitation to Tender
Annex 2	Certificate of receipt
Annex 3	Declaration on eligibility to perform work (and to involve subcontractors)

Siófok, 2017

Kristóf Lajos Terhes
Chief Executive Officer

Clause:

This Selection Rules has been approved by the Hungarian Energy and Public Utility Regulatory Authority based on resolution on 2017.