



FGSZ

MEMBER OF MOL GROUP

ANNUAL REPORT OF FGSZ LTD.

2019

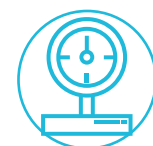
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1. OVERVIEW



5874 km-long high-pressure natural gas transmission system



7229 km-long telecommunication cable network



3 gas transmission regions



8 compressor stations



25 physical entry points



~ **400** gas delivery stations



~ **700** employees

EBITDA	million HUF
2015	59 988
2016	54 934
2017	53 843
2018	50 030
2019	51 135

Delivered volume (15 °C)	million m³
2015	13 093
2016	14 953
2017	16 075
2018	20 940
2019	24 504

- EFQM excellence model-based operation
- EU ITO certification
- ISO 9001:2015 certified quality management system
- ISO/IEC 27001:2013 certified information security management system
- ISO 50001:2011 certified energy management system
- MSZ EN ISO 3834-2:2006 certified fusion welding management system
- MSZ EN ISO/IEC 17025:2018 accredited calibration laboratory
- Safety management system for pressure drilling activities that complies with VCA**/SCC** - 2017/6.0 requirements
- Technical Safety Management System as per Act XLVIII of 1993 on Mining

FGSZ Regional Booking Platform (RBP) data:

- 11 registered TSO members
- 240 registered network users





2. OUR ACTIVITY

FGSZ Földgázz szállító Zrt. (FGSZ) is the only transmission system operator (TSO) in Hungary, conducting its activities in a regulated market environment.

We operate in accordance with the applicable Hungarian and EU laws at all times, and FGSZ is one of the first European independent TSOs to hold an ITO certificate. In addition to its domestic gas transmission activity, FGSZ transmits gas towards Serbia and Bosnia-Herzegovina, and it is also engaged in bi-directional deliveries to Romania, Croatia, Ukraine, and Slovakia.

The security of supply of Hungary is inseparable from the energy security of the Central European region and Europe as a whole. Therefore, FGSZ is committed to enhance the flexibility and the security of supply of the regional natural gas market. Its developments aim at establishing new routes and to strengthen existing inter-connections, in order to ensure access to new sources, as well as to exploit existing trade opportunities and to create new ones.

FGSZ supports projects creating incremental capacities which are designed to ensure a more efficient use of the existing network.

REGIONAL BOOKING PLATFORM (RBP)

RBP is an online international capacity booking and capacity trading platform developed and operated by FGSZ that consists of the RBP application and the RBP Portal. Network users and transmission system operators execute their business transactions through the RBP application, while we disclose publicly available data on the RBP portal.

In addition to FGSZ, RBP is used by eleven other gas transmission system operators established either in or outside the EU: Eustream (Slovakia), Transgaz (Romania), Plinacro (Croatia), Bulgartransgaz (Bulgaria), DESFA (Greece), Gas Connect Austria (Austria), Gastrans (Serbia), Gascade (Germany), ONTRAS (Germany), Gaz-System (Poland), and GAS TSO of Ukraine (Ukraine).





3. FOCUSING ON PEOPLE

The corporate culture of FGSZ is based on the following core values:

- safety
- efficiency
- partnership
- modernism.

These core values are manifested in our employees' prudent and committed work, direct and open communication, as well as in their efforts to maintain performance and continuous development.

Our results are enabled by our well-prepared and responsible employees, representing the most important resources of our Company. We regularly ask for their opinion on our processes and the circumstances that affect their work.

The continuous need for technological renewal and high-level operational safety requires the regular training of our employees. Besides implementing our planned training programmes, we also support our employees' ambitions to attain further qualifications and to enrich their knowledge. We believe it is important to develop our community. We organised a number of corporate events for our employees and their families in 2019, ranging from regional family days through FGSZ Miners' Day celebration to end-of-year events.

Appreciating our experienced professionals and consciously nurturing our future employees both form an integral part of our corporate culture. Our complex development (talent) programme, Pipeline was launched in 2019, where participants basically learn about organisational operation, change management, negotiation, and project management techniques.

4. INFRASTRUCTURE

We perform our tasks as an ITO certified transmission system operator as per the Directive 2009/73/EC of the European Parliament and of the Council. Our Company has one of the most cutting-edge technologies even on a European scale, reflecting our industrial tradition. We transmit a gas volume that ensures the continuous supply to network users in the expected quality and at the expected pressure with our highly automated high-pressure transmission system.

We receive and deliver natural gas from both domestic production and underground gas storages as well as abroad at 25 entry points and nearly 400 exit points of our high-pressure natural gas transmission system, including 5 cross-border entry points and 5 cross-border exit points, respectively. We pay special attention to applying both an appropriate quality control protocol that complies with effective laws and authentic measurement standards at all entry and exit points.

The continuous operation of our 5,874 km long high-pressure natural gas transmission system covering our whole country is ensured by the collaboration of 3 gas transmission regions and 8 compressor stations, and is coordinated by the system operation centre in Siófok.





Our Company's responsibilities include the odourisation – for safety purposes – and continuous quality control of natural gas delivered to users, as well as the measurement of quantitative and qualitative characteristics of natural gas in a transparent manner, in compliance with the most stringent international standards.

We deliver the gas volume covering industrial and household needs at all times to users through gas delivery stations which, beyond enhanced and continuous control, ensure transmission to adjacent system operators and industrial users as well as power plants.

The seasonally varying consumer needs – resulting from Hungary's continental climate – require our Company to ensure a significant amount of additional gas in winter periods, which we fulfil by relying on underground gas storages that are connected to our high-capacity gas transmission pipeline system at five network points.

On 18 November 2019, a severe failure took place on the outskirts of Püspökladány: the gas transmission pipeline between Hajdúszoboszló and Endrőd had ruptured and a fire had broken out which FGSZ Zrt. successfully put out in about two hours with the assistance of professionals from the disaster management authority, the fire department and the police. No personal injury occurred, a comprehensive investigation was launched right after the fire with external experts, and a number of control inspections were commenced for the whole high-pressure natural gas transmission system.

5. HSE

Our Company aims at managing our health, safety and environmental (HSE) activities in a unified systemic approach. We strive to reduce risks associated with technology, operation, and maintenance, to prevent accidents at work, cases of enhanced exposure, occupational diseases, fires, environmental pollution, and emergencies, as well as to measure and continuously improve our HSE performance besides complying with the applicable legal provisions.

We have launched a campaign entitled “2019: The year of Health and Safety”, which supports employee health promotion and is intended to promote the messages of the “Rules for the safety of life”. In the campaign, besides the programmes promoting healthy living, we purchased fall protection technology tools for the safety of work at height, and introduced a real-time incident monitoring system to improve the safety of single-person jobs, under which we prescribed the mandatory use of a special device, the so-called MicroRAE gas diffusion detector. Beyond detecting the natural gas emitted into the air, this device also monitors the lack of activity and falls. The device immediately displays any such events at the dispatching services, who urgently establishing contact the person concerned. If this proves to be unsuccessful, they alert the National Ambulance Service without delay.

In addition to preventive occupational health service, we regularly provide voluntary health screening options to our employees, while our executives can attend manager health screenings. In 2019 six regional centres and the head office in Siófok were equipped with automated defibrillators. Beside trainings on the proper use of the devices, a “Community Resuscitation and First Aid Training” was also held in the framework of the National Public Health Strategy programme.

In order to prevent fires, we deployed fire signalling and remote surveillance system in several sites in 2019. The successful implementation of emergency, fire, and evacuation simulations serve for the prevention of emergencies.

We pay particular attention to the issue of environmental protection besides our core business values. We follow the principles of precaution, responsible care and prevention, and we also contribute to the realisation of sustainable development by means of an efficient resource management, a reduction of our greenhouse gas emissions, and by minimising the burden our activity puts on nature.





6. HIGH-CLASS OPERATION – INTEGRATED MANAGEMENT SYSTEM

Our efficient operation is ensured by the Integrated Management System (IMS), comprising the integrated operation of eight subsystems.

KEY IMS EVENTS IN 2019:

1. We successfully maintained the ISO 9001:2015 certification of our Quality Management System (QMS), which is valid until 24/06/2021.
2. The ISO 50001:2011 review audit of our Energy Management System (EMS) was successfully closed, the certification is valid until 27/08/2021.
3. We successfully renewed the ISO 27001:2013 certification of our Information Security Management System (ISMS). We successfully obtained the certificate as per Section 10 of the Gas Supply Act on the compliance of business processes ensured by the IP New IT system.
4. We managed to renew the MSZ EN ISO 17025:2018 accreditation of our Calibration Laboratory Management System (CLMS), which is valid until 01/08/2024.
5. The report compiled on the amendments to the rules concerning the Technical Safety Management System (TSMS) was approved by the Mining and Geological Survey of Hungary (MBFSZ).
6. The review audit of the MSZ EN ISO 3834-2:2006 certified Welding Management System (WMS) was successfully closed, and the certificate is valid until 30/06/2022.
7. The IT security review of the invoicing system performed by HUNGUARD was successfully closed.
8. We managed to maintain the certification of the SCC work safety system introduced in 2018 for pressure drilling activities, and the certificate is valid until 27/10/2022.
9. We finished the self-assessment and identified the areas for improvement as part of the EFQM excellence model-based operation.

7. KEY PROJECTS IN 2019

IT DEVELOPMENTS

We continued the development of RBP and FGSZ's other business applications – including the IT Platform and the Trading Platform – in line with legal requirements and business needs in 2019. We also developed a number of business administration applications that support our employees in working fast and efficiently.

INVESTMENTS

The first phase of the Romanian-Hungarian gas transmission corridor development – which forms part of the BRUA gas pipeline project, a significantly important development as regard to the security of supply of Central Eastern Europe – was successfully finished as scheduled.

The compressor station in Csanádpalota had been fully completed, and its inauguration ceremony was held on 7 October 2019. The facility enables the capacity extension of the Romanian-Hungarian interconnector. The two 4.5 MW compressor units at the station enable the gas transmission with a capacity of 200 thousand m³/h from Romania to Hungary, also bringing a capacity extension of the gas transmission pipeline from Hungary to Romania to the capacity level of 300 thousand m³/h. The HUF 6 billion development was carried out by FGSZ in a cost-efficient manner, by relocating the compressors previously operating in Hajdúszoboszló.

FGSZ took over the operation of the 92 km-long gas transmission pipeline connecting Hungary with Slovakia in October 2019. On 31 December 2019, the merger of MGT and FGSZ was completed, closing a several-month transaction process.

As a result, FGSZ has been acting as the legal successor of MGT since 1 January 2020. An overhaul of the K-105 10 MW gas turbine at the compressor station in Beregdaróc was carried out in order to lower the environmental impact of its operation.

WORK EQUIPMENT

The vehicle fleet of FGSZ was completely renewed in 2019, and we continued the replacement of IT tools (computers and monitors).





8. KEY FINANCIAL AND BUSINESS DATA

	Year 2019 (million HUF)	Year 2018 (million	2019/2018 (%)
Net sales revenues	96 194	101 396	94,87
EBITDA	51 135	50 030	102,21
Operating profit	33 392	32 438	102,94
Pre-tax profit or loss	30 743	29 439	104,43
After-tax profit or loss	28 010	28 820	97,19
Operating cash flow	42 471	1 491	2 848,49
Fixed assets	318 121	262 894	121,01

The business year 2019 was a stable and successful period for our Company in financial terms. The developments of the domestic and regional economic environment significantly affected our operating profit, which surpassed the preceding year's level by nearly 3% (standing at HUF 33.4 billion).

Our net sales revenues reached HUF 96.2 billion in 2019, meaning an almost 5% setback compared to the previous year's figure, and this was predominantly caused by the transmission of 24.53 bcm gas and the gas flow related to the maintenance of system balance.

Our sales revenues from domestic regulated transmission were greatly impacted by the developments of the regulatory environment and regulated transmission fees:

- The average level of regulated gas transmission tariffs determined and announced by the Hungarian Energy and Public Utility Regulatory Authority (MEKH) was nearly 15% lower in 2019 compared to the preceding year.

In the first half of 2019, the regulatory authority conducted and closed the public consultation launched for the implementation of the Tariff Network Code (TAR NC) issued by the European Commission. As a result, the authority introduced a single reference price methodology (RPM) as of 1 October 2019.

The transmission tariffs in force as of 1 October 2019 as determined based on the RPM changed favourably overall, leaving our 2019 financial performance largely unaffected.





- The volume of regulated transmissions showed a substantial overall growth of nearly 20% compared to 2018. Domestic consumption reached the same level as in the preceding year, while the cross-border deliveries towards Croatia, Romania and Ukraine, along with the extensive demand for storage- due to the uncertainty surrounding negotiations between Russia and Ukraine regarding the future gas transmissions after 1 January 2020 - resulted in growing transmission volume and expanding transmission tasks on our Company's side.
- Beside additional deliveries, capacity bookings - primarily the demand for short-term products - also grew, but the corresponding effect could only counterbalance the impact of changing gas transmission tariffs.

Our sales revenues from non-regulated transit transmissions slightly fell short of the preceding year's level:

- The volume of non-regulated deliveries to Serbia and Bosnia did not reach the preceding year's level (-9% YoY).
- The adverse impact of lower transmission volumes on sales revenues was partly counterbalanced by the impact of changes in FX rates.

Our result-conscious operation and the developments of the external environment positively impacted the operating expenses.

- The changed transmission conditions, the realised excess transmission demand also triggered a hike in the own gas usage of the transmission system, thereby causing an excess demand for air-lifting. The absolute volume of settled measurement difference (gas loss) reached the same level as in the preceding year despite the expanding transmission tasks, and the improvement of the specific measurement difference was enabled by the steps taken and investments made by our Company to mitigate the loss. The purchase prices of gas significantly decreased compared to the preceding year, counterbalancing the adverse effect of growing gas usage.
- Following successful negotiations, our Company has re-started using the pressure management service provided by the respective adjacent TSO since 1 April 2019, with more favourable contractual conditions compared to previous years, which also positively affects the compressor gas usage of the transmission system.
- In view of other operating expenses, in order to partly counterbalance the changes of the external environment, FGSZ maintained and continued the strict control of operating costs, and as a result such expenses were incurred on a slightly lower level than in the preceding year.





It is our Company's statutory liability to maintain the balance between the gas source and the gas consumption, which we ensure by the so-called balancing gas sale and purchase as a transaction on which our Company cannot realise any profit under the applicable regulations. The balancing natural gas turnover – along with the corresponding realised sales revenues and expenses – showed a significant decrease, nearly 15% in 2019 compared to 2018.

The result on financial operations was HUF -2.6 billion in 2019, which predominantly resulted from the interests paid on loans from affiliated undertakings and other loans and exchange gains realised in the course of balancing FX receivables and liabilities.

Owing to a higher operating profit and a more favourable result on financial operations, the Company's pre-tax profit increased by almost 5% compared to the preceding year, standing at HUF 30.7 billion in 2019.

The HUF 51.2 billion (18%) growth in the balance sheet total is mostly explained by the value of tangible assets obtained in the acquisition of the business of MGT Zrt. and the corresponding goodwill. Beyond this, the slight decrease in the value of fixed assets was caused by the impairment loss recognised in 2019, exceeding the value of realised investments.

By also exercising strict control of investments, our Company spent HUF 12.99 billion on investments overall, predominantly on projects essential for either maintaining the technical standard of the transmission system or complying with applicable regulations. The first phase of the Romanian-Hungarian transmission corridor (ROHU), i.e. the construction of the compressor station in Csanádpalota was a key investment in 2019, along with those aiming at improving the security of supply of North-East Hungary.

Our Company forecasts a similar level of economic indicators for 2020 compared to 2019, with a lower level of gas transmission and consumption demand. We do not expect any further significant decrease in gas transmission tariffs from 1 October 2019. However, they will exert their effect throughout the next business year, which may positively impact our financial performance as well. According to our expectations, the significant excess transmission tasks realised in 2019 and resulting from the uncertainty surrounding the external environment and Russian-Ukrainian gas transmissions will not affect the next business year, and we foresee a minor decline in regional gas transmission demand.

The management of FGSZ Zrt. continues to maintain its current strict cost management and seeks the opportunities to improve its internal efficiency to counterbalance the adverse effects of the regulatory and economic environment. Our Company makes additional efforts towards to accomplish its regional strategic goals, which is a guarantee of meeting the expectations of shareholders.





9. CONTACT INFORMATION

FGSZ Zrt. operates a customer service for its contracted partners. Please contact us with any questions regarding the use of our gas transmission and system operator services.

CUSTOMER SERVICE OFFICE

Registered office: H-8600 Siófok, Tanácsház u. 5. office 322/B

Mailing address: H-8601 Siófok, P.O. Box: 102

Phone: +36 (84) 505-117

Fax: +36 (84) 505-592

E-mail: info@fgsz.hu

Opening hours:

Tuesday, Thursday: 13:00–16:00

Monday, Wednesday, Friday: closed

For data concerning pipeline construction projects and our other activities, please contact the information office.

INFORMATION OFFICE:

Székhelye: 8600 Siófok, Tanácsház u. 5. fsz. 3.

Levelezési címe: 8601 Siófok, Pf. 102

Opening hours:

Tuesday, Thursday: 7:30–10:00

Monday, Wednesday, Friday: closed

On operative issues, please contact our non-stop dispatcher service.

SYSTEM OPERATION CENTRE

Phone: +36 (84) 505-777

Fax: +36 (84) 505-217

Nomination / matching / interruption:

nomdisp@fgsz.hu

Physical (flow) control: flowcontrol@fgsz.hu

CUSTOMER SUPPORT ON THE USE OF RBP, IP, KP, TSODATA, IPDATA:

Phone: +36 (70) 938-7961

E-mail address: bsp@fgsz.hu or rbp@fgsz.hu

Our Company's website is available at www.fgsz.hu.