

# ANNUAL REPORT OF FGSZ ZRT.

# 2020



MEMBER OF MOL GROUP

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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

<b>EBITDA</b>	<b>million HUF</b>
2015	59 988
2016	54 934
2017	53 843
2018	50 030
2019	51 135
2020	51 300

<b>Delivered volume (15 °C)</b>	<b>million m<sup>3</sup></b>
2015	13 093
2016	14 953
2017	16 075
2018	20 940
2019	24 504
2020	19 035,5

- 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 50001:2018 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:**

- 16 registered TSO members
- 309 registered network users





## 2. OUR ACTIVITY

FGSZ Földgázszállító 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 interconnections, 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 fifteen 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), Moldova-transgaz (Moldova), NEL Gaztransport GmbH (Germany), OPAL (Germany), GAS TSO of Ukraine (Ukraine), and Vestmoldtransgaz (Moldova).





## 3. FOCUS ON THE PEOPLE

### THE CORPORATE CULTURE OF FGSZ IS BASED ON THE FOLLOWING CORE VALUES:

- safety
- efficiency
- partnership
- modernism.

These core values manifest 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 our colleagues' 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.

## DEVELOPING THE COMMUNITY

A fundamental interest of a well-functioning company is to facilitate the success of its operating environment; hence the philosophy of our corporate social responsibility plan relies on the pillars of cooperation and value transmission. Therefore, supporting the settlements in our areas of operation is an organic part of our corporate culture. We pay extra attention to social, cultural, sports, as well as health- and environmental protection programmes of institutes and civil organisations of neighbouring villages and cities.

## SUPPORTING CULTURAL AND SPORTS EVENTS

With our help, organising high-quality performances becomes possible in the settlements within our operating areas.

We are devoted to supporting sports activities as well, since training is a crucial element in preserving health, moreover, leisure time and recreation are also important in relieving stress; so, every activity serves the physical and mental health of our colleagues and the residents of the region. In 2020, we gave our name to the FGSZ „Small circle” bicycle event, organised and realised by „Balaton circle” organisation. Also, we offered financial support to the popular SUP championship organised at Siófok for the first time. Moreover, in our operating areas we also help several sports clubs that are in difficult situation.





## HEALTH PRESERVATION

We have been organising corporate blood donations in our areas of operation since 2011.

We have been in cooperation with Magic Lamp Wish Granting Foundation for more than a decade, to fulfil wishes of gravely sick children.

The decade-long cooperation between FGSZ and the Water Rescue Services of Hungary was extended with a new initiative during the summer of 2020: we supported the purchase of respiratory devices. The goal was to protect healthcare workers from getting infected with the new coronavirus.

According to the agreement between the Water Rescue Services and the intense care units of three county hospitals (in Kaposvár, Veszprém, and Zalaegerszeg), the hospitals were allowed to use the professional respiratory devices of the Water Rescue Services – free of charge.

## SUPPORTING EDUCATIONAL INSTITUTIONS

We regularly cooperate in organising events taking place in schools belonging to our areas of operation. We supported a quiz in the Siófok secondary school, leisure activities in vocational schools, we gave help in renovating furniture, and contributed to making schools nicer and more homely by donating decoration. Another time we helped in forming a more modern educational environment through donating IT tools. We have a great cooperation with the University of Miskolc as well, where our company regularly appears as a contributor to university competitions and professional trainings.

Supporting educational institutions and the education of children in underprivileged families is also crucial to us. Hence, we regularly organise fundraisings, and send school equipment, clothes, and food to those concerned.

# 4. INFRASTRUCTURE

We perform our tasks as an ITO (Independent Transmission Operator) certified transmission system operator as per the Directive 2009/73/EC of the European Parliament and of the Council. Our Company's infrastructure is among the most cutting-edge ones 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 odorization – 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.

At FGSZ we started our SIMPLE Project in 2020, in order to prevent failures on our system. The goal of the project is to comply with the highest international technological standards regarding the quality of our system operational, maintenance, and diagnostic activity, as well as to develop a conscious R&D process to decrease the number of failures.



# 5. HSE



Our Company pays extra attention to perform occupational safety risk evaluation, to execute preventive measures, to regularly review and maintain fire protection devices, and to preserve the health of our employees.

The most serious challenge of 2020 was the COVID-19 epidemic control. In February, our Company performed pandemic preparation, we introduced preventive and protective measures in more steps, and procured the necessary pandemic protective equipment (face masks, rubber gloves, hand- and surface sanitizers, dispensers, wipes), which we constantly made available to our colleagues. In case of jobs, where it was possible, we ordered Home Office working. To maintain business continuity, in operation centres and in case of blue-collar workers we introduced special protective and work organisation measures. As a responsible employer, our Company did everything to prevent the virus from spreading; regular sanitization, cleaning, protective equipment provided for our employees, constant testing, and regular information about the pandemic situation were the key elements of our protection plan.

In April 2020, as an element of the supplier management system, the Supplier HSE e-learning trainings started, which are available for entrepreneurs on the website of the Company. In the two-level training system, to do the basic education and the exam is compulsory for every employee.

Besides, we laid great emphasis on emergency preparation in 2020, so – while observing strict pandemic measures – the yearly, complex Serious Damage Control Plan exercise was also performed. The exercise was supervised by the disaster recovery authority in the appointed headquarter, our regional centre in Vecsés. They evaluated the exercise as satisfactory.

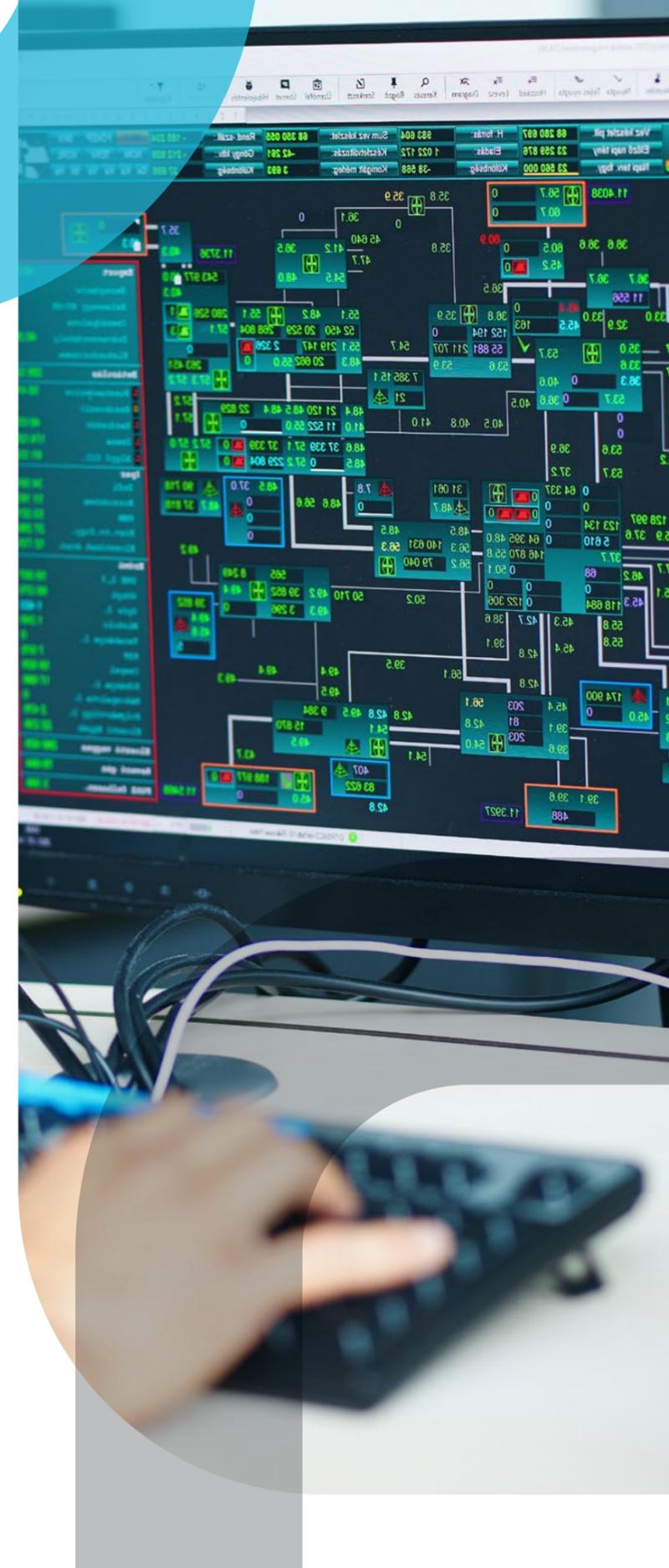
Beside our basic business values, we also pay great attention to the protection of the environment. To receive the environmental permit for our Serbian transit line, to review the unified environmental use permit, to perform the measuring of the emission, and to perform authority data provision within the given deadline were important tasks in 2020.

# 6. HIGH-CLASS OPERATION

## INTEGRATED MANAGEMENT SYSTEM

Our efficient operation is ensured by the Integrated Management System (IMS), comprising the integrated operation of almost ten subsystems. Key events of IMS in 2020:

1. We successfully maintained the ISO 9001:2015 certification of our Quality Management System (QMS).
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 maintained the ISO 27001:2013 certification of our Information Security Management System (ISMS). We successfully maintained the certificate as per Section 10 of the Gas Supply Act on the compliance of business processes ensured by the IPNew IT system.
4. We managed to maintain 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. Our Company successfully accomplished the EFQM excellence model award with three projects; based on this, we are allowed to use the Excellence Award qualification for three years.
10. The introduction of PIMS (Pipeline Integrity Management System) has begun within the framework of our SIMPLE project. According to the plans, the system will be certified in 2022.



# 7. KEY PROJECTS IN 2020

## 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 2020. We also developed a number of business administration applications that support our employees in working fast and efficiently.

## INVESTMENTS

The „Northeast Hungary security of supply enhancement” project, aiming at lowering the risk arising from Ukraine > Hungary gas transportation's dropout and enhancing the security of supply of North-east Hungary, has successfully been closed in case of all three facilities (Hajdúszoboszló, Nemesbikk and Beregdaróc compressor station junctions) in due time.

In 2020, within the framework of the pipeline rehabilitation project, we continued the substitution of dangerous crossing structures with conduit pipe for crossing structures without conduit pipes at junctions of public roads and railways, as well as substitution of pipe sections with defective spots. Moreover, the voltage-free sinking of sections with inadequate covering depth was also carried on.

The 30,000-operating-hour manufacturing plant renovation of the M4 SOLAR T60 gas turbine in Mosonmagyaróvár compressor station successfully ended, hence we can guarantee the continuous operation of the Mosonmagyaróvár compressor station, which is of key importance.

Preparatory, investment, and construction works connected to the development of the Serbian-Hungarian IP have begun in the area of Kiskundorozsma.

## WORK EQUIPMENT

In 2020, the vehicle fleet renewal has been accomplished, while we continued the replacement of IT tools (computers and monitors).

# KEY FINANCIAL AND BUSINESS DATA

	Year 2020 (million HUF)	Year 2019 (million HUF)	2020/2019 (%)
<b>Net sales revenue</b>	88 838	96 194	92,35
<b>EBITDA</b>	51 300	51 135	100,32
<b>Operating profit</b>	31 176	33 392	93,36
<b>Pre-tax profit or loss</b>	27 940	30 743	90,88
<b>After-tax profit or loss</b>	26 904	28 010	96,05
<b>Operating cash flow</b>	9 773	42 471	23,01
<b>Fixed assets</b>	290 894	318 121	91,44



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 was nearly 7% lower than the preceding year's level (standing at HUF 31,2 billion).

Our net sales revenues reached HUF 88.8 billion in 2020, meaning an almost 8% setback compared to the previous year's figure, and this was predominantly caused by the transmission of 22.24 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 was slightly higher in 2020 compared to the preceding year.

The change of tariffs is the result of the introduction of the single reference price methodology (RPM) resulting from the public consultation conducted by the Hungarian Energy and Public Utility Regulatory Authority, and the change in the transmission tariffs in force as of 1 October 2019 as determined based on the RPM.

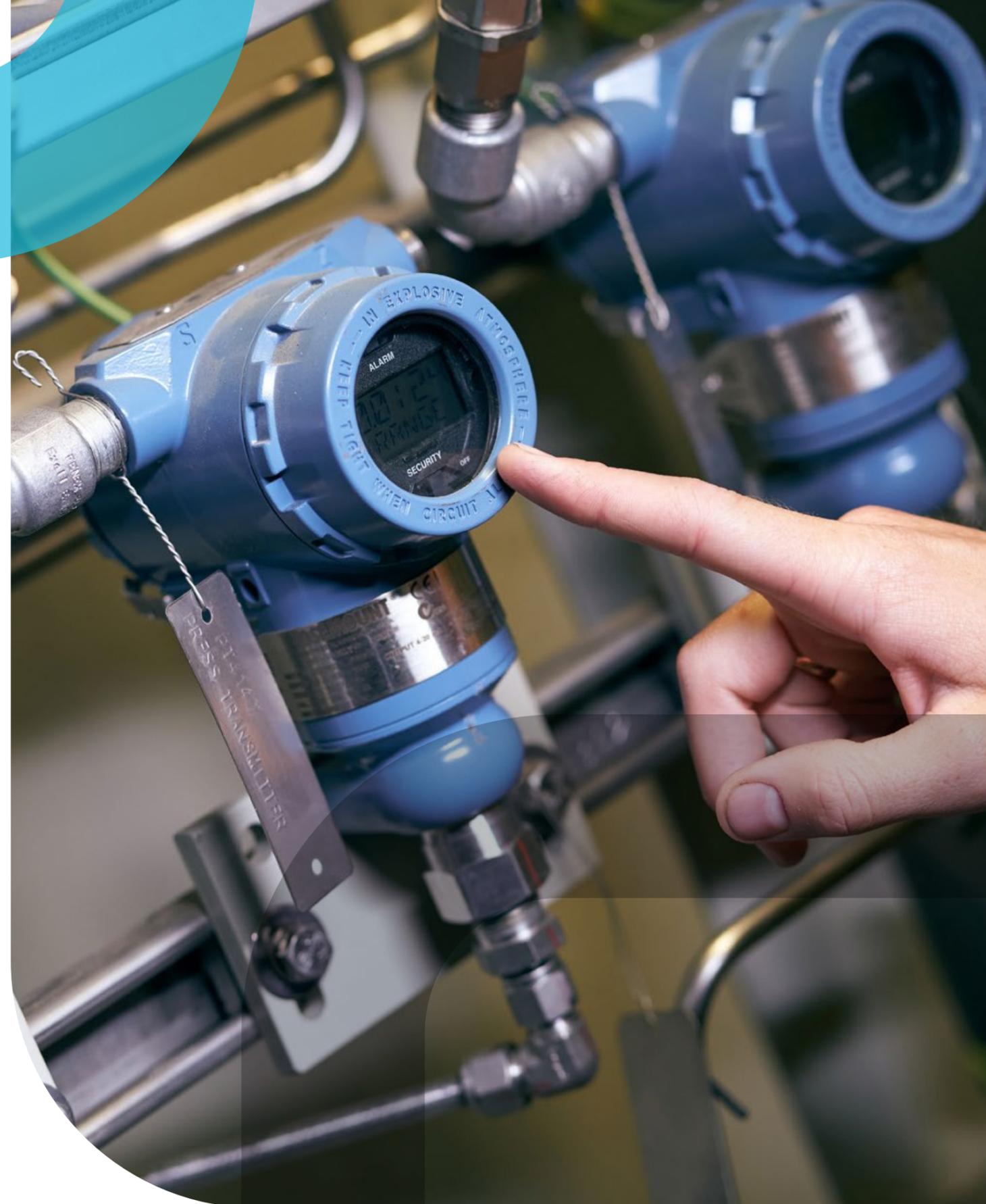
- The volume of regulated transmissions showed an 8% decrease compared to the volume realised in 2019.

Domestic consumption showed a slight increase compared to the preceding year, as well as the cross-border deliveries towards Croatia, Romania, and Ukraine, however, storage duties – due to the milder weather conditions and the high storage levels – showed significantly lower levels, in general, resulting in slightly lower transmission volumes and transmission tasks on the Company's side.

- Due to the changes occurring in the regulatory environment, as well as the domestic market and gas transmission demands, the Company realised additional capacity bookings – primarily demand for short-term products –, which had a favourable effect on the revenues.

**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 (-24% YoY).
- Contract transmission fees significantly decreased compared to the previous year, the adverse impact of lower transmission volumes on sales revenues was only slightly counterbalanced by the external environment and 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 lower transmission demand – and primarily as a result of lower storage assignments – simultaneously triggered a decrease in the own gas usage of the transmission system, thereby causing lower demand for air-lifting. The absolute volume of settled measurement difference (gas loss) also decreased compared to the preceding year due to the change in delivery assignments and relations, 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.
- The expenses connected to intelligent pigging services and further increased maintenance activities were realised on a higher level compared to the previous periods; however, regarding other operating expenses – to counterbalance the changes of the external environment – we continued and maintain the strict control of operating costs. As a result, the operating costs were slightly lower compared to the previous 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 of nearly 40% in 2020 compared to 2019.

The result of financial operations was HUF -3.2 billion in 2020, which predominantly resulted from the interests paid on loans from affiliated undertakings as well as other loans and exchange gains realised in the course of balancing FX receivables and liabilities.

Owing to a lower operating profit and a less favourable result on financial operations, the Company's pre-tax profit decreased by almost 10% compared to the preceding year, standing at HUF 27.9 billion in 2020.

The HUF 32.8 billion (-9.8%) decline in the balance sheet total is primarily explained by delisting the shares that terminated due to the fusion of the 100% owned MGT Zrt. Beyond this, the decrease in the value of fixed assets was caused by the impairment loss recognised in 2020, exceeding the value of realised investments.

By exercising strict control of investments as well, our Company spent HUF 11.78 billion on investments overall, predominantly on projects essential for either maintaining the technical standard of the transmission system or complying with applicable regulations. Among the investments, those connected to the security of supply of North-East Hungary were in the focus in 2020, Városföld junction reconstructions, as well as investments connected to the development of the Serbian-Hungarian interconnector.





Our Company forecasts a decrease of the economic indicators for 2021 compared to 2020, with a lower level of gas transmission and consumption demand. We do not expect any favourable change concerning gas transmission tariffs from 1 October 2020. The Company forecasts a slight decrease of domestic and regional gas transmission demands – these effects may generally influence the financial performance in an unfavourable way.

The management of FGSZ will exert their strict cost management, while looking for possibilities to increase internal efficiency – this way counterbalancing the negative effects of the regulatory and the economic environment. The Company makes further efforts to realise its strategic regional goals, which is an assurance to comply with the expectations of the parent company.

# 9. CONTACT INFORMATION

FGSZ Zrt. operates a customer service for its contracted partners. Might you have any questions regarding the use of our gas transmission and system operator services, please, do not hesitate to contact us!

## CUSTOMER SERVICE OFFICE:

### Registered office:

H-8600 Siófok, Tanácsház street 5. office 322/B

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

**Phone:** +36 (84) 505-117

**E-mail:** info@fgsz.hu

### Opening hours:

Tuesday, Thursday: 13.00–16.00

Monday, Wednesday, Friday: zárva

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

## INFORMATION OFFICE:

### Registered office:

H-8600 Siófok, Tanácsház street 5. office 322/B

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

### Opening hours:

Tuesday, Thursday: 7:30–10:00

Monday, Wednesday, Friday: zárva

## SYSTEM OPERATION CENTRE:

**Phone:** +36 (84) 505-777

**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, vagy rbp@fgsz.hu

Our Company's website is available at [www.fgsz.hu](http://www.fgsz.hu).

*The information in this document reflects the situation as of December 2020.*