



FGSZ Ltd.
annual report
2022

 **FGSZ** MEMBER OF MOL GROUP



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CEOs' Welcome

The year 2022 proved to be a very turbulent period for the players in the energy market; securing short term natural gas supply became a central issue for energy policy. As a natural gas transmission system operator, FGSZ Ltd. has played and continues to play a key role in ensuring the country's security of supply.

We are proud that Hungary's natural gas supply remained continuous and uninterrupted in this period of challenges – through constant adaptation, the continuity of deliveries remained secured, thanks to our colleagues' efficient and flexible work, while all of our six natural gas interconnectors were in operation. We have performed well as far as delivered volumes and EBITDA are concerned: our volumes transported in 2022 exceeded the 2021 level by about 2 billion cubic metres, with our financial results only slightly below 2021. These results – especially considering the difficult external environment – reflect an outstanding performance.

We have placed a strong emphasis on the sustainability of our operation. We still see that natural gas – as a reliable and easy-to-store energy carrier – plays a key role in the energy transition, therefore our natural gas transmission activities are secured for the long run. In line with the decarbonization efforts, we continue to explore potential injection of alternative energy carriers of the future into our system, while improving our existing system according to the principles of energy efficiency and emission reduction.

In the focus of all our efforts is the objective that FGSZ Ltd. will remain synonymous in the future with reliable energy supply, the security of the transmission activity and the highest level of expertise required to achieve these goals.



Szabolcs I. Ferencz



Kristóf Terhes





1. Overview



5889 km long high-pressure long-distance gas pipeline system



7229 km long telecommunication cable network



3 gas transmission regions



8 compressor stations



26 physical entry points



~ 400 gas delivery stations



~ 700 employees

EBITDA	MILLION HUF	SUPPLIED VOLUME (15 °C)	MILLION M ³
2016	54 934	2016	14 953
2017	53 843	2017	16 075
2018	50 030	2018	20 940
2019	51 135	2019	24 504
2020	51 300	2020	19 035,5
2021	41 015	2021	14 697
2022	40 483	2022	16 599,8

- EU ITO certification
- Technical Safety Management System as per Act XLVIII of 1993 on Mining
- 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
- Operations in line with the EFQM Excellence Model
- Safety management system for pressure drilling activities that complies with the VCA**/SCC** - 2017/6.0 requirements
- Technical Safety Management System as per Act XLVIII of 1993 on Mining

KEY PARTNERS:

- Gas distribution companies, power plants and large industrial consumers
- Neighbouring network operators
- Network users





2. Our activity

Földgázszállító Zártkörűen Működő Részvénytársaság (hereinafter referred to as: FGSZ) is the sole transmission system operator (TSO) in Hungary, conducting its activities in a regulated market environment, in permanent compliance with the legal regulations of Hungary and the European Union in force. FGSZ is one of the first European independent TSOs to hold an ITO certificate. Besides domestic natural gas transmission, we have bi-directional transmission capacities to Romania, Serbia, Croatia, Slovakia and Ukraine, and provide unidirectional physical transmission from Austria to Hungary, and we are continuously examining the technical feasibility of an interconnector towards Slovenia.

Hungary's security of supply is inseparable from the energy security of the Central European region and that of the whole of Europe, therefore, we are committed to enhance the flexibility and the security of supply of the regional natural gas market. Our developments aim to establish new routes and to upgrade existing interconnectors, in order to ensure access to the new sources, as well as to exploit existing trade opportunities and to create new ones. We support capacity expansion projects targeting a more efficient use of the existing network.

In order to maintain the security of supply, the Company strives to improve its operational efficiency and sustainability through several projects. The project-based operation and system of objectives introduced earlier became an even more integrated part of our operation in 2022. Experience has shown that the efficient cooperation of the various specialty areas working on the various projects has greatly improved corporate-level change management and flexibility. Over the course of last year, the project-type management system was developed further by using external funds and subsidies to incorporate implemented project process into a complete system.

3. Infrastructure (map)

We perform our duties as an ITO certified transmission system operator as per Directive 2009/73/EC of the European Parliament and of the Council. The high pressure natural gas transmission system infrastructure operated by our Company is one of the most advanced even by European standards, reflecting our industrial tradition. We transmit gas that ensures the continuous supply to network users in the expected quality and at the expected pressure with our highly automated high-pressure transmission systems.

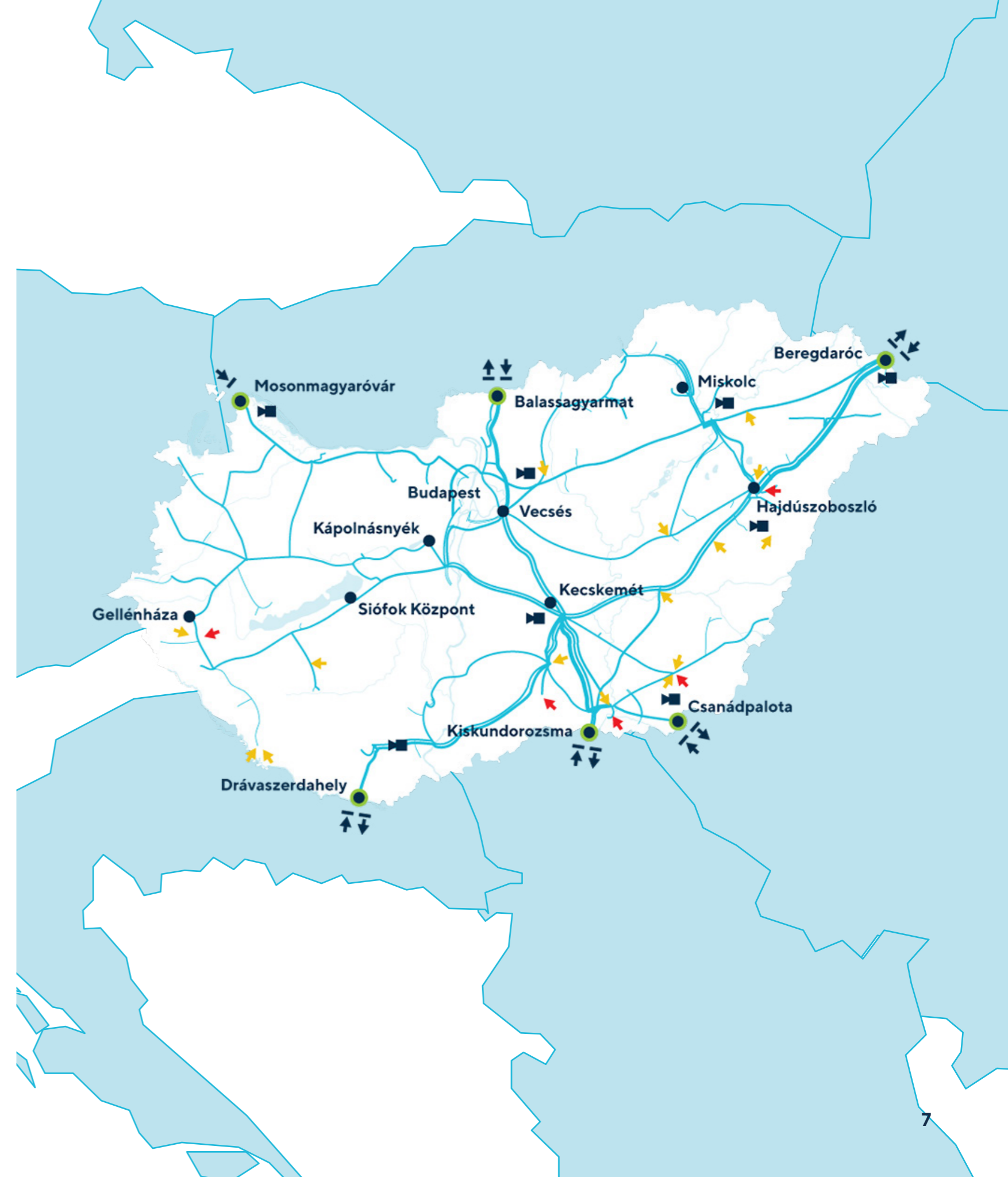
We accept and deliver natural gas from domestic production and underground gas storages as well as from abroad at 26 entry points and nearly 400 exit points of our high-pressure long-distance gas pipeline system, including 6 cross-border entry points and 5 cross-border exit points. We apply an appropriate quality control protocol compliant with effective laws and authentic measurement requirements at all of our entry and exit points.

The continuous operation of our 5,889 km long high-pressure long-distance gas pipeline system covering Hungary's entire territory is ensured by the collaboration of 3 gas transmission regions and our 8 compressor stations, under the coordination of 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 quantitative and qualitative measurement of natural gas in a transparent manner, in compliance with the most stringent international standards.

We deliver the gas volume covering industrial and residential needs at all times to users through gas delivery station which, beyond enhanced and continuous control, ensuring transmission to neighbouring network operators and industrial and power plant users.

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



4. IT services – RBP, IP, TP

Our company has extended and strengthened its IT service portfolio further over the recent period, and it continues to operate on three platforms with 400 user companies.

REGIONAL BOOKING PLATFORM (RBP)

FGSZ's Regional Booking Platform (RBP) is an IT application developed in accordance with the EU's Network Code, regulating the capacity allocation mechanisms used in natural gas transmission systems and the other relevant EU and Hungarian legal regulations. The capacity allocation application permits – in addition to other services – the administration of the capacity allocation procedures and the secondary capacity trade, which today, in addition to FGSZ, is used by sixteen other natural gas transmission system operators belonging to the EU and the Energy Community : Eustream (Slovakia), Transgaz (Romania), Plinacro (Croatia), Bulgartransgaz TSO and SSO (Bulgaria), DESFA (Greece), Gas Connect Austria (Austria), Gaz-System (Poland), Gas TSO of Ukraine (Ukraine), Gastrans (Serbia), Moldovatrangaz and Vestmoldtransgaz (Moldova), Ontras, Gascade, Opal Gastransport and NEL Gastransport (Germany) and Greek-Bulgarian ICGB.

In addition to RBP's capacity reservation services, it is also able to offer services of nomination, allocation, maintaining balance and settlement via the RBP Transport Platform and spot gas trading services via the RBP Trading Platform to transmission system operators, natural gas storage operators and operators of LNG terminals. Based on our own ideas and the feedback from our customers, we continuously develop our services and seek cooperation possibilities.

In Hungary, these services are accessible via the Information Platform and the Trading Platform.



- 1 Eustream (Szlovákia),
- 2 Transgaz (Románia),
- 3 Plinacro (Horvátország),
- 4 Bulgartansgaz TSO és tároló,
- 5 ICGB (Bulgária),
- 6 DESFA (Görögország),
- 7 Gas Connect Austria (Ausztria),
- 8 Gastrans (Szerbia),
- 9 Ontras, a Gascade, az Opal Gastransport és a NEL Gastransport (Németország)
- 10 Gaz-System (Lengyelország),
- 11 Moldovatrangaz és Vestmoldtransgaz (Moldova)
- 12 Gas TSO of Ukraine (Ukrajna).

5. Sustainable operation

In accordance with the decarbonisation objectives, FGSZ, too, focuses heavily on sustainability, treated as a key operating principle. The Company participates in the planning of the European hydrogen infrastructure and the preparation for the transmission of renewable gases, while striving to render its current operation sustainable in the framework of several other projects (e.g. methane leakage detection and elimination in order to decrease the release of greenhouse gases, process optimisation and energy efficiency).

The Green Transition Office has been set up in May 2022 to manage all these processes and coordinate the tasks related to the energy transition within a single organisation. The organisation is responsible for sustainable operation, the reduction of the Company's emissions and the inspection of the injection and delivery of alternative gases. Key projects:

PREPARATION FOR THE DELIVERY OF RENEWABLE GASES

- We have been a member of the European Hydrogen Backbone (EHB) cooperation since 2021, in which a total of 32 gas transmission system operators cooperate with the objective of developing the infrastructure of the European green hydrogen supply chain.
- FGSZ is continuously examining its system from the perspective of accepting renewable gases (biomethane and hydrogen). Based on a stringent and highly detailed inspection, our system is currently suitable for transmission of 2% blending even without modifications.

EMISSION REDUCTION FRAMEWORK PROGRAMME – CONTAINS THE SHORT, MEDIUM AND LONG TERM ACTIONS THAT BRING ABOUT A REDUCTION IN EMISSIONS.

- Our company examines its methane emissions based on the basis of the OGMP 2.0 (The Oil & Gas Methane Partnership 2.0) methodology and has undertaken an implementation plan and commitments accordingly. The detailed implementation programme set out by the Company to quantify and reduce methane emissions has been rated “Gold standard” by the OGMP organisation.
- LDAR – Leak Detection and Repair: we started our LDAR activity first in the Central Hungarian region, in the framework of which we conducted release measurements in the Kistokaj gas delivery station. The experience acquired here is extended to our other regions.

GREEN OFFICE PROGRAMME

- In 2021, we joined KÖVET Association's Green Office Programme, aiming to develop an environment and employee-friendly office concept. The programme was introduced at our Siófok office in 2022, and we plan to extend it to the entire Company by 2024.



6. Quality operations – Integrated management system (IMS)

FGSZ's efficient operation is ensured by the Integrated Management System (IMS), comprising about ten subsystems, based on the IMS objectives updated every year. In 2022, the planned objective of more than 30 Integrated Management Systems has been well achieved by the Company and we have also performed outstandingly in the availability of our IT systems and networks, as well as in the optimisation of compressor natural gas usage.

KEY IMS EVENTS IN THE YEAR 2022:

1. We successfully sustained the ISO 9001:2015 certification of our Quality Management System (QMS), which is valid until 24/06/2024.
2. The ISO 50001:2018 review of our Energy Management System (EMS) was successfully concluded, the certification is valid until 27/08/2024.
3. We successfully renewed the ISO 27001:2013 certification of our Information Security Management System (ISMS). We successfully sustained the certificate as per Section 10 of the Gas Supply Act on the compliance of business processes ensured by the IPNew IT system. The certification is valid until 09/07/2025.
4. Our 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).
5. The renewal audit of the MSZ EN ISO 3834-2:2006 certified Welding Management System (WMS) was successfully concluded, and the certificate is valid until 30/06/2025.
6. The IT security audit of the invoicing system performed by HUNGUARD was successfully concluded, our certification being valid until 31/12/2023.
7. We successfully renewed the certification of the SCC work safety system introduced in 2018 for pressure drilling activities, and the certificate is valid until 27/10/2025.
8. The introduction of the standardised PIMS (Pipeline Integrity Management System) in the framework of the SIMPLE project is underway.





7. Corporate Security, Health and Safety

Our company pays dedicated attention to identify safety, health and work protection threats, the execution of preventative measures, the regular review and maintenance of fire protection means, the protection of the environment and the preservation of our employees' health.

In the year 2022, we also followed the evolution of the coronavirus epidemic, taking action in observance of the state's public health organisations' guidelines.

In 2022, we further intensified focus on emergency preparations and to maintain constant compliance with the legal regulations of disaster relief requirements. The Severe Damage Recovery Plan of the Western and Central Hungarian Region (SKET) has been accepted by the disaster relief authority by a resolution without reservations, and has issued the disaster relief permit for a further 5 years. The drill according to the annual, complex Severe Damage Recovery Plan (SKET) has been administered at the Hajdúszoboszló Regional Centre, and the authority evaluated it accordingly.

In the framework of our property surveillance digitalisation projects, we have developed the camera and alarms systems of our objects to support the security of supply and property.

In the field of information security, we have participated at successful audits (SGS, Hunguard, National Institute of Cybersecurity, parent company). We have the level of increased employee awareness through our continuous campaigns and periodical training and our ethical e-mail hacking campaign.

8. Other priority projects in 2022

S.I.M.P.L.E.: A 3-year project aimed at intensifying the integrity of the piping system, and improve the availability, launched in 2020, and its implementation going ahead according to plan. The objective of the project is to ensure our system operation, maintenance and diagnostic activities meet the most stringent international technical standards, and to establish a dedicated research and development process to reduce the number of malfunctions.

Review of safety zone violations: Buildings and structures constructed in the proximity of the line often violate the statutory rules corresponding to the safety zones of transmission systems. We have launched a project to eliminate these violations of the safety zone, in the framework of which, the future occurrence of such incidents may be prevented by amendment and clarification of the regulatory environment. In the framework of the present project, safety zone violations were terminated in about 180 instances, improving the safety of human life and security of property.

EDIOP (GINOP): Our joint project with the University of Miskolc, targeting the setup of an emission measurement system model. With the implementation of the project, we strive to develop more accurate measurements and to elaborate a new type of process, with which the emissions resulting from our technological operations can be reduced.

FLUMEN: The project, in a consortium with the University of Miskolc and supported by the government, aims to prepare the domestic natural gas transmission system for accepting hydrogen. In the framework of the project launched in March 2022, we intend to implement standards, basic evaluation systems, systems of criteria and infrastructural elements which will allow the inclusion of blending various levels of hydrogen (up to 10% (V/V)) in the national natural gas transmission system.

Capacity upgrade in the RO>HU direction: The technical capacity of the Csanádpalota (RO>HU) cross border interconnector in the direction RO>HU rose from the currently available 1.75 billion m³/year to 2.45 billion m³/year as of 1 October 2022.

LPFS: The Linepack Flexibility Service (LPFS) has been introduced as a new business service as of December 2022, thanks to which the users of the FGSZ system could significantly reduce their balancing costs.

Solidarity Ring: The joint initiative of the Bulgarian, Romanian, Hungarian and Slovak transmission system operators aims to offer additional natural gas transmission capacities by upgrading their existing natural gas transmission systems.



9. Employee professionalism and wellbeing

AT FGSZ, PEOPLE ARE VALUE!

The development of the high level of expertise and employee wellbeing of our team of professionals is indispensable to perform our duties. Through continuous training, project participation possibilities and knowledge sharing, we ensure the best possible professional skills of our colleagues at all times. At our company, one can always develop professionally and personally and expand digital competencies.

With our **young recruits development programme**, we ensure that an adequate workforce of appropriate headcount of competent professionals be constantly available, in order to ensure continuous natural gas transmission. In the course of our processes, multiple generations cooperate synergistically, often several members of the same family working at our Company.

Besides competitive salaries, our **allowance package** supports families and recognises outstanding performance.

KEY ELEMENTS:

- Loyalty allowance,
- Christmas bonus,
- Outstanding cafeteria budget, free to set up by our employees flexibly, tailored to their individual needs within the budget,
- Collective life and accident insurance,
- Health insurance,
- Family planning allowance,
- Employee fuel cards may be requested, with significant discounts at selected petrol stations.

Our employees work in a **healthy and secure work environment**; we provide our employees working in our regions with work attire and personal protective equipment of outstanding quality.

In addition to high standards of **occupational healthcare**, our colleagues may also participate at customised medical fitness check-ups.



In the course of the daily works, we put great emphasis on **digitalisation**, contributing to more sustainable operation, simplified document management and shortening the approval procedures.

Through **recreational events**, we strengthen cohesion among the colleagues; family days and Miners' days are organised every year, the latter held to recognise employees with many years of excellent service.

SOCIAL RESPONSIBILITY

The development of our community

- Any successful business should be fundamentally interested in fostering the success of its immediate operating environment.
- The philosophy underlying our corporate social responsibilities relies on the pillars of cooperation and the conveyance of values.
- Therefore the support of the municipalities located in our area of operation is an organic part of our corporate culture.
- We regularly support organisations and associations on both national and regional levels.
- In March 2022, after the outbreak of the war, we helped the work of three major aid organisations in caring for the refugees, and later we supplied assets to the Ukrainian transmission company to facilitate their operation.
- We take great care to support and sponsor the social, cultural, sports, health-related and environmental programs of institutions and non-governmental organisations of the surrounding villages and cities.

Support of educational institutions

- In secondary schools engaged in training matching that of the professionals employed by FGSZ, we organise career orientation days to promote our company and a potential future workplace for the students. Examples of this are the Árpád Grammar School, Vocational School, and Boarding House of the Székesfehérvár Vocational Training Centre, the Hungarian-English Grammar School of Balatonalmádi, and the Kandó Kálmán IT Vocational Grammar School of the Miskolc Vocational Training Centre.
- We have set up a strategic partnership with the University of Miskolc, in the framework of which we work on joint professional projects and participate at professional trainings and cooperate at university competitions





10. Key financial and business data

	2021	2022	2022/2021 (%)
Net sales revenue	106 766	198 864	186,26
EBITDA	41 015	40 483	98,70
Operating profit	20 752	20 604	99,29
Earnings before taxes	16 333	5 027	30,78
Profit after taxes	15 507	4 449	28,69
Operating cash flow	10 024	30 669	305,96
Fixed assets	293 625	285 302	97,17

The challenges of the economic environment made us face challenges we never had to before the financial year of 2022. Although the domestic and the regional economic environment's evolution both had a significant influence on the evolution of our financial profitability, the operating profit, considered a key indicator here, shows an overall picture similar to that of the previous year (HUF 20.6 bn).

Our net sales revenues reached HUF 198.9 billion in 2022, exceeding the previous year's figure by nearly 87%, and this was predominantly caused by the transmission of 16.6 bcm of natural gas* and the gas flow related to the maintenance of system balance in coherence with the drastic increase in gas prices in 2022.

The indirect effects of the Russian-Ukrainian conflict that broke out in February 2022 significantly influenced the state of affairs in the market and the operative environment, which also affected the economic management of our Company. The demand and supply relations of the European and regional gas market are undergoing fundamental changes, placing emphasis on the question of natural gas sources and consumption needs.

In the domestic market environment, the previously domestic north-eastern supply direction has shifted to the south of the country, and the significance of stocking up the storages to secure the country's safe and continuous natural gas supply increased considerably. As a result of all of these factors, the energy prices of the global market – including those of natural gas – increased further, peaking at record high levels during the business year.

- The average level of regulated gas transmission rates determined and announced by the Hungarian Energy and Public Utility Regulatory Authority (HEA) was slightly higher in 2022 in comparison to the previous year; the tariffs becoming effective as of 1 October 2022 necessarily increased due to the changes of the external environment (e.g. gas price, inflationary environment).
- The sharp drop of nearly 16% in domestic consumption was offset by the increase in storage duties, but the transit demand to Croatia, Romania and Ukraine were significantly lower than last year, resulted in a total transmission volume and transit duties nearly 4% less than in 2021 for our Company in 2022.
- The combined effect of the change of the gas transmission tariffs, and the change of the composition of the capacity bookings realised – reduction of annual bookings due to the uncertainty of the gas market, a rise in the demand for short-term capacity products in reaction to the market's supply and demand possibilities – brought about a favourable shift in the evolution of the sales revenue from regulated transmission services.
- No sales revenue from non-regulated transit activity was generated in 2022, which is the consequence of the termination of the previous transmission contracts.

The developments in the external environment particularly adversely impacted the operating expenditure.

- Although the changed transport circumstances, the lower transmission requirements realised did entail the reduction of the own gas consumption of the transmission system, translating to lower compression requirements and lower accounted measurement differences (gas losses), but the steep rise of the world market gas price resulted in the purchase price of the own natural gas increasing to levels hitherto unseen, in comparison to the previous year. The favourable evolution of the consumed volume could not offset the drastic increase of the purchase price of gas, therefore the gas cost accounted by the Company was significantly higher, nearly three times higher in 2022.

- Further increase of the operational costs was caused by the rising inflationary environment in comparison to the previous years, but its effect could only be felt partially in 2022. In view of the operating expenses, in order to partly counterbalance the changes in the external environment, FGSZ Ltd. maintained and continued the strict control of operating costs.

It is a statutory liability of our Company to maintain the balance between the gas source and the offtake, which we ensure by so-called balancing gas sale and purchase as a transaction on which we cannot realise any profit under the applicable regulations. The balancing natural gas turnover continued to increase sharply in 2022, more than doubling in comparison to 2021, mostly due to the skyrocketing market prices of gas.

As a result of the drastic deterioration of the interest environment – the BUBOR rate fluctuated in the 4-17% band in 2022 instead of the annual 1-4% band in 2021 – the increase of our financing costs resulted in a significant decrease of our earnings before taxes by 69% in 2022 (HUF 5.0 bn) even while operating profit remained at an unaltered level.

In the business year 2022, a total of 12.0 billion HUF were spent on investments, part of which was linked to priority projects (development of the Serbian-Hungarian interconnector and the investments related to the reconstruction of the Városföld junction and the implementation of the redundant measuring branch at Kiskundorozsma), but it also includes preservation-type investments of significant value (e.g. compressor station reconstructions, replacement of river crossings and pipeline rehabilitation works).

FGSZ continues to maintain its current strict cost management and seeks the opportunities to improve its internal efficiency to partly counterbalance the adverse effects of the regulatory and economic environment. In addition, we continue to strive to implement our regional strategic objectives and our climate protection strategy.

11. Contact details

We run a customer service for our contracted partners. Should you have any queries related to the use of natural gas transmission and system operation services, please do not hesitate to contact us.

CUSTOMER SERVICE OFFICE

Registered address:

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

Mailing address:

H-8601 Siófok, P.O. Box: 102

Telephone:

+36 (84) 505-117

E-mail:

info@fgsz.hu

Opening hours:

Tuesday, Thursday: 13:00–16:00

Monday, Wednesday, Friday: closed

On operative issues, **please contact our 24/7 non-stop dispatcher service.**

SYSTEM OPERATION CENTRE

Telephone:

+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:

Telephone: **+36-70-938-7961**

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

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





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The information in this document reflects
the situation as of December 2022.

