



FGSZ Ltd. annual report 2021



FGSZ MEMBER OF MOL GROUP

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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



25 physical entry points



~400 gas delivery stations



~700 employees

EBITDA	MILLION HUF	SUPPLIED VOLUME (15 °C)	MILLION M ³
2015	59,988	2015	13,093
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*

*By supplied volume we mean physically supplied volume.

- Operations in line with the **EFQM Excellence Model**
- **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 the VCA**/SCC** - 2017/6.0 requirements
- **Technical Safety Management System** as per Act XLVIII of 1993 on Mining

FGSZ REGIONAL BOOKING PLATFORM (RBP) DATA:



17 registered TSO members



325 registered system 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, in permanent compliance with the legal regulations of Hungary and the European Union currently in force. **FGSZ is one of the first European independent TSOs to hold an ITO certificate.** Besides domestic natural gas transmission, **we provide unidirectional physical transmission from Austria to Hungary and we also possess bi-directional transmission capacities to Romania, Croatia, Ukraine, Serbia and Slovakia** and we are continuously examining the feasibility of an **interconnector towards Slovenia.**

The security of supply of Hungary is inseparable from the energy security of the Central European region and Europe as a whole. 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 strengthen existing connections,** 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 extension projects 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, whose **services was further extended with services and modules after the stable functioning of the applications introduced in the course of the IPNew project** (nomination, maintaining balance, allocation and settlement), and which is also accessible on a software as a service (SaaS) basis for TSOs.

In addition to FGSZ, the RBP is **used by sixteen 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), Moldovatrangaz (Moldova), NEL (Germany), OPAL (Germany), Gas TSO of Ukraine (Ukraine), Vestmoldtransgaz (Moldova) and ICGB (Bulgaria).

Over the past year, the image of the public RBP portal has also been renewed.

- 1

Eustream (Slovakia),
- 2

Transgaz (Romania),
- 3

Plinacro (Croatia),
- 4

Bulgartransgaz, ICGB (Bulgaria),
- 5

DESFA (Greece),
- 6

Gas Connect Austria (Austria),
- 7

Gastrans (Serbia),
- 8

Gascade, ONTRAS, NEL, OPAL (Germany)
- 9

Gaz-System (Poland),
- 10

Moldovatrangaz, Vestmoldtransgaz (Moldova)
- 11

Gas TSO of Ukraine (Ukraine).





3. Focusing on people

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



safety



partnership approach



efficacy



modernity

These core values are manifested in **our employees' prudent and committed work, direct and open communication, as well as in their efforts for 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.

THE DEVELOPMENT OF OUR COMMUNITY

Any successful business should be fundamentally interested in fostering the success of its operating environment. Therefore, 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 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.

We place great emphasis on the fostering the activities of civic organisations and institutions operating at our headquarters in Siófok and around Lake Balaton and in the areas of our regional sites, and since we run our business nationwide, part of **our support is used to help societal organisations.**





SUPPORTING CULTURAL AND SPORTS EVENTS

Our help opens the possibility of organising performances of high standards in the municipalities of our operational area.

We are also committed to support sports activities as well, since exercise is an important element of preserving one's health, and no less dispensable when it comes to free time, recreation and stress relief, therefore all such activities serve to improve the physical and spiritual well-being of our colleagues and the residents of the regions concerned. **In 2021, we patroned the FGSZ Kiskör cycling event or the sixth time, organised by Balatonkör**, and we also sponsored the implementation of the SUP championship, organised at Siófok for the second time, and becoming increasingly popular. We also supported some sports organisations in our operational area that found themselves in difficult situations with donations.

HEALTH PRESERVATION

We have been organising company blood donations in our operational area since 2011.

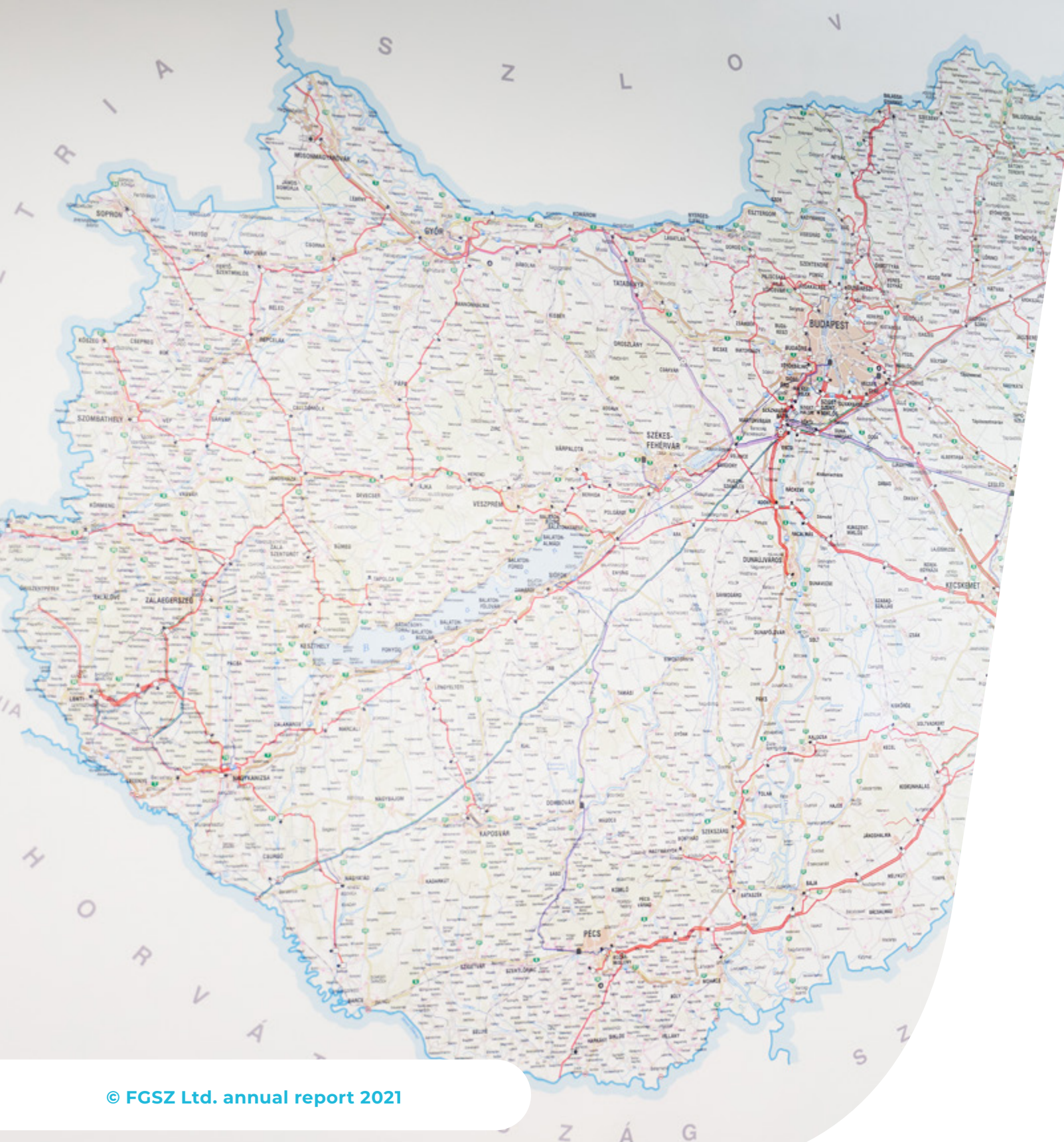
The coronavirus epidemic significantly limited the possibilities of organising sports and health preservation programmes. In order to preserve our employees' health, our company organised sports competitions, in which our employees could freely set their own goals in specific disciplines (e.g. walking, running, cycling, etc.) and fulfil them.

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 as a potential future workplace for the students.**

We maintain a good relationship with the University of Miskolc, too, where our company regularly appears as a contributor to professional trainings and university competitions.





4. Infrastructure

At FGSZ, we perform our tasks as an **ITO certified transmission system operator as per Directive 2009/73/EC of the European Parliament** and of the Council. Our Company's infrastructure is one of the most advanced even by European standards, reflecting our industrial tradition. We transmit a gas volume that ensures the continuous supply to system 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 both domestic production and underground gas storages and abroad at **25** entry points and nearly **400** exit points of our high-pressure natural gas transmission system, including **6** cross-border entry points and **5** cross-border exit points. We pay special attention to applying both an appropriate quality control protocol that complies with effective laws and authentic measurement standards at all of our entry and exit points.

The continuous operation of our **5,889 km** long high-pressure natural gas transmission system covering our whole country is ensured by the collaboration of **3** gas transmission regions and our **8** compressor stations and 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 retail needs at all times to users through gas delivery station which, beyond enhanced and continuous control, ensuring transmission to system operators and industrial and power plant users.

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 with underground gas storages that are connected to a high-capacity gas transmission pipeline system at five points.

The **SIMPLE project** was launched in 2020 at FGSZ in order to prevent malfunctions of our pipeline system. **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.





5. SD and HSE

Our company pays dedicated attention to identify HSE 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 2021, we handled the coronavirus epidemic as a key priority, adapting to its waves and taking action in observance of the state's public health organisations' guidelines.

With the help of the campaigns we launched, we achieved a vaccination rate or about 90% among our employees last year. We provided antibody level tests for our employees to help them bring responsible decisions concerning booster vaccinations.

In 2021, we also focused intensively on emergency preparations and to maintain constant compliance with the legal regulations of disaster relief requirements. We performed the upcoming review of the Serious Incident Relief Plans of the Central Hungarian and East Hungarian Natural Gas Transmission Regions (SKET), based on which the Somogy County Disaster Management Directorate issued the disaster relief permits for both regions. Besides adhering to the stringent pandemic actions, the annual complex drill as per the SKET has also been held. The authority checked performance of the drill at the Kápolnásnyék Regional Centre, and deemed it satisfactory.

In coherence with the digitalisation programme of our company a number of IT applets assisting the EBK activity have been introduced, such as the registration of technical fire protection equipment and tools, their review and **the fiREG office applet** was introduced to document other events occurred during their use. The application permits the digitally authenticated, legally compliant paperless operation logging of more than **2000 fire protection tools**. The emission module has been developed further and the work safety review of the work equipment has been integrated in the instrument registration module applet.





We pay particular attention to the issue of environmental protection, sustainability and efficient energy consumption besides our core business values. For this purpose, **our emission strategic framework programme** has been developed. In our Siófok Central Office, we introduced the Green Office Programme, and the objectives for 2022 were elaborated, and the audit of our activity is foreseen subsequent to their implementation.

2021 was the year of energy efficiency, and we launched a campaign in the framework of this for our colleagues' awareness and perception management. Energy efficiency tips regularly appeared on the intranet and a total of 448 persons participated at the total of 11 FGSZ Academy presentation sessions discussing the energy questions of natural gas transmission and our everyday lives.

6. Quality operations – Integrated management system

FGSZ's efficient operation is ensured by the Integrated Management System (IMS), comprising about ten subsystems.

Key **IMS** events in 2021:

1. We successfully renewed the **ISO 9001:2015 certification** of our Quality Management System (QMS), which is valid until 24/06/2024.
2. The **ISO 50001:2018 renewal audit of our Energy Management System (EMS)** was successfully concluded, the certification is valid until 27/08/2024.
3. We successfully sustained 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 recertification of the system is foreseen for the year 2022.
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 review audit of the **MSZ EN ISO 3834-2:2006 certified** Welding Management System (WMS) was successfully concluded, and the certificate is valid until 30/06/2022.
6. The IT security renewal audit of the invoicing system performed by **HUNGUARD** was successfully concluded, our certification being valid until 31/12/2023.
7. 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.
8. **The introduction of the standardised PIMS** (Pipeline Integrity Management System) **in the framework of the SIMPLE project is underway.** The completion of the system's introduction is planned for 2022.

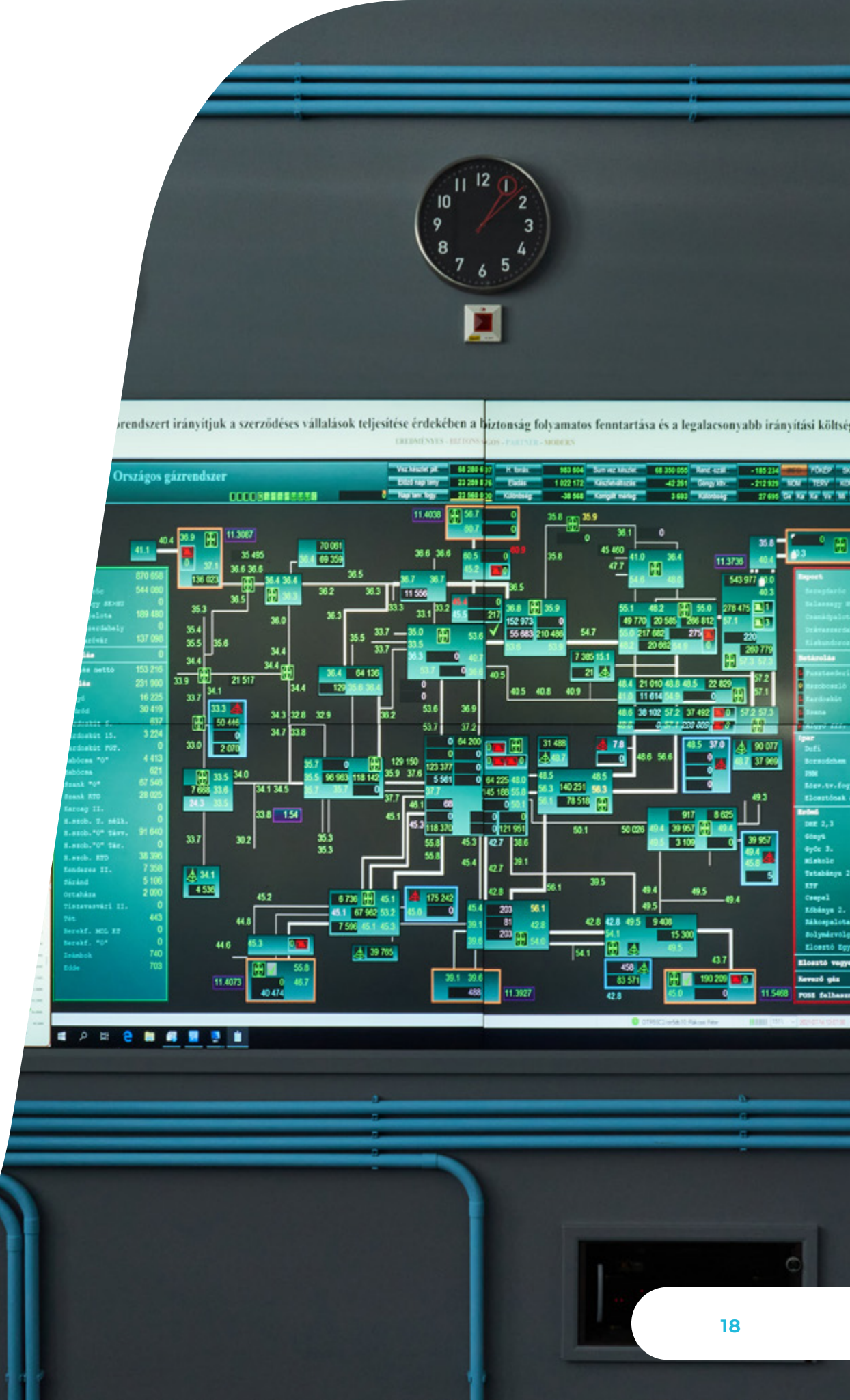
7. Key projects in 2021

IT DEVELOPMENTS

We continued the development of **RBP** and the other business applications we operate – including the **IT Platform and the Trading Platform** – in line with legal requirements and business needs in 2021. In addition, we also developed a number of business administration applications that support employees in working fast and efficiently.

INVESTMENTS

The new **Serbia>Hungary 15 km DN 1200 pipeline segment and international metering station** was duly completed by the deadline of 1 October 2021. **The new system is capable of supplying 8.5 billion m³/year of natural gas from the southern direction.** Reconstruction of Városcsúcs junction commenced in connection with the project.





8. Key financial and business data

	YEAR 2021	YEAR 2020	2021/2020 (%)
Net sales revenues	106 766	88 838	120.18
EBITDA	41 015	51 300	79.95
Operating profit	20 752	31 176	66.56
Profit before taxes	16 333	27 940	58.46
Profit after taxes	15 507	26 904	57.64
Operating cash flow	10 024	9 773	102.57
Fixed assets	293 625	290 894	100.94

Our company conducted its activity in 2021 in a volatile economic environment, setting a number of challenges; the evolution of the domestic and the regional business environment had a significant impact on the company's profitability. The operating profit, treated as a key indicator, was nearly **34%** lower **(20.8 billion HUF)** in comparison to the previous year.

Our net sales revenues reached 106.8 billion HUF in 2021, exceeding the previous year's figure by nearly **20%**, and this was predominantly caused by the **transmission of 17.37 bcm of natural gas and the gas*** flow related to the maintenance of system balance in coherence with the significant increase in gas prices in 2021.

*Commercially accounted volumes.

Our sales revenues from domestic regulated transmission **were greatly impacted by the developments of the regional economic and gas market 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 **(HEA)** was slightly lower in 2021 in comparison to the previous year.
The change of the average rates was published by the Hungarian Energy and Public Utility Regulatory Authority **(HEA)** in the first half of 2021, following the sectoral consultation of the unified reference price establishment methodology **(RPM)** launched in 2020, and as a result of the process, the authority published the transmission rates for the 4-year price regulation cycle starting from 1 October 2021 as well as those for the gas year of 2021-2022.
- **The volume of gas supplied for domestic consumption and storage duties reached the same level as in the previous year**, while the export transit demand to Croatia, Romania and Ukraine were significantly lower than last year, resulted in a total transmission volume and transit duties nearly **18%** less than in 2020 for our Company in 2021.
- The reduced volume of capacity bookings of our company, due to the change of the regulatory environment as well as the domestic and regional market, and the gas transmission demands – primarily demonstrated by the demand for short-term products – which had an unfavourable influence on the sales revenue from regulated transmission services.

The 2021 sales revenue from non-regulated transit transmissions decreased by nearly 90%

in comparison to the level of the previous year, as transmissions to Serbia and Bosnia and Herzegovina discontinued in 2021, as a consequence of commissioning the Balkan Stream gas pipeline at the end of 2020.





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 an impact of the lost storage duties – also triggered a decrease in the own gas use of the transmission system, thereby causing a reduced demand for air-lifting. The absolute volume of settled measurement difference (gas loss) also decreased in comparison to the previous year as a result of the changed transmission tasks and conditions, and **the improvement of the specific measurement difference was enabled by the steps taken and investments made by the Company to mitigate the loss.**

Due to the steep increase in the price of natural gas on the global market, the purchase price of own technological and loss gas has increased significantly in comparison to the previous year, the impact of which could not be offset by the favourable shift in the volume consumed, **so in total, our accounted gas cost exceeded the previous year's value by a great deal in 2021.**

- In view of other non-priority operating expenses – in order to partly offset the changes of the external environment – we continued to **strictly monitor the control of the operating costs**, as a result of which, operating costs totalled at a slightly lower level than in the previous year.

It is a statutory liability of our Company to maintain the balance between the gas source and the gas consumption, which we ensure by so-called balancing gas sale and purchase as a transaction on which the Company cannot realise any profit under the applicable regulations. **The balancing natural gas turnover saw a significant increase in 2021, nearly quadrupling in comparison to 2020**, mostly due to the **skyrocketing market prices of gas**. The related financing costs have increased significantly, too.

The result on financial operations was -4.4 billion HUF in 2021, 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 lower operating profit and a less favourable result of the financial operations, **the pre-tax profit of FGSZ Ltd. decreased significantly, by nearly 45% in comparison to the previous year, standing at 16.3 billion HUF in 2021**.

The 21.3 billion HUF (+7.0%) increase of the balance sheet earnings was caused by the investments commissioned during the business year – primarily the impact of the Serbian-Hungarian interconnector – and the **increase in the value of the current assets**.





In the business year 2021, a total of 22,978 million HUF were spent on investments, a significant part of which was linked to priority projects (Serbian-Hungarian interconnector and the investments related to the reconstruction of the Városföld junction), but it also includes the expenditure of indispensable investments required to sustain the technical quality standards of the transmission system.

Our Company forecasts a similar decrease in the economic indicators for 2022 as in 2021, with slightly lower levels of demand for natural gas transmission and consumption. No significant change of the regulatory framework is expected, but the consideration of the circumstances (especially the drastic increase of the price of natural gas and the rampant inflation) **justify the increase of the gas transmission rates as of 1 October 2022.** For the next business year, we forecast a slight decrease in the demand for domestic as well as regional gas transmission, which in total will bring about a financial performance similar to that of the present business year.

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. **The Company makes additional efforts towards the accomplishment of its regional strategic goals**, which is a guarantee of meeting the expectations of the shareholders.

9. Contact Information

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 office: 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

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

INFORMATION OFFICE

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

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

Opening hours:

Tuesday, Thursday: 7:30–10:00

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:

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**.

The information in this document reflects **the situation as of December 2021**.

