Any questions concerning this integrated annual report should be addressed to

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Director of Corporate Communication
phone: +48 22 220 14 54
e-mail: pr@gaz-system.pl

Full report available on
en.gaz-system.pl
GAZ-SYSTEM GROUP

GAZ-SYSTEM:

1. is responsible for the transmission of natural gas and management of the transmission network in Poland.
2. has strategic significance for the Polish economy and energy security of the country.
3. acts as a transmission system operator and the independent operator of the Polish section of the Yamal-Europe natural gas pipeline (Transit Gas Pipeline System Yamal-Europe).
4. is 100% owned by the State Treasury, and the owner’s supervision over it is exercised by the Government Plenipotentiary for Strategic Energy Infrastructure (until 27 December 2015, the owner’s supervision was exercised by the Minister of Economy).

Polskie LNG:

1. was responsible for the development and currently is responsible for the operation of the Liquefied Natural Gas (LNG) Terminal in Świnoujście.
2. is 100% owned by GAZ-SYSTEM.
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2. Is 100% owned by GAZ-SYSTEM.
MISSION AND VISION

MISSION
We ensure safe transportation of natural gas in Poland and are actively engaged in the creation of an integrated transmission system in Europe. In our day-to-day activities, we are committed to environmental stewardship and sustainable development.

VISION
Our vision is to provide energy security and build the position of a major operator driving the integration of the transmission system in Europe through:
• creation of conditions for the development of a competitive natural gas market in Poland, and the companies operating in the sector,
• construction of interconnections with the transmission systems of the neighbouring countries to integrate the European gas networks,
• development of modern gas pipeline network in Poland and offering advanced services to enable its optimised utilization.

VALUES

RESPONSIBILITY
In our activities, we follow the rules of responsibility towards stakeholders and the environment in which we operate.

COMMITMENT
We are fully committed to our activity – we value the participation of each employee in our present and future successes.

PROFESSIONALISM
We focus on our employees’ professionalism – we want to implement our goals mainly thanks to regular development of the knowledge and skills of our personnel.

TEAMWORK
We believe that co-operation will help us to render the highest quality services, and that is why we promote teamwork in our company. This requires us to be open to others and their ideas.

RESPECT
We treat our stakeholders with utmost respect. We always require honesty from ourselves.
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<table>
<thead>
<tr>
<th>Status as at 31/12/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income from sales</td>
</tr>
<tr>
<td>Costs of operating activities</td>
</tr>
<tr>
<td>Net profit</td>
</tr>
<tr>
<td>Total assets</td>
</tr>
<tr>
<td>Employees</td>
</tr>
<tr>
<td>Customers</td>
</tr>
<tr>
<td>Length of the transmission network</td>
</tr>
<tr>
<td>Quantity of gas transported:</td>
</tr>
<tr>
<td>Excluding UGS*</td>
</tr>
<tr>
<td>Including UGS**</td>
</tr>
<tr>
<td>Working volume of underground gas storage facilities***</td>
</tr>
<tr>
<td>Gas stations</td>
</tr>
<tr>
<td>Compressor stations</td>
</tr>
<tr>
<td>System points</td>
</tr>
<tr>
<td>Shareholder structure</td>
</tr>
</tbody>
</table>

* The volume of transported gas comprises low-methane gas (Lw), after volume conversion to high-methane gas (E) equivalent. Gas volumes transported within the OTC market and the gas exchange are not taken into account. In 2015, the settlements in respect of transmission services were based on energy units, and therefore the quantity of transported gas in volume units is only presented as an illustrative value.

** The volume of transported gas includes the operation of UGS facilities. The volume of transported gas comprises low-methane gas (Lw), after volume conversion to high-methane gas (E) equivalent. Gas volumes transported within the OTC market and the gas exchange are not taken into account. In 2015, the settlements in respect of transmission services were based on energy units, and therefore the quantity of transported gas in volume units is only presented as an illustrative value.

*** Including the volume reserved for GAZ-SYSTEM. The UGS facility is owned by PGNiG.

**BUSINESS MODEL**

**ENTRY POINT**

- New connections
- Transmission system expansion
- Integration with EU transmission systems (interconnections)
- Co-operation with system operators in neighbouring countries

**ENTRY POINT**

- Import
- Domestic sources

**EXIT POINTS**

- Network maintenance and repairs
- Transmission system: natural gas transportation
- Storage System Operator
- Physical balancing
- Performance of transmission contracts
- Virtual point (HUB)

**EXIT POINT**

- Physical performance of exchange transactions
- Exports
- Customers connection to distribution network
- Distribution System Operator
- Customers connection to the transmission network
**THE GAZ-SYSTEM GROUP IN NUMBERS**

Status as at 31/12/2015

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<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income from sales</td>
<td>2,011 million PLN</td>
</tr>
<tr>
<td>Costs of operating activities</td>
<td>1,529 million PLN</td>
</tr>
<tr>
<td>Net profit</td>
<td>484 million PLN</td>
</tr>
<tr>
<td>Total assets</td>
<td>10,654 million PLN</td>
</tr>
<tr>
<td>Employees</td>
<td>2,770 persons</td>
</tr>
<tr>
<td>Customers</td>
<td>132</td>
</tr>
<tr>
<td>Length of the transmission network</td>
<td>10,996 km</td>
</tr>
<tr>
<td>Quantity of gas transported:</td>
<td></td>
</tr>
<tr>
<td>Excluding UGS*</td>
<td></td>
</tr>
<tr>
<td>Including UGS**</td>
<td></td>
</tr>
<tr>
<td>Working volume of underground gas storage facilities</td>
<td></td>
</tr>
<tr>
<td>Gas stations</td>
<td>2.8 bcm</td>
</tr>
<tr>
<td>Compressor stations</td>
<td>801 unit</td>
</tr>
<tr>
<td>System points</td>
<td>16 unit</td>
</tr>
<tr>
<td>Shareholder structure</td>
<td>100% share held by the State Treasury</td>
</tr>
</tbody>
</table>

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**BUSINESS MODEL**

**ENTRY POINT**

- **Import**
- ** domestic sources**

**NETWORK MAINTENANCE AND REPAIRS**

- **Storage System Operator**
- **Physical balancing**
- **Performance of transmission contracts**

**VIRTUAL POINT** **(HUB)**

- **Exports**
- **Customers connection to distribution networks**
- **Distribution System Operator**

**EXIT POINTS**

- **New connections**
- **Transmission system expansion**
- **Integration with EU transmission systems (interconnections)**
- **Co-operation with system operators in neighbouring countries**

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**THE GAZ-SYSTEM GROUP IN NUMBERS**

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RISK MANAGEMENT

Risk management covers every level of the management structure in the GAZ-SYSTEM Group. Depending on the area, specific management approaches are applied in order to identify, assess and control the potential risks.

The corporate risk management policy according to the guidelines of the international standard ISO 31000.

Project risk management which makes a part of GazStep project management methodology adopted in GAZ-SYSTEM.


OHS Management System with respect of accident risk (OHSAS 18001 certificate).

Since 2007, all the sources of information regarding relevant risks are integrated within the Enterprise Risk Management (ERM) process.

The purpose of ERM process is to monitor the changes in the external and internal environment, identify, assess and prioritize the risks, as well as to coordinate risk management activities, including those that are critically important for long-term operation of the company. Risk management is an ongoing process that is continuously adjusted in response to the changing external and internal environment of the company.

INFRASTRUCTURE SAFETY

In addition to conducting inspection activities under the TNOS, the operating parameters of the transmission network in terms of gas flow and pressure are subject to continuous 24/7 remote monitoring (24 hours) by the services responsible for system operation, i.e. the National Gas Dispatching Centre and its branches.

The company has a collection of procedures and operating manuals jointly referred to as the Transmission Network Operating System (SESP). It describes the performance of operations within gas networks, starting from the handover of infrastructure from the development to operation phase, through standard checks, maintenance activities and specialist overhauls, up to the decommissioning of a transmission system component.

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In 2015, were implemented, including maintenance, repairs and expansion of transmission installations. GAZ-SYSTEM carried out activities resulting from the obligations imposed by the President of the Energy Regulatory Office on the operator of the Polish section of the Yamal gas pipeline.

In May 2015, as a result of a decision of the President of the Energy Regulatory Office, GAZ-SYSTEM was awarded the certificate of independence in connection with the performance of the Independent System Operator’s function for the Polish section of the Yamal – Europe gas pipeline.
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As a result of the conducted audit, in January 2015, the Supreme Audit Office issued a positive opinion on the supervision of GAZ-SYSTEM over the safety of the operated gas pipelines and new investment projects.

In May 2015, as a result of a decision of the President of the Energy Regulatory Office, GAZ-SYSTEM was awarded the certificate of independence in connection with the performance of the Independent System Operator’s function for the Polish section of the Yamal – Europe gas pipeline.
The GAZ-SYSTEM Group has an Integrated Management System in place, which includes the Occupational Health and Safety Management System as one of its components. This area is managed by the Group in a manner consistent with international standards, according to the standard BS OHSAS 18001:2007 “Occupational health and safety management system with regard to natural gas transmission throughout the country”.

The OHS Management System and operation according to international OHS standards, well-developed system of preventive measures addressed both to employees and subcontractors’ companies constitute key elements in occupational safety management.

Good practices

FIRST AID CHAMPIONSHIPS FOR THE GAZ-SYSTEM PRESIDENT’S CUP

This is an internal event which has a preventive-educational character and it is addressed to all employees of the company.

The main element of the Championship is a two-day first aid training conducted by qualified medical rescuers.

SERVICE OFFERING

The core service provided by GAZ-SYSTEM is the transmission of gas over the transmission network throughout the country, in order to deliver gas to the distribution grid and end consumers connected to the transmission system.

Under the contracts, the company provides long-term and short-term gas transmission services. The primary transmission service period is the gas year, in which (contracted) capacity is provided in equal volumes at all hours of the gas year. Short-term services may be provided for quarterly, monthly, daily and intra-day periods. In case when firm capacity is not available, GAZ-SYSTEM can offer interruptible service at physical entry and exit points.

In 2015, Gas Transmission Operator GAZ-SYSTEM provided gas transmission services through the domestic transmission system on the basis of 131 Transmission Contracts, including 23 Interoperator Transmission Contracts (ITC).

As the gas transmission system operator for the section of the Yamal – Europe gas pipeline located in the territory of the Republic of Poland, GAZ-SYSTEM also provided gas transmission services within the scope of the allocated capacity under 46 transmission contracts. The company also provided gas odourisation service for 2 customers at 2 points.

OUR CUSTOMERS

Number of transmission customers: 132
Number of NTS contracts: 131
Number of TGPS contracts: 46
Number of applications for NTS transmission contracts: 73
Number of applications for TGPS transmission contracts: 15
Number of signed NTS transmission contracts: 62
Number of signed TGPS transmission contracts: 14

The Customer Satisfaction Survey conducted in 2015 confirmed that IES is already used by 62% of customers, and 91% of them consider IES as a tool supporting their daily interaction with GAZ-SYSTEM. The customers also value IES for comprehensible and up-to-date information, as well as for easy navigation and availability of data. Currently, the System has 862 Active Users from among 3,720 registered entities.

Good practices

INFORMATION EXCHANGE SYSTEM (IES)

It was developed for market participants, as a system designed for the publication of data available at the www.gaz-system.pl website, and for the exchange of technical and commercial information between GAZ-SYSTEM and its business partners.
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THE MOST IMPORTANT STAGES OF GAS PIPELINE CONSTRUCTION

1. **DESIGN** of the route of high-pressure gas pipeline, development of project documentation, including the development of a conceptual, construction and executive project.

2. **OBTAINMENT** by GAZ-SYSTEM of all necessary administrative decisions, including decisions about environmental conditions, location decisions and permits for construction.

3. **PURCHASE** of pipes and fittings by GAZ-SYSTEM as part of the so-called investor’s deliveries.

4. **SELECTION** in a public procurement procedure, of contractors to perform construction and assembly work of individual gas pipelines.

5. **PREPARATION** of gas pipelines routes for the conduct of construction work, consisting of, e.g., the cutting of green areas or topsoiling of the land along the routes of individual gas pipelines.

6. **TRANSPORT** of pipes to individual building sites.

7. **WELDING** work.

8. **EXCAVATION** work and laying of the pipeline.

9. **COMPLETION** of the construction process of individual gas pipelines.

10. **PERFORMANCE** of trials, technical commissioning and start-up of individual gas pipelines.

11. **OBTAINMENT** of an administrative decision - permit for use and commissioning for use of individual gas pipelines.
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1. **DESIGN**
   - Design of the route of high-pressure gas pipeline, development of project documentation, including the development of a conceptual, construction and executive project.

2. **OBTAINMENT**
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3. **PURCHASE**
   - Purchase of pipes and fittings by GAZ-SYSTEM as part of the so-called investor’s deliveries.

4. **SELECTION**
   - Selection in a public procurement procedure of contractors to perform construction and assembly work of individual gas pipelines.

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   - Preparation of gas pipelines routes for the conduct of construction work, consisting of, e.g., the cutting of green areas or topsoiling of the land along the routes of individual gas pipelines.

6. **TRANSPORT**
   - Transport of pipes to individual building sites.

7. **WELDING**
   - Welding work.

8. **EXCAVATION**
   - Excavation work and laying of the pipeline.

9. **COMPLETION**
   - Completion of the construction process of individual gas pipelines.

10. **PERFORMANCE**
    - Performance of trials, technical commissioning and start-up of individual gas pipelines.

11. **OBTAINMENT**
    - Obtainment of an administrative decision - permit for use and commissioning for use of individual gas pipelines.
The GAZ-SYSTEM Group has been consistently striving to obtain EU funding for its projects. Currently, the investments of GAZ-SYSTEM are co-financed from the Connecting Europe Facility which sets out the conditions, methods and procedures of granting EU financial assistance to trans-European networks in order to support projects of common interest (PCI) in transport, telecommunication and energy sectors, as well as to take advantage of potential synergies between those sectors.

There are also plans to finance projects from the Operational Programme Infrastructure and Environment 2014-2020, which is intended for infrastructure projects of national or international significance.
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The GAZ-SYSTEM Group recognises the extraordinary role of communication with local communities inhabiting the areas where the company implements its projects. Communication activities are addressed to local communities in 175 communes, where the company carries out 16 pipeline projects and 5 compressor station projects.

During the past year, 118 information meetings were organised with representatives of local authorities, as well as landowners. In total, since 2011, over 300 meetings have been held, which were attended by more than 3,600 people.

The systemic approach to communication is reflected in the stakeholder dialogue at the stage of design, investment execution and after the construction completion. 118 information meetings were organised with representatives of local authorities, as well as landowners. In total, since 2011, over 300 meetings have been held, which were attended by more than 3,600 people.

The “Safe City” programme is a combination of educational activities in the area of first aid conducted under the “Safe School” and “Safe Beach” projects, as well as training addressed to medical and uniformed services as well as the employees of municipal transport as part of the “Competent Services” campaign. As part of building common knowledge about LNG, in June 2015, Polskie LNG launched an updated version of the educational portal www.lng.edu.pl, which is a knowledge platform concerning the natural gas liquefaction technology as well as the global and European LNG market.

The company also supports the initiative of the municipal authorities of Świnoujście aimed at the acceleration of construction of S3 express road through putting the “Safe City” initiative in the list of projects planned for implementation by 2020 under the governmental “Programme of Construction of National Roads for 2014–2020”. Another initiative has geared the support for the construction of a modern Rescue and Fire-fighting Unit of the National Fire Service in Świnoujście.

The company also financed the “Pirate Adventure” which opened in May 2015 at the affiliated branch of the Municipal Cultural Centre in Warszów. On the area of nearly 3.5 thousand square meters, a playground was created with a several meters high model of a ship, as well as a stage with seating for audience. This is one of the largest projects implemented by Polskie LNG for the local community.

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Good practices

NATURAL ENERGY FUND
GAZ-SYSTEM organises the Natural Energy Fund grant competition which supports the implementation of environmental projects. The purpose of the competition is to provide financial support for the best environmental protection ideas in the region. In 2015, institutions from Wielkopolskie, Dolnośląskie, Mazowieckie, Podkarpackie and Opolskie Voivodeships took part in the competition.

Good practices

THE FUND FOR LOCAL INITIATIVE SUPPORT
It is a model of cooperation of the company with its stakeholders, involving them in the decision-taking process concerning the financing of projects for Świnoujście and its inhabitants. The Fund offers grants to finance projects in such areas as sports, education, safety, ecology, culture and arts.
The Integrated Annual Report of the GAZ-SYSTEM Group
GRI G4
is the first report presenting the financial and non-financial performance which takes into account the activity of the subsidiary company Polskie LNG.
This is also the first report prepared according to the Global Reporting Initiative Guidelines at the “Core” level.

APPROACH TO ENVIRONMENTAL MANAGEMENT

With regard to environmental protection, GAZ-SYSTEM operates an Environmental Management System conforming to the requirements of the EN ISO 14001:2005 standard.

APPROACH TO BIODIVERSITY MANAGEMENT

The investment projects carried out by GAZ-SYSTEM affect protected areas. The total length of gas pipeline networks crossing protected areas is about 2,160 km, which represents approx. 19.64% of the total length of the company’s transmission networks.

ABOUT THE REPORT

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ENERGY

Total direct energy consumption from non-renewable primary energy sources:

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>2,394,477 GJ</td>
<td>2,785,726 GJ</td>
<td>1,662.5 GJ</td>
</tr>
</tbody>
</table>

WATER

Total volume of water drawn by the organisation and intermediaries (e.g., utility companies):

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>41,535 m³</td>
<td>43,539 m³</td>
<td>859.39 m³</td>
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EFFLUENTS

Total volume of liquid waste:

<table>
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<tr>
<th>Year</th>
<th>2014</th>
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<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>39,591 m³</td>
<td>46,043 m³</td>
<td></td>
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WASTE

Total weight of waste:

<table>
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<tr>
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</thead>
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<tr>
<td>Value</td>
<td>3,193 Mg</td>
<td>4,475 Mg</td>
<td></td>
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Total weight of recycled waste:

<table>
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<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>469 Mg</td>
<td>2,905 Mg</td>
<td></td>
</tr>
</tbody>
</table>

*Data applicable to PLNG

Good practices

NATURAL INVENTORY

In 2015, GAZ-SYSTEM developed a definition and adopted the procedures setting out the guidelines for wildlife inventory and environmental assessment of areas affected by investment projects. The document constitutes a collection of basic criteria used in the process of environmental assessment of the area of the planned investment and its vicinity.
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Any questions concerning this integrated annual report should be addressed to

Monika Bończa-Tomaszewka
Director of Corporate Communication
phone: +48 22 220 14 54
e-mail: pr@gaz-system.pl

Full report available on
en.gaz-system.pl

2015
INTEGRATED ANNUAL REPORT
THE GAZ-SYSTEM GROUP