The system that connects responsibly
2012 HIGHLIGHTS

10 January 2012 launching of cooperation with the Polish Power Exchange aimed at the creation of a natural gas exchange in Poland
19 January 2012 commissioning of the Jeleniów – Dźwierzów gas pipeline
23 February 2012 signing of a loan agreement with PKO Bank Polski
15 March 2012 GAZ-SYSTEM S.A. awarded the Top Employers Polska 2012 certificate
29 March 2012 GAZ-SYSTEM S.A. becomes a strategic partner of the Responsible Business Forum
30 March 2012 GAZ-SYSTEM S.A. publishes a report on the progress in implementing the Global Compact principles
23 April 2012 GAZ-SYSTEM S.A. and ONTRAS VNG Gastransport GmbH sign a Letter of Intent for cooperation in offering bundled products at Interconnection Point Lasów
24-25 May 2012 GAZ-SYSTEM S.A. hosts the 10th Gas Infrastructure Europe (GIE) Annual Conference in Kraków
26 June 2012 GAZ-SYSTEM S.A. signs the “Declaration of Polish business for sustainable development”
24 July 2012 President of the ERO approves the new Transmission Network Code
16 August 2012 market screening procedure launched with respect to capacity increase for interconnection points: Tillerowka, Mallnow and Lasów
13 September 2012 signing of a declaration on cooperation with the Croatian transmission system operator Plinacro d.o.o.
18 September 2012 day-ahead product starts to be offered at the Polish-Czech interconnection in Cieszyn
4 October 2012 obtaining of EBRD financing for the construction of the LNG Terminal in Świnoujście
11 October 2012 signing of a cooperation agreement with the Polish Power Exchange
20 October 2012 current Management Board appointed for another term of office
1 November 2012 launching of gas transmission services to Ukraine
30 November 2012 signing of an agreement with GASCADE Gastransport GmbH on the upgrading of the measuring station Mallnow to enable physical reverse flow on the Yamal pipeline
7 December 2012 signing of Interoperator Transmission Contracts with Distribution System Operators (DSOs)
13 December 2012 appointment of a representative of GAZ-SYSTEM S.A. for the Board of the European Network of Transmission System Operators for Gas (ENTSOG)
18 December 2012 approval of a reduced transmission tariff
20 December 2012 signing of an agreement with the Storage System Operator (SSO)

Letter from Chairman of the Supervisory Board

Dear Ladies and Gentlemen,

The development of the gas transmission system is one of the important factors affecting the growth of Polish economy in the years to come. The transmission of gas from the LNG terminal and the future shale gas production sources is currently the major challenge for the company. For several years now, GAZ-SYSTEM S.A. has made efforts to overcome the historically contingent limitations of the transmission system and has consistently implemented its investment plan to expand the national grid and interconnections by 2014. Moreover, the company is putting forward new investment objectives for the coming years and is seeking financing to deliver them.

In 2012, the company’s efforts to promote gas market liberalisation in Poland are worthy of a special mention. GAZ-SYSTEM S.A. prepared a new Transmission Network Code which is a milestone in the full liberalisation of Poland’s gas market. The development and codification of the new rules are the first step towards the launch of a gas exchange. The company has definitely stepped up to this challenge. The document, which was approved by the President of the Energy Regulatory Office, is a major step towards ensuring a transparent, stable and competitive gas market in Poland.

I am very pleased that GAZ-SYSTEM S.A. is pro-actively seeking to strengthen its position on the European gas market. The company has ambitions to play an important role in the transmission of natural gas in Europe, not only in the traditional East-to-West direction, but also from the North to the South. This is particularly important in the context of the planned European gas corridor designed to connect the transmission systems in Poland, the Czech Republic, Slovakia, Hungary and Croatia.

The strengths of GAZ-SYSTEM S.A. include efficient financial management and the stable financial position of the company while carrying out major infrastructure projects. At the same time, European Union funding is also used very effectively in support of these investments. Financial support for investments and EU grants for infrastructure projects prove the relevance of our corporate strategy and the acceptance for the pursued business objectives.

GAZ-SYSTEM’s corporate social responsibility and building relationships with its stakeholder environment should also be appreciated. Once again, the company has been recognised as a reliable employer in two independent surveys. I believe it is an important and, at the same time, objective measure of the company’s performance and its external image. I sincerely congratulate the company’s staff and management team on these awards.

In conclusion, I would like to firmly declare that my view of all aspects of GAZ-SYSTEM S.A. ’s operation in 2012 is extremely positive.

I wish all those interested in our 2012 activities and results a pleasant read of this report.

Yours sincerely,

Jerzy Molak
Chairman of the Supervisory Board of GAZ-SYSTEM S.A.
Dear Ladies and Gentlemen,

This is the second time that I have the pleasure of conveying, on behalf of the Management Board, the Consolidated Annual Report of GAZ-SYSTEM S.A., drawn up in accordance with the international standards developed by the Global Reporting Initiative. The 2012 report presents the financial results and the non-financial value of the company based on sustainability criteria.

For several years now, the company has consistently and systematically developed its stakeholder efforts in the context of corporate social responsibility. In 2009, GAZ-SYSTEM S.A. joined the UN Global Compact, declaring respect for its ten principles on human rights, labour relations, the environment and anti-corruption. Our next step was the incorporation of the sustainable growth dimension into the mission and vision of the company as an important element of the management strategy. Our present view is that CSR should not be limited only to social actions that promote pro-environmental attitudes, but it should rather be treated as an integral part of management. Accordingly, in 2011 we included sustainability to our strategy as the fifth strategic direction. In order to effectively implement and coordinate activities in this area during the 2012 reporting year, we implemented a new management structure for various aspects of sustainable development within the company.

The responsible business behaviour of GAZ-SYSTEM S.A. is reflected in its successful relationships with the stakeholders. We engage in regular dialogue with local communities and most of our investment decisions take into account the views of a wide range of stakeholders. Therefore, in this year’s report we devote a lot of attention to the relations with our stakeholders, i.e. customers, business partners, as well as local authorities and landowners in the areas where our investments are located. We are going to great efforts to meet the expectations of our partners and continuously monitor the level of satisfaction with our services. At the same time, we attach a lot of importance to communication, as it constitutes the basis for dialogue and ensures the transparency of our endeavours.

As the three-year term of the current Management Board of GAZ-SYSTEM S.A. came to an end in 2012, I personally feel that the time has come to review our work so far and assess the company’s performance.

In 2011, we developed our long-term strategy until 2020 and have since consistently worked towards the achievement of its objectives. One of them is to create optimal conditions for the development of a liberalised gas market in Poland. The year 2012 was a turning point in this regard. GAZ-SYSTEM S.A. developed a new Transmission Network Code which, following the consultations with market participants, was approved by the President of the Energy Regulatory Office. The new document introduces significant changes, which are the basis for the liberalisation and development of Poland’s gas market. It also harmonises the rules of the system with the standards developed by European transmission system operators. At this point, I would like to thank the staff involved in this project for their commitment and efforts put into preparing the new code. Let me also use this opportunity to thank our customers and business partners for all the comments made in the consultation process of the new gas market rules. Your support has been a valuable contribution to improving the concept of a new gas market model in Poland.

The projects we have launched in the last few years will soon have a tangible impact on the gas market reality, not only in Poland but also in this part of Europe. In 2012, intensive efforts were made by all those involved in the delivery of the key investment for the regional gas market, namely the construction of an LNG Terminal in Świnoujście. The construction of the Świnoujście – Szczecin gas pipeline, which will serve primarily for connecting the LNG terminal with the domestic transmission network, is also underway.

In 2012, we also continued with our plan for the expansion of the Polish transmission network by 1000 km of new pipelines by 2014. Notable achievements in this respect include the completion of the construction and commissioning of the Jeleniów – Dźwiszów pipeline, an important connection to enable increased imports from the West. With a full review of the 2010-2014 investment program pending in 2014, we may already confirm at this stage that the steps taken so far have enabled us to increase the technical capacity for gas imports into Poland by about 40%.

It is a great satisfaction to report that the company has consistently demonstrated a high level of financial security over the last years, and in 2012 once again achieved robust financial results. The loan agreement with the European Bank for Reconstruction and Development concluded the process of arranging the financing for GAZ-SYSTEM’s strategic investments. The total value of investments in 2010-2014, including the LNG Terminal in Świnoujście, gas transmission pipelines and interconnectors, amounts to approximately EUR 1.96 billion. The sources of funding for these projects include the company’s equity, EU funds, as well as loans from the European Investment Bank, the European Bank for Reconstruction and Development and a consortium of commercial banks.

We are now able to focus on new investment challenges and on securing adequate funding for them. There is no doubt that continued development of the transmission system and construction of further transmission pipelines are a necessity, resulting from both the need to integrate transmission networks in Europe, as well as the demands of the Polish economy, including the plans for the construction of new power generation capacity and the expansion of chemical plants. Without our investments, no further development of companies within these industries would be possible.

For several years now, the company has been building its position on the natural gas market in Europe. In 2012, GAZ-SYSTEM S.A. hosted a prestigious industry event – the 10th Annual Gas Infrastructure Europe Conference, which was held in Kraków. The conference was an excellent opportunity to exchange views between the European TSOs, the industry leaders and decision-makers and provided a platform for discussing different visions of the future of the gas industry in Europe.

Our company has been consistently working to deliver its plans to expand interconnections with the adjacent transmission systems, which are a necessary component of the North-South Gas Corridor supported by the European Union. The corridor is intended to connect the gas transmission systems of Poland, the Czech Republic, Slovakia, Hungary and Croatia and make Poland’s transmission infrastructure an important part of the European system. To this end, we are planning to expand the national network by nearly 1000 km of gas transmission pipelines in the years 2014-2020.

I firmly believe that GAZ-SYSTEM S.A. will live up to the expectations of the market participants. We are equipped with appropriate technology and management systems necessary for the effective implementation of our plans. It has been particularly gratifying to observe a steady growth of the competence and commitment levels of our company’s 2000-strong staff. This trend provides an assurance of the high quality of the operations and services provided by GAZ-SYSTEM S.A. The successes that the company has managed to achieve in various employer rankings demonstrate that job satisfaction in our company is at a very high level. May I thank all our staff for their efforts in 2012. My sincere gratitude goes to all those who are engaged in ensuring the security of the network and transmission infrastructure, to those making sure that our investments are effectively implemented and everyone whose day-to-day efforts contribute to the ongoing development and success of our work.

In conclusion, on behalf of the Management Board of GAZ-SYSTEM S.A., let me express my gratitude to our business partners, customers and all those who worked with us in 2012. We hope that you will enjoy reading this report.

Yours sincerely,

Jan Chadam
President of the Management Board, GAZ-SYSTEM S.A.
COMPANY PROFILE

• GAZ-SYSTEM S.A. in Numbers
• Mission – Vision
• Strategic Goals
• Corporate Governance
• Awards
Gas Transmission Operator GAZ-SYSTEM S.A. is responsible for the transportation of natural gas and the operation of the transmission network in Poland. The importance of the company’s mission places it among the group of strategic enterprises for the Polish economy and the energy security of the country.

GAZ-SYSTEM S.A. operates on the basis of a licence issued by the President of the Energy Regulatory Office (ERO), which is valid until 2030 and gives the company the right to transport gas. In addition, the company acts as the transmission system operator and the independent operator of the Polish section of the Yamal Pipeline (TGPS Yamal – Europe).

GAZ-SYSTEM S.A. operates from its head office located in Warsaw, ul. Mszczonowska 4, and its branches in Gdańsk, Poznań, Rembelszczyzna, Tarnów, Świerklany and Wrocław. From these locations, the company provides its services all around the country. GAZ-SYSTEM S.A. also has its representative office in Brussels, which champions the company’s interests in front of EU institutions, and a subsidiary company Polskie LNG S.A. established for the construction and operation of the LNG Terminal in Świnoujście.

GAZ-SYSTEM S.A. IN NUMBERS

- Net income from sales: EUR 398.71 million
- Costs of operating activities: EUR 320.43 million
- Net profit: EUR 75.83 million
- Total assets: EUR 1.67 billion
- Employees: 2299
- Length of transmission network: 10,033 km
- Volume of gas transported: 16.3 bcm/ 181 GWh
- Number of gas stations: 887
- Number of compressor stations: 14
- Number of system points: 58
- Shareholder structure: 100% shares held by the State Treasury

GAZ-SYSTEM S.A. is a joint-stock company wholly owned by the State Treasury. In 2012, there were no changes regarding the company’s structure or ownership. The share capital of the company amounts to PLN 3,771,990,842.00 / 922,653,207.30 EUR.
Company Profile

Transmission System
Natural gas transportation

Business Model of GAZ-SYSTEM S.A.

- Imports
- Domestic sources
- New connections
- Transmission system expansion
- Cooperation with system operators in neighboring countries
- Network maintenance and repair
- Integration with transmission systems in the EU
- Exit point
- DSO - Distribution System Operator
- Customers connected to the distribution network
- Customers connected to the transmission network
- Physical performance of exchange transactions
- Performance of transmission contracts
- Physical balancing
- Commercial balancing
- Virtual point
MISSION OF GAZ-SYSTEM S.A.

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 OF GAZ-SYSTEM S.A.

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 as part of the European gas networks;
- development of modern gas pipeline network in Poland and offering advanced services to enable its optimised utilization.

STRATEGIC GOALS

In line with its stated mission, GAZ-SYSTEM S.A. strives to pursue long-term strategic growth directions, guided by its day-to-day operations by the principles of sustainable development. Sustainable development will provide comprehensive support for the company’s operations until 2020 and therefore is reflected at the level of operational objectives and specific measures in all other strategic directions. The responsibility for the coordination of the strategy definition and implementation activities has been delegated to the Strategy Officer appointed by the Management Board.

SAFETY

Ensure safe operation of the transmission system as an element of the European gas pipeline network.

MARKET DEVELOPMENT

Create optimum conditions for the development of a liberalised natural gas market in Poland to enable increased consumption of natural gas as an environmentally friendly fuel.

EFFECTIVE MANAGEMENT

Ensure effective and sustainable improvement of the company’s operational and organizational performance.

EUROPEAN PARTNER

Build the position of the Company as a significant player in the natural gas market in the European Union, particularly in the Central and Eastern Europe region.

SUSTAINABLE DEVELOPMENT

Manage the company from a sustainable development perspective.
The system that connects

CORPORATE GOVERNANCE

The company’s day-to-day activities are run by the Management Board composed of 1 to 4 members. The members are appointed by the Supervisory Board or the Shareholders’ Meeting for a joint three-year term of office. The Management Board sets out the objectives and guidelines for the company’s operations, represents the company in external relations and ensures the efficiency and transparency of management. The company also appoints the Managing Director who oversees the work of selected organisational units engaged in operating activities. The Management Board acts pursuant to its By-Laws, which are approved by the Supervisory Board and contain, among others, conflict of interest policies applicable to the Board members.

In accordance with the provisions of the Articles of Association, in the selection of the candidates for the Management Board, the supervisory authority is required to take into regard their experience in managerial and supervisory positions or the relevant technical and professional qualifications, as appropriate for the position to be filled in. The determination of remuneration levels and the execution of contracts with the members of the Management Board fall within the authority of the Supervisory Board, and depend not only on the financial performance but also on the achievement of the strategic objectives, including those related to sustainable development.

The performance of the Management Board in all relevant areas is systematically assessed by the Supervisory Board. Each year, based on such assessment, the Supervisory Board puts forward a recommendation to the Shareholders’ Meeting regarding the performance of the Management Board’s report.

The performance of the Management Board in all relevant areas is systematically assessed by the Supervisory Board. Each year, based on such assessment, the Supervisory Board puts forward a recommendation to the Shareholders’ Meeting regarding the performance of the Management Board’s report on the company’s operations and the financial statements for the previous financial year, as well as expressing opinion on long-term strategic plans, transmission network development plan, annual operational plans, two-year maintenance plans and three-year investment plans. The Board meets at least once in every two months.

The members of the Supervisory Board are entitled to monthly remuneration in the amount determined by the Shareholders’ Meeting and the salaries of Board members do not have any function within the Management Board.

THE MANAGEMENT BOARD OF GAZ-SYSTEM S.A. IS CURRENTLY COMPOSED OF THREE MEMBERS:

Jan Chadam – President of the Management Board
Jan Chadam holds a PhD and a post-doctoral degree in Economics. In the course of his career, he has held a host of executive positions, including Financial Director, Vice President and President of the Board at Pło Foto S.A., Warsaw, Member of the Board at Elap S.A., Zabrze, Financial Director at SPNMA Group, Lublin, President of the Board at SIP NDT S.A., Zamość, and Director of Internal Audit Department at Polkomtel S.A. (PLUS GSM cellular network operator). In February 2009 he was appointed Member of the Management Board at GAZ-SYSTEM S.A., and subsequently President of the Management Board as of July 2009. He has authored a book and several dozen domestically and internationally recognised publications on finance and management, and has taught at several universities and MBA programmes.

Wojciech Kowalski – Member of the Management Board
Wojciech Kowalski graduated with a degree in Mechanical Engineering from Wrocław University of Technology. He is a licensed construction engineer authorised to perform independent technical roles in construction industry. Mr Kowalski completed post-graduate programmes in gas industry at the Warsaw University of Technology, and in project management at the Warsaw School of Economics. He also attended specialist training courses in quality management, corporate finance and project profitability and risk assessment. He has been involved in the gas industry for 25 years. After joining the Gas Engineering Office Gazoprojekt S.A. in 1986, in 1995 he was appointed Vice-President of Gazoprojekt S.A. Initially responsible for technical and subsequently for commercial matters. He has extensive experience in corporate management, industrial plant engineering, investment process management within the energy and gas sectors. In January 2009, he was appointed Member of the Board of GAZ-SYSTEM S.A.

Sławomir Śliwiński – Member of the Management Board
Sławomir Śliwiński graduated in Law and Administration from the Nicolaus Copernicus University in Toruń and completed a postgraduate program in gas distribution company management at the AGH University of Science and Technology in Krakow. He is a certified quality auditor qualified by the Polish Centre for Testing and Certification and the European Organisation for Quality (EOQ) and received an MBA diploma in 2008. Mr Śliwiński was President of the Board at the Pomarska Spółka Gazownictwa Sp. z o.o. (a distribution system operator from the PGNiG Group). Prior to that, he worked for ZREG Toruń S.A. (engineering and construction contractor for gas industry), where he filled a number of positions including Quality Management Officer, Vice-President and President of the Management Board. In April 2009, he was appointed Member of the Board of GAZ-SYSTEM S.A.

According to the “Articles of Association of Gas Transmission Operator GAZ-SYSTEM S.A.”, the Supervisory Board is composed of 3 to 9 members who are appointed and recalled by the Shareholders’ Meeting, including one member elected from among the company’s employees (dependent member). Members of the Supervisory Board serve for a term of three years. The candidate for the Supervisory Board to be elected by the employees must not report directly to any of the Board members.

The Supervisory Board is currently composed of seven members, two of whom are women.

1. Jerzy Molak
   Independent member, Chairman of the Supervisory Board, does not have any function within the Management Board

2. Sławomir Kutyła
   Independent member, Deputy Chairman of the Supervisory Board*

3. Włodzimierz Wołski
   Dependent member, Secretary of the Supervisory Board

4. Agnieszka Godula
   Independent member of the Supervisory Board

5. Zbigniew Marek
   Independent member of the Supervisory Board

6. Jan Małuszewski
   Independent member of the Supervisory Board

7. Katarzyna Ranc-Dobrośaska
   Independent member of the Supervisory Board

* Sławomir Kutyła was appointed as a member of the Supervisory Board on 11 January 2013. Until 28 December 2012, the position was filled by Monika Kacprzyk-Wojdyga, who also served as Deputy Chairman of the Supervisory Board.

The Ordinary Shareholders’ Meeting is convened by the Management Board within six months of the end of each financial year. An Extraordinary Shareholders’ Meeting may be convened by the Management Board or at a written request of the Supervisory Board or the Shareholders. The Shareholders’ Meeting may only adopt resolutions proposed in the agenda. The State Treasury is the sole Shareholder of the company.
In 2012, GAZ-SYSTEM S.A. won the following awards and honours:

**SEAHORSE STATUETTE**
5 January 2012 – the company received the Seahorse 2011 statuette, awarded annually by the Szczecin Business Club for the Project of Construction of the LNG Terminal in Świnoujście.

**OCCUPATIONAL SAFETY LEADER’S GREEN CARD**
3 October 2012 – GAZ-SYSTEM S.A. received the Occupational Safety Leader’s Green Card award, in recognition of its improved performance with respect to working conditions and the protection of human safety and health at the work place.

**THE ONE WHO CHANGES POLISH INDUSTRY**
10 February 2012 – editorial boards of “Nowy Przemysł” monthly magazine and the associated on-line business portal wnp.pl awarded the title of “The One Who Changes Polish industry” to GAZ-SYSTEM S.A. The company, which was among the 10 winners, was commended for the implementation of key investments in transmission infrastructure of importance for Polish economy.

**BEST EMPLOYER**
9 October 2012 – GAZ-SYSTEM S.A. took the second place in the Large Enterprises category in Poland, in the 2012 Best Employers study conducted by Aon Hewitt.

**TOP EMPLOYERS POLSKA**
15 March 2012 – GAZ-SYSTEM S.A. received the Top Employers Poland 2012 award. According to an independent survey by the CRF Institute, GAZ-SYSTEM S.A. offers its employees a working environment with high-standard benefits. The company ranked very high in the field of basic and additional benefits.

**SAP QUALITY AWARDS**
31 October 2012 – SAP announces the winners of SAP Quality Awards 2012 for Central and Eastern Europe. GAZ-SYSTEM S.A. ranked highest among Polish companies, winning silver award in the Large Implementation category for the implementation of the SAP ERP system.
STAKEHOLDER ENVIRONMENT

- Key Stakeholders
- Ethical Standards
- Stakeholder Relations
- Membership in Organisations
THE IMPORTANCE OF GAZ-SYSTEM S.A. TO POLISH ECONOMY

Since 2004, Gas Transmission Operator GAZ-SYSTEM S.A. has made continuous efforts to ensure the efficient and uninterrupted operation of Poland’s natural gas transmission system. Additionally, as an independent operator, it has managed the Polish section of the Yamal pipeline since 2010. In recent years, GAZ-SYSTEM S.A. has also pursued an ambitious investment plan concerning the expansion of the transmission network in Poland, as well as the construction of the country’s first LNG terminal. The company is aware of the role it plays for Poland’s economy and energy security and assumes responsibility as a key player in the gas market. At the same time, it understands the vital importance of the way in which the company develops positive relations with the stakeholder environment.

KEY STAKEHOLDERS

While creating its business strategy, GAZ-SYSTEM S.A. conducted an analysis of its operating environment and identified key stakeholder groups on the basis of interdependencies between the company and stakeholders. Through this process it is possible to integrate the expectations of separate groups into business, social and environmental decisions.

From the company’s point of view, priority stakeholder groups are its customers and local communities, which is why GAZ-SYSTEM S.A. conducts a continuous dialogue with the aforementioned stakeholders and engages them in its actions.

SHAREHOLDER:
- integrated annual report, Shareholders’ Meeting

EMPLOYEES:
- intranet, internal newsletter, meetings, trainings and workshops, employee commitment survey, integrated annual report, “GAZ-eta” employee magazine, chats, polls

SUBSIDIARY COMPANY:
- internal regulations, integrated annual report, meetings

TRADE UNION ORGANISATIONS:
- internal regulations, meetings, integrated annual report

CENTRAL AND LOCAL GOVERNMENT:
- reports, steering committees, direct meetings, integrated annual report, conferences

GAS MARKET REGULATOR:
- reports, direct meetings, training and conferences, integrated annual report

CUSTOMERS:
- Information Exchange System (IES), newsletter, customer satisfaction surveys, consultations on gas market liberalisation, direct communication of ongoing contracts, integrated annual report, sustainable development newsletter, website

BUSINESS PARTNERS:
- website, tendering procedures, direct education and information meetings, trade shows, industry meetings, integrated annual report, sustainable development newsletter

FINANCING INSTITUTIONS:
- reports, website, direct meetings, conferences, integrated annual report

NATIONAL AND INTERNATIONAL INDUSTRY ORGANISATIONS:
- meetings, membership in organisations and participation in working groups, conferences, trade shows, integrated annual report, website

MEDIA:
- ongoing communication, emailing to journalists, interviews with the media, press conferences, site study visits, website, newsletter, integrated annual report

LOCAL COMMUNITIES:
- information meetings, communication via national and local media, Natural Energy Fund grant competition, application form for sponsorship projects, dedicated website sections for projects implemented among local communities

NON-GOVERNMENTAL ORGANISATIONS AND RESEARCH CENTRES:
- membership in organisations, direct meetings as part of projects, website, integrated annual report
### Stakeholder Environment

In carrying out its tasks based on the principles of sustainable development and guided by them in their daily activities, the company analyses the impact it has on its stakeholder environment.

#### Economic Impact
- shaping changes in the gas market in Poland – market liberalisation, e.g. thanks to the implementation of the new Transmission Network Code
- diversification of technical gas transmission capabilities in order to strengthen energy security
- reduced transmission tariff and, consequently, lower gas prices
- delivery of infrastructure investments that ensure the development of and access to the transmission network in Europe and the development of local business
- impact on the economy and competitive position of the market
- tax contributions to local budgets
- secured sustainable financing for the implementation of the company’s investment programme, including EU funds and loans from European financial institutions and commercial banks

#### Environmental Impact
- energy management
- implementation of projects within protected areas, such as Natura 2000
- generation of waste
- gas and noise emissions
- minimising negative effects of investments through additional measures beyond those prescribed by environmental decisions
- development of additional internal environmental standards
- increasing the technical transmission capacity of natural gas, i.e. the most environmentally friendly fossil fuel
- supporting local environmental programs through grants awarded under the Natural Energy Fund contest

#### Social Impact
- conducting workshops on new gas market rules
- dialogue with suppliers and customers
- stable employer with the potential to create new jobs
- payment of compensation for expropriation of property rights or compensation for rights-of-way for transmission projects
- purchase of land from individuals or acquisition of the right to use the land for building purposes
- technology development
- dialogue with local communities with regard to implemented investments
- building social awareness about the company’s activities in respect of business, environmental and community aspects
- involvement in the development of the local community by implementing dedicated programs
- sponsorship and educational and communication activities

### Overview of impacts on the stakeholder environment

In carrying out its tasks based on the principles of sustainable development and guided by them in their daily activities, the company analyses the impact it has on its stakeholder environment.

### GAZ-SYSTEM S.A. BRAND AWARENESS SURVEY

In order to build sustainable relationships with its stakeholder environment, the company has to understand what aspects of the business to improve and how its business is perceived by others. A brand survey is an excellent tool to understand such awareness. GAZ-SYSTEM S.A. conducted this kind of survey in May-July 2012 among the following groups: employees, business partners, the labour market (students) and local communities (municipalities and landowners).

The study included the following areas: brand identity, brand recognisability and image against the background of other energy industry companies, corporate identity (logo recognition), the cultural profile of the company (consistency of declared and practised culture), the level of knowledge about the company, the degree of confidence in GAZ-SYSTEM S.A. as a stable and reliable business partner, the level of credibility and confidence in GAZ-SYSTEM S.A. as a partner at the local level, the image of the brand in the network.

As a result of determining the GAZ-SYSTEM S.A. brand awareness among the target groups, certain image-related, communication and social activities were recommended.

### CONCLUSIONS FROM THE GAZ-SYSTEM S.A. BRAND SURVEY

- The internal and external stakeholders understand the importance of energy security for Poland. The mission and vision of the company, as well as its development directions are clear and natural to all surveyed groups.
- The brand of GAZ-SYSTEM S.A. has relatively low recognition among the population of the areas where investments are located. In response to this conclusion from the survey, GAZ-SYSTEM S.A. strengthened dialogue with local communities and cooperation with local authorities to inform residents about planned investments.
- The development directions that underpin the “Strategy of GAZ-SYSTEM S.A. until 2020” are consistent with the expectations of business partners.
- The brand of GAZ-SYSTEM S.A. has earned a positive reputation among the stakeholders. In their opinion, it stands out due to an exceptionally dynamic growth and a good and effective strategy. It is associated with reliability, honesty and trustworthiness. GAZ-SYSTEM S.A. is considered a “good workplace”.
- The prevailing brand connotations are related to responsibility: responsible stakeholder relationships and responsibility for external impacts.
The document defines the rules of conduct and key values to drive the behaviours and decision making in the company.

With a view to ensuring the highest ethical standards, a Code of Ethics has been defined jointly by GAZ-SYSTEM S.A. and its employees. The Code of Ethics is available on our corporate website www.gaz-system.pl.

Our employees identify with the company values, which is reflected in a regular column titled “Business Ethics – Our Values” featured in the “GAZ-eta” company magazine, where our employees describe their understanding of individual values. The intranet service has a dedicated section on the Code of Ethics, which can be used for queries regarding the interpretation of the provisions, wording, or intent of the Code. It also serves for any specific or hypothetical situations that have occurred or may occur at work and should be regulated by the Code of Ethics.

In addition, in 2012 GAZ-SYSTEM S.A. organised a number of competitions for the staff and their children regarding the Code of Ethics and the company’s values. Our employees had an opportunity to demonstrate their knowledge of ethical principles by taking part in a quiz about the company. Children were encouraged to take part in an art contest called “A Valuable Portrait” and literary competition entitled “A Valuable Story.”

The results of the Best Employer 2012 survey carried out by Aon Hewitt also reflect our staff’s commitment to our corporate values. Among the employees surveyed, 71% believe that the company values are similar to the ones they abide by in their private lives.

In 2012, GAZ-SYSTEM S.A. held training sessions for 56 security personnel regarding the human rights policies and procedures contained in the company’s Code of Ethics, which covers 100% of the employees responsible for security directly employed by the organisation.

In 2012 GAZ-SYSTEM S.A. organised a number of competitions for the staff and their children regarding the Code of Ethics and the company’s values. Our employees had an opportunity to demonstrate their knowledge of ethical principles by taking part in a quiz about the company. Children were encouraged to take part in an art contest called “A Valuable Portrait” and literary competition entitled “A Valuable Story.”

The results of the Best Employer 2012 survey carried out by Aon Hewitt also reflect our staff’s commitment to our corporate values. Among the employees surveyed, 71% believe that the company values are similar to the ones they abide by in their private lives.

In 2012, GAZ-SYSTEM S.A. held training sessions for 56 security personnel regarding the human rights policies and procedures contained in the company’s Code of Ethics, which covers 100% of the employees responsible for security directly employed by the organisation.

In addition, the facilities of GAZ-SYSTEM S.A. are guarded by third-party providers, based on security plans for facilities that require obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection. The plans are approved by the competent Provincial Chief of Police and have to conform to the regulations of the Act of 22 August 1997 on protection of persons and property and the Act of 24 May 2013 on means of physical coercion and obligatory protection.

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ANTI-CORRUPTION AND ANTI-FRAUD POLICIES

GAZ-SYSTEM S.A.’s internal regulations, procedures, instructions and policies for areas of activity that are particularly vulnerable to the risk of fraud and irregularities have embedded control mechanisms, one purpose of which is to minimise the risk of corruption.

The implemented anti-fraud controls address the key areas of the company’s activity such as: corporate procurement, financial transactions, information security, IT security and employee ethics awareness. The fraud management solutions in place are periodically reviewed, enhanced and subjected to compliance monitoring as part of voluntary audits taking into account the specific groups of fraud-related risks.
In addition, GAZ-SYSTEM S.A. has a dedicated unit to implement control tasks consisting in detecting and combating irregularities. There are also communication channels whereby any kind of abuse may be reported either anonymously or in person. These channels for reporting abuse are available both to internal and external stakeholders. The organisation is fully aware that information has a real value and must be properly protected. For this purpose, GAZ-SYSTEM S.A. has introduced the Information Security Management System in accordance with the international standard ISO/IEC 27001:2005. This way, the company is able to guarantee the security of both its own information and that entrusted by its trading partners. In the reporting period, the company did not receive any notifications or complaints regarding any breaches of customer privacy or any loss of customer data. The solutions are monitored and continuously refined. In 2012, nine audits and corruption checks were conducted at 23 of our organisational units. Areas that have been subject to audits were: vehicle fleet (30% of organisational units were covered), security of SCADA systems (26% of organisational units), reports for projects co-funded by the European Commission (4% of organisational units), property insurance (4% of organisational units), penetration security tests (100% of organisational units) and the procurement process (30% of organisational units). Furthermore, comprehensive audits of our branches in Tomów (4% of organisational units) and Wroclaw (4% of organisational units), as well as the inventory and identification of risk areas of GAZ-SYSTEM S.A.'s infrastructure control systems in the regional Gas Dispatch Centre in Rembieliszczyna were carried out. During the reporting period, there were no cases of corruption, and therefore no corrective actions were taken in this area.

The company also conducts staff training programmes on anti-corruption policies and procedures. In 2012, 43 staff members were trained (4 executive and 39 non-executive), representing 1.9% of total staff. Moreover, the Board Members and all the employees are obliged to observe the relevant procedures to avoid conflicts of interests and abuse, which are set out in the “Compliance Programme of Gas Transmission Operator GAZ-SYSTEM S.A.”. The “Compliance Programme” defines the requirements for employees, which are intended to prevent any privileged treatment or discrimination of transmission system users. Also in 2012, GAZ-SYSTEM S.A. embarked on a project to define its anti-corruption and whistle-blowing policies.

RELATIONS WITH CUSTOMERS AND GAS MARKET PARTICIPANTS

In order to meet the expectations of our business partners, GAZ-SYSTEM S.A. strives for more efficient customer service management by improving the quality of services and standards.

Customer Satisfaction Survey

The Quality Management System operated by the company guarantees customer service at the highest level. It includes a customer satisfaction monitoring process, which is repeated on a yearly basis and reviewed in detail each time by external auditors. The customer satisfaction questionnaire is prepared every year taking into account conclusions drawn from previous surveys. It also includes new questions that allow us to learn even more about the expectations of our business partners. The customer satisfaction survey is conducted in the form of a one-on-one interview, during which customers evaluate their cooperation with GAZ-SYSTEM S.A. and the overall level of service, the company itself and its website. In 2012, 62 out of 70 invited customers agreed to participate in the study.

The customer satisfaction index within the reporting period was 4.22 on a scale of 5.

The overall rate of satisfaction among customers is 84% of respondents perceived GAZ-SYSTEM S.A. as a competent and professional company. According to 87% of respondents, the company is reliable and delivers on its commitments, and 84% of respondents consider GAZ-SYSTEM S.A. trustworthy.

The highest satisfaction level among customers is scored by our staff’s competence. Respondents also recognised the individual approach to customers, polite service and readiness of staff to provide assistance. Thanks to the annual survey, our business partners have the opportunity to submit their proposals and comments on our mutual cooperation. The survey results provide an invaluable source of information for GAZ-SYSTEM S.A. to help improve the quality of services and implement the company’s strategy to create consistent customer service standards.

Being fully committed to transparency in its dealings with customers and business partners, the company did not incur any penalties for non-compliance with laws and regulations concerning the provision of services in 2012.

In our opinion, an independent and transparent transmission system operator is a foundation to liberalising the Poland’s gas market. Since the beginning of the cooperation between DUON Marketing and Trading SA and GAZ-SYSTEM S.A. in 2011, we have sometimes taken divergent positions on a number of issues. Every time, however, we were able to count on the openness and support for the operation of market mechanisms on the part of company’s employees. Thanks to the above, we have successfully managed to work out compromise solutions and smoothly continue our operations as an independent gas supplier in Poland. I could even say that these substantive discussions and arguments have shaped our good relationship. We appreciate the professionalism and effectiveness of GAZ-SYSTEM S.A.’s dispatch and customer service staff. All issues are dealt with efficiently and without delay, and our voice as the market community has largely been heard. In our opinion, GAZ-SYSTEM S.A. certainly is a company whose activities contribute significantly to the liberalisation of the gas market in Poland.

In connection with the development of the new Transmission Network Code (TNC) which provides for exchange-based gas trading mechanisms, GAZ-SYSTEM S.A. has conducted consultations with market participants and organised a series of workshops to foster mutual exchange of opinions. Overall, 973 comments were submitted regarding the new version of the TNC and GAZ-SYSTEM S.A. responded to all the questions from the gas market participants and passed them on to the Energy Regulatory Office. After the approval of the TNC by the President of ERO, GAZ-SYSTEM S.A. organised a free training programme for customers and partners. The workshops were open to all interested parties. Their goal was to introduce the broadest possible audience to the new code and the principles that lead to the liberalisation of the gas market. The training was attended by around 550 persons and the training materials and answers to questions from market participants were published on-line.

The company also organised training sessions on the bundled product for all interested participants of the gas market. The training project was to explain the purchase of the bundled product that will be available on the PRISMA (former TRAC-X) platform from mid-2013. The participants had the opportunity to become introduced to the rules of bundled product listings and auction mechanism. The training, which was held with the participation of experts from TRAC-X, ONTRAS and GAZ-SYSTEM S.A., was attended by around 50 people.
STAKEHOLDER RELATIONS DURING THE INVESTMENT PROCESS

GAZ-SYSTEM S.A. has implemented a systematic approach to communication activities related to its investments. This approach has been described in the “Promotion and Communication Manual for Projects Co-financed by Operational Programme Infrastructure and Environment” and in the annual plans for effective communication with local communities, which describe in detail the principles for such activities and communication tools used. The aim of such approach is to intensify communication activities, to convey basic information to local residents about the construction of strategic gas pipelines and the applicable procedure for payment of financial compensation, and also to establish regular contacts with landowners.

As a responsible investor and operator we recognise the inconvenience for the landowners at each stage of the construction and operation. Therefore, communication is very important, regardless of whether the project falls under the Special Act or we are obliged to obtain the right of way for building purposes through negotiations. In order to ensure safe transportation of gas, we have to proceed quickly and efficiently with the construction of the transmission system and operate it in a proper manner thereafter. Because pipelines are predominantly located in agricultural and forest areas, special care has to be taken about natural environment and local community. This may only be achieved through multidimensional communication with the residents.

As part of communication efforts addressed to local communities and stakeholders in individual municipalities, in the years 2011-2012, GAZ-SYSTEM S.A. organised over 100 meetings, which were attended by 2020 people, including 875 in 2011 and 1145 in 2012.

Gas pipelines being currently built by our company are treated as auxiliary investments associated with the LNG terminal. As such, they were considered as strategic and implemented under the provisions of the Special Act for gas projects. Consequently, we had to choose the right tools and modes of communication. Landowners expected from us that the complex laws and procedures under which the construction process is carried out, will be clearly explained in a manner that is relevant to specific situations and plots. Careful preparation laid the basis for success. We developed leaflets and posters, sent out letters with information about the progress of the investment and also held a large number of meetings, both collective and individual. I feel that, as an investor, we have fully complied with the information requirements.

The expansion of the gas pipeline network in Poland, while beneficial to the energy security of the country in terms of creating conditions for the transmission of increased volumes of gas, at the same time contributes to the development of the region and local communities. The communes and municipalities where pipelines are located receive additional financial revenue, as the investor pays a property tax at a rate corresponding to 2% of the value of the investment located within their territory.

In some municipalities, information points were also set up, which offered an additional source of information for residents and anyone interested in the company’s projects. Furthermore, the company reached its audience through publications in local media where it informed about the progress of investment projects and the procedure for compensation payment in connection with construction projects.
Stakeholder Environment

GAZ-SYSTEM S.A. handles the claims of the landowners whose properties are crossed by transmission infrastructure. For this purpose, the company has established the “Procedure for handling claims of landowners of properties where gas transmission system facilities are located”. The procedure sets out guidelines for the clarification of the legal status of the right of way with respect to gas pipelines running through properties of either private individuals or business entities. It also governs the assessment of financial claims by independent property valuers.

RELATIONS WITH LOCAL COMMUNITIES

Natural Energy Fund

GAZ-SYSTEM S.A. actively participates in local community initiatives. One of the projects in this area is a grant competition known as the Natural Energy Fund whose key objective is to co-finance the best regional environmental protection ideas. In 2012, in the second edition of the competition, 19 projects were nominated and 13 best ideas were rewarded with financial grants for the total value of nearly EUR 31.8 thousand (in the first edition of the competition, the company granted 5 awards worth in total EUR 12.23 thousand).

From the outset, the competition was intended for children and teenagers, who have then made it heard among the general public. It presents young people with the opportunity to both visit and be visited by wider audiences to popularise their ideas for living in a particular place.

The Natural Energy Fund competition is targeted mainly at local communities and schools in provinces across Poland. The aim is to support the best ideas for environmental protection in the region. The patrons include the Our Earth Foundation, the Zachodniopomorski, Pomorski and Dolnośląski Voivodes, and Voivodeship Funds for Environmental Protection and Water Management in Szczecin, Gdańsk, Wrocław and Warsaw.

Good practice in relations with landowners

GAZ-SYSTEM S.A. takes all efforts to minimise any inconvenience related to the construction of pipelines on private land. In doing so the company looks for solutions which ensure operational efficiency and, at the same time, address the expectations of landowners.

- Changing the technology of a strategic investment carried within the area of the Ornamental Plant Nursery in Nieporęt.
- Minimising damage to an orchard in the village of Dębe 3.

The system that connects
School Kits

GAZ-SYSTEM S.A. organises a school kit initiative for first formers. In 2012, 1253 kits were donated, comprising a backpack, a fully stocked pencil case and a shoe bag. Since the launch of the programme, the company has presented 2068 school kits worth in total nearly EUR 2,935 to 2068 children across Poland.

Involvement in education

As part of its educational initiatives, GAZ-SYSTEM S.A. continued collaboration with the AGH University of Science and Technology in Kraków and partnered the Energy Academy programme, which aims to build an educational institution and a broad alliance of various institutions for energy security and the sustainable development of the energy market. The Energy Academy is a series of lectures, workshops and debates involving leading experts, scientists, politicians and representatives of the companies that have the greatest influence on the energy market. As part of the project, GAZ-SYSTEM S.A. offered four sponsored two-month internships.

Sponsoring Initiatives

GAZ-SYSTEM S.A.’s sponsoring activity is guided by the principles of cohesion, transparency, effectiveness and responsibility. In this regard, the activities of the company are regulated by internal “Sponsorship Guidelines” and the annually updated “Sponsorship Plan”. Areas of sponsorship include: environmental initiatives, research, education, culture and sports. Our sponsorship activity is carried out on a national and local, rather than international scale. Each sponsorship project is measured and evaluated for its effectiveness.

Sponsorship activity of GAZ-SYSTEM S.A. follows the guidelines of Regulation No 5 of the Minister of State Treasury of 13 February 2009 concerning principles of sponsorship activity conducted by companies with State Treasury participation, as well as the principles of Global Compact. Our responsible and transparent performance contributed to the fact that no inconsistencies with national law or internal guidelines on marketing communication (including sponsoring) were found in the reporting period.

In 2012, the company sponsored 108 projects. 74 of them targeted local communities as the beneficiaries. GAZ-SYSTEM S.A. supported initiatives in the fields of ecology, education, business and industry events, sports, culture and arts. Within the reporting period, GAZ-SYSTEM S.A. also made 15 donations totaling EUR 69,489.50. Each year the company encourages employees to donate 1% tax to public benefit organisations.

A list of organisations put forth by our staff is available on the intranet.
Media Relations

A well-coordinated policy of informing the media about the activities of GAZ-SYSTEM S.A. is one of the most important elements of enhancing company value and reputation. For this reason, the company adheres to “Media Contact Rules” which enable consistent and reliable communication.

National and regional media are kept informed of all major developments in the company. In 2012, over 100 press releases were sent by GAZ-SYSTEM S.A. to journalists and posted on the website.

MEMBERSHIP IN ORGANISATIONS

GAZ-SYSTEM S.A. is a member of the following organisations:

- European Network of Transmission System Operators for Gas (ENTSOG)
- Gas Infrastructure Europe (GIE)
- European Association for the Streamlining of Energy Exchange (EASEE-gas)
- European Gas Research Group (GERG)
- Marigaz
- International Gas Union (GIU)
- Natural Gas Star Programme

- Association for Infrastructure Development ProLinea
- Chamber of Natural Gas Industry
- Polish Association of Sanitary Engineers and Technicians
- Scientific and Technical Society of Oil and Gas Industry Engineers and Technicians
- Global Compact
- Responsible Business Forum
- Responsible Energy Initiative
- Working Group on Corporate Social Responsibility established at the Ministry of Economy
- Business Centre Club (BCC)
- Bepolux

Stakeholder Environment

Gas Infrastructure Europe in Kraków

In 2012, GAZ-SYSTEM S.A. hosted the 10th Gas Infrastructure Europe (GIE) Annual Conference. The GIE Conference has long been one of the most important and prestigious events within the European gas sector and last year it became the first industry meeting at such a high level to be organised in Poland. Last year’s conference gathered around 350 participants, including the representatives of all European gas transmission system operators.

The event has been covered by a video and a bilingual conference follow-up report which was published in September 2012 in 6000 copies. The full version of the report is available at: www.gaz-system.pl

New ENTSOG Board

In December 2012 ENTSOG celebrated the third anniversary of its foundation. At the end of the first term of the association, the ENTSOG members elected the Board for the next 2013-2015 term. 13 representatives of European transmission system operators were nominated, among them Rafał Wittmann, GAZ-SYSTEM S.A.’s Development Division Director. Stephan Kamphues, President of Open Grid Europe Gmbh, was elected as ENTSOG Chairman for a second term. The appointment of a GAZ-SYSTEM S.A. representative to ENTSOG Management Board is an expression of the company’s efforts to strengthen its position in the international arena. By working on the ENTSOG Board we strive to build an integrated, competitive and diversified gas market in Central Europe, which will benefit both gas suppliers and consumers in our country.
INVESTMENTS OF GAZ-SYSTEM S.A.

- Expansion of the National Gas Transmission System
- LNG Terminal
- Cross-Border Projects
- Impact of Investments on the Environment
- Investment Financing
The investments of GAZ-SYSTEM S.A. concern three principal areas:

- expansion of the domestic gas transmission system,
- construction of the LNG Terminal in Świnoujście,
- integration of transmission systems in Europe – construction of cross-border interconnections.

The implementation of these projects allows GAZ-SYSTEM S.A. to foster Poland’s energy security through the creation of technical conditions to diversify the natural gas supply. These activities are also conducive to the further liberalisation of the gas market in Poland and enhancement of its competitiveness.

**Investment Process Management**

A new organisational approach to the investment process is an important element of infrastructure projects undertaken by GAZ-SYSTEM S.A.

Previously, the common practice of conducting this type of investment involved commissioning an engineering company to develop a comprehensive design and to obtain a construction permit, and a contractor to complete the pipeline, starting from the supply of materials up to the construction stage.

GAZ-SYSTEM S.A. has adopted a different practice in the implementation of its strategic projects. The approach involves a much greater level of involvement on the part of the investor.

- **GAZ-SYSTEM S.A. directly conducted tenders procedures for the design of pipelines and was actively involved in obtaining all administrative decisions required by law.**
- The company also independently organised tenders for the purchase of pipes and fittings, which resulted in concluding direct contracts with the manufacturers of the necessary construction materials.
- Another step in the process applied by GAZ-SYSTEM S.A. was conducting separate tenders for the construction of pipelines. Contractors provide their services using investor-supplied materials (pipes and fittings).

The adoption of the new approach in the investment process is intended to improve project management and generate additional savings due to large-scale procurement, while significantly reducing the investment risk.

In 2012, GAZ-SYSTEM S.A. signed 12 partial contracts within the framework agreements for the supply of insulated steel pipes for the strategic investments. The value of these contracts totalled approximately EUR 146.76 million.

The same investment approach, involving the separation of contracts for respectively, construction services and material supply, is planned for the implementation of further strategic investments, co-financed or planned for co-financing by the European Union.

**EXPANSION OF THE NATIONAL GAS TRANSMISSION SYSTEM**

The investment plan currently underway envisages the construction by GAZ-SYSTEM S.A. of more than 1,000 km of new gas transmission pipelines by 2014. Key projects will be developed in the north-western and central parts of Poland.

The network development will facilitate natural gas supply from different directions, provide new opportunities for connection to the system and open up new business prospects for the company.

With the expansion of the transmission system, the Polish gas network will become a well-interconnected part of the European transmission infrastructure and will enable the completion of international projects, such as the North-South Gas Corridor. Investments in transmission networks will also open up access to competitively priced gas sources, and in the future they will enable the transmission of gas from unconventional sources.

A well-developed transmission system is a prerequisite for the development of all projects which are important for the gas market development and energy security. Without adequate transmission infrastructure, the diversification of gas supply through the LNG terminal or new cross-border interconnections with adjacent systems would not be possible.

**GAZ-SYSTEM S.A. commissioned over 260 km of new gas pipelines in the past two years.**

The most important strategic pipelines currently include: the Świnoujście – Szczecin, Szczecin – Gdańsk, Szczecin – Lwówek, Rembertow – Gdynia and Gdynia – Olsztyn connections. These investments are currently under construction in accordance with the so-called Special Act (Act of 24 April 2009 on the on the investments in the liquefied natural gas regasification Terminal in Świnoujście). They are planned to come on stream in 2014.

**Jeleniów – Dźwignów Gas Pipeline**

The Jeleniów – Dźwignów pipeline was commissioned in January 2012. The project is part of the transmission system expansion programme in Lower Silesia area. This development enabled a 50% increase in gas imports from the western direction through the Lasów interconnection point at the Polish-German border.

**How to effectively manage strategic projects?**

The current formal and legal requirements for the development of project documentation and implementation imply that project management is particularly complex and is becoming a real challenge. Proper professional preparation of the staff responsible for the delivery of projects is of paramount importance. It is necessary that appropriate project management methods are well-known. The employees of GAZ-SYSTEM S.A. responsible for investment projects use the TenStep methodology that is operated in our company in the form of a project management procedure known as GazStep.

The experience of the people involved in project management is also worth emphasizing. It should be noted that this aspect is very relevant in an ever-changing legal environment, resulting in a situation where new issues may come about at any time. It is also necessary to have an experienced and professional team, comprising engineers, property specialists, accounting and environmental experts as well as consultants on EU subsidies and public tenders. Appropriate legal support is also essential. The project management team also requires adequate support from the decision-makers within the company, which enables them to quickly and effectively respond to risks and problems identified during the project implementation.

Finally, effective management is the result of the development, monitoring and updating of detailed and good quality schedules for each project and other documents that comprise the Quality Assurance Plan or Site Inspection and Test Plan, including a series of procedures, instructions, as well as risk identification and assessment. Additionally, it should be underlined that effective management is not possible without a proactive approach to ongoing developments at the site.

**The system that connects**

www.gaz-system.pl
Swinoujście – Szczecin
- construction works were initiated following the contract signed at the end of 2011
- works included, among other things, top soil removal, pipe deployment and assembly works

Szczecin – Gdańsk
- as part of engineering works, the building permit was obtained for Stage I Ploto – Karlin and Stage II Koszalin – Słupsk
- contracts for construction works were signed for Stage I Ploto – Karlin, Stage II Karlin – Koszalin, Stage III Koszalin – Słupsk and Stage IV Słupsk – Wiczlna
- construction works at Stage I Ploto – Karlin, Stage II Karlin – Koszalin, Stage III Koszalin – Słupsk included, among other things, top soil removal, pipe deployment and assembly works
- construction works at Stage IV Słupsk – Wiczlna included, among other things, top soil removal, pipe deployment

Szczecin – Lwówek
- as part of engineering works, the building permit was obtained for Stage I Szczecin – Gorzów Wielkopolski and Stage II Gorzów Wielkopolski – Lwówek
- a contract for construction works was signed for Stage I Szczecin – Gorzów Wielkopolski and for Stage II Gorzów Wielkopolski – Lwówek
- construction works at Stage I – Szczecin – Gorzów Wielkopolski included, among other things, top soil removal, pipe deployment and assembly works
- construction works at Stage II Gorzów Wielkopolski – Lwówek included, among other things, top soil removal, pipe deployment

Gustorzyn – Odolanów
- as part of engineering works, the building permit was obtained for Stage I Gustorzyn – Turek and Stage II Turek – Odolanów
- a contract for construction works was signed for Stage I Gustorzyn – Turek and Stage II Turek – Odolanów
- construction works at Stage I – Gustorzyn – Turek included, among other things, top soil removal, pipe deployment and assembly works
- construction works at Stage II Turek – Odolanów included, among other things, top soil removal, pipe deployment

Rembelszczyzna – Gustorzyn
- a contract for construction works was signed for Stage I Gustorzyn – Plock, Stage II Rembelszczyzna – Płock and Stage III Płock – Płońsk
- construction works at Stage I – Gustorzyn – Plock included, among other things, top soil removal, pipe deployment and assembly works
- construction works at Stage II – Rembelszczyzna – Płock included, among other things, top soil removal, pipe deployment and assembly works
- construction works at Stage III Płock – Płońsk included, among other things, top soil removal, pipe deployment and assembly works
The investment plans of GAZ-SYSTEM S.A. with respect to the development of Poland’s natural gas transmission system:

ongoing – construction of 1000 km of new gas transmission pipelines by 2014

long-term – additional 1000 km of gas pipelines by 2020

The pipelines to be completed by 2020 will enable the integration of the domestic transmission system with the systems in Slovakia and the Czech Republic as part of the North-South Gas Corridor in the Central Eastern Europe region. This will lead to an increased level of integration and liberalisation of the regional gas market.

Gas Meter Calibration Laboratory

In November 2012, GAZ-SYSTEM S.A. signed an agreement for the design and delivery of a gas meter calibration laboratory. This project will increase the reliability of gas volume measurements for customer settlements at the entry and exit points of the transmission system.

The Poland’s first station for natural gas meter calibration at operating pressure (medium and high) will make the most important element of the lab. The innovation of the system will consist in the ability to operate in either closed or open mode.

LNG TERMINAL

The LNG Terminal in Świnoujście is the largest and the most important investment project which is intended to improve Poland’s energy security. The facility, which has been recognised as a strategic investment by the Polish Council of Ministers, will enable deliveries of natural gas from any direction in the world. This is the first project of its kind in Central and Eastern Europe and the Baltic Sea region.

Under the Act of 24 April 2009 on the investment in regasification terminal for liquefied natural gas in Świnoujście, GAZ-SYSTEM S.A. acts as the coordinator of the LNG terminal construction works. The company is also responsible for connecting the terminal to the national transmission network and participates in the financing of the project.

In order to effectively carry out its tasks as the coordinator, GAZ-SYSTEM S.A. has implemented and operates the LNG Terminal Construction Coordination System which is based on the management methodology applicable to complex projects with respect to their co-ordination, preparation, implementation and monitoring.

Projects coordinated by GAZ-SYSTEM S.A. as part of the LNG Terminal Construction Coordination System:

1. The construction of the LNG Terminal in Świnoujście will allow receiving natural gas transported by sea. The project is implemented by Polskie LNG S.A., a subsidiary company of GAZ-SYSTEM S.A.

2. The construction of the Szczecin – Świnoujście gas pipeline, with a diameter of 800 mm and a length of approximately 80 km, including the connecting section to the LNG Terminal in Świnoujście and other infrastructure elements necessary to operate the network in the Zachodniopomorskie Voivodeship. The project is executed by GAZ-SYSTEM S.A.

3. The construction of necessary infrastructure to provide access to the outer harbour, including the breakwater, fairway, swing and aids to navigation, expansion of existing fairway to Świnoujście, reconstruction of the existing breakwater in Świnoujście. The project is executed by the Maritime Office in Szczecin.

4. The construction of port infrastructure, including the LNG carrier unloading berth equipped with mooring, fenders and navigation systems as well as connecting infrastructure for gas transmission and sea water abstraction facilities. The project is executed by the Szczecin and Świnoujście Seaports Authority S.A. based in Szczecin.

In 2012, GAZ-SYSTEM S.A. increased twice the share capital of the subsidiary company (Polskie LNG S.A.): in May by EUR 97.35 million and in October by EUR 73.38 million. Overall, in 2012 the share capital of Polskie LNG S.A. increased by EUR 170.74 million up to EUR 334.62 million.

In 2012, the external breakwater and jetty components were completed and handed over for further development. Intensive construction works were ongoing at the terminal site and along the route of the Świnoujście – Szczecin gas pipeline. The LNG terminal completion and commissioning are scheduled for 2014.

CROSS-BORDER PROJECTS

Cross-border projects in the gas sector are a necessary precondition for the creation of a single gas market in Europe. They also contribute to increased competitiveness and improved energy security of the EU member states.

GAZ-SYSTEM S.A. is committed to the EU initiatives aimed at the development of gas infrastructure in Central Europe and the Baltic Sea region. The majority of the cross-border projects planned by the company apply for recognition by the European Commission as projects of common interest (PCI) as they contribute to increased interoperability of natural gas transmission systems in the EU.
The company is also looking into the possibility of upgrading the Poland – Czech Republic interconnection. In this regard, Poland – Czech Republic Interconnection study for the proposed investment is planned to be completed in 2013. The project is now at the pre-investment stage. A business analysis of the investment was completed in October 2012, while a feasibility study for the proposed investment is planned to be completed in 2013.

Poland – Czech Republic Interconnection

The company is also looking into the possibility of upgrading the Poland – Czech Republic interconnection. In this regard, Poland – Czech Republic Interconnection study for the proposed investment is planned to be completed in 2013. The project is now at the pre-investment stage. A business analysis of the investment was completed in October 2012, while a feasibility study for the proposed investment is planned to be completed in 2013.

Poland – Czech Republic Interconnection

The company is also looking into the possibility of upgrading the Poland – Czech Republic interconnection. In this regard, Poland – Czech Republic Interconnection study for the proposed investment is planned to be completed in 2013. The project is now at the pre-investment stage. A business analysis of the investment was completed in October 2012, while a feasibility study for the proposed investment is planned to be completed in 2013.

Gas Interconnection Poland – Lithuania

GAZ-SYSTEM S.A. is also examining the possibility of building a gas interconnection between Poland and Lithuania. To this end, the company has established cooperation with the Lithuanian operator AB Lietuvos Dujos.

Gas Interconnection Poland – Lithuania – is fully consistent with the EU energy policy goals aimed at lifting the isolation of the Baltic states, increasing the security of supply, improving the competition and ensuring the access of the Baltic states to the global LNG market. For this reason, the analytical work, including a business analysis and feasibility study, are partly funded by the European Commission under the Trans-European Energy Networks (TEN-E).

In 2012, the economic analysis of the construction of a gas interconnection between Poland and Lithuania was finalised. This was followed by an agreement between GAZ-SYSTEM S.A. and Lietuvos Dujos on the feasibility study which is due for completion in 2013.

Poland – Germany and Poland – Denmark Interconnections

GAZ-SYSTEM S.A. has also undertaken a study regarding the expansion of the transmission system at the Polish-German border. The proposals under consideration include both the upgrades of the existing interconnections and the construction of new infrastructure.

The feasibility of the construction of a gas interconnection between Polish and Danish gas transmission systems is also investigated. GAZ-SYSTEM S.A. is currently in the process of pre-investment phase studies for the Baltic Pipe project. This interconnection has been recognised by the European Commission as a project of common interest. In addition, the BEMIP GRIP recognises the Baltic Pipe as a project of crucial importance for infrastructure expansion in the Baltic Sea region.

Definition of the Regional Investment Plan

In the beginning of 2012, GAZ-SYSTEM S.A. working jointly with TSOs from other EU member states, developed the first Gas Regional Investment Plans for Central and Eastern Europe (CIEE GRIP) and the Baltic Sea region (BEMIP GRIP), according to the provisions of Regulation (EC) No 715/2009 of the European Parliament and of the Council (Article 12). GAZ-SYSTEM S.A. acted as the co-ordinator of the work on the Gas Regional Investment Plan for the Baltic Sea region (BEMIP GRIP).

The purpose of the Gas Regional Investment Plans is to share information on the development of gas infrastructure and analyse broader aspects related to regional natural gas markets, such as supply scenarios, market integration and security of supply. The CEE GRIP and BEMIP GRIP reports include an extensive list of future infrastructure projects which offer the possibility of integrating individual domestic markets into a single, properly interconnected market in Central and Eastern Europe and in the Baltic Sea region.
Investments of GAZ-SYSTEM S.A.

North-South Gas Corridor

GAZ-SYSTEM S.A. is actively involved in supporting the development of the North-South Gas Corridor.

The North-South Gas Corridor provides for the connection of the LNG Terminal in Świnoujście with the proposed LNG terminal in Croatia, running through the transmission systems of Poland, the Czech Republic, Slovakia and Hungary.

The corridor consists of a series of cross-border interconnections and internal gas pipelines, either already existing or at different stages of planning or construction.

6 benefits from the development of the North-South Gas Corridor

- Stronger integration of regional gas markets
- Enhanced security of supply and increased competition in the respective gas markets
- Access to new sources of supply (LNG, the Southern Gas Corridor, Norway) for Central and Eastern Europe
- Coordination of regional infrastructure projects
- Harmonisation/alignment of market standards
- Conditions for the implementation of regional prevention and emergency procedures in case of emergency situations.

ENVIRONMENTAL IMPACTS OF INVESTMENTS UNDERTAKEN BY GAZ-SYSTEM S.A.

Investment projects of GAZ-SYSTEM S.A. have an impact on protected areas. In 2012, the company was involved in the construction of the following strategic gas pipelines: Szczecin – Gdańsk, Szczecin – Łużewek, Gustorzyń – Oddolanów, Rembelszczyzna – Gustorzyń and Świnoujście – Szczecin.

All these pipelines cross protected areas identified within the European Ecological Network Natura 2000. For instance in the case of the Szczecin – Gdańsk pipeline these include eight areas: Dorzecze Regi, Dorzecze Parsęty, Dolina Radwiłł, Chocieli i Chawil, Bukowy Las Górska, Dolina Węprz i Studnicy, Dolina Rzeki Słupi and Dolina Łupawy. The Szczecin – Łużewek gas pipeline crosses: Dolina Krapiel, Ostroja Błotnicka, Puszcza Błotnicka, Dolina Dolnej Noteci and Ujście Noteci.

The Gustorzyń – Oddolanów pipeline runs through Dolina Środkowej Warty and Dolina Śwędrni whereas the Rembelszczyzna – Gustorzyń pipeline intersects two overlapping Natura 2000 sites – Dolina Dolnej Wisły (bird protection area) and Włocławsko Dolina Wisły (habitat conservation area).

The route of the Szczecin – Świnoujście pipeline runs through the Walin National Park and Olszanka Nature Reserve as well as several Natura 2000 sites including: Walin i Ujazd, Delta Świny, Żaglów Szczeciński, Ujście Odry, Uroczyska w Lasach Stepnickich, Łąki Skwashskie, Żaglów Kamienny i Dzwina and Puszcza Gołeniowska.

Environmental impacts are associated with the construction phase. Impacts occurring at this stage include: the removal of trees and shrubbery, taking of land, construction-related drainage, noise pollution, air pollution, sewage and solid waste discharges. These impacts are limited to a land strip of up to 26 m in width. In-service environmental impacts of gas facilities may occur only in the event of a failure.

For each of its investments, GAZ-SYSTEM S.A. holds an environmental decision which describes the applicable methods for managing impacts on biodiversity. Prior to the construction of gas pipelines, nature inventories were carried out, which demonstrated the presence of many natural habitats, animal and plant species listed in Annexes I, II, IV and V of the Habitats Directive 92/43/EEC and Annex I of the Birds Directive 2009/147/EC. Due to the inability to avoid collisions with these refuges, environmental decisions impose a requirement on GAZ-SYSTEM S.A. to minimise the negative impact on Natura 2000 sites through the use of trenchless methods, such as HDD directional drilling. In addition, while developing strategic gas pipelines, GAZ-SYSTEM S.A. monitors environmental impacts throughout the construction phase.

Specific recommendations for minimising the negative impact on habitats and species protected under the Natura 2000 network, including their extent, type and location, are detailed in particular decisions on environmental conditions, which are obtained individually for each pipeline.
Investments of GAZ-SYSTEM S.A.

Ecological requirements for the implementation of most of the investment projects undertaken by GAZ-SYSTEM S.A. arise mainly from environmental decisions. The issue of such a decision is often preceded by a careful, several-months-long nature inventory of the area where the project is located. As a result, design engineers and relevant authorities receive maps with marked boundaries of valuable natural habitats and sites occupied by protected plant and animal species. These allow optimising the pipeline route to avoid collision with the most precious ecosystems and to plan appropriate measures to prevent the degradation of nature at an early stage of the investment process. These solutions are then incorporated into an environmental decision, so that they are taken into account during the pipeline design and permitting stage.

In 2013, GAZ-SYSTEM S.A. will continue the ongoing monitoring of the environmental impact of the projects being implemented. In addition, the completion of the Szczecin – Świnoujście pipeline is expected to take place on schedule, which involves the reclamation of land and commencement of the project’s impact monitoring during the operation stage.

Environmental Supervision

Establishing environmental supervision before and during construction as well as at the operation stage enables effective implementation of regulations concerning environmental protection. In addition, environmental supervision allows ongoing assessment of the environmental impact of investment projects and a prompt response to new circumstances not foreseen at the environmental decision stage.

The following measures were undertaken as part of environmental supervision:
• around 36 decisions were obtained, allowing for exemptions to prohibitions under the Nature Conservation Act, relating to the destruction, killing, disturbance and movement of protected species and habitats
• construction supervision staff were trained
• plans for conservation tasks were developed
• construction site inspections were conducted
• periodic reports were prepared for particular construction stages.

The scope of environmental supervision depends on the conditions for the delivery of particular investment projects, specified in relevant environmental decisions, and on the specific character of the project site and adjacent areas.

Project Financing

GAZ-SYSTEM S.A. will spend approx. EUR 1.76 billion on its investment program until 2014. Non-refundable grants from the European Union, as well as loans obtained from commercial banks and European financial institutions are of significant importance in the financing of these investments.

The investments of GAZ-SYSTEM S.A. benefit from co-financing under the following programs:
• Operational Programme Infrastructure and Environment 2007-2013 (OPI&E)
• European Energy Programme for Recovery (EERP)
• Trans-European Energy Networks (TEN-E)
• Operational Programme Innovative Economy 2007-2013 (OPIE)

Sources of financing for the Investment Plan of GAZ-SYSTEM S.A. 2011-2014 (EUR million)*

<table>
<thead>
<tr>
<th>Pipeline name</th>
<th>Planting site</th>
<th>Number of trees planted</th>
<th>Type of trees planted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeleniów – Dziwiszów Gas Pipeline</td>
<td>Legnica Forest Division, Ścinawa and Prochowice Commune; Żmigród Forest Division, Żmigród Commune</td>
<td>391,937</td>
<td>Deciduous and coniferous</td>
</tr>
<tr>
<td>Rembelszczyzna – Gustomierz Gas Pipeline</td>
<td>Nędza Commune</td>
<td>2,421</td>
<td>Coniferous</td>
</tr>
</tbody>
</table>

Tree Planting

As part of its investment projects, the company is required to plant trees. The following table presents the planting efforts completed by GAZ-SYSTEM S.A. in 2012.

* Approximate values, converted from PLN to EUR.
Financial support granted for the transmission system projects had a crucial positive impact on the feasible commissioning dates as it reduced the demand for equity financing by the company.

**Approval of Investment Financing by the European Commission**

In July 2012, the European Commission approved financial support for the construction of the Szczecin – Gdańsk pipeline, as implemented by GAZ-SYSTEM S.A. within the Operational Programme Infrastructure and Environment (OPI&E). A decision was also made on granting financial assistance for investments made by the company in the Lower Silesia in order to enhance the capacity of the interconnection between the Polish and German transmission systems. This includes engineering and pre-investment works concerning the following pipelines: Lasów – Jeleniów, Gałów – Kiełczów, Wierzchowice – Czasów and Kraywa compressor station. As a result of the decision, GAZ-SYSTEM S.A. received a grant of EUR 1.12 million, which comes from the EU’s Trans-European Energy Networks (TEN-E) programme.

Also in July 2012, the European Commission approved two decisions on the granting of support in the amount of EUR 131.43 million from the European Regional Development Fund under the Programme Infrastructure and Environment. The decision concerned the following projects to be implemented by the company: the Gustorzyn – Odolanów and Szczecin – Łowów pipelines.

**Increased Co-financing under OPI&E**

In the period 2009-2011, GAZ-SYSTEM S.A. and the Oil and Gas Institute (INiG) entered into agreements on co-financing under the Operational Programme Infrastructure and Environment (OPI&E) for 7 strategic gas pipelines. In November 2012, the company and the Oil and Gas Institute signed four annexes to the co-financing agreements, which provide for increased amounts of EU support for the following projects: Szczecin – Gdańsk Gas Pipeline (approx. 265 km), Szczecin – Łowów Gas Pipeline (approx. 188 km), Rembelszczyzna – Gustorzyn Gas Pipeline (176 km) and Gustorzyn – Odolanów Gas Pipeline (approx. 168 km).

The additional EUR 59.19 million of EU funding confirms the effectiveness of GAZ-SYSTEM S.A. in a successful implementation of its strategic projects.

**Projects Implemented under OPI&E (Increased co-financing)**

<table>
<thead>
<tr>
<th>Total project cost (EUR million):</th>
<th>OPI&amp;E funding (EUR million):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Szczecin – Gdańsk</td>
<td>247.05</td>
</tr>
<tr>
<td>Szczecin – Łowów</td>
<td>183.45</td>
</tr>
<tr>
<td>Rembelszczyzna – Gustorzyn</td>
<td>183.97</td>
</tr>
<tr>
<td>Gustorzyn – Odolanów</td>
<td>146.76</td>
</tr>
</tbody>
</table>

**Financial Support from the TEN-E (Trans-European Energy Networks)**

**Poland – Czech Republic Gas Interconnection**

In November 2012, GAZ-SYSTEM S.A. received the European Commission’s decision on granting EU financial assistance to pre-investment work to assess the potential for further development of the interconnection between Poland and the Czech Republic. GAZ-SYSTEM S.A. and the Czech transmission system operator – NET4GAS will be the beneficiaries of the co-financing. Both companies can count on a grant of 50% of eligible expenditure. The maximum total amount of co-financing allocated for the project is EUR 2,300,000.

**Poland – Slovakia Interconnection**

In November 2012, GAZ-SYSTEM S.A. received the European Commission’s decision on granting EU financial assistance to the initial feasibility study for a gas interconnection between Poland and Slovakia (business case report and preliminary feasibility study). The co-financing was granted to GAZ-SYSTEM S.A. and the Slovak transmission system operator Eustream a.s. Both companies can count on a grant of 50% of eligible expenditure. The maximum total amount of co-financing allocated for the project is EUR 210,000.

**Review of Interconnections between Poland and Germany**

In July 2012, GAZ-SYSTEM S.A. received the European Commission’s decision on granting EU financial assistance to the project aimed at the modernisation of the transmission system in Lower Silesia in order to enhance the operability of the interconnection between Poland and Germany.

GAZ-SYSTEM S.A. is the beneficiary of the support and can count on the co-financing up to 50% of eligible expenditure. The maximum total amount of co-financing allocated for the project is EUR 1,123,750.

**Loan Agreements**

**Agreement with PKO BP**

In February 2012, GAZ-SYSTEM S.A. signed an agreement with PKO Bank Polski for a EUR 48.92 million overdraft facility. The facility will be used for the financing of current operational needs of the company.

**EBRD Loan for the Construction of LNG terminal**

In October 2012, the company entered into an agreement with the European Bank for Reconstruction and Development concerning a EUR 73.38 million investment loan to be used for the development of the LNG terminal in Świnoujście. This allowed the company to close the financing for this strategic project.
• Service Offering
• Transmission Tariff
• Information Exchange System
• New Products and Services
The basic service provided by GAZ-SYSTEM S.A. consists in the transportation of natural gas from the entry points selected by the shipper to designated exit points. In addition, the company may perform other services requested by customers, including:

- gas odorisation, i.e. saturation of gas with a strongly odorous substance (THT)
- additional measurements, taken by the certified Gas Quality Measurement Laboratory in Pogórska Wola
- operation, maintenance, repairs and other investments undertaken in the installations of the customer
- suspension, reduction or restoration of deliveries to points in the system, at the request of the customer
- gas compression service offered at gas compressor stations.

GAZ-SYSTEM S.A. provides its services on the basis of the Transmission Network Code (TNC), which governs all aspects related to gas transmission services. The TNC establishes detailed criteria of the safety of the gas system operation, which guarantee continuous and secure supply of the fuel to customers. The document also regulates the matters concerning the cooperation between the entities involved in gas transmission, and its scope covers the entire technical infrastructure operated by GAZ-SYSTEM S.A.

Companies from the chemical and fuel sector are the largest gas customers. The customers connected directly to the network of GAZ-SYSTEM S.A. represent the chemical, fuel, energy, metals and mineral industries.

### Gas Transmission Services in 2012

The system that connects

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**Customer Zone**

**SERVICE OFFERING**

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### Services in Numbers

**Gas Transmission System**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>2012 Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm contracts</td>
<td>9</td>
</tr>
<tr>
<td>Interruptible contracts</td>
<td>8</td>
</tr>
</tbody>
</table>

**Gas Transit Pipeline System**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>2012 Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional capacity booking (Lasów)</td>
<td>10</td>
</tr>
<tr>
<td>Additional capacity booking (Podbeskidze)</td>
<td>3</td>
</tr>
</tbody>
</table>

**Total**

| Total | 22 | 9 |

---

All information for customers as well as standard agreements are published on the GAZ-SYSTEM’s website: [www.gaz-system.pl](http://www.gaz-system.pl)
Gas Odorisation

In 2012, steps were taken with a view to gradually phasing out the gas odorisation service. The service was no longer provided in the branch in Poznan.

In the coming years, the discontinuation of the service is planned for customers in the remaining branches.

TRANSMISSION TARIFF IN 2012
Efficient management and cost reduction coupled with well-structured financing of the company’s investment project largely relying on non-returnable subsidies from the European Union contributed to another reduction of the transmission tariff applied by GAZ-SYSTEM S.A. In December 2012, the President of the Energy Regulatory Office approved a new, reduced tariff for gas transmission services.

Under the new tariff of GAZ-SYSTEM S.A., the cost of transporting 1,000 m³ (11 thousand kWh) of natural gas went down by 3.25% as compared to the previously applicable tariff.

The design of the new tariff for gas transmission services is intended to support the process of energy market liberalisation and the changes introduced in the new Transmission Network Code (TNC).

Similarly as in 2011, the tariff approved in 2012 is an Entry-Exit tariff, which means that the billing for gas transmission is aligned with EU standards and based on charges applied at system entry and exit points. The tariff model results from the provisions of the Third Energy Package and Regulation 715/2009 of the European Parliament and the Council.

The division into tariff groups no longer applies under the new tariff. The new regime also introduced a significant reduction of adjustment coefficients applicable to fixed charge rate for short-term contracts (semi-annual, quarterly and monthly), which will result in lower cost of such services for the transmission network user. Furthermore, the charges for gas transportation to and from underground gas storage facilities have been substantially decreased. The Tariff No 6 for transmission services has been effective as of 1 January 2013 and will remain in force until 30 September 2013.

INFORMATION EXCHANGE SYSTEM (IES)
The Information Exchange System (IES), which serves primarily for the publication and exchange of information between GAZ-SYSTEM S.A. and market participants, was launched in 2011. However, the system was continuously improved and adapted to new legal requirements (new EU regulations and guidelines, and the new TNC) in the course of 2012. Additionally, it was prepared for measurements in energy units, the gas day change and, finally, the cooperation with the Polish Power Exchange.

The company plans to further develop the Information Exchange System, as it is an effective tool for communicating and exchanging data between GAZ-SYSTEM S.A. and market participants. Changes in the operating environment require continuous modifications of the IES and its adaptation to the new gas market model in Poland.

Gas Day Alignment and Gas Balancing in Energy Units
In 2012, GAZ-SYSTEM S.A. harmonised its gas day with the gas day applicable in the European Union and started gas balancing in energy units. These changes were introduced as part of the company’s efforts to harmonise the rules on the Polish gas market with EU regulations.

As of 1 July 2012, the gas day has runs from 6:00 am to 6:00 am the following day.

Since 2012, the nomination and balancing processes which are crucial for gas trading have been carried out in units of energy (kilowatt-hour). This has eliminated a barrier for the development of the gas market resulting from the need for conversion of units of energy (kilowatt-hours – kWh) into volume (cubic meters – m³), taking into account gross calorific value.

These changes facilitate the implementation of trade and transmission agreements, especially at cross-border connections within the EU, and fulfil the requirements of the EU’s Third Energy Package which provides for the harmonisation of settlement practices in all Member States of the European Union.

Due to current tariff legislation, tariff settlements will still be carried out in volume units (cubic meters). Kilowatt-hour has become the principal unit for gas balancing, while the contracted capacity will continue to be expressed in cubic meters per hour.

Gaz-Kolektor
As part of the development of the Gaz-Kolektor software application, new functionalities have been made available in order to publish measurement data on the platform for information exchange with external and internal customers (IES).

In accordance with the TNC, by 8:00 am daily, the following operative measurement data are published in the IES: volume (m³), gross calorific value (kWh/m³) and gas energy content (kWh), which are used by Distribution Network Operators and final consumers to make operative allocations.

After the end of each month, billing data are published in the IES, forming the basis for system balancing and invoicing for transmission services.

At the same time, due to the requirements under the Ordinance of the Minister of Economy on the detailed terms of gas system operation, the IES also contains information on the points of quality measurements and measurement data on the quality of transported gas.
NEW PRODUCTS AND SERVICES

Bundled Capacity Product

In 2012, GAZ-SYSTEM S.A. together with ONTRAS - VNG Gastransport GmbH obtained an approval from the Polish Energy Regulatory Office (ERO) and the German Bundesnetzagentur (BNetzA) for the bundled capacity to be made available at the Lasów point. In April 2012, GAZ-SYSTEM S.A. and ONTRAS representatives successfully negotiated a Letter of Intent, which is the first document on cooperation between the two operators with respect to offering bundled products. In August 2012, both operators agreed with ERO and BNetzA that a pilot project should be launched to make bundled capacity available in mid-2013. The product will be made available according to the provisions of the Capacity Allocation Mechanisms Network Code (CAM NC).

Bundled capacity will be offered at the Poland – Germany interconnection point in Lasów. The concept for the pilot project to be implemented by both operators was approved by the regulatory authorities of both countries at the end of July 2012. Then, following consultations with market participants, both companies submitted the Auction Rules for approval.

<table>
<thead>
<tr>
<th>Products offered in pilot project:</th>
<th>Capacity:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter January 2014 – March 2014</td>
<td>57,980 kWh/h (5,200 m³/h)</td>
</tr>
<tr>
<td>Quarter April 2014 – June 2014</td>
<td>57,980 kWh/h (5,200 m³/h)</td>
</tr>
<tr>
<td>Quarter July 2014 – September 2014</td>
<td>57,980 kWh/h (5,200 m³/h)</td>
</tr>
</tbody>
</table>

What is the purpose of the pilot project to provide bundled capacity?

The purpose of starting the cooperation and conducting the pilot project is, primarily, to enable the development of the natural gas market in Poland, strengthen the integration of transmission systems within the European Union, as well as to enhance market liquidity in the EU Member States. The implementation of the project will also help minimise the risk of differences in capacity on both sides of the Lasów interconnection point.

Did the project generate interest from the market?

Both operators were pleased to see considerable interest of market participants, both in the product itself and the consultation process. The feedback received from stakeholders during the consultation process has been taken into account when finalising the work on the Auction Rules.

How would you judge the cooperation with the partners?

I would like to emphasise that the cooperation between GAZ-SYSTEM S.A. and ONTRAS and the involvement of national regulatory authorities throughout the process of creating the concept of the pilot project adhered to the best practice standards. This, in turn, translates into the highest quality of services provided by operators to market participants.

New Product at Polish-Czech Interconnection in Cieszyń

In early September 2012, GAZ-SYSTEM S.A. in agreement with the Czech transmission system operator – NET4GAS, started to offer day-ahead capacity to market participants, in response to the expectations of the market and as a next step in the process of adapting the services to the EU guidelines. The availability of this type of capacity will result in optimised utilisation of the technical capabilities of this interconnection.

In order to make the investment decision concerning this project possible GAZ-SYSTEM S.A. and the Czech transmission system operator NET4GAS carried out coordinated and non-discriminatory capacity allocation procedures at the turn of 2009/2010. The adopted approach ensured compliance with the third party access (TPA) rules in accordance with the guidelines of ERGEG (The European Regulators’ Group for Electricity and Gas). Following the procedures, transmission agreements were concluded for a term of 15 years.

Gas Transmission to Ukraine

In 2012, natural gas transmission from Poland to Ukraine was launched for the first time. As of 1 November 2012, GAZ-SYSTEM S.A. started providing gas transmission services to Ukraine via the Hermanowice exit point.

The service at the Hermanowice exit point is provided on an interruptible basis, which means that it can be interrupted or reduced in the event of gas flow constraints within the Polish and/or Ukrainian transmission systems.

What is the significance of launching gas transmission to Ukraine for GAZ-SYSTEM S.A.?

As a result of the formal and legal changes introduced a few years ago coupled with the expansion of the transmission system and interconnections, the Polish transmission system not only is able to receive gas from the transmission systems of neighbouring countries, but it has become a source of supply in the opposite direction. The launch of gas transmission service to Ukraine was of historic significance, as it was realised at a point that 25 years ago was the only interconnection point that allowed the system in Poland to be supplied by imported gas.

How was it technically possible?

In order to launch the new service it was necessary to expand the process facilities of the Hermanowice point and the Drozdówiec point on the Ukrainian side. Following the arrangements made by GAZ-SYSTEM S.A. and Ukrtransgaz representatives, the operations crews from the Tarnów Branch established additional connections within the Hermanowice point to enable the use of its existing measuring systems for the settlement of services at the new exit point. The solutions made it possible to launch the new service within months and at minimum cost.

Do you see a possibility to increase the gas transmission volumes to Ukraine?

The combined technical capabilities of the currently existing pipeline and measurement system and the new one to be commissioned in 2013, allow increasing the flow rate to Ukraine up to 200 thousand m³/h (2.2 million kWh/h). Looking at the seasonal distribution of the system load, we already see the possibility of transporting significantly larger gas volumes to Ukraine in summer months. However, in winter such possibility will only emerge upon the completion of investments related to the construction of the Hermanowice – Strachocina – Podgrąskie Wola – Twar莘 gas pipeline and the interconnection with Slovakia, which are currently in the design stage.

Rafał Wittmann
Director of Development Division, GAZ-SYSTEM S.A.

Wojciech Luszcz
Deputy Technical Director, GAZ-SYSTEM S.A. Branch in Tarnow

[Image of GAZ-SYSTEM S.A. Branch in Tarnow]

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As a result of the formal and legal changes introduced a few years ago coupled with the expansion of the transmission system and interconnections, the Polish transmission system not only is able to receive gas from the transmission systems of neighbouring countries, but it has become a source of supply in the opposite direction. The launch of gas transmission service to Ukraine was of historic significance, as it was realised at a point that 25 years ago was the only interconnection point that allowed the system in Poland to be supplied by imported gas.

How was it technically possible?

In order to launch the new service it was necessary to expand the process facilities of the Hermanowice point and the Drozdówiec point on the Ukrainian side. Following the arrangements made by GAZ-SYSTEM S.A. and Ukrtransgaz representatives, the operations crews from the Tarnów Branch established additional connections within the Hermanowice point to enable the use of its existing measuring systems for the settlement of services at the new exit point. The solutions made it possible to launch the new service within months and at minimum cost.

Do you see a possibility to increase the gas transmission volumes to Ukraine?

The combined technical capabilities of the currently existing pipeline and measurement system and the new one to be commissioned in 2013, allow increasing the flow rate to Ukraine up to 200 thousand m³/h (2.2 million kWh/h). Looking at the seasonal distribution of the system load, we already see the possibility of transporting significantly larger gas volumes to Ukraine in summer months. However, in winter such possibility will only emerge upon the completion of investments related to the construction of the Hermanowice – Strachocina – Podgrąskie Wola – Twar莘 gas pipeline and the interconnection with Slovakia, which are currently in the design stage.

Rafał Wittmann
Director of Development Division, GAZ-SYSTEM S.A.

Wojciech Luszcz
Deputy Technical Director, GAZ-SYSTEM S.A. Branch in Tarnow
GAS MARKET LIBERALISATION

- Implementation of EU Regulations
- Customer under the New TNC
- Interoperator Cooperation
- Cooperation with the Gas Exchange
IMPLEMENTATION OF EU REGULATIONS

The European Union is pursuing the process of building a common energy market, which is expected to connect all the Member States. The implementation of subsequent elements of EU legislation affects the business and regulatory environment in which the company operates.

The main task before European legislation is to liberalise the natural gas market. The measures aimed at this direction are set forth in the legislative acts comprising the Third Energy Package. They are implemented, inter alia, via network codes, common balancing platforms and capacity allocation platforms, which will contribute to the harmonisation of practices and increase the liquidity and integration of national markets.

It is expected that the next steps for the liberalisation of energy markets in Europe will also result from the proposals made by the European Commission in its November 2012 communication on the internal energy market.

One of the conditions of a liberalised and well-functioning gas market in the EU is a well-developed infrastructure enabling gas transmission between the national and regional markets, according to the demand of the participants.

In order to create better conditions for the construction of an integrated gas network in Europe, a draft of the new Regulation on guidelines for trans-European energy infrastructure (the TEN-E guidelines) was prepared in 2012. It introduces a number of mechanisms designed to accelerate the implementation of investment projects consisting of the four priority corridors identified within the natural gas sector. GAZ-SYSTEM S.A.’s infrastructure projects contribute to the North-South Gas Corridor in Central and Eastern Europe, and the Baltic Energy Market Interconnection Plan (BEMIP).

Moreover, GAZ-SYSTEM S.A. representatives are continuously involved in the development of European network codes which address such areas as capacity allocation, system balancing, interoperability and tariffs.

New Gas Market Model in Poland – the Transmission Network Code (TNC)

The year 2012 was a crucial period for creating the conditions for a liberalised gas market in Poland. The new Transmission Network Code (TNC) developed by GAZ-SYSTEM S.A. has introduced significant changes that will enable the liberalisation and development of the Polish gas market and the harmonisation with the standards applied among European transmission system operators. The network code implements operational instruments for the development of an exchange-based gas market in Poland and transposes the provisions set forth in the Third Energy Package.

The new version of the TNC has introduced a considerable number of new systemic solutions which were extensively consulted upon with the market. Following a decision of the President of the Energy Regulatory Office, the TNC was approved in July 2012 and entered into force on 1 January 2013.

NETWORK CODE MAJOR CHANGES TO TNC

- Contract execution process and contracting of the services provided by GAZ-SYSTEM S.A.
  - The TNC has introduced a different form of contracting transmission services. Each user of transmission services will execute only one contract with GAZ-SYSTEM S.A. which will provide a framework for subsequent requests to the operator for access to customer-selected entry or exit points within the transmission system.

- Virtual Gas Trading Point
  - The network code has introduced a virtual point in the high-methane gas system, i.e. a point without a physical location in the transmission where the gas trade may take place.

- Auction-based capacity allocation
  - The auction mechanisms proposed by GAZ-SYSTEM S.A. in the TNC will enable most efficient use of the available capacity.
  - They are based on the solutions developed by the European Network of Transmission System Operators for Gas (ENTSOG) and meet European standards and the guidelines of the European Commission.

- Balancing services market
  - The new network code provides for the operation of the Balancing Services Market that ensures adequate system balancing instruments. In this market, transactions will be made between transmission system users and GAZ-SYSTEM S.A. as the transmission system operator (TSO).

- Inter-operator agreements with DSOs and SSO
  - In order to simplify the functioning of the gas market, the distribution areas established under the new model are represented by a single entry point and a single exit point for the entire area covered by the operations of individual DSOs.
  - The distribution (DSOs) and storage (SSO) system operators enter into an inter-operator transmission contract (ITC) with GAZ-SYSTEM S.A., which will cover the scope of the existing inter-operator agreements and other issues related to the new capacity allocation model.
Gas Market Liberalisation

Last year was a time of intense and fruitful cooperation between the transmission system operator and the market regulator. Our work in 2012 focused on the harmonisation and refinement of the rules for a new model of the gas market, and on the implementation of provisions of the transmission network code. The conceptual and analytical work done by GAZ-SYSTEM S.A. was of fundamental importance.

As a result of this work, GAZ-SYSTEM S.A. submitted the new transmission network code to the regulator for approval. The code introduced a number of improvements for market participants, while creating the conditions for the development of competition and liquidity in the domestic gas market. With the introduction of the so-called virtual point, which creates the conditions for the purchase and sale of gas in isolation from its physical location, the rules on the use of the transmission system were simplified and access was facilitated for new market entrants. These changes enabled the launch of gas trading on the Polish Power Exchange and exemption from the obligation to submit wholesale tariffs for gas for approval by the President of ERO, as of the beginning of 2013. New solutions introduced under the TNC contribute to the harmonisation of rules on the Polish gas market and enhance the cooperation between the transmission system operator and other operators at both national and European levels.

I consider last year a period of intensive efforts of the operator, the effects of which have been already welcomed by the participants of the gas market and, in the future, will lead to major changes in the market structure due to the development of real competition.

10 benefits from the implementation of the new Transmission Network Code

1. A facilitated entry into the gas market for new players.
2. The possibility of gas trade irrespectively of the physical location within the network.
4. The separation of physical entry and exit points, which creates the possibility of transporting gas from physical entry points to a virtual point and from a virtual point to physical exit points by two separate entities.
5. Simplified settlement of the quantities of gas delivered to and off-taken from the network, i.e. commercial balancing.
6. The definition of the principles of cooperation with the Polish Power Exchange (POLPX) – the possibility of selling and purchasing gas on the exchange at market-driven prices and in anonymous transactions.
7. The creation of the Balancing Services Market – an instrument that guarantees system integrity and security of gas transmission based on market mechanisms.
8. The introduction of an auction mechanism with respect to interconnections with adjacent systems in the EU.
9. A simplified supplier switching process and its improved effectiveness for customers that decide to choose a new supplier.
10. Simplified rules for gas system use.

What was the aim of developing new principles for the gas market?

The definition of the new gas market and drafting of the new Transmission Network Code of GAZ-SYSTEM S.A. was a complex yet very interesting project. The implementation team worked within the framework imposed by European regulations and, at the same time, strived to adjust the proposed solutions to the specifics of the Polish market so as to come up with a Network Code that is tailored to our needs and opens up new opportunities for the market. The point was to make things easier for our customers who order the transmission service. We also aimed at giving gas customers the possibility to switch the supplier and manage their gas supplier portfolio in a more independent manner.

When and how did the project originate?

It started in the second half of 2011 when we began an internal discussion on the shape of the model and the scope of changes. The most important aspect of the operator’s activity concerns the relations with customers and other operators. Therefore, we defined the need for deeper transformation in terms of interdependencies, carefully examined mutual obligations of the parties and recommended a new division of responsibilities that add up to the efficient operation of the transmission system and the interconnected systems. We have also started the cooperation with the Polish Power Exchange (POLPX) as the party responsible for establishing the gas exchange market.

Could you describe the consultation process of Network Code draft?

In February 2012, we organised the first workshop for market participants and our concept was confronted, for the first time, with stakeholder expectations. Our proposals were well received and we set out to draft the document. During the next workshop in May 2012 we reviewed the draft in detail together with market participants. Overall, the stakeholders sent several hundred comments to the draft code. In accordance with legal requirements and good practice, a response to each comment was prepared and published on the website of GAZ-SYSTEM S.A. so that everyone had the same knowledge about the draft. In June and July 2012 the discussion on the draft Network Code was continued with the Energy Regulatory Office. Finally, on 24 July 2012, the President of ERO approved the new Network Code.

How did your work look like after the approval of the Network Code?

After the decision of the President of ERO our team defined the requirements for the IT systems to support the implementation of the new market model. We tested and implemented a complete set of IT systems to support the new customer relationship model and the method of information exchange. The agreement between GAZ-SYSTEM S.A. and POLPX established a formal framework for all the aspects of mutual co-operation.

In Q4 2012, we continued very intensive efforts to migrate the existing transmission contracts to new framework contracts and to establish the transmission capacity allocations. We were also negotiating the Inter-Operator Transmission Contracts. The completion of the tariff process proved a considerable challenge, i.e. the efforts aimed at designing and obtaining an approval for the tariff of GAZ-SYSTEM S.A. aligned with the provisions of the Network Code and consistent with the new market model. As a result of these efforts, the new market principles eventually came into effect as of 1 January 2013.
Gas Market Liberalisation

CUSTOMER UNDER THE NEW TNC

The principal objective of the efforts undertaken by GAZ-SYSTEM S.A. with respect to the new Transmission Network Code (TNC) concerned the simplification of the rules for gas system use so as to facilitate the entry into the gas market for new players. In order to achieve this objective, it was necessary to redefine the way how capacity was contracted, introduce a virtual point, make available new commercial and physical balancing instruments.

What changes to the Network Code are most significant from the customer perspective?

The Network Code has introduced a new model for contracting services with GAZ-SYSTEM S.A. The execution of a new framework transmission contract has been limited to a formal registration of the customer, and specific entry and exit points may be added to the contract at any time and according to customer’s needs by the means of capacity and transmission ability allocation. For each customer, we have consolidated all their previous contracts into one so as to ensure consistent and uniform principles and portfolio balancing.

The new TNC creates the possibility of transporting gas from physical entry points to a virtual point and from a virtual point to physical exit points by two separate entities. Owing to this arrangement, the customer of GAZ-SYSTEM S.A. may purchase gas at an OTC virtual point or at a dedicated point for the Gas Exchange.

In order to enhance the flexibility of the balancing system we have provided for a Balancing Services Market in the Network Code, which enables physical balancing of the system by GAZ-SYSTEM S.A. The users have been afforded the possibility of offering system services to GAZ-SYSTEM S.A. (in particular, by declaring the delivery or reduced off-take of gas at a specific physical location), which will help them balance their portfolios while allowing us to balance the gas demand and ensure stable operation of the system.

Another important element of the Network Code concerns the supplier switching process whereby transmission capacity may be used directly by gas customers. Under the Network Code, capacity is separated from gas volumes and, accordingly, customers may choose at their discretion where they wish to source the gas, or purchase the commodity, e.g. at the exchange, and transport it through our system. This creates the conditions for real competition between suppliers to attract the customer. The capacity that follows the customer enables the optimisation of supply portfolio by such means as purchases at the gas exchange or the OTC market. We have indications that these new solutions have been welcomed by our customers and we are pleased to see positive reactions of the market to the changes we proposed.

INTEROPERATOR COOPERATION

In order to facilitate the contracting of services for those customers of GAZ-SYSTEM S.A. who use interconnected systems (distribution – DSO, storage – SSO), we have introduced a new relationship and contracting model at interconnections with the systems of those operators (DSOs and SSO). Under the new rules, only the DSOs and the SSO are allowed to purchase capacity at physical points of interconnection between their respective systems and the transmission system of GAZ-SYSTEM S.A. The point through which gas will flow from one system to another is subject to agreement between the respective operators.

Agreement with the Storage System Operator (SSO)

On 20 December 2012, GAZ-SYSTEM S.A. and Operator Systemu Magazynowania Sp. z o.o. (SSO) signed an agreement on cooperation. The document regulates the day-to-day cooperation between the operator of the transmission network and storage system operator. The document incorporates the principles of the new gas market model under the new Transmission Network Code, particularly with respect to the purchase of the transmission system capacity at the interconnection between storage facilities and the transmission network by the storage system operator. It also regulates the functioning of the operator’s account to allow comprehensive provision of storage and transmission services, in line with customer nominations.

COOPERATION WITH THE POLISH POWER EXCHANGE

In January 2012, GAZ-SYSTEM S.A. started the cooperation with the Polish Power Exchange with a view to creating a gas exchange market in Poland. Under the cooperation scheme, the companies established working groups responsible for the preparation of legal, organisational and technical solutions to enable gas exchange trading. Detailed terms of the cooperation were set forth in the agreement signed between GAZ-SYSTEM S.A. and the Polish Power Exchange on 11 October 2012.

Piotr Bujalski
Deputy Director of National Gas Dispatching Division, GAZ-SYSTEM S.A.

Joanna Kijas
President of the Management Board of the Storage System Operator in 2012
• Management Systems in GAZ-SYSTEM S.A.
• Management of Sustainable Development Aspects
• GAZ-SYSTEM S.A. as a Responsible Employer
• Environmental Management
• Financial Data
The implementation of robust methods for dealing with a variety of threats while minimising the costs and losses related to a specific risk.

The results of the completed audits are one of the cornerstones for updating the database of operational risks with a view to the prioritisation of activities undertaken within the internal audit function and ensures compliance and consistency of the audit areas with the objectives of the company. The results of the risk analysis are also the basis for the creation of an audit plan. The applied procedure allows data collection and analysis, as well as control of risks in accordance with the adopted model.

In order to optimise and improve the risk management process, the company uses an IT support tool known as SASOpRisk. This solution allows data collection and analysis, as well as control of risks in accordance with the adopted model.

The technical diagnostics programme completed in 2012 with the use of intelligent pigs included the cleaning and inspection of gas pipelines at a cost of EUR 11.25 million.

The SESP has addressed the need for standardised performance and documentation of operations in the transmission infrastructure for the entire company. This enables the delivery of the operation process in a technically correct and structured manner, as well as the supervision over proper performance of the operations and benchmarking.

The tender procedures applied by GAZ-SYSTEM S.A. conform to the requirements of the Public Procurement Law. The company is not in the position to screen its business partners for human rights performance. However, GAZ-SYSTEM S.A. does verify whether the suppliers who are members of the body representing the supplier, or the supplier itself as a body corporate, have not been sentenced by a final court judgement for e.g. breach of the rights of persons performing paid work. In case of such occurrence, the company qualifys the supplier from a tender procedure. With respect to suppliers from the List of Qualified Suppliers, only the compliance with the OHS rules is verified. In the reporting period the company did not identify any supplier behaviour that would compromise human rights.

In addition, the company implemented the ISO 9001 standard for coordination, monitoring, preparation and implementation of the investment programme in the LNG Division in the reporting period. The current Management System at GAZ-SYSTEM S.A. is comprehensive and provides process quality management in selected processes, environmental management, occupational health and safety and information security management in all areas of the company.

The implemented ISO standards have resulted in an effective management system based on the Deming cycle (plan, do, check and act). All activities begin with planning which takes place in advance. Before the plans are drawn up, the current situation and the potential impact of changes are analysed. Then, the change is implemented and the results are analysed. The next step includes carrying the process with the implemented change, i.e. the actual execution phase.

In the performance of operation activities GAZ-SYSTEM S.A. follows, among other things, the provisions of the Transmission Network Operation System (SESP), which is a proprietary collection of procedures and manuals describing in detail the performance of operations for specific elements of the transmission network.

The SESP has addressed the need for standardised performance and documentation of operations in the transmission infrastructure for the entire company. This enables the delivery of the operation process in a technically correct and structured manner, as well as the supervision over proper performance of the operations and benchmarking.

The company operates its network in a coordinated and efficient manner, while maintaining the required reliability of gas supply and quality standards. The necessary maintenance and repairs are carried out with due respect for the natural environment. In the reporting period, 337 maintenance jobs of various scope were completed under the Maintenance Plan, for the total value of EUR 11.25 million.

The technical diagnostics programme completed in 2012 with the use of intelligent pigs included the cleaning and inspection of gas pipeline sections totaling 167 km.
In 2012, GAZ-SYSTEM S.A. spent EUR 135,096.10 on technology research and development.

SAP Implementation

In January 2012 the ERP (Enterprise Resource Planning) system with its full production version was put in service. The overall objective of the ERP project was to improve the efficiency in all relevant areas of GAZ-SYSTEM S.A.’s operations.

In parallel with the launch of the system, an implementation assistance system was set up in the company, which consisted in technical support for users provided by competent professionals. GAZ-SYSTEM S.A. also held workshops and training for internal users. Based on the feedback from users and their reported needs, available functionalities were expanded and the system started to be also used for advanced operations, such as controlling.

The implementation of the SAP ERP system in GAZ-SYSTEM S.A. was recognised with the silver award in the Large Implementations category in the SAP Quality Awards 2012 for Central and Eastern Europe. The judging panel of the competition, composed of SAP specialists and independent experts in business application implementations, rewarded GAZ-SYSTEM S.A. for “one of the largest and most complex ERP projects implemented in Poland over the last few years”. While granting the award, the judging panel highlighted the very clear determination of business objectives of the project, closely harmonized with the long-term strategy of GAZ-SYSTEM and excellent design procedures, the introduction of change management processes, the transfer of knowledge by means of e-learning tools and a coherent quality assurance system.

GazStep Project Management Methodology

In order to effectively manage its investments, GAZ-SYSTEM S.A. applies the GazStep methodology developed in 2010. The tool allows managers to effectively monitor a large number of projects, respond to threats, plan project financing and manage the available resources. The GazStep methodology is based on the TenStep Project Management Process methodology and on the widely accepted international standard of project management, fully compliant with the PMBOK Guide™ methodology, as developed by the Project Management Institute. GazStep is a synthesis of best practices and experiences of many companies and extensive knowledge of GAZ-SYSTEM S.A.’s personnel about the specifics of project implementations in the gas industry.

MANAGEMENT FROM A PERSPECTIVE OF SUSTAINABLE DEVELOPMENT

In line with GAZ-SYSTEM S.A.’s business strategy, sustainable development underpins the company’s operations. For effective implementation of the activities under the fifth dimension of our business strategy, i.e. management from a perspective of sustainable development, we have implemented the “Regulations for Sustainable Development Management Structure” within GAZ-SYSTEM S.A.

The framework defines the responsibilities and powers within the organisation, the principles of communication, as well as the planning of and accounting for projects in the field of corporate social responsibility. It also allows the effective implementation and monitoring of sustainable development indicators across the business.

The sustainable development management structure includes the Sponsor (Management Board), CSR Leader (Spokesperson), CSR Project Team (Communication Team) and CSR coordinators (staff from different divisions/branches). All these people were involved in the process of defining the framework and the principles of sustainability reporting. The Sponsor is responsible for approving, providing feedback and supervising the activities. The CSR Leader’s tasks include managing the delivery of CSR projects, so that they are carried out in accordance with the pre-agreed schedule, material scope and budget. The CSR Leader is also responsible for monitoring the progress of work and communicating the completed activities. The CSR Project Team and CSR Coordinators are responsible for the implementation of CSR programs and collection of information necessary for their implementation. Another regular practice is the annual sustainability reporting according to the Global Reporting Initiative (GRI) guidelines.
Management

Responsibility Employer

The responsible approach of GAZ-SYSTEM S.A. to human resources management is reflected in the definition of transparent rules with respect to, among other things, hiring, employment, promotion and professional development of the employees. At the end of 2012, the company employed 2299 persons, including 15.0% in the Head Office, 13.4% in Poznań, 12.4% in Wrocław, 9.9% in Święklany, 15.0% in Rembelszczyzna and 26.0% in Tarnów.

Table: Employment Structure

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of employees according to the type of employment contract, position and region, broken down by gender:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Total number of employees with employment contract, by gender:</td>
<td>2152</td>
<td>2299</td>
</tr>
<tr>
<td>Men</td>
<td>1611</td>
<td>1726</td>
</tr>
<tr>
<td>Women</td>
<td>541</td>
<td>573</td>
</tr>
<tr>
<td>b) Number of supervised personnel*, by gender:</td>
<td>120</td>
<td>143</td>
</tr>
<tr>
<td>Men</td>
<td>95</td>
<td>120</td>
</tr>
<tr>
<td>Women</td>
<td>25</td>
<td>23</td>
</tr>
<tr>
<td>c) Number of employees by region, according to administrative division based on the activity scope of the unit:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Head Office</td>
<td>336</td>
<td>347</td>
</tr>
<tr>
<td>Gdansk</td>
<td>149</td>
<td>190</td>
</tr>
<tr>
<td>Poznań</td>
<td>251</td>
<td>307</td>
</tr>
<tr>
<td>Wrocław</td>
<td>276</td>
<td>286</td>
</tr>
<tr>
<td>Święklany</td>
<td>220</td>
<td>227</td>
</tr>
<tr>
<td>Rembelszczyzna</td>
<td>313</td>
<td>346</td>
</tr>
<tr>
<td>Tarnów</td>
<td>587</td>
<td>598</td>
</tr>
</tbody>
</table>

* Supervised employees – employees who are not employed by the company but provide services for its benefit, e.g. security, cleaning, meeting services, etc.

Men represent the majority in the personnel, which is related to the nature of the company’s operations and the jobs to be performed. Despite this, all the employees are afforded equal treatment and enjoy the same right of access to all the benefits and positions. The majority of the personnel in GAZ-SYSTEM S.A. are employed under full-time employment contracts for an indefinite term. Detailed employment structure by type and term of employment contract is presented in the following tables:

Table: Employees with indefinite-term contracts, of whom:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>1548</td>
<td>1552</td>
</tr>
<tr>
<td>Women</td>
<td>516</td>
<td>526</td>
</tr>
</tbody>
</table>

Table: Employees with definite-term contracts, of whom:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>43</td>
<td>174</td>
</tr>
<tr>
<td>Women</td>
<td>25</td>
<td>47</td>
</tr>
</tbody>
</table>

Table: Employees with employment contracts, of whom:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>19</td>
<td>40</td>
</tr>
<tr>
<td>Women</td>
<td>7</td>
<td>3</td>
</tr>
</tbody>
</table>

Table: Employees with contracts on commission, of whom:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Women fill in one-third of managerial positions in GAZ-SYSTEM S.A.

Table: Managerial positions, of which:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>26</td>
<td>38</td>
</tr>
<tr>
<td>Women</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>50</td>
</tr>
</tbody>
</table>

The Management Board is composed of men only (100%), 33.3% of the Board members are 30-50 years of age and 67.7% are more than 50 years old.

In the reporting period, all the senior managers employed by the company were locally hired from the Polish labour market. GAZ-SYSTEM S.A. has no local preference policy with respect to hiring from the local community at locations of significant operation.

GAZ-SYSTEM S.A. guarantees the freedom of association for its employees. There are three union organisations within the company, which engage in the dialogue with the employer and are involved in shaping the HR policy. The company uses all reasonable efforts to avoid any discrimination. In 2012, one complaint was filed in this regard; the anti-mobbing commission that was set up to consider the complaint, after reviewing the relevant evidence and careful examination of the case, dismissed the complaint as ungrounded.
Remuneration and Benefits

The remuneration principles of the company are set out in the Collective Labour Agreement. In 2012, the average salary earned by women corresponded to 111.43% of the average salary of men.

In this comparison, only women in senior management and among administration professionals are paid less than their male counterparts. The ratio of basic salary of women to men is illustrated by the following table:

<table>
<thead>
<tr>
<th>Ratio of basic salary of women to basic salary of men, by level of the position within the organizational hierarchy:</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Senior management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Head Office</td>
<td>98.3%</td>
<td>92.7%</td>
</tr>
<tr>
<td>Gdańsk</td>
<td>82.2%</td>
<td>82.2%</td>
</tr>
<tr>
<td>Poznań</td>
<td>89.6%</td>
<td>86.5%</td>
</tr>
<tr>
<td>Rembelszczyzna</td>
<td>93.9%</td>
<td>85.3%</td>
</tr>
<tr>
<td>Świeciełany</td>
<td>No women</td>
<td>No women</td>
</tr>
<tr>
<td>Tarnów</td>
<td>No women</td>
<td>No women</td>
</tr>
<tr>
<td>Wroclaw</td>
<td>80.2%</td>
<td>79.1%</td>
</tr>
<tr>
<td><strong>Middle management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Head Office</td>
<td>91.5%</td>
<td>94.2%</td>
</tr>
<tr>
<td>Gdańsk</td>
<td>124.3%</td>
<td>120.7%</td>
</tr>
<tr>
<td>Poznań</td>
<td>117.8%</td>
<td>124.5%</td>
</tr>
<tr>
<td>Rembelszczyzna</td>
<td>129.4%</td>
<td>127.5%</td>
</tr>
<tr>
<td>Świeciełany</td>
<td>119.0%</td>
<td>117.9%</td>
</tr>
<tr>
<td>Tarnów</td>
<td>112.9%</td>
<td>119.7%</td>
</tr>
<tr>
<td>Wroclaw</td>
<td>123.8%</td>
<td>119.4%</td>
</tr>
<tr>
<td><strong>Specialist positions (employees performing specific industry-related tasks, e.g. project management)</strong></td>
<td>100%</td>
<td>98%</td>
</tr>
<tr>
<td>Head Office</td>
<td>91.1%</td>
<td>91.7%</td>
</tr>
<tr>
<td>Gdańsk</td>
<td>92.2%</td>
<td>98.1%</td>
</tr>
<tr>
<td>Poznań</td>
<td>95.2%</td>
<td>92.9%</td>
</tr>
<tr>
<td>Rembelszczyzna</td>
<td>102.3%</td>
<td>96.8%</td>
</tr>
<tr>
<td>Świeciełany</td>
<td>87.6%</td>
<td>89.0%</td>
</tr>
<tr>
<td>Tarnów</td>
<td>85.4%</td>
<td>87.2%</td>
</tr>
<tr>
<td>Wroclaw</td>
<td>90.8%</td>
<td>95.2%</td>
</tr>
<tr>
<td><strong>Administration professionals (e.g. HR, accounting)</strong></td>
<td>98%</td>
<td>101%</td>
</tr>
<tr>
<td>Head Office</td>
<td>96.8%</td>
<td>98.3%</td>
</tr>
<tr>
<td>Gdańsk</td>
<td>115.7%</td>
<td>110.0%</td>
</tr>
<tr>
<td>Poznań</td>
<td>104.1%</td>
<td>111.6%</td>
</tr>
<tr>
<td>Rembelszczyzna</td>
<td>81.4%</td>
<td>92.4%</td>
</tr>
<tr>
<td>Świeciełany</td>
<td>91.4%</td>
<td>89.6%</td>
</tr>
<tr>
<td>Tarnów</td>
<td>104.2%</td>
<td>101.0%</td>
</tr>
<tr>
<td>Wroclaw</td>
<td>90.1%</td>
<td>93.3%</td>
</tr>
</tbody>
</table>

Responsible workplace also means that fair remuneration is offered to the employees in the lowest-level positions. The minimum entry level wage is independent of the location or the employee’s gender. Its level was determined in the Collective Labour Agreement.

The ratio of the average wage in this employee group to the statutory minimum wage (EUR 366.9 in 2012) corresponds to 236% for men. There are no women among lowest-level personnel, and in the Head Office and in the Branches in Gdańsk and Świeciełany there are no employees in such positions.

In 2012, an electronic payslip functionality was enabled in the TETA HRM system, which affords quick access to information on financial benefit payments for the employees. Owing to the integration of the TETA HRM system with the SAP, any travel expenses can be efficiently accounted for. Another new functionality supports the electronic transfer of tax returns (PIT-11 and PIT-40) using a qualified electronic signature, both to Tax Offices and the employees, which streamlines the tax reporting process.

Technical positions

<table>
<thead>
<tr>
<th>Technical positions</th>
<th>104%</th>
<th>103%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Head Office</strong></td>
<td>No women</td>
<td>No women</td>
</tr>
<tr>
<td>Gdańsk</td>
<td>104.7%</td>
<td>98.1%</td>
</tr>
<tr>
<td>Poznań</td>
<td>No women</td>
<td>No women</td>
</tr>
<tr>
<td>Rembelszczyzna</td>
<td>106.3%</td>
<td>102.7%</td>
</tr>
<tr>
<td>Świeciełany</td>
<td>104.0%</td>
<td>103.5%</td>
</tr>
<tr>
<td>Tarnów</td>
<td>95.3%</td>
<td>99.1%</td>
</tr>
<tr>
<td>Wroclaw</td>
<td>92.3%</td>
<td>No women</td>
</tr>
</tbody>
</table>

The year 2012 was full of challenges and intensive work for HR services, in particular due to the job evaluation and description process and intensified efforts aimed at extending the functionality of the TETA HRM system. In the past year we developed a list of model positions and new job descriptions. The introduction of a new approach to model positions and their descriptions provides a foundation to build individual career paths, whether vertical, horizontal or specialist. Another project to be implemented by our HR unit this year is the Talent Management Programme. One of the objectives of the programme is to identify the key employees of GAZ-SYSTEM S.A. and to develop their professional qualifications, as well as to identify the group of their prospective successors. 2013 will also be marked by continuous development and introduction of new functionalities within the TETA HRM, covering a training and recruitment module which will facilitate and streamline HR management. The purpose of the solutions being implemented is to adapt to the continuous and dynamic growth of our company.

All the employees, regardless of their working time and type of contract are covered by the “Collective Labour Agreement of 8 March 2007 for the employees of Gas Transmission Operator GAZ-SYSTEM S.A.”. The document sets forth the employee entitlements under the generally applicable labour regulations and additional benefits offered by the company. Any matters concerning employment and major organisational changes are subject to consultations with social partners.

The employees of GAZ-SYSTEM S.A. have access to healthcare services outside the public system, including comprehensive specialist consultations, examinations and diagnostics. The healthcare package is also available to employee families and retired employees. In addition, the company’s employees are covered by a group accident and life insurance. In response to the expectations of the employees, GAZ-SYSTEM S.A. operates an optional non-mandatory Pension Scheme, which has been joined by over 80% of the company’s employees.

Małgorzata Kaczmarska
Deputy Director of Human Resources Division, GAZ-SYSTEM S.A.
The principal solutions that facilitate employees’ decisions on ending their careers and retiring are contained in relevant regulations, and specifically in the “Corporate Collective Labour Agreement”. According to its provisions, an employee who has worked for the company for at least 15 years and now wants to retire or receive a pre-retirement benefit is entitled to an extra severance pay on top of the one provided for under the Labour Code.

In addition, an employee who elects to retire despite the approaching anniversary award date (less than 12 months), is still eligible to the award which will be paid upon termination of employment.

Furthermore, retirees retain the option to continue to use the non-public medical care at a discounted rate, and may benefit from the Company Social Benefits Fund. The company also takes care of maintaining relationships with retirees giving them a sense of belonging to the organisation by inviting them to the official corporate meetings (festive meetings, celebrations) and through organising meetings of retirees.

An approaching date of acquisition of pension rights is not an obstacle to furthering one’s education. Until termination of employment, employees have the right to use all available forms of in-company education, despite the fact that they will use the knowledge acquired or established at their discretion after termination of employment.

The personnel of GAZ-SYSTEM S.A. have a guaranteed social package, which covers a partial reimbursement of the costs of holidays, sports and leisure activities, cultural and educational events or support in case of accidents.

In addition, the company offers other employee benefits beyond the scope required under the generally applicable regulations.

The employees may count on:
- a day off work falling on the St Barbara industry holiday (“Barbórką”) and a cash benefit on this occasion
- a service anniversary award in accordance with the “Corporate Collective Labour Agreement”
- additional cash benefits such as a profit bonus and/or incentive bonuses
- two extra days of holiday (for employees with at least 15-year tenure with the employer)
- higher sick leave for employees with at least 10 years tenure in the company and a supplement for the duration of sick leave as part of equal treatment of employees over 50 years of age
- non-public medical care (extra examinations related to occupational medicine) and attractively priced subscription packages for family members of employees
- preferential bank offers
- preferential terms of purchase of company cars.

**Return to Work After Parental Leave**

The responsibility of GAZ-SYSTEM S.A. for the employees also entails the guarantee of return to work for parents who take advantage of parental leave. Most women return to work in their original position and remain with the organisation for at least 12 months to follow.

<table>
<thead>
<tr>
<th>Return to work after parental leave</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of persons in parental leave, of whom:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>61</td>
<td>93</td>
</tr>
<tr>
<td>Men</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td>Number of women who returned to work after maternity leave</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>Number of women who returned to work after maternity leave and continued to work until the end of the reporting period</td>
<td>16</td>
<td>16*</td>
</tr>
<tr>
<td>Number of men who returned to work after paternity leave</td>
<td>28</td>
<td>61</td>
</tr>
<tr>
<td>Number of men who returned to work after paternity leave and continued to work until the end of the reporting period</td>
<td>27</td>
<td>27*</td>
</tr>
</tbody>
</table>

* Includes only those employees whose maternity and paternity leave terminated by 31.12.2011.

**Newly Hired Employees**

The package offered to newly hired employees is an example of good practice and includes:

- Orientation manual for new employees
- Code of Ethics and brochure “Our Values”
- Booklet on the “Strategy of GAZ-SYSTEM S.A. until 2020”

The package offered to newly hired employees is an example of good practice and includes:

**The structure of newly hired employees is presented below:**

<table>
<thead>
<tr>
<th>The structure of newly hired employees</th>
<th>2011</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Total number of employees hired by the company in the reporting period, of whom:</td>
<td>115</td>
<td>225</td>
</tr>
<tr>
<td>Women</td>
<td>45</td>
<td>56</td>
</tr>
<tr>
<td>Men</td>
<td>70</td>
<td>169</td>
</tr>
<tr>
<td>Age below 30</td>
<td>43</td>
<td>89</td>
</tr>
<tr>
<td>Age 30-50</td>
<td>64</td>
<td>125</td>
</tr>
<tr>
<td>Age over 50</td>
<td>8</td>
<td>11</td>
</tr>
</tbody>
</table>

b) Percentage of employees hired in the reporting period, of whom: 5.3% 9.8%

| Women | 39.1% | 24.9% |
| Men | 60.9% | 75.1% |
| Age below 30 | 37.4% | 39.5% |
| Age 30-50 | 55.6% | 55.6% |
| Age over 50 | 7.0% | 4.9% |

* Including employees reinstated after suspension of employment relationship.

**The headcount breakdown by branch is presented below:**

| in the Head Office | 17.3% |
| in Gdańsk | 10.2% |
| in Poznań | 29.3% |
| in Rembretzyce | 18.2% |
| in Świetkiewy | 4.5% |
| in Tarnów | 11.6% |
| in Wrocław | 8.0% |

Prestigious awards received by GAZ-SYSTEM S.A. as a reliable employer, as well as positive perceptions of the employees have been attracting an ever increasing number of job applications. The hiring principles and methods are set out in the “Recruitment Procedure” and the “Hiring Procedure”. The documents guarantee equal rights of the candidates and prevent any discriminatory practices.
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Turnover

High level of employee satisfaction means that those who decide to leave the company represent only a small percentage of the workforce. Detailed figures showing the number of leaves in different age groups taking into account gender and place of residence are provided in the following tables.

<table>
<thead>
<tr>
<th>Turnover rates</th>
<th>2011</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of employees who left the company, of whom:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>Men</td>
<td>33</td>
<td>55</td>
</tr>
<tr>
<td>Age below 30</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Age 30-50</td>
<td>18</td>
<td>28</td>
</tr>
<tr>
<td>Age over 50</td>
<td>17</td>
<td>41</td>
</tr>
<tr>
<td>Percentage of employees who left the company, of whom:</td>
<td>1.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Women</td>
<td>13.2%</td>
<td>29.5%</td>
</tr>
<tr>
<td>Men</td>
<td>86.8%</td>
<td>70.5%</td>
</tr>
<tr>
<td>Age below 30</td>
<td>7.9%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Age 30-50</td>
<td>47.4%</td>
<td>35.9%</td>
</tr>
<tr>
<td>Age over 50</td>
<td>44.7%</td>
<td>52.6%</td>
</tr>
</tbody>
</table>

* Includes employees with suspended employment relationship.

The employee turnover ratio by location was as follows:

- In the Head Office – 54.6%
- In GDANSK – 3.9%
- In POZNAN – 12.8%
- In RAMSHELOWO – 14.1%
- In ŚWIETŁANY – 5.1%
- In TARNÓW – 19.2%
- In WROCŁAW – 10.3%

Employee Development

The professional development of personnel is one of the key objectives of the human resources policy. The principles regulating the access to training are set out in the "Rules for Professional Qualifications Improvement of the Employed of Gas Transmission Operator GAZ-SYSTEM S.A."

The employees of GAZ-SYSTEM S.A. take part in mandatory training programmes, professional development courses, competency building sessions, workshops, language courses, as well as studies including post-graduate and MBA programmes. The employee also sponsors the participation in industry conferences, both domestically and abroad. In 2012, a section dedicated to training was launched in the TETA HRM system in order to automate and streamline the planning process for development needs concerning training and conferences. It also offers the possibility of generating reports on planned and completed training for a specific organisational unit. The employees who improve their qualifications take advantage of training leave in accordance with the regulations of the Labour Code. The sponsoring system in respect of training is defined in the “Rules for Professional Qualifications Improvement” which were updated in 2012. In the reporting period, the total amount spent on training by the company was EUR 709,358.6.

Some training programmes are delivered internally. They include training on an integrated management system and occupational health and safety. The company operates an e-learning platform which is used by employees for training in respect of MS Office, SAP, Electronic Document Flow or soft skills.

Average hours of training per year per employee by gender, and by employee category

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>30.38</td>
<td>19.87</td>
</tr>
<tr>
<td>Men</td>
<td>22.83</td>
<td>17.93</td>
</tr>
<tr>
<td>Senior management (directors and higher levels)</td>
<td>75.55</td>
<td>57.25</td>
</tr>
<tr>
<td>Middle management (managers)</td>
<td>28.48</td>
<td>21.54</td>
</tr>
<tr>
<td>Professional functions (employees performing specialized tasks, e.g. environmental)</td>
<td>25.48</td>
<td>17.05</td>
</tr>
<tr>
<td>Administration and organisation professionals (e.g. HR, accounting)</td>
<td>26.52</td>
<td>18.32</td>
</tr>
<tr>
<td>Technical positions</td>
<td>17.63</td>
<td>15.74</td>
</tr>
</tbody>
</table>

The decline in the number of training hours provided to employees in comparison to the year 2011 is mainly due to a smaller number of strategic projects, including those concerning investments or operation, for which internal training programmes were delivered.

In 2012, GAZ-SYSTEM S.A. once again took part in the Best Employer Programme operated in Poland by Aon Hewitt. Similarly as in 2011, the company ranked in the first place in the “Large and Medium Enterprises” category in Poland GAZ-SYSTEM S.A. took the second place. The employee commitment indicator reached 85% going up by 5 percentage points compared to the last year’s result. The achieved result puts the company as much as 40 percentage points above the average level in Poland (43%) and 42 percentage points above the energy sector average (43%).

Commitment indicator for the employees of GAZ-SYSTEM S.A.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>67%</td>
<td>73%</td>
<td>80%</td>
<td>85%</td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>28%</td>
<td>67%</td>
<td>73%</td>
<td>80%</td>
<td>85%</td>
</tr>
</tbody>
</table>

GAZ-SYSTEM S.A. also received the Top Employers certification in 2012, and thus found itself among the employers who meet the highest standards of human resources management.

In addition, last year marked the second time the company had participated in the annual survey “Saratoga Benchmarking – measuring the effectiveness of human capital management,” which compares the most important indicators of the effectiveness of HR policy within the organisation to the best market practices. The results of this study show a high position of GAZ-SYSTEM S.A. compared to other companies, both in terms of the level and structure of remuneration and employee benefits, as well as individual employee commitment.

Occupational Health and Safety

GAZ-SYSTEM S.A. operates an "Occupational Health and Safety Management System, based on OHSAS 18001:2007 standard," which ensures that the company complies with the highest standards of health and safety. Each job position is reviewed for occupational risks that are assessed according to the “Occupational Health Risk Assessment Procedure” in three stages. As the first step, the assessment team prepares an occupational risk assessment card for a given job position, which is then evaluated by the Occupational Risk Assessment Committee. The final risk assessment is made by the OHS Manager. The list of particularly onerous workplaces is set out in Annex 5 to the Workplace Regulations.

---

Includes employees with suspended employment relationship.
One of the harmful and hazardous factors having a direct impact on the health of employees is the noise emitted by the technical facilities used for gas transmission. Therefore, in order to improve the safety performance and ergonomics, the company took the initiative to equip the teams performing hazardous jobs exposed to high noise levels with the latest generation of hearing protectors with built-in two-way communication. In addition, GAZ-SYSTEM S.A. is working to improve the safety of workers involved in work at height and inside trenches. To this end, an educational meeting was organised together with a demonstration of personal and collective protection measures for the purpose of work of height, including work in explosion prone areas.

The company also provides assistance to employees in the event of occupational diseases and accidents at work. Each employee is entitled to a healthcare package and additional assistance is available upon the decision of a committee which examines each case individually in accordance with the “Procedure for determining the circumstances and causes of accidents at work”.

With a view to ensuring safe and healthy working conditions and the protection of employee rights set out in the applicable labour regulations, a Social Labour Inspector has been appointed at the company.

The questions of employee safety is also addressed in the agreements with trade unions, which include provisions concerning personal protective equipment, joint health and safety committees composed of the management and employees, training, compliant reporting mechanisms, periodic health and safety inspections, right to refuse the performance of dangerous job, participation of employee representatives in health and safety inspections and audits and in accident investigations.

GAZ-SYSTEM S.A. not only cares about the safety of its own personnel but also about the employees of the suppliers and subcontractors engaged in the projects implemented by the company. The company organises dedicated seminars for them, concerning health, safety and environmental aspects pertinent to the performance of jobs involving a gas hazard. In the reporting period, 56 persons from 20 contractor companies took part in training programmes.

The improvement of safety culture among all the employees of GAZ-SYSTEM S.A. is one of our priorities. The level of safety culture in our company is driven by the procedures, manuals and guidelines being in place, as well as our system of values and the attitudes towards the safety of each employee. Through our initiatives, we try to instil in the employees a natural sense of responsibility for their own safety and the safety of their colleagues, and increase their commitment to work and safe work practices. The ultimate goal is that safe behaviour is no longer forced but becomes a habit, just as a handshake when you say hello. Building a corporate safety culture is by definition a team effort. Therefore, we are working hard to make sure that the company, as a single large team, pursues a common objective, i.e. safety. And everyone has an equally important role to play in achieving this objective and an equal influence on the final result that is the level of safety culture at work in GAZ-SYSTEM S.A.

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Rates of injury, occupational diseases, lost days, absenteeism, and total number of work-related fatalities, by region and by gender:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of accidents at work, of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Men</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>a) Number of fatal, group and severe accidents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Men</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>b) Total days of incapacity for work due to accidents at work</td>
<td>154</td>
<td>86</td>
</tr>
<tr>
<td>Women</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Men</td>
<td>154</td>
<td>86</td>
</tr>
<tr>
<td>c) Accident frequency rate*</td>
<td>1.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Women</td>
<td>0</td>
<td>0.4</td>
</tr>
<tr>
<td>Men</td>
<td>1.4</td>
<td>2.6</td>
</tr>
<tr>
<td>d) Accident severity rate*</td>
<td>51.3</td>
<td>12.3</td>
</tr>
<tr>
<td>Women</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Men</td>
<td>51.3</td>
<td>12.3</td>
</tr>
<tr>
<td>e) Number of diagnosed occupational diseases</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Women</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Men</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total number of contractor accidents during performance of works for the benefit of the company</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Women</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Men</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>a) Number of fatal, group and severe accidents</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Women</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Men</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

c) *Total accidents/number of employees x 1000
d) *Number of days of incapacity for work due to accidents/number of accidents
The difference of total gas consumption figures in the reports for 2011 and 2012 result from different gross calorific values used in the calculations.

In the effort to improve the level of safety in gas industry, GAZ-SYSTEM S.A. organised 2nd national conference on “Accident Prevention

GAZ-SYSTEM S.A. has systems for tracking and reporting accident statistics. They include:

- Energy consumption 2011 2012
  - Total natural gas consumption 3,193,697.00 GJ 2,870,720.00 GJ
  - Total consumption of electricity from non-renewable sources 224,436.24 GJ 239,937.84 GJ

The 2012 report provides the total gas consumption in 2011 and 2012 calculated based on the same gross calorific value.

In the case of leakage from compression units, some of their types were tested for new technological solutions which will minimise gas leak occurrence in the future. This approach has enabled a significant reduction in emissions on the compressor tested and will be applied in other compression units.

In the effort to improve the safety level in gas industry, GAZ-SYSTEM S.A. organised 2nd national conference on “Accident Prevention in Gas Industry”. It was aimed at increasing the awareness of hazards in the work environment and broadening the knowledge of effective methods for the prevention of their effects. In September 2012, the company organised the first edition of First-Aid Championships for its employees, which contributed to their increased involvement in the promotion of safe work environment and boosted the awareness of safety issues.

ENVIRONMENTAL MANAGEMENT

GAZ-SYSTEM S.A. operates an environmental management system based on the PN-EN ISO 14001:2005 standard.

Energy management

The total consumption figures for natural gas and electricity from non-renewable sources for the entire company in the reporting period are presented in the following table:

<table>
<thead>
<tr>
<th>System name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Register of accidents at work</td>
<td>Procedure for the investigation of the circumstances and causes of accidents at work and potential accident hazards</td>
</tr>
<tr>
<td>Monthly update on accidents at work</td>
<td>Information for employees on reported occurrences and accidents distributed through the intranet (Health and Safety section)</td>
</tr>
</tbody>
</table>

In the effort to improve the level of safety in gas industry, GAZ-SYSTEM S.A. organised 2nd national conference on “Accident Prevention in Gas Industry”. It was aimed at increasing the awareness of hazards in the work environment and broadening the knowledge of effective methods for the prevention of their effects. In September 2012, the company organised the first edition of First-Aid Championships for its employees, which contributed to their increased involvement in the promotion of safe work environment and boosted the awareness of safety issues.

In the case of leakage from compression units, some of their types were tested for new technological solutions which will minimise gas leak occurrence in the future. This approach has enabled a significant reduction in emissions on the compressor tested and will be applied in other compression units.

In order to optimise the cost of purchasing electricity for a dispersed consumer such as GAZ-SYSTEM S.A., actions were taken to reduce the cost of electricity purchasing by changing the approach to electricity sourcing and taking advantage of TPA mechanisms and a competitive electricity market.

In view of the above, electricity metering and billing systems were modernised on all gas compressor stations operated by the company, which was a prerequisite for switching the electricity supplier.

The final step in the optimisation project is to conduct a tender to select a single electricity supplier.

Emissions

The greenhouse gas emissions generated by the company principally comprise methane, which is released to the environment during the operation of gas infrastructure, and carbon dioxide produced as a result of the combustion of gas for own needs. Methane is emitted to the atmosphere during pipeline blow-down process, due to gas leaks from networks or failures.

The reduction of methane emissions in comparison to 2011 is a result of steps taken to identify and eliminate sources of gas leaks.

Based on the fuel mix posted on the websites of electricity suppliers, the estimated level of indirect greenhouse gas emissions is 40,905.92 MgCO2e. The calculation assumes that on average about 80% of electricity purchased from the suppliers was generated from coal and 20% from natural gas. Renewable energy sources and biomass combustion were disregarded as the emission rates per 1 MWh of generated electricity were not available.

Initiatives to reduce emissions undertaken in 2012 consisted of implementing the next stage of gas leak inspections. The work carried out thus far included a stagewise leak check of installations in 10 out of 14 compressor stations operating in the transmission system. Checked so far were more than a thousand points of potential leakage, some of which were found to have leaks. Most of the identified leaks were eliminated by taking corrective actions such as seal replacement, temporary caulking, valve replacement and optimisation of valve settings.

In the case of leakage from compression units, some of their types were tested for new technological solutions which will minimise gas leak occurrence in the future. This approach has enabled a significant reduction in emissions on the compressor tested and subsequent years will see the implementation of the solution in other compressors of this type. In addition, the results of research were used to verify the methodology for calculating emission factors of compression units.

In 2013, we are planning to continue work on the identification of leaks in gas compressor stations, and to carry out maintenance and upgrading projects to reduce emissions from our gas infrastructure facilities. In addition, as part of the trading scheme for greenhouse gas emissions, GAZ-SYSTEM S.A. will take inventory of CO2 emissions at three compressor stations subject to compulsory emissions trading.

Significant air emissions generated by the company include nitrogen oxides, sulphur oxides, volatile organic compounds and particulate matter. The respective emission volumes are presented below:

<table>
<thead>
<tr>
<th>Air emissions:</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>nitrogen compounds</td>
<td>215.106 Mg</td>
<td>281.28 Mg</td>
</tr>
<tr>
<td>sulphur compounds</td>
<td>2.087 Mg</td>
<td>2.53 Mg</td>
</tr>
<tr>
<td>volatile organic compounds</td>
<td>0.943 Mg</td>
<td>2.33 Mg</td>
</tr>
<tr>
<td>particulate matter</td>
<td>1.753 Mg</td>
<td>2.35 Mg</td>
</tr>
</tbody>
</table>
The increase in the emissions of pollutants emitted into the atmosphere as compared to 2011 was related to the use of more or different kinds of enamels, adhesives, varnishes, solvents, and a new, more accurate software for the collection of environmental data.

There were no major leaks in the reporting period and failures of the transmission system that result in emissions of natural gas into the atmosphere are not classified as environmental accidents according to the Act on the damage to the environment, or as industrial accidents in accordance with the provisions of Environmental Protection Law.

Noise levels were also continuously monitored at system facilities, such as gas stations and compressor stations.

Water

GAZ-SYSTEM S.A. continuously monitors and strives to reduce its water consumption. Water consumption volumes for the reporting period are presented in the following table:

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total consumption of water used directly by the organisation by source</td>
<td>203,933 m³</td>
<td>188,859 m³</td>
</tr>
<tr>
<td>– by intermediaries (e.g., utility companies) regardless of the source</td>
<td>29,426 m³</td>
<td>19,316 m³</td>
</tr>
<tr>
<td>Total volume of water in cubic meters per annum drawn from groundwater</td>
<td>174,507 m³</td>
<td>169,543 m³</td>
</tr>
</tbody>
</table>

Effluents

The produced and treated domestic and process effluents were primarily discharged either to water or to the ground, and alternatively to sewage utility networks. A small portion was disposed of two septic tanks.

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total volume of effluents by quality and ultimate place of disposal</td>
<td>83,404 m³</td>
<td>67,302 m³</td>
</tr>
<tr>
<td>– Effluents discharged to sewage system</td>
<td>27,735 m³</td>
<td>15,112 m³</td>
</tr>
<tr>
<td>– Effluents disposed of by vehicles to waste water treatment plants</td>
<td>3,645 m³</td>
<td>834 m³</td>
</tr>
<tr>
<td>– Effluents discharged to surface waters (lake, river, etc.)</td>
<td>51,812 m³</td>
<td>51,123 m³</td>
</tr>
<tr>
<td>– Effluents discharged to groundwater</td>
<td>0 m³</td>
<td>0 m³</td>
</tr>
<tr>
<td>– Effluents discharged through the soil</td>
<td>192 m³</td>
<td>233 m³</td>
</tr>
</tbody>
</table>

Wastes

The total volume of waste produced in the reporting period was 2837.46 Mg. All waste is sorted, neutralised or recycled in accordance with the applicable regulations, and collected by authorised recipients.

The reduction of the produced waste volumes is achieved, among other things, through increased recycling rates for scrap metals and paper. In 2012, the company adopted “Guidelines for handling scrap and other recyclable assets originating from fixed assets of Gas Transmission Operator GAZ-SYSTEM S.A.” The Guidelines regulate, among other things, the rules for handling scrap produced during investment and maintenance works carried out by external contractors.

The rules for handling scrap produced in the course of works conducted internally are set forth in the “Waste Management Procedure”.

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total weight of waste by type and disposal method</td>
<td>339,761 Mg</td>
<td>283,46 Mg</td>
</tr>
<tr>
<td>– Hazardous waste (as defined in national legislation)</td>
<td>86,599 Mg</td>
<td>97,89 Mg</td>
</tr>
<tr>
<td>– Non-hazardous waste</td>
<td>160,751 Mg</td>
<td>273,57 Mg</td>
</tr>
<tr>
<td>Total weight of recycled waste</td>
<td>504,365 Mg</td>
<td>207,10 Mg</td>
</tr>
</tbody>
</table>

In compliance with the applicable laws, in 2012, the company paid environmental charges, including:

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for waste disposal totaling EUR 82,542.20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs of water purchase in the amount of EUR 19,574.40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs of effluent collection, which added up to EUR 26,378.80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The amount spent on surveys and measurements in respect of air emissions, noise emissions, water and effluent quality, water level in wells totalled EUR 40,213.2 in 2012.

In the reporting period, no fines or non-monetary sanctions for non-compliance with environmental laws and regulations were levied on the company.
To the Shareholders and Supervisory Board of Operator Gasociągów Przemysłowych GAZ-SYSTEM S.A.

We have audited the attached financial statements of Operator Gasociągów Przemysłowych GAZ-SYSTEM S.A. with its registered office in Warsaw, at Mokotowska 4, including an introduction to the financial statements, balance sheet prepared as at 31 December 2012, profit and loss account, statement of changes in equity, cash flow statement for the financial year from 1 January 2012 to 31 December 2012 and notes.

On 19 February 2013 we issued an unqualified opinion of those financial statements. The audited financial statements constituted basis of preparation of attached condensed financial statements.

Preparation of the attached financial statements in line with the law is the responsibility of the Management and Supervisory Board of the Company.

The Management Board of the Company and members of its Supervisory Board are obliged to ensure that the condensed financial statements and the report on the activities meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330).

Our responsibility was to ensure that the condensed financial statements comply with the full version of the financial statements.

In our opinion the attached condensed financial statements comply in all material aspects with the full version of the financial statements for the financial year ended on 31 December 2012, which constituted basis of their preparation.

The full version of the financial statements that was subject of our audit consists of introduction to the financial statements and notes, which were not presented in full in the attached condensed financial statements. For better understanding of the Company’s financial position in 2012 the attached condensed financial statements should be analyzed accompanied by the full version of the financial statements as well as the audit opinion and report.

The above audit opinion is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Piotr Sokólkowski  
Key certified auditor  
conducting the audit  
o. 9752

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (former: Deloitte Audit Sp. z o.o.) – recorded under number 73 on the list of entities authorized to provide audit services, kept by the National Council of Statutory Auditors.

Piotr Sokólkowski – Vice-Chairman of the Management Board of Deloitte Polska Sp. z o.o. – General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (former: Deloitte Audit Sp. z o.o.)

Warsaw, 21 May 2013

Balance Sheet (PLN million)

<table>
<thead>
<tr>
<th>No</th>
<th>Item</th>
<th>At 31/12/2011</th>
<th>At 31/12/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Intangible assets</td>
<td>35</td>
<td>39</td>
</tr>
<tr>
<td>2</td>
<td>Plant and equipment</td>
<td>3,823</td>
<td>4,582</td>
</tr>
<tr>
<td>3</td>
<td>Long-term receivables</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Long-term investments</td>
<td>674</td>
<td>1,373</td>
</tr>
<tr>
<td>5</td>
<td>Long-term accruals</td>
<td>41</td>
<td>56</td>
</tr>
<tr>
<td>B</td>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Inventories</td>
<td>42</td>
<td>72</td>
</tr>
<tr>
<td>2</td>
<td>Short-term receivables</td>
<td>72</td>
<td>159</td>
</tr>
<tr>
<td>3</td>
<td>Short-term investments</td>
<td>1,443</td>
<td>523</td>
</tr>
<tr>
<td>4</td>
<td>Short-term accruals</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>TOTAL ASSETS</td>
<td>6,152</td>
<td>6,808</td>
</tr>
<tr>
<td>A</td>
<td>Equity</td>
<td>5,488</td>
<td>5,317</td>
</tr>
<tr>
<td>1</td>
<td>Share capital</td>
<td>3,772</td>
<td>3,772</td>
</tr>
<tr>
<td>2</td>
<td>Other capital</td>
<td>1,364</td>
<td>1,396</td>
</tr>
<tr>
<td>3</td>
<td>Accumulated profit (loss)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Net profit/loss</td>
<td>417</td>
<td>306</td>
</tr>
<tr>
<td>5</td>
<td>Write-off of net profit during the financial year</td>
<td>-65</td>
<td>-159</td>
</tr>
<tr>
<td></td>
<td>TOTAL EQUITY AND LIABILITIES</td>
<td>6,152</td>
<td>6,808</td>
</tr>
<tr>
<td>B</td>
<td>Liabilities and provisions for liabilities</td>
<td>664</td>
<td>1,491</td>
</tr>
<tr>
<td>1</td>
<td>Provisions for liabilities</td>
<td>163</td>
<td>190</td>
</tr>
<tr>
<td>2</td>
<td>Long-term liabilities</td>
<td>0</td>
<td>300</td>
</tr>
<tr>
<td>3</td>
<td>Short-term liabilities</td>
<td>216</td>
<td>387</td>
</tr>
<tr>
<td>4</td>
<td>Accruals</td>
<td>285</td>
<td>614</td>
</tr>
</tbody>
</table>

TOTAL EQUITY AND LIABILITIES 6,152 6,808
### Income Statement (PLN million)

<table>
<thead>
<tr>
<th>No</th>
<th>Item</th>
<th>For 1-12.2011</th>
<th>For 1-12.2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Income from sales and equivalent income</td>
<td>1,530</td>
<td>1,631</td>
</tr>
<tr>
<td>2</td>
<td>Costs of operating activities</td>
<td>1,100</td>
<td>1,314</td>
</tr>
<tr>
<td>2.1</td>
<td>Depreciation</td>
<td>368</td>
<td>395</td>
</tr>
<tr>
<td>2.2</td>
<td>Consumption of materials and energy</td>
<td>136</td>
<td>165</td>
</tr>
<tr>
<td>2.3</td>
<td>Contracted services</td>
<td>237</td>
<td>331</td>
</tr>
<tr>
<td>2.4</td>
<td>Taxes and charges</td>
<td>86</td>
<td>96</td>
</tr>
<tr>
<td>2.5</td>
<td>Wages and salaries</td>
<td>189</td>
<td>215</td>
</tr>
<tr>
<td>2.6</td>
<td>Social insurance and other benefits</td>
<td>58</td>
<td>69</td>
</tr>
<tr>
<td>2.7</td>
<td>Other allocated costs</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td>2.8</td>
<td>Value of goods and materials sold</td>
<td>3</td>
<td>22</td>
</tr>
<tr>
<td>3</td>
<td>Profit (loss) on sales (1-2)</td>
<td>430</td>
<td>317</td>
</tr>
<tr>
<td>4</td>
<td>Other operating income</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>5</td>
<td>Other operating expenses</td>
<td>44</td>
<td>17</td>
</tr>
<tr>
<td>6</td>
<td>Operating profit (loss) (3-4-5)</td>
<td>456</td>
<td>330</td>
</tr>
<tr>
<td>7</td>
<td>Financial income</td>
<td>67</td>
<td>56</td>
</tr>
<tr>
<td>8</td>
<td>Financial expenses</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>9</td>
<td>Profit (loss) on ordinary activities (4+7-8)</td>
<td>519</td>
<td>379</td>
</tr>
<tr>
<td>10</td>
<td>Extraordinary profits (losses)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>Profit/loss before taxation (9+10)</td>
<td>519</td>
<td>379</td>
</tr>
<tr>
<td>12</td>
<td>Income tax and deferred taxes</td>
<td>102</td>
<td>73</td>
</tr>
<tr>
<td>13</td>
<td>Net profit/loss</td>
<td>417</td>
<td>306</td>
</tr>
</tbody>
</table>

### Cash Flow Statement (PLN million)

<table>
<thead>
<tr>
<th>No</th>
<th>Item</th>
<th>For 1-12.2011</th>
<th>For 1-12.2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Cash flow from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Net profit/loss</td>
<td>352</td>
<td>147</td>
</tr>
<tr>
<td>2</td>
<td>Total adjustments</td>
<td>493</td>
<td>354</td>
</tr>
<tr>
<td>3</td>
<td>Net cash flows from operating activities (1+2)</td>
<td>845</td>
<td>501</td>
</tr>
<tr>
<td>B</td>
<td>Cash flow from investment activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Receipts</td>
<td>0</td>
<td>36</td>
</tr>
<tr>
<td>2</td>
<td>Outflows</td>
<td>403</td>
<td>1,544</td>
</tr>
<tr>
<td>3</td>
<td>Net cash flows from operating activities (1-2)</td>
<td>-403</td>
<td>-1,508</td>
</tr>
<tr>
<td>C</td>
<td>Cash flow from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Receipts</td>
<td>128</td>
<td>574</td>
</tr>
<tr>
<td>2</td>
<td>Outflows</td>
<td>102</td>
<td>481</td>
</tr>
<tr>
<td>3</td>
<td>Net cash flows from financing activities (1-2)</td>
<td>26</td>
<td>93</td>
</tr>
<tr>
<td>D</td>
<td>Total net cash flow (A.3 ± B.3 ± C.3)</td>
<td>468</td>
<td>-914</td>
</tr>
<tr>
<td>E</td>
<td>Balance sheet increase/decrease in cash and cash equivalents</td>
<td>473</td>
<td>-920</td>
</tr>
<tr>
<td>F</td>
<td>Cash and cash equivalents at beginning of period</td>
<td>969</td>
<td>1,437</td>
</tr>
<tr>
<td>G</td>
<td>Cash and cash equivalents at end of period (F+D)</td>
<td>1,437</td>
<td>523</td>
</tr>
</tbody>
</table>
In 2012, the company continued to deliver robust financial results. Both the balance sheet and cash flow clearly demonstrate an acceleration in the implementation of the investment programme. This resulted in increased total assets (especially tangible fixed assets), higher depreciation and capital expenditures. Increased capital expenditures in 2012 were financed mainly from cash generated in past financial years. It should be noted that in 2012 the company made use of debt financing for the first time by taking out about EUR 75 million loan from the European Investment Bank in December 2012. Bank loans in addition to efficiently obtained EU funds are becoming a significant addition to cash generated from operating activities in the financing of GAZ-SYSTEM S.A.’s investment plan. We no longer generate such high interest revenues on deposits as in previous years, on the contrary, we began to pay interest on our loans. In the coming years, we expect to further increase both the total assets and our indebtedness. The company is a very intensive investment phase due to the construction of the LNG terminal and expansion of the transmission network.

### Financial ratios:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– margin on sales</td>
<td>34%</td>
<td>23%</td>
</tr>
<tr>
<td>– net margin on sales</td>
<td>27%</td>
<td>19%</td>
</tr>
<tr>
<td>– net return on equity (ROE)</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>– return on assets (ROA)</td>
<td>7%</td>
<td>4.7%</td>
</tr>
<tr>
<td>– EBIT (PLN million)</td>
<td>430</td>
<td>317</td>
</tr>
<tr>
<td>– EBITDA (PLN million)</td>
<td>798</td>
<td>713</td>
</tr>
<tr>
<td><strong>Liquidity/debt ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– debt ratio</td>
<td>11%</td>
<td>22%</td>
</tr>
<tr>
<td>– current ratio</td>
<td>7.3</td>
<td>2.0</td>
</tr>
<tr>
<td>– quick ratio</td>
<td>7.0</td>
<td>1.8</td>
</tr>
<tr>
<td>– cash ratio</td>
<td>6.7</td>
<td>1.4</td>
</tr>
</tbody>
</table>
ABOUT THE REPORT

- CSR Implementation and Plan
- Index Table
- Contact
- Evaluation Questionnaire
Deloitte Adviser Sp. z o.o.
2 Widoków w Warszawie
02-068 Warszawa
Poland

Tel: +44 22 911 80 11
Fax: +44 22 911 80 13
www.deloitte.com/pl


To the Management Board of GAZ-SYSTEM S.A.

We have reviewed the non-financial part of the Integrated Annual Report of GAZ-SYSTEM S.A. for 2012 ("Integrated Annual Report") developed by GAZ-SYSTEM S.A. with the registered address in Warsaw, ul. Mieczysława 4 ("Company"), with respect to indicators reported on the basis of G3.1 Sustainable Development Reporting Guidelines for B level issued by Global Reporting Initiative (GRI). The assurance work covered the period from 1 January 2012 to 31 December 2012 with relation to quantity and quality of available evidence.

The Management Board of the Company is responsible for reliable, correct and fair information and for correct preparation of the documentation. Our task was to issue an independent assurance report based on the Integrated Annual Report.

Our procedures did not include assessment of the fairness, correctness and completeness of documents provided by the Company, nor did they constitute an audit of the internal control system implemented therein. Therefore, we do not express an opinion concerning correctness of the system. Our procedures did not constitute an audit of financial statements as defined in the Accounting Act. Therefore, we do not express an opinion concerning the auditor’s Report nor do we make statements regarding the financial statements of the Company as determined in regulations applicable to certified auditors.

Planning and performing our works had the nature of a limited assurance engagement performed in line with ISAE 3000 (Assurance Engagements Other than Audits or Reviews of Historical Financial Information), which requires us to plan and perform the engagement in a manner which allows for limited assurance that the non-financial part of the Integrated Annual Report does not include significant misstatements. The scope and methodology of a review of the Integrated Annual Report significantly differ from those applied during an audit, which is aimed at expressing reasonable assurance. The purpose of the review is not to issue an opinion on correct, true and fair nature of the Integrated Annual Report, and therefore no such opinion has been issued. The procedures followed during the review of the non-financial part of the Integrated Annual Report comprised:

- Identifying issues and results significant for the content of the Integrated Annual Report from the viewpoint of the corporate social responsibility strategy followed by the Company and stakeholders’ expectations;
- Comparing data included in the non-financial part of the Integrated Annual Report to those presented in the Financial Statements of GAZ-SYSTEM for 2012;
- Interviewing individuals in charge of the implementation of the corporate social responsibility strategy in the Company and of the preparation of Integrated Annual Report;
- Verifying the information included in the Integrated Annual Report for compliance with the internal documentation of the Company;
- Assessing the level of compliance with Sustainable Development Reporting Guidelines and GRI Reporting Framework.

Based on the review we obtained limited assurance that the information concerning indicators reported by the Company included in the non-financial part of the Integrated Annual Report developed by the GAZ-SYSTEM S.A. is free from material misstatements and it is compliant with G3.1 Sustainable Development Reporting Guidelines for level B issued by Global Reporting Initiative.

Deloitte Adviser Sp. z o.o.
Warsaw, 24 June 2013

Salomea Primorska
Warsaw, 4/35-00004/78, NIP 527-00-00-79-00, REGON 001422622
Capital contributions: 10,000,000 PLN
Member of Deloitte Touche Tohmatsu Limited

Statement

GRI Application Level Check

GRI hereby states that Gas Transmission Operator GAZ-SYSTEM S.A. has presented its report "The system that connects responsible" (2013) to GRI’s Report Services which have concluded that the report fulfills the requirement of Application Level B+. GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the G3.1 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/AICL-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 18 June 2013

Nelma Arbex
Deputy Chief Executive
Global Reporting Initiative

The "+" has been added to this Application Level because Gas Transmission Operator GAZ-SYSTEM S.A. has submitted (part of) this report for external assurance. GRI accepts the reporter’s own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world’s most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organisations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

Disclaimer: Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 12 June 2013. GRI explicitly excludes the statement being applied to any later changes to such material.
This integrated annual report describes the activities supporting sustainable development undertaken by GAZ-SYSTEM S.A. and presents the financial and non-financial performance for the year 2012. The company adopted an annual reporting cycle and this document is the second report prepared based on the Guidelines of the Global Reporting Initiative (GRI) according to version G3.1 and application level B+. At this level, it is required that at least 20 indicators are presented and grouped into economic, social and environmental ones. The present report discloses 37 indicators. The calculation methods applied in the report are those specified in the GRI guidelines. The information provided in the report was compiled based on the analyses and statistics kept by the company, and its scope covers both the head office of GAZ-SYSTEM S.A. and its six branches.

This integrated annual report was subject to external assurance with regard to non-financial information by an independent assurance provider, i.e. Deloitte Advisory Sp. z o.o. having its registered office in Warsaw. The study carried out by Deloitte was conducted in accordance with the applicable international standards, based on the International Standard on Assurance Engagements 3000 (ISAE 3000) that is “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” established by the International Federation of Accountants, IFAC.

To ensure the completeness of the document, the company organised internal workshops during which the guidelines for the report were defined. The participants collected essential data concerning the projects implemented by the company within respective areas of the business strategy. Customers, local communities and financing institutions were recognised as the key stakeholders of the integrated annual report. In the preparation of the 2012 integrated annual report, the company drew on the best available practices in respect of financial and non-financial reporting and followed the principles of accuracy, materiality, completeness, comparability, balanced judgement and credibility. Its content was developed in consultation with our internal stakeholders and approved by leaders of particular thematic areas. All the data presented in this report were collected in a diligent and responsible manner and verified for consistency with the reality.

Prioritisation of key issues addressed in the report

Goal 2012 2013

MARKET
Consultations on new Network Code completed
Preparation of a Network Code Manual planned
Consultations on a bundled product completed
Customer Satisfaction Survey and development of the Information Exchange System completed
Audits of qualified suppliers completed
Trainings for suppliers and subcontractors completed
CSR newsletter completed
Preparation of an integrated annual report according to GRI guidelines completed

WORKPLACE
Definition of the Rules for the functioning of an organisation to manage sustainable development aspects together with the Procedure for an information gathering system to report on sustainable development aspects according to the guidelines of the Global Reporting Initiative (GRI). completed
Definition and implementation of employee volunteering strategy completed in progress
Implementation of Electronic Document Flow in progress in progress

ENVIRONMENT
Third Edition of Natural Energy Fund Grant Competition in progress completed
Compensatory planting and monitoring in progress in progress
Environmental monitoring related to gas pipeline construction projects planned

LOCAL COMMUNITIES
Community dialogue related to executed investment projects completed in progress
School kit programme for first formers completed planned
Sponsoring initiatives completed in progress

Any questions concerning this integrated annual report of GAZ-SYSTEM S.A. should be addressed to Ms Małgorzata Polkowska, Spokesperson for GAZ-SYSTEM S.A., phone: +48 22 220 15 46, email: pr@gaz-system.pl

Małgorzata Polkowska
Spokesperson for GAZ-SYSTEM S.A.
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<td>Statement from the most senior decision-maker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.</td>
<td>3, 4</td>
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<td>Primary brands, products, and/or services.</td>
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<td>2.4</td>
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<td>Location of organisation’s headquarters.</td>
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<td>2.5</td>
<td></td>
<td>Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.</td>
<td>7</td>
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<td>2.6</td>
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<td>7, 53</td>
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<td>Awards received in the reporting period.</td>
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<td>18 October 2012</td>
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<td>Reporting cycle.</td>
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<td>• Prioritizing topics within the report</td>
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<td>• Identifying stakeholders the organization expects to use the report</td>
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<td></td>
<td>Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).</td>
<td>97</td>
<td>full</td>
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<td>3.7</td>
<td></td>
<td>Statement concerning any specific limitations on the scope or boundary of the report.</td>
<td>97, there are no limitations on the scope or boundary of the report</td>
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<td>Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.</td>
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<td>3.10</td>
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<td>Explanation of the effect of any re-statements of information provided in earlier reports and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).</td>
<td>No re-statement</td>
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<td>3.11</td>
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<td>Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.</td>
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<td>7.5.3</td>
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<td>97</td>
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<td></td>
<td></td>
<td>If not included in the assurance report accompanying the sustainability report, explanation of the scope and basis of any external assurance provided.</td>
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<td></td>
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<td>Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.</td>
<td>13</td>
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<td>4.2</td>
<td>6.2</td>
<td>Indication whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation’s management and the reasons for this arrangement).</td>
<td>14</td>
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<tr>
<td>4.3</td>
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<td>The number and gender of members of the highest governance body that are independent and/or non-executive members (for organisations that have a unitary board structure of the supervisory board/highest governance body).</td>
<td>14</td>
<td>full</td>
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<td>4.4</td>
<td>6.2</td>
<td>Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.</td>
<td>14, 76</td>
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<tr>
<td>4.5</td>
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<td>Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation’s performance (including social and environmental performance).</td>
<td>13, 14</td>
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<tr>
<td>4.6</td>
<td>6.2</td>
<td>Processes in place for the highest governance body to ensure conflicts of interest are avoided.</td>
<td>13, 25</td>
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The system that connects

4.11 Basis for identification and selection of stakeholder groups engaged by the organisation.

4.12 Procedures of the highest governance body for overseeing the organisation’s identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence to compliance with internationally agreed standards, codes of conduct, and principles. Include frequency with which the highest governance body assesses sustainability performance.

4.13 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.

4.14 List of stakeholder groups engaged by the organisation.

4.15 Basis for identification and selection of stakeholders with whom to engage.

4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.

4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.

Management Approach – Economics

Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.

Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.

4.8 Procedures of the highest governance body for overseeing the organisation’s identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence to compliance with internationally agreed standards, codes of conduct, and principles. Include frequency with which the highest governance body assesses sustainability performance.

4.10 Processes for evaluating the highest governance body’s own performance, particularly with respect to economic, environmental, and social performance.

4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.

4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.

Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation:

• Has positions in governance bodies;
• Participates in projects or committees;
• Provides substantive funding beyond routine membership dues;
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# Management Approach – Responsibility for Products and Services

1. Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.
2. Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.
3. Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcome.
4. Program for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
5. Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.
6. Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.
7. Return to work and retention rates after parental leave, by gender.
8. Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken (a significant or contractor is among the top 10 key suppliers or subcontractors of the company).
9. Total number of incidents of discrimination and corrective actions taken.
10. Percentage of security personnel trained in the organisation’s policies or procedures concerning aspects of human rights that are relevant to operations.
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