LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

I have again the pleasure of presenting the integrated annual report of Gas Transmission Operator GAZ-SYSTEM S.A. on behalf of the Supervisory Board.

The past year meant a lot of work for the company as it executed and financed a lot of investment projects but – owing to efficient finance management – still managed to achieve net profit of PLN 404 million. In 2014, GAZ-SYSTEM S.A. strengthened its leadership position among Central European transmission system operators through the implementation of an ambitious investment plan including, inter alia, the creation of new capabilities for gas imports to Poland by enabling physical reverse-flow capacity in the Yamal Pipeline. Thereby the company ensured significant improvement of the security of gas supply to Poland and created technical capabilities for companies to buy gas on the European market at a competitive price.

The results of the investment programme the company has consistently implemented since 2009 include over 1,200 km of new gas pipelines built and the increase of technical capacity to import gas to Poland from a direction alternative to the eastern one up to 90%. The company engages in continuous dialogue with its stakeholders and partners, nurtures good relations and supports economic development of the regions where it carries out its activities.

Over the past few years, GAZ-SYSTEM S.A. has built its reputation as a stable and responsible company which appreciates the commitment and knowledge of its employees, the competencies of our people enable quick and efficient achievement of the company’s business goals.

The report I encourage you to read has been prepared, for the fourth time, according to the international guidelines of the Global Reporting Initiative (GRI). This is an evidence of the company’s serious approach to its business strategy and the transparency of its operations. GAZ-SYSTEM S.A. provides comprehensive information on its economic, social and environmental impacts.

I truly believe that the financial and non-financial performance of the company, as well as the gas transmission projects described in this report deserve your recognition.

Jerry Molak
Chairman of the Supervisory Board
Ladies and Gentlemen,

The report you have in front of you summarises the activities of GAZ-SYSTEM S.A. in 2014.

Last year, we celebrated the tenth anniversary of the company. A decade ago we set out to build a competitive gas market in Poland and energy independence of our country in terms of technical capacity for access to diversified sources of supply. We are convinced that crucial changes on the Polish natural gas market have taken place over the last few years as a result of the projects implemented by GAZ-SYSTEM S.A. Over the last year we consistently focused on building the company's value, security of gas supply and infrastructure development.

In the meantime, we improved management efficiency. We rebuilt in-house operation organisation and thus strengthened the supervision of the safety of the transmission network. We also managed to diversify our customer portfolio while growing their number from merely two in 2009 to over seventy in 2014. They are the crucial stakeholder group with whom we maintain continuous dialogue and consult our development plans and the regulations of the Network Code.

Now, we are about to start another investment programme to build over 2000 km of new transmission pipelines. We take up this challenge because we want to offer an integrated gas transportation service to our customers, including gas regasification, transmission and storage.

We have secured extremely efficient, secure and cost-effective financing for our development. The majority of our loans (only partly utilized) originate from the European Investment Bank and the European Bank for Reconstruction and Development. This ensures very flexible financing of our investment projects. In 2014, we were also one of the largest beneficiaries of EU subsidies and we not only intend to maintain this position but also to increase the absorption of EU funds in the near future. Our projects implemented jointly with partners from Lithuania, Slovakia and the Czech Republic have already qualified for support in the amount of over EUR 300 million under the Connecting Europe Facility.

Another major challenge we face concerns the development of a modern business concept for the company to be able to offer our infrastructure for commercial use by our partners across Europe. Our strategic geographical location, attractive offer and flexible transmission system should change the company’s revenue mix. Thereby we will become a leading transmission operator in Europe.

In 2015, we will continue our efforts to improve the effectiveness and efficiency of our company based on the highest global standards, trust and commitment, as well as respect for each other and for the stakeholders. We want to build a modern and responsible company which could be an inspiration for others, just as we are taking inspiration from best models worldwide.

Our achievements and successful confrontation with challenges would not be possible without the daily efforts of our employees. I would like to thank them for their commitment and contribution to the activities and projects accomplished in 2014.

Yours sincerely,

Jan Chadam
President of the Management Board, CEO
WHO WE ARE

GRI 2.2
The company’s head office is located in Warsaw, at 4 Mazowiecka St., with Branches in: Gdańsk, Poznań, Rembelszczyzna, Tarnów, Święklany and Wrocław.

GRI 2.3
The company is also the shareholder of Polskie LNG S.A., a dedicated subsidiary established to develop the terminal for off-take and re-gasification of liquefied natural gas (LNG) in Świnoujście.

GRI 2.5
On the forum of the EU institutions, GAZ-SYSTEM S.A. acts through its Brussels Office, which operates under the guidelines of the European Commission and the European Parliament in relation to the requirements and best practices regarding activity related to the European Union. The company also has its permanent representatives accredited to the European Parliament.

In 2014, the key issues of interest for the company within the framework of the European energy policy included:

- definition of the future, long-term EU energy and climate policy, including in particular the new EU energy and climate targets by 2030 and 2050,
- creation and shape of the future Energy Union,
- development of a liquid and competitive energy market in the EU,
- implementation of 3rd Energy Package,
- development of gas infrastructure to guarantee the transmission of natural gas between individual national and regional markets,
- improvement of security of gas supply,
- ensuring support for the company’s projects and initiatives at the political/administrative and regulatory/financial levels under EU programmes and schemes.

GAS TRANSMISSION OPERATOR
GAZ-SYSTEM S.A.:

1. is a strategic company for Poland’s economy and energy security
2. is a company responsible for the transmission of natural gas and the management of the transmission network in Poland
3. acts as a transmission system operator and the independent operator of the Polish section of the Yamal-Europe natural gas pipeline (Transit Gas Pipeline System Yamal-Europe)
4. is a joint stock company with share capital of PLN 3,771,990,842.00
   The owner’s supervision over the company is exercised by the Ministry of Economy

*Values of 31.12.2014

MAP OF POLISH TRANSMISSION SYSTEM
Detailed map of the transmission system is available of www.en.gaz-system.pl
Source: Archives of GAZ-SYSTEM S.A.
Gas pipelines on the maps are shown schematically.
The volume of transported gas accounts for the operation of UGS facilities and the transmission of low-methane gas (Lw), after volume conversion to high-methane gas (E) equivalent. In 2014, the settlements in respect of transmission services were based on energy units, and therefore the quantity of transported gas in volume units is only presented as an illustrative value.

**QUANTITY OF GAS TRANSPORTED:**

**Including UGS**
16.5 bcm/189 TWh*

**Excluding UGS**
14.9 bcm/171 TWh**

*The volume of transported gas comprises low-methane gas (Lw), after volume conversion to high-methane gas (E) equivalent. In 2014, the settlements in respect of transmission services were based on energy units, and therefore the quantity of transported gas in volume units is only presented as an illustrative value.

**SHAREHOLDER STRUCTURE**
100% Shares held by the State Treasury

**TOTAL ASSETS**
8,977 PLN million

**NET PROFIT**
1,920 PLN million

**CUSTOMERS**
80

**EMPLOYEES**
2,520

**COMPRRESSOR STATIONS**
14

**GAS STATIONS**
884

**SYSTEM POINTS**
57

**COSTS OF OPERATING ACTIVITIES**
1,470 PLN million

**LENGTH OF TRANSMISSION NETWORK**
10,323 km

**VALUES AT 31.12.2014**

**NET INCOME FROM SALES**
897,700 PLN million

**SHARES HELD BY THE STATE TREASURY**
100%

**COSTS OF OPERATING ACTIVITIES**
1,470 PLN million

**2.8 GRI**

**11% ANNUAL REPORT 2014**

**Gaz-System S.A.**

Values at 31.12.2014
GAZ-SYSTEM S.A.

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

Entry Point

Storage System Operator
Physical balancing
Performance of transmission contracts

Exit Points

- Imports
- Domestic sources
- Virtual point (HUB)

Physical performance of exchange transactions

Commercial balancing

Exports

Customers connection to the transmission network

Distribution System Operator

Customers connection to distribution networks
**Mission**

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

**Vision**

Our vision is to provide energy security and build the position of a major operator driving the integration of the transmission system in Europe through:

- creation of conditions for the development of a competitive market in natural gas in Poland, and the companies operating in the sector,
- construction of interconnections with the transmission systems of the neighbouring countries to integrate the European gas networks,
- development of modern gas pipeline network in Poland and offering advanced services to enable its optimised utilization.

**OUR VALUES**

- **Responsibility**
  - Our actions are guided by responsibility towards stakeholders and the environment we operate in.
- **Commitment**
  - We are fully committed to our activity – we appreciate the contribution of each employee to our present and future success.
- **Teamwork**
  - We believe that through cooperation we will be able to provide top quality services and therefore promote teamwork in our company. This entails opening up to others and their ideas.
- **Professionalism**
  - We promote professionalism of our employees – we want to achieve our objectives through, above all, the continuous development of the knowledge and skills of our staff.
- **Respect**
  - We treat our stakeholders with the utmost respect and exhibit the highest standards of integrity.

**OUR STRATEGY**

The Strategy of GAZ-SYSTEM S.A. sets out five strategic directions:

- Safety
  - ensure safe operation of the transmission system as an element of the European gas pipeline networks
- Market Development
  - create optimum conditions in Poland for the development of a liberalised market for natural gas as an environmentally friendly fuel
- Effective Management
  - ensure effective and sustainable improvement of the company’s operational and organisational 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

In the beginning of 2014, at the initiative of the Strategy Officer, a review of projects approved for implementation under the current corporate strategy was undertaken. The analysis showed that GAZ-SYSTEM S.A. completed most of the objectives set out for the years 2011-2014. Taking this into regard and based on the results of the review, interviews with organisational unit managers and strategic workshops for the management team, an updated Action Plan, which makes part of the strategy document, was prepared. The proposal of the updated Action Plan was approved by the Management Board in September 2014.

**CODE OF ETHICS**

With a view to ensuring the highest ethical standards, in 2009 GAZ-SYSTEM S.A., jointly with its employees, defined a Code of Ethics. The document sets out the rules of conduct and key values to drive the behaviours and decision making in the company. The principles set out in the code concern, among other things, the participation in public life and lobbying, hiring and treatment of employee family members, as well as the use of the company’s assets.

In 2014, the Code of Ethics was reviewed and supplemented with additional provisions concerning: human rights, prevention of disclosure of misleading information, external relations and transparency of the company’s representation in the lobbying context, government relations and whistle-blowing policies.

According to the provisions of the Code of Ethics, the company’s employees can participate in social and political life as individuals but the information gained whilst in the employment of the company may not be used for political purposes.

The company ensures that the corporate space is free from politics. It is prohibited to electioneer and manifest one’s political views and present one’s beliefs in an ostentatious and overbearing manner.

The company does not endorse nor provide any financial support for any political parties, organisations or movements, or any individuals engaged in political activities.

In 2014, the company did not provide any training on the Code of Ethics.
**CORPORATE GOVERNANCE**

**MANAGEMENT BOARD**

The company’s day-to-day business is run by the Management Board which in 2014 was composed of 4 members. The members are appointed by the Supervisory Board 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.

**GRI 4.1**  The company also appoints the Managing Director who oversees the work of selected organisational units engaged in operating activities.

**GRI 4.4**  The Management Board acts pursuant to its Bye-Laws, which are approved by the Supervisory Board and contain, among other things, provisions of the conflict of interest to the Board Members may be exposed to.

**GRI 4.5**  In accordance with the provisions of the Articles of Association of Gas Transmission Operator GAZ-SYSTEM S.A., in the selection of 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 Management Board Members 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 requests the Shareholders’ Meeting for the determination of remuneration levels and the execution of contracts with the Management Board Members falling 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.

**GRI 4.7**  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 requests the Shareholders’ Meeting for the determination of remuneration levels and the execution of contracts with the Management Board Members falling 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.

**IN 2014, THE MANAGEMENT BOARD OF GAZ-SYSTEM S.A. WAS COMPOSED OF:**

- **Wojciech Kowalski**  
  Member of the Management Board  
  Wojciech Kowalski holds a degree in Mechanical Engineering from Wroclaw 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. In 1986, he joined Gaz Engineering Office Gazoprojekt S.A. 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.

- **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 Pro Futuro S.A., Warsaw, Member of the Board at Elpi S.A., Zabrze, Financial Director at SMTA Group, Lublin, President of the Board at SI-P-MOT S.A., Zamosc and Director of Internal Audit Department at Polskomtel S.A. 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. 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.

- **Dariusz Bogdan**  
  Vice-President of the Management Board  
  Dariusz Bogdan graduated from the Warsaw University of Technology, Faculty of Mechatronics and completed post-graduate studies in telecommunications, IT and management at the Faculty of Electronic Engineering and Information Technology of the Warsaw University of Technology. In the years 2007-2014, he served as Under-Secretary of State in the Ministry of Economy. His other roles included: Chairman of the Offset Agreements Committee, Chairman of the Supervisory Board of the Polish Agency for Enterprise Development, Member of the State Informationization Board and the Governmental Committee for Informatization and Communications. Prior to that, he worked as IT Manager at the Agricultural Market Agency. Vice-President of the Board of GAZ-SYSTEM S.A. since July 2014.

- **Sławomir Śliwiński**  
  Member of the Management Board  
  Sławomir Śliwiński graduated with a degree 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 Tasting and Certification and the European Organization for Quality (EOQ) and received an MBA diploma in 2008. Mr Śliwiński was President of the Board at the Pomeranian Gas Company Sp. z o.o. Prior to that, he worked for ZRG 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.

- **Kamil Zielonka**  
  Member of the Management Board  
  Kamil Zielonka is a member of the Management Board of GAZ-SYSTEM S.A. Since July 2007, he has held various posts connected with the company’s activity, including the position of IT Manager at the Agricultural Market Agency. He has also been Director of the Information System Department at the Ministry of Agriculture and Rural Development since 2013.
According to the Articles of Association of the company, the Supervisory Board is composed of 3 to 9 members who are appointed and recalled by the Shareholder Meeting, including one member elected from among the company’s employees (dependent member).

The candidate for the Supervisory Board to be elected by the employees must not report directly to any of the Board Members.

The candidate elected by the employees fulfills the role of the Secretary of the Supervisory Board and serves as a contact point for them to pass on comments and recommendations for the Supervisory Board.

Members of the Supervisory Board serve for a term of three years. The responsibilities of the Supervisory Board include oversight over all the aspects of the company’s activities, including the review 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 Supervisory 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 within the limits stipulated by the relevant regulations.

The activities of the Supervisory Board are subject to annual evaluation by the Shareholders’ Meeting, which takes form of acknowledging the fulfillment of duties and includes an assessment on the progress on the business strategy implementation.

Ordinary Shareholder Meetings are 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 shareholder. The Shareholders’ Meeting may only adopt resolutions proposed in the agenda.

IN 2014, THE SUPERVISORY BOARD WAS COMPOSED OF SEVEN MEMBERS

Jerzy Molak
- Independent member, Chairman of the Supervisory Board, does not hold any function within the Management Board of the company

Sławomir Kutyła
- Independent member, Vice-President of the Supervisory Board

Włodzimierz Wolski
- Dependent member, Secretary of the Supervisory Board

Jarosław Gniazdowski
- Independent member of the Supervisory Board

Waldemar Kamrat
- Independent member of the Supervisory Board

Piotr Mateja
- Independent member of the Supervisory Board

Paweł Pikus
- Independent member of the Supervisory Board

Percentage of Supervisory Board members by age:

<table>
<thead>
<tr>
<th>Age</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age below 30</td>
<td>15%</td>
</tr>
<tr>
<td>Age 30-50</td>
<td>28%</td>
</tr>
<tr>
<td>Age over 50</td>
<td>57%</td>
</tr>
</tbody>
</table>

The Supervisory Board’s status as at 31.05.2015 in the ANNUAL REPORT 2014.
### EMPLOYMENT STRUCTURE

**2013** | **2014**
---|---
Total number of employees*: | 597 | 1 796 | 624 | 1 896
Łącznie | 2 393 | 2 520
Number of supervised personnel**: | 31 | 234 | 34 | 163
Łącznie | 265 | 197
Ratio of the number of persons employed under short-term contracts to the number of persons with employment contracts: | 0,88% | 0,95%
Employees with employment contracts, of whom: | 2 393 | 2 520
Full-time employees: | 592 | 1 791 | 619 | 1 889
Łącznie | 2 383 | 2 508
Employees with definite–term contract: | 35 | 103 | 46 | 143
Łącznie | 138 | 189
Employees with short-term contracts: | 12 | 6 | 10 | 13
Łącznie | 18 | 23
Employees with specific-task contracts: | 1 | 2 | 0 | 1
Łącznie | 3 | 1
Employee structure by gender: | 25 | 75 | 25 | 75
Polish nationals: | 100% | 100%

* Men represent the majority in the personnel, which is related to the nature of the company’s operations and job assignments.

** Supervised personnel are persons who render work for GAZ-SYSTEM S.A. but are not the company’s employees (e.g. cleaners, catering personnel and security guards).

### Employee structure by age:

<table>
<thead>
<tr>
<th>Age</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age below 30</td>
<td>32.9%</td>
<td>67.1%</td>
</tr>
<tr>
<td>Total</td>
<td>9.5%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Age 30-50</td>
<td>26.8%</td>
<td>73.2%</td>
</tr>
<tr>
<td>Total</td>
<td>56.7%</td>
<td>56.7%</td>
</tr>
<tr>
<td>Age over 50</td>
<td>19.6%</td>
<td>80.4%</td>
</tr>
<tr>
<td>Total</td>
<td>33.8%</td>
<td>33.7%</td>
</tr>
</tbody>
</table>

| Part-time employees, of whom: | 5 | 5 | 5 | 7 |
| Total | 10 | 12 |

| Employees with indefinite-term contracts, of whom: | 562 | 1 693 | 578 | 1 753 |
| Total | 2 255 | 2 331 |

| Number of employees by Branch: | 2013 | 2014 |
| Head Office | 449 | 490 |
| Gdańsk | 14 | 194 |
| Poznań | 323 | 348 |
| Rempelczyn | 354 | 344 |
| Świeckany | 217 | 222 |
| Tarnów | 590 | 607 |
| Wrocław | 276 | 295 |
MANAGEMENT SYSTEMS

GRI 4.11

The risks involved in the operations carried out by GAZ-SYSTEM S.A. are responsibly addressed by the company. Since 2007, it has implemented an Enterprise Risk Management (ERM) process to monitor the changes in the external and internal environment, identify, assess and prioritize the risks, as well as to coordinate risk management activities, including those that are critically important for long-term operation of the company.

In 2014, the existing process solutions were subject to a review. New policies and procedures for corporate risk management were drafted based on the guidelines defined in ISO 31000 international standard. In addition, the catalogue of corporate risks was reviewed and updated. In 2015, the company plans to implement the new regulations and continue the integration of the ERM process with operational processes carried out by the company.

BUSINESS CONTINUITY MANAGEMENT

Efforts aimed at the implementation of a business continuity management according to ISO 22301 standard were undertaken in the reporting period, including the identification and analysis of risks affecting the critical processes and resources of the company, as well as to ensure the highest possible reliability and security of transmission services. The purpose of the project is to provide a quick, pre-planned and effective response in the event of an emergency situation, and to supplement preventive measures (protecting the company against any occurrences that could disturb the continuity of the transmission services) described in the risk management plan by undertaking regular identification and assessment of the weaknesses that could put the continuity of the company's business at risk.

Moreover, the project work included the definition of a response action in case of the occurrence of an emergency situation. The scope encompassed supplementing the procedures with solutions in case of an occurrence that disturbs the company's business to ensure continued operation of critical processes, clear assignment of responsibility for recovery actions in case when the business continuity is disturbed, introduction of ongoing supervision over the validity and relevance of the emergency plans, establishment of efficient communication with selected stakeholders of the company and alignment of the approach to business continuity management across the company. Furthermore, efforts were undertaken with a view to developing a system of quantitative assessment of operational risk related to gas pipelines, which is expected to support early identification of most failure-prone network elements and improve the efficiency of maintenance planning.

INVESTMENT PROCESS MANAGEMENT

The experience gained over the recent years during the intensive expansion of the transmission network enabled the modification and improvement of investment risk management procedures. Specifically, procedures concerning execution and supervision of works carried out in the vicinity of active gas pipelines were strengthened.

In 2014, the Supreme Audit Office carried out an audit and found no irregularities in the supervision over the safety of operated gas pipelines and the execution of new investments carried out by the company, which was described in a report titled "The adequacy of supervision over the safety of operated gas pipelines and the execution of new investments carried out by GAZ-SYSTEM S.A."

FRAUD RISK MANAGEMENT

In the reporting period, comprehensive audits were carried out in the Branches in Poznań and Tarnów, which focused on the key areas of their operations, taking into account the fraud risk.

In addition, audits involving the analysis and assessment of anti-fraud controls were conducted in the Head Office and all the Branches (100% of business units). The audits were concerned with the current regulations and procedures concerning, among other things, competitive activity, information disclosure, anti-corruption practices, protection of personal data and strategic information from the company's perspective. The analysis focused on both the approach to the design of key solutions in this area, and on their efficiency. [SO4] The audits did not reveal any instances of fraud or corruption.
In the reporting period, GAZ-SYSTEM S.A. also engaged in measures aimed at ensuring safe operation of the company. They concerned the following security and safety aspects: telecommunication, information, personal, property and facility, as well as insurance, defence duties performed by the company in connection with its management of facilities making part of critical infrastructure of the state.

The above-mentioned areas are managed by the company in accordance with international standards, which is confirmed by certificates of conformity issued by independent audit institutions:

- ISO 14001:2004 “Environmental Management Systems” with respect to: Natural gas transmission throughout the country
- ISO/IEC 27001:2005 “Information Security Management System” with respect to: the security of information concerning the management of gas transportation through transmission networks in the country in accordance with the Statement of Applicability, release 1.4 of 1/08/2014
- ISO/IEC 17025 “The competence of testing and calibration laboratories”
- BS OHSAS 18001:2007 “Occupational Health and Safety Management Systems” with respect to: the transmission of natural gas throughout the country (a system of procedures that regulate the performance of tasks including both investment process, and in the operation; review and consultation of gas-hazard work orders, project review, inspection of gas-hazard works, communication with sub-contractors and suppliers with regard to the occupational health and safety requirements and principles)

ADDITIONAL ORGANISATIONAL SOLUTIONS RELATED TO RISK MANAGEMENT:

- Transmission Network Operation System (a set of internal procedures and manuals describing in detail the methods of performance of specific operating activities within the transmission infrastructure, aimed at, inter alia, the mitigation of technical failure risks)
- Project risk management (an inherent part of the GazStep project management methodology implemented by GAZ-SYSTEM S.A.)
- Contingency Management Policy
- Contingency Management Policy
- ISO 14001:2004 "Environmental Management Systems" with respect to: Natural gas transmission throughout the country
- ISO/IEC 27001:2005 "Information Security Management System" with respect to: the security of information concerning the management of gas transportation through transmission networks in the country in accordance with the Statement of Applicability, release 1.4 of 1/08/2014
- ISO/IEC 17025 "The competence of testing and calibration laboratories"
In 2014, the company repeatedly achieved excellent financial results, both before and after taxation. The remarkable increase of customer interest in our modern products, i.e. interruptible and short-term services was the key driver of the company’s profitability. In this segment, we achieved three-times sales growth and the revenues reached PLN 183 million.

Last year we drove down the costs of external services as a result of implementing the operations in-sourcing programme and the reduced costs of material and energy consumption – we buy less gas for our own needs and thanks to being able to source the gas from western markets, we also buy it cheaper.

The company currently has over PLN 1.5 billion worth of outstanding loans. The vast majority of long-term financing originates from the European Investment Bank, which for me, personally, is quite gratifying as this international institution offers by far the cheapest long-term debt financing. The environmental, reporting and documentation requirements set by the EIB are not trivial to fulfil but it is definitely worth making the effort as thanks to it we can fully benefit from economically advantageous forms of financing.

The high level of cash in hand at the end of 2014 is quite particular from the company’s financial position perspective, but it is also of temporary nature. It is due to slower implementation of the investment programme than in 2013. The high cash balance at the end of 2014 should allow us to fully implement our investment plans in 2015, without a need for any additional third-party financing.

Adam Bryszewski
Director of Finance Division
GAZ-SYSTEM S.A.

FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance-sheet total</td>
<td>8 175</td>
</tr>
<tr>
<td>Equity</td>
<td>5 451</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>390</td>
</tr>
<tr>
<td>Net profit</td>
<td>319</td>
</tr>
<tr>
<td>Net income from sales and equivalent income</td>
<td>2 199</td>
</tr>
</tbody>
</table>

(in PLN million)  • EC 1

AUDITOR’S OPINION

To the Shareholder and Supervisory Board of Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.


On 16 March 2015 we issued an unqualified opinion on these financial statements. The audited financial statements constituted basis for preparation of the attached condensed financial statements.

Preparation of the attached condensed financial statements in line with the law is the responsibility of the Management Board 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 meet the requirements of the Accounting Act.

Our role was to ensure that the condensed financial statements are consistent with the full version of financial statements.

In our opinion the attached condensed financial statements in all material respects are consistent with the full version of financial statements prepared for the financial year ended 31 December 2014, which were basis for preparation of the condensed financial statements.

The full version of the financial statements, which was subject of our audit, consisted of introduction to the financial statements and notes, which have not been fully presented in the attached condensed financial statements. To allow better understanding of the Company’s financial situation and the financial performance during 2014 financial year the attached condensed financial statements should be analysed along with the full version of the financial statements as well as our audit opinion and report.

Piotr Sokolowski
Key certified auditor
conducting the audit
No. V722

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorised to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Piotr Sokolowski – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 16 April 2015
### Balance Sheet

(PLN million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></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>6 917</td>
<td>7 253</td>
</tr>
<tr>
<td>2</td>
<td>Plant and equipment</td>
<td>5 433</td>
<td>5 652</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>1 372</td>
<td>1 431</td>
</tr>
<tr>
<td>5</td>
<td>Long-term accruals</td>
<td>65</td>
<td>112</td>
</tr>
<tr>
<td>B</td>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Inventories</td>
<td>79</td>
<td>94</td>
</tr>
<tr>
<td>2</td>
<td>Short-term receivables</td>
<td>463</td>
<td>218</td>
</tr>
<tr>
<td>3</td>
<td>Short-term investments</td>
<td>705</td>
<td>1 408</td>
</tr>
<tr>
<td>4</td>
<td>Short-term accruals</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>8 175</td>
<td>8 977</td>
<td></td>
</tr>
</tbody>
</table>

| A   | Equity                                    |               |               |
| 1   | Share capital                             | 5 451         | 5 720         |
| 2   | Other capital                             | 3 772         | 3 772         |
| 3   | Accumulated profit (loss)                 | 1 481         | 1 656         |
| 4   | Net profit/loss                           | 0             | 0             |
| 5   | Write-off of net profit during the financial year | -121        | -62           |
| B   | Liabilities and provisions for liabilities| 2 724         | 3 257         |
| 1   | Provisions for liabilities                | 179           | 222           |
| 2   | Long-term liabilities                     | 900           | 1 502         |
| 3   | Short-term liabilities                    | 592           | 411           |
| 4   | Accruals                                  | 1 053         | 1 122         |
| TOTAL EQUITY AND LIABILITIES             | 8 175         | 8 977         |

### Income Statement

(PLN million)

<table>
<thead>
<tr>
<th>No.</th>
<th>Item</th>
<th>For 1-12.2013</th>
<th>For 1-12.2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Income from sales and equivalent income</td>
<td>2 199</td>
<td>1 920</td>
</tr>
<tr>
<td>2</td>
<td>Costs of operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Depreciation</td>
<td>391</td>
<td>377</td>
</tr>
<tr>
<td>2.2</td>
<td>Consumption of materials and energy</td>
<td>135</td>
<td>119</td>
</tr>
<tr>
<td>2.3</td>
<td>Contracted services</td>
<td>309</td>
<td>276</td>
</tr>
<tr>
<td>2.4</td>
<td>Taxes and charges</td>
<td>103</td>
<td>108</td>
</tr>
<tr>
<td>2.5</td>
<td>Wages and salaries</td>
<td>232</td>
<td>286</td>
</tr>
<tr>
<td>2.6</td>
<td>Social insurance and other benefits</td>
<td>72</td>
<td>83</td>
</tr>
<tr>
<td>2.7</td>
<td>Other allocated costs</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td>2.8</td>
<td>Value of goods and materials sold</td>
<td>612</td>
<td>196</td>
</tr>
<tr>
<td>3</td>
<td>Profit (loss) on sales (1-2)</td>
<td>323</td>
<td>450</td>
</tr>
<tr>
<td>4</td>
<td>Other operating income</td>
<td>72</td>
<td>108</td>
</tr>
<tr>
<td>5</td>
<td>Other operating expenses</td>
<td>18</td>
<td>64</td>
</tr>
<tr>
<td>6</td>
<td>Operating profit (loss) (3+4-5)</td>
<td>377</td>
<td>494</td>
</tr>
<tr>
<td>7</td>
<td>Financial income</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>8</td>
<td>Financial expenses</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>9</td>
<td>Profit (loss) on ordinary activities (4+7-8)</td>
<td>390</td>
<td>502</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>390</td>
<td>502</td>
</tr>
<tr>
<td>12</td>
<td>Income tax and deferred taxes</td>
<td>71</td>
<td>98</td>
</tr>
<tr>
<td>13</td>
<td>NET PROFIT/LOSS</td>
<td>319</td>
<td>404</td>
</tr>
</tbody>
</table>
### CASH FLOW STATEMENT

**For 1-12.2013** | **For 1-12.2014**
--- | ---
**A** Cash flow from operating activities |  
1. Net profit/loss | 198 | 342  
2. Total adjustments | 523 | 553  
3. Net cash from operating activities (1+2) | 721 | 895  
**B** Cash flow from investment activities |  
1. Receipts | 15 | 18  
2. Outflows | 1,291 | 733  
3. Net cash flows from investment activities (1-2) | -1,276 | -715  
**C** Cash flow from financing activities |  
1. Receipts | 964 | 672  
2. Outflows | 227 | 149  
3. Net cash flows from financing activities (1-2) | 737 | 523  
**D** Total net cash flow (A.3 ± B.3 ± C.3) | 182 | 703  
**E** Balance-sheet increase/decrease in cash and cash equivalents | 181 | 703  
**F** Cash and cash equivalents at beginning of period | 523 | 705  
**G** Cash and cash equivalents at end of period (F1D) | 705 | 1,408

### FINANCIAL RATIOS

| 2013 | 2014 |
--- | ---|
**Profitability ratios** |  
1. Return on assets (ROA) | 4% | 5%  
2. Return on equity (ROE) | 6% | 7%  
3. Net margin on sales (ROS) | 13% | 21%  
**Liquidity/debt ratios** |  
1. Debt ratio | 33% | 36%  
2. Current ratio | 2.1 | 4.2  
3. Quick ratio | 2.0 | 4.0  
4. Cash ratio | 1.2 | 3.4  
5. EBIT (PLN million) | 377 | 494  
6. EBITDA (PLN million) | 768 | 871  

ANNUAL REPORT 2014
RESPONSIBLE HUMAN RESOURCES MANAGEMENT

The responsible approach of GAZ-SYSTEM S.A. to human resources management is reflected in the definition of transparent and non-discriminatory rules with respect to e.g. hiring, employment, promotion and professional development of the employees. No instances of discrimination in this regard were reported in 2014.

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 rights and 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 HR policy of GAZ-SYSTEM S.A. is mainly concerned with the definition of key assumptions and guidelines for human resources management in the key areas relevant to HR, i.e.: hiring, personnel development, talent management, compensation and benefits, stakeholder relations and workplace atmosphere.

Our initiatives undertaken in these areas are aimed at the development of intellectual capital as an important and sustainable resource of the company. At the same time, the HR policy strengthens the reputation of GAZ-SYSTEM S.A. as an employer of choice, which contributes to long-term access to high-quality specialists.

The new HR policy which is about to be implemented is a natural continuation of our persistent efforts to introduce best personnel management practices to the company, so as to fully leverage the potential of the employees and their experiences.

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

Małgorzata Kaczmarska
Deputy Director of Human Resources Division GAZ-SYSTEM S.A.

MOTHERHOOD AND FATHERHOOD LEAVES

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of persons who started a maternity/paternity leave</th>
<th>Number of persons returning to work after a maternity/paternity leave</th>
<th>Number of persons who returned to work after a maternity/paternity leave and continued to work in the organisation for 12 months following their return</th>
<th>Retention ratio for employees who returned to work after a maternity/paternity leave</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>29 43 21 66</td>
<td>29 43 20 66</td>
<td>31 61 29 43</td>
<td>96.9 100 100 100</td>
</tr>
<tr>
<td>2014</td>
<td>21 66</td>
<td>20 66</td>
<td>29 43</td>
<td>100 100 100</td>
</tr>
</tbody>
</table>
**HIRES AND TERMINATIONS:**

<table>
<thead>
<tr>
<th>Location</th>
<th>Total Number of Employees</th>
<th>Percentage of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2013</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Head Office</td>
<td>29.8%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Gdańsk</td>
<td>2.1%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Poznań</td>
<td>19.9%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Rembelszczyzna</td>
<td>25.5%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Świdnik</td>
<td>2.9%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Tarnów</td>
<td>10.6%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Wrocław</td>
<td>9.2%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Women</td>
<td>25.5%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Men</td>
<td>74.5%</td>
<td>78.0%</td>
</tr>
<tr>
<td><strong>2014</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Head Office</td>
<td>23.4%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Gdańsk</td>
<td>6.4%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Poznań</td>
<td>12.8%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Rembelszczyzna</td>
<td>17.0%</td>
<td>21.8%</td>
</tr>
<tr>
<td>Świdnik</td>
<td>6.4%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Tarnów</td>
<td>21.3%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Wrocław</td>
<td>12.7%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Women</td>
<td>25.5%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Men</td>
<td>74.5%</td>
<td>76.4%</td>
</tr>
</tbody>
</table>

**ANNUAL REPORT 2014**

The number of newly hired employees of GAZ-SYSTEM S.A. has been systematically growing. First and foremost, this is driven by a large-scale investment programme and the process of gradual in-sourcing of operational activities which were previously outsourced to third party companies.

The termination rate remained low in 2014 and was mainly related to employees eligible to retirement or disability pension.
GAZ SYSTEM S.A. understands a responsible workplace as, among other things, decent pay offered to entry level employees. 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 entry level positions in GAZ SYSTEM S.A. include interns, as well as warehouse and maintenance personnel. In the Head Office and the Branches in Gdańsk and Świerklany there are currently no employees from this group. For the company as a whole, entry level positions are filled exclusively by men, and their average base salary in 2014 corresponded to 218.3% of the minimum salary which equals PLN 1680.

The compensation and incentive system in GAZ SYSTEM S.A. is designed to motivate employees to achieve current and longer-term business goals.

* There are no women among the employees in entry level positions in GAZ SYSTEM S.A.

** The Branches in Gdańsk and Świerklany are not featured in the table as there are no employees in entry level positions.
Similarly as in the past years, the company offered an extensive range of development opportunities for the employees including various training courses, language classes, conferences and study programmes. The goal is to improve the qualifications, skills and professional competence of the personnel.

GAZ-SYSTEM S.A. operates an e-learning platform which offers the employees access to training on, e.g. MS Office, SAP, Electronic Data Exchange system (EDO) or soft skills development. In addition, some of the obligatory training programmes, e.g. on health and safety at work, are carried out by the company in-house.

In 2014, the company organised training on schedule management with MS Project application, which was conducted by in-house trainers.

Policies concerning the development of employees; professional qualifications are defined in the “Rules for Professional Qualifications Improvement”. Training leave is granted to the employees in accordance with the Labour Code regulations.

<table>
<thead>
<tr>
<th>EMPLOYEE TRAINING:</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of training hours per employee per year, by gender:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>25.8</td>
<td>20</td>
</tr>
<tr>
<td>Men</td>
<td>17</td>
<td>15.6</td>
</tr>
<tr>
<td>Senior management (directors and higher levels):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior management (directors and higher levels)</td>
<td>89.5</td>
<td>103</td>
</tr>
<tr>
<td>Middle management (managers)</td>
<td>18.3</td>
<td>17.4</td>
</tr>
<tr>
<td>Professional functions (employees performing specialised tasks, e.g. environmental)</td>
<td>20.3</td>
<td>10.8</td>
</tr>
<tr>
<td>Administration and organisation professionals (e.g. HR, accounting)</td>
<td>26.1</td>
<td>23.3</td>
</tr>
<tr>
<td>Technical positions</td>
<td>8.5</td>
<td>12.3</td>
</tr>
</tbody>
</table>

GAZ-SYSTEM S.A. promotes continuous employee development, capability assessment and competency improvement, and to this end a Development Center for middle management was set up in 2014. The project was mainly addressed to managers from technical divisions. It was aimed to diagnose the potential and competencies of the management team, and to provide development recommendations to support both the individual development of each employee, and the improvement of overall performance efficiency of the organisation.

TALENT MANAGEMENT PROGRAMME

In the reporting period, the company implemented its Talent Management Programme, which is intended to support the achievement of the company’s strategic objectives through retaining and developing key talents within the company. The project supports an organisational culture based on dialogue and cooperation between older and younger generation of employees, and the promotion of the attitude of openness to change and commitment. The programme is addressed to those who have at least one-year tenure in the organisation and have demonstrated their effectiveness in their current position, are quick learners, innovative thinkers, open to change and challenge, willing to work in a team and share their knowledge.

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. GAZ-SYSTEM S.A. operates an optional non-mandatory Pension Scheme, which has been joined by over 80% of the employees. The personnel also are eligible to a welfare package which covers partial reimbursement of the costs of holidays, sports and leisure activities, cultural and educational events or support in case of accidents.

Policies concerning the development of employees; professional qualifications are defined in the “Rules for Professional Qualifications Improvement”. Training leave is granted to the employees in accordance with the Labour Code regulations.
SAFETY AT WORK

WORK SAFETY RULES AND PROCEDURES

The company’s care about the employees’ safety is also reflected in the current Health and Safety Management System based on OHSAS 18001:2007 standard, which ensures that the company complies with the highest OHS standards. Each job position is assessed for occupational risk according to a three-step Occupational Risk Assessment Procedure. As the first step, the assessment team prepares an occupational risk score card for respective job positions, which are then evaluated by the Occupational Risk Assessment Committee. The final approval of the occupational risk score card is made by the Director of the OHS and Fire Protection Division. Apart from the OHS and Fire Prevention Division, the occupational risk assessment process involves the representatives of the Social Labour Inspectors, operating at the company and managers of other organisational units, or their authorised representatives, who assess the individual job positions within their organisational units.

OHS COMMITTEE

GAZ-SYSTEM S.A. pays particular attention to internal dialogue within the organisation, which is mainly centred around working conditions. The company maintains an Occupational Health and Safety (OHS) Committee, which is composed of an equal number of the employer’s representatives (including OHS specialists and the doctor responsible for medical care over the employees) and those of the employees. The Chair of the OHS Committee is designated by the employer while the Deputy’s position is filled by the Social Labour Inspector. Thus, 100% of the personnel are represented in official joint OHS Committees which have their meetings at least once in every quarter of the year.

The OHS Committee is an advisory and opinion-making body with respect to safety and occupational health issues. The Committee’s tasks include: review of working conditions, periodic assessment of the OHS status, expressing opinions on measures introduced by the employer to prevent accidents at work and occupational diseases, and putting forward proposals concerning the improvement of working conditions.

LA 6

The company’s care about the employees’ safety is also reflected in the current Health and Safety Management System based on OHSAS 18001:2007 standard, which ensures that the company complies with the highest OHS standards. Each job position is assessed for occupational risk according to a three-step Occupational Risk Assessment Procedure. As the first step, the assessment team prepares an occupational risk score card for respective job positions, which are then evaluated by the Occupational Risk Assessment Committee. The final approval of the occupational risk score card is made by the Director of the OHS and Fire Protection Division. Apart from the OHS and Fire Prevention Division, the occupational risk assessment process involves the representatives of the Social Labour Inspectors, operating at the company and managers of other organisational units, or their authorised representatives, who assess the individual job positions within their organisational units.

Pawel Mońka
Director of OHS and Fire Prevention Division
GAZ-SYSTEM S.A.

WORKING CLOTHING TESTS

To ensure high standards of personal protective equipment, GAZ-SYSTEM S.A. organises regular tests of working clothing used by its employees. The 2014 test results confirm that the protective clothing used by the employees meets high safety standards while maintaining protective properties throughout its useful life. The selection of high-quality clothing and other protective equipment is also supported by consultations and meetings with manufacturers and distributors, which offer an opportunity for the company to present its requirements, and for the manufacturers to search for new solutions.

In the reporting period, GAZ-SYSTEM S.A. organised a discussion forum on specialist clothing for the gas industry. The purpose of the meeting was to establish efficient communication and cooperation between the customer and the manufacturers and suppliers, present the company’s requirements with regard to procurement procedures and its expectations and needs concerning specialist clothing for the personnel.

SAFETY PROVISIONS IN AGREEMENTS WITH TRADE UNIONS:

- Personal protection equipment
- Joint OSH committees with the participation of the management and employees
- Participation of employees’ representatives in OHS inspections and audits, and in accident investigations
- Right to refuse a hazardous job
- OHS training and education
ACCIDENTS AT WORK

2013 2014

Total number of accidents at work*

3 10 5 20

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>13</td>
<td>25</td>
</tr>
</tbody>
</table>

*    Injuries, occupational diseases, lost days and absenteeism rate in the reporting period.

(Severe accident)*

Number of fatal, group and severe accidents:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>1*</td>
</tr>
</tbody>
</table>

Number of fatalities:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

(Severe accident)*

Number of fatalities:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Total days of incapacity for work due to accidents at work:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15</td>
<td>786</td>
</tr>
</tbody>
</table>

Accident frequency rate**:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Accident severity rate***:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5</td>
<td>78.6</td>
</tr>
</tbody>
</table>

Number of diagnosed occupational diseases:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Total number of contractor accidents during performance of works for the benefit of the company****:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

Type of injury:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>death</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>severe bodily injury</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>minor bodily injury</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

Days of incapacity for work:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>225</td>
<td>95</td>
</tr>
</tbody>
</table>

Accident frequency rate: 8,16 15,46 11,49 2,74 4,5 11,53 16,95

Accident severity rate: 56,25 31,67 40,75 6,00 46,00 22,71 65,4

Any incidents are communicated to all the employees, and the post-incident recommendations and preventive measures are aimed at preventing further accidents at work and potential hazards.

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 an accident.

GAZ-SYSTEM S.A. tracks and reports the statistics on the accidents at work by the means of:

- monthly reporting of accidents at work (compiled at the end of month and covering information on the number of accidents at work, type of injuries, working days lost due to accidents, accident frequency and severity rates);
- register of accidents at work and other incidents – the register is filled in systematically, after a notification of the incident. The register contains information on the type of incident, incident report number and date, name of the injured, place, date and time of accident, consequences of the accident, duration of inability to work resulting from the accident, brief description of the circumstances, accident classification.

In 2014, half-year and annual reports concerning accidents were additionally prepared, which were subsequently distributed among the managers of respective organizational units to discuss the accident occurrences with the employees and make them sensitive to safety during the performance of work. In addition, a post-accident recommendations document was developed with a view to implementing certain solutions to minimise the risk of accident occurrence at work.

Any incidents are communicated to all the employees, and the post-incident recommendations and preventive measures are aimed at preventing further accidents at work and potential hazards.
Work safety is often associated with technology, equipment and adaptation of the physical work environment to our needs. This is important but more and more frequently the employees themselves have decisive influence on accident rates through their behaviours and attitudes towards safety and risk. In our initiatives we stress the fact that the level of work safety does not depend merely on features of the physical working environment but is strongly related with underlying social factors and the motivation to ensure safe working conditions.

The human factor is frequently one of the main causes of accidents at work or other hazardous events and this is why we attach so much importance to building safety awareness among the employees. We are all responsible for creating a safe place of work and the role of the OHS and Fire Prevention Division is to initiate actions which will contribute to the development of employee and sub-contractor awareness in this area.

The company is a partner to projects and social campaigns concerned with the improvement of work safety, and is actively involved with national projects to support occupational health and safety. In 2014, these project included:

- social campaign “Good communication as a crucial element of safe work” coordinated by the Central Institute for Labour Protection - National Research Institute (CIOP-PIB);
- European campaign “Stress at work? No, thanks!”;
- prevention and information programme entitled “Prevention of negative stress effects and other psychosocial risks at the workplace” implemented by the National Labour Inspectorate;
- project titled “Framework guidelines on facility and premises design, and adaptation of the workplace for use by disabled persons with specific needs”, which was coordinated by the State Fund for Rehabilitation of Disabled Persons and CIOP-PIB;
- project titled “Towards zero accidents at work” implemented by research institutes concerned with safety and health protection from seven EU countries.

In addition to obligatory OHS training, GAZ-SYSTEM S.A. undertakes numerous educational initiatives.

As part of maintaining good safety practices, our staff had an opportunity to take part in 3rd edition of the first-aid competition to win the President’s Cup. As usually, the tournament featured two parts: first aid training and a paramedic competition.

The company also organised general knowledge competitions on work safety. Our OHS educational activities were also complemented by thematic workshops and demonstrations for employees, as well as open meetings targeted at other natural gas and OHS sector companies.

OHS EDUCATION

For several years, GAZ-SYSTEM S.A. has consistently expanded efforts to improve its occupational health and safety standards. This is evidenced not only by the implementation of the mandatory obligations under labour law, as confirmed by the positive results of external audits on working conditions, but also through other activities that contribute to the improvement of health and safety of all employees.
The following is a map of company’s stakeholders together with the forms of their involvement.

**Shareholder Communication**
- Integrated annual report, website, Shareholders’ Meeting

**Employees**
- Intranet, internal newsletter, meetings, training sessions and workshops, integrated annual report, "GAZ-eta" employee magazine, chats, polls

**Subsidiary Company**
- Internal regulations, meetings, integrated annual report, website

**Trade Union Organisations**
- Internal regulations, meetings, integrated annual report

**Central and Local Government**
- Reports, steering committees, direct meetings, conferences, integrated annual report, meetings

**National Regulatory Authority**
- Reports, direct meetings, training and conferences, integrated annual report, website

**Customers**
- Website, tendering procedures, direct communication of ongoing contracts, integrated annual report, website

**Business Partners**
- Website, meetings, conferences, integrated annual report

**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

**Non-Governmental Organisations and Scientific Community**
- Membership in organisations, direct meetings as part of projects, website, integrated annual report, website

**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 for local communities

**The media serve as a major communication channel between the company and its external stakeholders. 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 the company’s value and reputation. For this reason, the company adheres to Media Contacts Rules which enable consistent and reliable communication.**

---

GRI 4.16-4.17, 4.18
IMPACT OF GAZ-SYSTEM S.A. ON THE STAKEHOLDER ENVIRONMENT

ECONOMIC IMPACT

- Driving the changes taking place in the gas market in Poland
- Diversification of technical gas transmission capabilities in order to strengthen energy security of the country
- Delivery of infrastructure investments that ensure the development of and access to the transmission network in Europe and the development of local businesses
- Development of the region where transmission infrastructure is located
- Impact on the economy and competitive position of the market
- Secured sustainable financing for the implementation of the company’s investment programme, including EU funds and loans from European financial institutions and commercial banks

SOCIAL IMPACT

- Providing training for market participants concerning the duties described in the Transmission Network Code
- Dialogue with suppliers
- Stable employer with the potential to create new jobs
- Payment of compensation for expropriation or restriction of the ownership right in connection with the establishment of a controlled area along a gas pipeline, for the occupation of a property during the construction and for farming or other damage caused during pipeline construction, as well as the payment of fees due for establishing a transmission easement and non-contractual use of third-party property
- Impact on economic development and market competition
- Purchase of land from individuals or acquisition of the right to use the land for building purposes
- Dialogue with local communities with regard to implemented
- Building social awareness about the company’s activities in respect of business, environmental and community
- Involvement in the development of the local community by implementing dedicated programs
- Sponsorship and educational and communication activities

ENVIRONMENTAL IMPACT

- Energy management
- Solid and liquid waste generation
- Gas, PM and noise emissions
- Impact on natural habitats as well as plant and animal species at the construction stage
- Minimising negative effects of investments through additional measures beyond those prescribed by environmental decisions
- Mitigation of adverse impact during the system operation, e.g. through the abatement of methane emissions
- Development of additional internal environmental standards
- Supporting local environmental programs through grants awarded under the Natural Energy Fund contest
- Tax contributions to local budgets
CSR INITIATIVES

GAZ-SYSTEM S.A. engages in various sustainable development initiatives. Since 2009, the company has been a member of Global Compact and has been taking part in United Nations initiatives e.g. Global Compact Yearbook Poland 2014. Also in 2009, the company became the signatory of the Responsible Energy declaration which promotes sustainability in the energy sector. Since 2012, GAZ-SYSTEM S.A. is a partner of the Responsible Business Forum. The company is also a member of the Coalition for Responsible Business, and in this capacity adopted the Responsible Business Code. In 2014, for another time, GAZ-SYSTEM S.A. was listed in the Ranking of Responsible Companies taking 5th place among the energy sector companies and 30th place in the overall ranking prepared by the Business Ethics Centre of Koźmiński University and “Dziennik Gazeta Prawna” daily.

GAZ-SYSTEM SA is also a member of the European Transparency Initiative, launched by the Commission in 2007 and is listed in the EU Transparency Register for interest groups and entities operating at the EU institutions and involved in the development and implementation of EU policies. Each year GAZ-SYSTEM S.A. updates the company-related information and data in the EU Transparency Register.

MEMBERSHIP IN ORGANISATIONS:

As a member of management bodies:
Representative of GAZ-SYSTEM S.A. - Rafał Wittmann, Director of Development Division has been a member of the Management Board of the European Network of Transmission System Operators for Gas (ENTSOG) since 1 January 2013.

International Industry organisations:
- European Network of Transmission System Operators for Gas (ENTSOG)
- Gas Infrastructure Europe (GIE)
- European Association for the Streamlining of Energy Exchange (BASEE-gas)
- European Gas Research Group (GERG)
- Marcogaz
- International Gas Union (IGU)
- Natural Gas Star Programme

National Industry organisations:
- Towarzystwo Rozwoju Infrastruktury Praliny
  (Association for Infrastructure Development)
- Izba Gospodarcza Gazownictwa
  (Chamber of Natural Gas Industry)
- Polskie Zrzeszenie Inżynierów i Techników Sanitarnych
  (Polish Association of Sanitary Engineers and Technicians)
- Stowarzyszenie Naukowo-Techniczne Inżynierów i Techników
  Przemysłu Naftowego i Gazowniczonego
  (Scientific and Technical Society of Oil and Gas Industry Engineers and Technicians)
- Klub Polskich Laboratoriów Badawczych POLLAB
  (Club of Polish Research Laboratories POLLAB)

CSR organisations:
- Global Compact
- Responsible Business Forum
- Odpowiedzialna Energia (Responsible Energy) Initiative

Business organisations:
- Business Centre Club (BCC)
- Beapolux

AWARDS

GRI 2.10

5 March 2014
- 2014 Top Employers certificate which is awarded to companies and organisations that provide exceptional working conditions and growth prospects for their employees

14 May 2014
- CSR Award “White Leaf” presented by POLITYKA magazine to companies which undertake to implement key solutions recommended by ISO 26000 standard for efficient management of organisation’s impact and continuously improve their performance in this area

24 September 2014
- the title of a Sustainable Development Leader in building relationships through stakeholder dialogue given by Forbes magazine

29 October 2014
- Golden Card of Safe Work Leader for the company’s performance in the improvement of working conditions and human safety and protection in the working environment awarded by the Safe Work Leaders Forum

6 November 2014
- Human Capital Investor – title for best practices in human resources management

26 November 2014
- Well-Perceived Company 2014 award for social involvement of the company and its employees, the title granted by Business Center Club

19 February 2015
- Reliable Employer of the Year 2014 for best HR policy solutions
SECTION 2
OUR CUSTOMERS

Customer Satisfaction Survey ........................................... 55
Service Offering ............................................................. 56
Certificate of Independence .............................................. 59
New Transmission Network Code .................................... 60
New tariffs ................................................................. 61
Auctions ................................................................. 62
Gas Exchange .............................................................. 63
Balancing Code ............................................................ 64
Information Exchange System (IES) ................................. 66
New Procurement Procedures ......................................... 66
Supply chain management ............................................. 68
Each year, GAZ-SYSTEM S.A. surveys and analyses customer expectations. In the reporting period, the response rate in the customer satisfaction survey was 71% (ratio of customers taking part in the survey to those invited). The company was appreciated by the customers for: security and confidentiality of commercial negotiations (86% satisfied customers), transparent and intelligible procedures (80% satisfied customers), early communication of legislative changes and new market regulations (78% satisfied customers), supporting customers in the achievement of their business objectives (76% satisfied customers), speed and efficiency of getting things done (75% satisfied customers), early information on planned investments in the transmission system (72% satisfied customers), creation of conditions for the development of a competitive gas market (69% satisfied customers), as well as partnership and equal treatment of all market participants (66% satisfied customers).

### CUSTOMER SATISFACTION SURVEY

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction</td>
<td>4.29</td>
<td>4.30</td>
</tr>
<tr>
<td>Index (on a scale from 1 to 5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of customers satisfied with the quality of services provided by the company</td>
<td>88%</td>
<td>76%</td>
</tr>
<tr>
<td>% of customers satisfied with the level of customer service</td>
<td>93%</td>
<td>93%</td>
</tr>
<tr>
<td>% of customers highly appreciating the employees’ attitude</td>
<td>93%</td>
<td>93%</td>
</tr>
<tr>
<td>% of customers highly appreciating the employees’ competence</td>
<td>96%</td>
<td>98%</td>
</tr>
</tbody>
</table>
The core service provided by the company is the transport of gas via the network throughout the country in order to deliver gas to the distribution grid and end consumers connected to the transmission system. The transmission service is provided on the basis of a transmission contract concluded between GAZ-SYSTEM S.A. and the system user. Under the contracts, the company provides long-term and short-term gas transmission services. One gas year is the basic contract term, and short-term services include quarterly, monthly and daily services. In case when firm capacity is not available, GAZ-SYSTEM S.A. may offer interruptible capacity at physical entry and exit points.

In 2014, the company implemented 68 connection agreements. In the reporting period, GAZ-SYSTEM S.A. received 31 application for the definition of conditions for connection to the transmission network. Connection conditions were defined for 27 projects, including 3 customers from the power industry. The volume of contracted capacity (m³/h) resulting from the connection conditions defined in 2014 amounted to 506,483 m³/h, including 201,200 m³/h for the power industry (excludes connection conditions for 6 production fields). GAZ-SYSTEM S.A. refused to define the conditions for connection to the transmission system in one case and concluded 21 connection agreements.

In the reporting period, GAZ-SYSTEM S.A. provided gas odorisation service under agreements with 7 customers. In connection with the restructuring of the operation organisation, GAZ-SYSTEM S.A. is gradually withdrawing from the odorisation service.

On 1 April 2014, the upgraded Mallnow station at the Polish-German border was put into operation, which allowed GAZ-SYSTEM S.A. to start providing reverse-flow transmission service in the Yamal Pipeline on a firm basis. The completion of this project fulfils the European guidelines concerning physical, bidirectional flow of gas at cross-border interconnections, as stipulated in Regulation of (EU) No 994/2010 of the European Parliament and of the Council concerning measures to safeguard security of gas supply.
In the course of our cooperation, GAZ-SYSTEM S.A. have proved themselves to be a trustworthy business partner. They are always ready to work together and share their experience of a long-standing gas market player. In addition, they understand our needs and know put themselves in the customer’s shoes when the situation calls for quick response. We are convinced that further cooperation between GAZ-SYSTEM S.A. And RWE Polska will contribute to the development of good market practices and will allow RWE Polska to play an active role in the creation of the gas market in Poland.

Piotr Michalczzyk
Trader, Operational Portfolio Management
RWE Polska SA

In September 2014, the President of ERO issued a decision granting GAZ-SYSTEM S.A. a certificate of independence with respect to the operatorship of own transmission networks. This was preceded with an 8 months long procedure involving the President of ERO and the European Commission. The certificate confirms that its holder fulfills a number of requirements imposed on transmission system operators in the EU and, in practice, facilitates the access to the EU funds earmarked for system development. Looking back from 2014 perspective, one can appreciate the importance of the auction mechanism as the primary method of capacity allocation. During the last year, IT systems facilitating and accelerating the allocation of transmission capacity were considerably enhanced. We observe that customers are eager to use the new application. It should be noted that the auction platform developed by GAZ-SYSTEM S.A. – the GSA Platform – enjoys increasing interest among the customers and operators.

Piotr Bukalski
Deputy Director of the National Gas Dispatching Division
GAZ-SYSTEM S.A.

* Due to the transition from volume units to energy units, as of 1 August 2014 the gas consumption volumes in first seven months of the year 2014 were converted using the gross calorific value of 11.13 kWh/m³.

GAS CONSUMPTION IN 2014,
BY INDUSTRY SECTOR*:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Consumption (MWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td></td>
</tr>
<tr>
<td>Fuels</td>
<td></td>
</tr>
<tr>
<td>Power generation</td>
<td></td>
</tr>
<tr>
<td>Metals</td>
<td></td>
</tr>
<tr>
<td>Minerals</td>
<td></td>
</tr>
<tr>
<td>Electric</td>
<td></td>
</tr>
</tbody>
</table>

GRI 2.7

CERTIFICATE
OF INDEPENDENCE

Following a verification procedure carried out in 2014, after obtaining an opinion of the European Commission, the President of the Energy Regulatory Office granted a certificate of independence to GAZ-SYSTEM S.A. in connection with the operatorship of own transmission networks. The certificate of independence confirms that GAZ-SYSTEM S.A. remains independent legally, organisationally and in terms of decision-making from other activities not related to gas transmission.
In 2014, the company applied two sets of tariffs (No 7 and 8) for gas transmission services in the settlements with its customers. Both were designed in accordance with the assumptions of the Entry-Exit tariff model and are in line with the applicable EU standards.

As of 1 August 2014, in accordance with the provisions of the so-called Tariff Regulation, energy companies were required to introduce settlements based on energy units (kWh). For this reason, the transmission charges applied under Tariff No 7 were converted from volume to energy units and Tariff No 8 for gas transmission services of Gas Transmission Operator GAZ-SYSTEM S.A. was introduced and took effect as of the beginning of August 2014.

The Tariffs No 7 and 8 which applied in 2014 were designed so as to ensure the recovery of the justified costs of the activity and protection of customer interests against unreasonable level of prices and charges.

On 17 December 2014, the President of ERO approved Tariff No 9 for gas transmission services, which has been in force as of 1 January 2015.

Since 2010, the company has reduced the charges for gas transmission in each subsequent tariff. Despite significant increase in the value of fixed assets, the currently calculated tariff rate is lower than the one set back in 2010. Keeping the unit price for gas transmission was possible owing to, among other things, cost reduction in the company, favourable financing structure for development projects and taking advantage of non-returnable subsidies from the European Union.

In 2014, the company applied two sets of tariffs (No 7 and 8) for gas transmission services in the settlements with its customers. Both were designed in accordance with the assumptions of the Entry-Exit tariff model and are in line with the applicable EU standards.

As of 1 August 2014, in accordance with the provisions of the so-called Tariff Regulation, energy companies were required to introduce settlements based on energy units (kWh). For this reason, the transmission charges applied under Tariff No 7 were converted from volume to energy units and Tariff No 8 for gas transmission services of Gas Transmission Operator GAZ-SYSTEM S.A. was introduced and took effect as of the beginning of August 2014.

The Tariffs No 7 and 8 which applied in 2014 were designed so as to ensure the recovery of the justified costs of the activity and protection of customer interests against unreasonable level of prices and charges.

On 17 December 2014, the President of ERO approved Tariff No 9 for gas transmission services, which has been in force as of 1 January 2015.

Since 2010, the company has reduced the charges for gas transmission in each subsequent tariff. Despite significant increase in the value of fixed assets, the currently calculated tariff rate is lower than the one set back in 2010. Keeping the unit price for gas transmission was possible owing to, among other things, cost reduction in the company, favourable financing structure for development projects and taking advantage of non-returnable subsidies from the European Union.

The changes introduced by GAZ-SYSTEM S.A. to the Transmission Network Code in 2014 include:
- adaptation of the provisions of the Network Code for the transition from volume units (m³) to energy units (kWh),
- regulation of the principles of (contracted) capacity offering for bundled products by GAZ-SYSTEM S.A. at the TNC level,
- alignment of the principles concerning interaction with distribution system operators (DSOs),
- introduction of balancing group mechanism,
- introduction of operating data reporting during the gas day.

According to the provisions of the Energy Law Act, GAZ-SYSTEM S.A. drafted an amended Transmission Network Code. The company held 5 workshops and 5 consultation sessions addressed to customers, and the consultation of the solutions adopted in the TNC has become a constant practice in the dialogue of GAZ-SYSTEM S.A. with market participants. In the course of the workshop, the proposed changes to the Transmission Network Code were presented. Questions related to the new methods of determination of the energy content at the entry and exit points of the transmission, cooperation with distribution system operators and data exchange during the gas day were extensively discussed. Each presentation of changes was followed by a Q&A session during which transmission system users could come up with their own proposals of solutions and obtain additional information. The company published a feedback form to collect general and detailed comments concerning the draft of the TNC, and subsequently presented the list of user comments with the response of GAZ-SYSTEM S.A. Following final consultations with the Energy Regulatory Office, the updated Transmission Network Code came into force on 1 August 2014 by virtue of the decision of the President of ERO.
The implementation of the auction mechanism as the primary method of capacity allocation at the points of interconnection with transmission systems of neighbouring countries was crucial from the point of view of the commercial relations of GAZ-SYSTEM S.A. with its clients. This guarantees the anonymity of market participants, as well as transparent and objective valuation of capacity at the most desired system points where the market interest exceeds the available technical capacity.

The company implemented and launched a new capacity allocation platform (GSA) and decided to migrate the auctions for the products offered at points of interconnection with the transmission systems of neighbouring countries and the Point of Interconnection (PWP) to this platform. A decision was also made to enter into cooperation with the Czech operator NET4GAS to offer a bundled product at Cieszyn interconnection point on the GSA Platform.

The platform allows the operators of transmission systems in Europe to offer their products in auctions in accordance with the European Network Code on Capacity Allocation Mechanisms (NC-CAM), at justified cost level.

By the end of 2014, nearly 80 auctions were carried out for services of different type and duration offered at points of interconnection with transmission systems of neighbouring countries and the points of the Transit Gas Pipeline System (SGT):

- at the Polish-Belarusian border, at SGT Kondratki IP,
- on the Polish-Belarusian border, at Vysokoye IP,
- on the Polish-Ukrainian border, at Hermanowice IP towards Ukraine,
- on the Polish-Czech border, at Cieszyn and Cieszyn Reverse-Flow IP,
- on the Polish-German border, at Lasów and Lasów Reverse-Flow IP,
- on the Polish-German border, at SGT Malnow Reverse-Flow IP,
- on the Polish-German border, at Kamieńka IP, and
- at the virtual Point of Interconnection between the the Transit Gas Pipeline System and the national transmission system.

In the reporting period, there were 23 entities registered on the GSA Platform and eligible to take part in the capacity auctions for the national transmission system and the SGT, and among them 69 users were authorised to take part in the bidding.

Since the launch of the GSA Platform, the total capacity of 78,269,253 kWh/h has been offered. The amount of allocated capacity is 19,927,232 kWh/h, of which 14,062,310 kWh/h was contracted as quarterly product and 5,864,922 kWh/h as monthly product.

In order to present the functionality of the GSA auction platform and to discuss the principles of capacity allocation at interconnections, GAZ-SYSTEM S.A. organised a workshop for all interested customers. In the course of the meeting, registration procedure for the GSA Platform was explained to the participants and detailed information concerning its use was provided. Auction simulations were carried out according to three scenarios taking into account different options for offered products. The workshop was concluded with a Q&A session during which customers could obtain additional information on the selected topics of interest and learn about future development plans for the platform.

GAZ-SYSTEM S.A. means professional service, complex yet intelligible procedures, politeness and competence.

The whole team is a great orchestra with excellent directors. Working with GAZ-SYSTEM S.A. is a truly pleasurable professional experience.

Jerzy Trzcinski
Managing Director
SIME Polska Sp. z o.o.
In connection with the entry into force of Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks (NC BAL), GAZ-SYSTEM S.A. invited all the interested parties to take part in the consultations on a draft report concerning interim measures proposed for implementation in the transmission system operated by GAZ-SYSTEM S.A.

NC BAL sets out the guidelines with respect to rules on gas balancing and settlements with shippers in respect of their individual imbalance. European transmission system operators, including GAZ-SYSTEM S.A., are obliged to adapt the balancing principles applied in their transmission systems to the NC BAL guidelines by 1 October 2015.

The primary objective of the code is to accelerate the development of short-term wholesale gas markets and achieve closer integration of the EU gas market through ensuring the consistency of transmission system balancing rules across the EU countries.

As part of intensive preparation for the full implementation of the European Network Code on Gas Balancing (NC BAL) and the Network Code on Capacity Allocation Mechanisms (NC CAM), the company prepared a report on the proposed so-called interim measures, which was then subject to public consultations. According to NC BAL, the operator can apply such measures in case of a limited capability to balance the transmission system or transmission contracts on a purely market-driven basis. The measures proposed by GAZ-SYSTEM S.A. in this regard, following their consultation with market participants, were presented for approval to the President of ERO. The final form of implementation will be defined and consulted again in the process of drafting amendments to the Transmission Network Code in 2015.

Also in connection with the preparations for the implementation of the provisions of the balancing network code, the access of market participants to intraday data is being continuously improved: as of 1 October 2014, by 6.00 p.m. of the gas day GAZ-SYSTEM S.A. provides shippers with operating data for the first six hours of the gas day and specifies their imbalance status. To this end, operating allocations for the first six hours of the gas day need to be made by end consumers and the operators of distribution systems.

Stanisław Brzęczkowski
Chief Specialist
National Gas Dispatching Division
GAZ-SYSTEM S.A.

The interoperator cooperation in 2014 brought about two tangible results. We have significantly increased technical capabilities for gas imports. As of 1 April 2014, we started providing firm reverse-flow services in the Yamal Pipeline from Germany to Poland, owing to the fact that the German operator GASCADE Gastransport GmbH commissioned the upgraded station in Mallnow at the Polish-German border.

The investment of GAZ-SYSTEM S.A. in the modernisation of the station which involved the construction of measurement systems for the flow direction towards Poland enables physical transmission of gas through the Yamal Pipeline from Germany in case when there is no transmission from Russia. Thereby the nature of the service provided at Mallnow could change from interruptible to firm, and GAZ-SYSTEM S.A. could guarantee reliable long-term supply to its customers at exit points along the Yamal Pipeline in Poland.

In addition, the upgrading of Włocławek system point was completed on 1 January 2015, which, in combination with the expansion of the domestic network has offered further options for gas off-take from the Yamal Pipeline. Free capacity available in the Yamal Pipeline is offered to customers through auctions.

Marcin Czub
Chief Dispatcher in the National Gas Dispatch Division
GAZ-SYSTEM S.A.
The Information Exchange System is an IT tool used in the daily work of both the customers and the company’s employees. In the reporting period, there were 931 external IES users and 251 internal users.

The customer satisfaction survey carried out in 2014 proved once again that IES is well perceived by the customers of GAZ-SYSTEM S.A. who appreciate the ease of finding necessary information and data which is useful, clear and up-to-date.

In September 2014, GAZ-SYSTEM S.A. approved internal procurement regulations which marked another step in the implementation of best procurement practices, after the adoption of the new Procurement Policy. The new regulations are executive documents which take into consideration the changes taking place on the procurement market and implement the directions set out in the Policy, i.e. the inclusion of the contract delivery phase in the policy measures, promotion of trustworthy contractors and elimination of unreliable ones, and improvement of the efficiency of procurement processes.

The key changes introduced by the company in the procurement area in 2014 included:

- creation of an internal legal framework for the implementation of the Reliable Supplier List in order to improve the quality of non-public procurement, reward suppliers with good track record and link the reliable supplier status with the evaluation of its performance under previous contracts delivered for GAZ-SYSTEM S.A. The inclusion in the List gives the benefit of additional points in the scoring of bidders taking part in non-public contract procurement procedures, provided that they are not co-financed by the European Union
- simpler and more flexible procedures for launching procurement procedures, formal bid evaluation and contract execution
- definition of the conditions for participation in non-public contract procurement procedure oriented at business benefits for the company
- more flexible procurement process for lowest-value contracts

In anticipation of the changes in the procurement process of GAZ-SYSTEM S.A. and the supplier market, our company was among the first players in Poland to take advantage of the new opportunities offered by amended regulations. While adhering to good procurement practices in the tender for the supply of ball valves and valve wedges, we applied other criteria in addition to the price and looked into the quality and speed of delivery. We learned how complex it is to come up with an optimum model for the application of non-price bid evaluation criteria, especially when it comes to product quality. Thanks to efficient cooperation and communication within the tender committee which comprised representatives of different specialties, we defined an appropriate model which may serve as standard for future tender procedures.

Paweł Woźniak
Manager, Contract Implementation Department
GAZ-SYSTEM S.A.
Branch in Poznań
SUPPLY CHAIN MANAGEMENT

In 2014 GAZ-SYSTEM S.A. started the implementation of a new Procurement Policy adopted in December 2013. As part of the implementation plan and its commitment to the quality of business relationships, the company took a proactive approach to shaping long-term relations with potential contractors and building a responsible supply chain. To this end, GAZ-SYSTEM S.A. maintains communication with the contractor market by organising dedicated meetings.

The initiatives undertaken in the reporting period concentrated on the communication with the contractors for engineering services and construction works. The purpose of the meetings was to present the development, investment and maintenance plans of GAZ-SYSTEM S.A., as well as the company’s requirements regarding safety, health, fire prevention and communication with local communities. The role of contractors in the investment process was also discussed, starting from the submission of bid during the procurement process till project completion. The potential contractors for construction works were also informed about the company’s plans to introduce new requirements for welding technologies to be used during the execution of key projects for GAZ-SYSTEM S.A.

In building the framework for responsible cooperation with engineering and construction contractors, GAZ-SYSTEM S.A. defined also guidelines for communication with local communities at the project design and construction stage. The role of contractors in the investment process was also discussed, starting from the submission of bid during the procurement process till project completion. The potential contractors for construction works were also informed about the company’s plans to introduce new requirements for welding technologies to be used during the execution of key projects for GAZ-SYSTEM S.A.

The Code of Conduct for Suppliers is a step of GAZ-SYSTEM S.A. towards the promotion of sustainable development principles among our suppliers. Quality comes first for us and therefore we expect our suppliers to observe health and safety standards, and to care about the environment, employees and proper representation of GAZ-SYSTEM S.A. in community relations.

GAZ-SYSTEM S.A. is aware of its significant influence on the contractor market and the development of business standards in its environment. In order to support the promotion of good market practices and ensure a positive impact on the community and natural environment, the company implemented the Code of Conduct for Suppliers which defines the minimum requirements of GAZ-SYSTEM S.A. towards suppliers and their conduct consistent with the company’s values and the principles of social responsibility and sustainable development.

The Code of Conduct for Suppliers is intended to:

- harmonize the standards of supplier conduct,
- identify good supplier conduct practices,
- enhance the quality of products and services provided by suppliers,
- reduce the likelihood of ethical, social and environmental risks arising from the business activity carried out by suppliers,
- ensure the implementation of the CSR policies adopted by GAZ-SYSTEM S.A. throughout the supply chain.

The Code of Conduct for Suppliers is the step of GAZ-SYSTEM S.A. towards the promotion of sustainable development principles among our suppliers. Quality comes first for us and therefore we expect our suppliers to observe health and safety standards, and to care about the environment, employees and proper representation of GAZ-SYSTEM S.A. in community relations.

All the suppliers, including small and medium-sized enterprises, are required to comply with the laws, rules and regulations generally applicable in the country in which they operate - irrespective of the provisions of the Code.

As a condition of the supplier’s cooperation with GAZ-SYSTEM S.A., the supplier must confirm to the provisions of the Code in their business. This principle applies to both the supplier’s employees and its subcontractors and suppliers involved in the delivery of contracts for GAZ-SYSTEM S.A.

Due to legal constraints related to, among other things, the public procurement legislation, the company was not able to screen its business partners for human rights performance. The only indirect method of supplier assessment in this regard is to verify whether the members of the body representing the supplier, or the supplier itself as a body corporate, were not sentenced by a final judgement for certain types of offences (e.g. against the rights of persons engaging in gainful employment). When such circumstance occurs, the supplier is disqualified from the procedure.

TECHNICAL DIALOGUES

In building responsible relations with contractors, GAZ-SYSTEM S.A. engages in technical dialogues, i.e. a procedure aimed at gathering the necessary information for the accurate description of the object of contract, the specification of the essential terms of contract and the definition of the contract conditions. Consequently, the technical dialogue leads to satisfactory cooperation for all the parties involved. In the reporting period GAZ-SYSTEM S.A. launched five technical dialogue procedures.

The Code of Conduct for Suppliers is a step of GAZ-SYSTEM S.A. towards the promotion of sustainable development principles among our suppliers. Quality comes first for us and therefore we expect our suppliers to observe health and safety standards, and to care about the environment, employees and proper representation of GAZ-SYSTEM S.A. in community relations.

Justyna Klukowska-Wieczorek
Manager, Procurement Systems and Analyses Department
GAZ-SYSTEM S.A.
SECTION 3
INFRASTRUCTURE

Investment Activity .............................................. 72
Investment Project Management .............................. 73
Implementation of Key Investment Projects ............... 74
Key Stages of Gas Pipeline Development .................. 77
Investment Financing in 2009-2014 .......................... 78
Environmental Impact of Investment Projects ............. 80
Transmission Network Development in 2014 .......... 83
Safety of Transmission Infrastructure Operation ........ 89
Environmental Impact Management ....................... 91
GAZ-SYSTEM S.A. operates a network of 10,323 km of gas pipelines and continuously undertakes new investment projects aimed at the expansion of the transmission infrastructure.

In June 2014, the Act of 30 May 2014 amending the act on the investments in the liquefied natural gas regasification terminal in Świnoujście and the Real Property Management Act came into force. The amended legislation has quite significant influence on the investment and development activities of GAZ-SYSTEM S.A.

As a result, the list of investment projects associated with the construction of the LNG Terminal was expanded and now includes the majority of strategic projects of GAZ-SYSTEM S.A. aimed at ensuring the energy security of Poland and the development of the common European gas market, which are included in the company’s investment programme and development plans.

The legislation amended in 2014 aims to:
- ensure a stable legal framework embracing the entire investment process,
- mitigate major investment risks,
- increase the chances for efficient and effective preparation and execution of the project (confidence in investment process time planning),
- keep regulatory balance between the interests of investors and other stakeholders.

As Poland’s gas transmission system operator, GAZ-SYSTEM S.A. is required to organise the operation of the transmission network in a safe manner. This process begins already at the project development stage, which is based on approved engineering design, and the contractors and investor’s supervisors are obliged to follow relevant procedures, including those concerning the performance of construction works in the vicinity of active gas networks.

In 2014, GAZ-SYSTEM S.A. implemented a number of measures to improve the effectiveness of investment project management through:
- developing and implementing a reporting system for projects covered by the GazStep project management methodology. The monitoring of investment projects is based on a single quality standard which enables regular tracking of project progress and milestones, and the management of risks, changes and critical issues,
- developing and implementing a training programme for the investment area concerning the use of project timing management with the aid of MS Project tool,
- establishing separate Strategic Investments Units in another two Branches of the company in Tarnów and Rembelszczyzna, which are responsible for the management of key projects for the development of the European gas transmission system,
- defining the assumptions for the investment project execution system which will allow all the parties involved in the investment process to follow a single execution approach,
- establishing cooperation with relevant experts during the construction of gas pipelines crossing areas affected by mining operations, which is intended to support pipeline engineering companies in the choice of best solutions to safeguard gas pipelines in mining sites.
In pursuit of the objectives set out in the “Policy for Natural Gas Industry” and “Energy Policy of Poland until 2030”, as well as the company’s strategic objectives to ensure the continuity of transmission service in line with appropriate safety and reliability standards, GAZ-SYSTEM S.A. undertakes a number of investment initiatives.

KEY INVESTMENT PROJECTS
Status as at 31.05.2015.

In pursuit of the objectives set out in the “Policy for Natural Gas Industry” and “Energy Policy of Poland until 2030”, as well as the company’s strategic objectives to ensure the continuity of transmission service in line with appropriate safety and reliability standards, GAZ-SYSTEM S.A. undertakes a number of investment initiatives.

KEY INVESTMENT PROJECTS
Status as at 31.05.2015.

In pursuit of the objectives set out in the “Policy for Natural Gas Industry” and “Energy Policy of Poland until 2030”, as well as the company’s strategic objectives to ensure the continuity of transmission service in line with appropriate safety and reliability standards, GAZ-SYSTEM S.A. undertakes a number of investment initiatives.
In 2014, other engineering contracts followed, including: Pogórska Wola–Tworzeń (October 2014), Strachocina–Pogórska Wola (November 2014) and Rembelszczyzna–Mory–Wola Karczewska (December 2014).

As a result of other project-related activities undertaken in the reporting period the company obtained a part of the necessary administrative decisions. In November 2014, environmental permits were obtained for Czeszów–Wierzchowice and Czeszów-Kiełczów pipeline sections. Further efforts are underway to obtain the same for the following gas pipelines:

- Lwówek–Odolanów,
- Zdzieszowice–Wrocław,
- Zdzieszowice–Kędzierzyn,
- Tworóg–Kędzierzyn,
- Pogórska Wola–Tworzeń,
- Strachocina–Pogórska Wola,
- Rembelszczyzna–Mory,
- Mory–Wola Karczewska
- Hermanowice–Strachocina

In January 2014, a building permit decision was obtained for Gałów–Kiełczów project (currently in progress).

In 2015, the preparation of engineering documentation, as well as building permit procedures will be completed for the following gas pipeline projects: Lwówek–Odolanów, Czeszów–Wierzchowice, Czeszów–Kiełczów and Hermanowice–Strachocina.

### Key Stages of Gas Pipeline Development

1. Planning of the high-pressure pipeline route, preparation of project documentation including the concept, building and detailed engineering design.
2. Obtaining of all the necessary administrative decisions, including environmental decisions, location decisions and building permits.
3. Procurement of pipes and fittings by the investor (so-called investor’s supplies).
4. Selection of contractors for building and installation works based on public tender procedures.
5. Distribution of pipes to designated construction sites.
6. Welding works.
7. Issuance of the permit to operate and handing over individual pipeline sections for operation.
8. Trenching and pipeline laying.
9. Completion of individual pipeline sections.
10. Tests, technical acceptance and commissioning of individual pipeline sections.
The years from 2009 till 2014 saw the implementation of the first investment programme of GAZ-SYSTEM S.A. co-financed by the European Union, which resulted in the construction of over one thousand kilometres of modern gas transmission networks. At the outset, there was an enormous conceptual effort on the part of our project development specialists to properly prepare and launch the implementation of individual projects in keeping with the highest standards and best technologies available in the market. Numerous qualified specialists from many organisational units of GAZ-SYSTEM S.A. were involved in the implementation of the projects and this led to a major technology leap in terms of the safety of gas networks operation in Poland.

Andrzej Fiołek
Deputy Director of Investments Division
GAZ-SYSTEM S.A.

INVESTMENTS OF GAZ-SYSTEM S.A. – EFFECTS:

<table>
<thead>
<tr>
<th>TIME HORIZON</th>
<th>EFFECTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-2015</td>
<td>1283 km of new gas transmission pipelines built in Poland (increase by over 10%); 41 gas stations; 2 compressor stations; New technical capacity for gas imports to Poland from an alternative direction to the eastern one (growth from 9% in 2009 to 90% in 2015).</td>
</tr>
<tr>
<td>2015-2018</td>
<td>Nearly 800 km of new gas transmission pipelines in Poland (increase by approx. 8%); Full independence in terms of technical capacity for gas imports from any direction (after the commissioning of the LNG Terminal); Key investment projects making part of the North-South Gas Corridor supported by the EU.</td>
</tr>
<tr>
<td>Until 2023</td>
<td>Over 1200 km of new gas transmission pipelines in Poland (increase by over 10%); Efficient utilisation of the Polish transmission infrastructure for gas transportation to Central European countries and the Baltics; Full infrastructure integration between the Polish system and the systems of other EU countries.</td>
</tr>
</tbody>
</table>
In the course of its investment projects GAZ-SYSTEM S.A. generates an impact on protected areas. The length of gas pipeline networks crossing protected areas is about 1975 km, which represents approx. 20% of the total length of the company’s transmission networks.

In 2014, the activities of GAZ-SYSTEM S.A. regarding biodiversity management included:
- definition of the “General guidelines for wildlife inventory and environmental assessment of areas affected by investment projects”. The document will be implemented in 2015 and constitutes a set of basic and most important criteria used in the verification of documentation concerning the environmental assessment of the planned project site and vicinity,
- wildlife inventory taking along the routes of planned key gas pipelines,
- implementation of a nature conservation supervision function during the construction of key gas pipelines. The scope of field observation is consulted upon with the relevant regional directors for environmental protection,
- monitoring of the impacts of selected key gas pipelines,
- ongoing training of investment specialists and project managers,
- control over project engineering and contractor companies.

However, in most cases, before the construction works can be undertaken, GAZ-SYSTEM S.A. has to obtain an environmental decision for the project, which may be preceded with an environmental impact assessment. So far, such procedure was undertaken for the following key gas pipelines: Świnoujście-Szczecin, Szczecin-Gdańsk, Szczecin-Lwówek, Gustorzyn-Odolanów, Rembelszczyzna-Gustorzyn, Gałów-Kiełczów, Polkowice-Żary, Strachocina-Pogórská Wola, Hermanowice-Strachocina, Czeszów-Kiełczów-Wierzchowice.

In order to proceed with the construction of all strategic gas pipelines the company is required to obtain appropriate approvals for exemptions from the prohibitions provided for under the Nature Conservation Act regarding protected plants and animals. In 2014, GAZ-SYSTEM S.A. obtained 5 such exemptions (so-called derogatory decisions) and the validity of other 4 derogations was extended. The exemptions concerned 27 plant and animal species which occur within the areas affected by investment projects, as well as the works to be carried out within the Woliński National Park.

The list of protected plant and animal species for which GAZ-SYSTEM S.A. obtained exemptions from the prohibitions under the Nature Conservation Act of 16 April 2004:

Insects:
- Ground beetles
- Molluscs:
- Roman snail (Helix pomatia)
- Narrow-mouthed whorl snail (Vertigo angustior)

Amphibians:
- European fire-bellied toad (Bombina bombina)
- Common toad (Bufo bufo)
- Moor frog (Rana arvalis)
- common water frog (Pelophylax kl. esculentus)
- Pool frog (Pelophylax lessonae)
- Marsh frog (Pelophylax ridibundus)
- Common spadefoot (Pelobates fuscus)
- Northern crested newt (Triturus cristatus)
- Smooth (common) newt (Lissotriton vulgaris)

Reptiles:
- Sand lizard (Lacerta agilis)
- Viviparous lizard (Zootoca vivipara)
- Grass snake (Natrix natrix)
- Slow worm (Anguis fragilis)

Plants:
- Oak moss (Evernia prunastri)
The interference of GAZ-SYSTEM S.A. in the environment is mainly associated with the construction phase. Impacts occurring at the time of pipeline installation include: the removal of trees and shrubbery, taking of land, construction-related drainage, noise pollution, air pollution, sewage and solid waste discharges. Usually, the reach of the above-mentioned impacts is limited to the land strip of up to 33 m in width. Only in specific cases, such as HDD crossings, of prolonged construction drainage, the impact range may increase by additional 100-200 m.

For each of its investment projects, GAZ-SYSTEM S.A. holds an environmental decision, which describes the applicable methods for managing impacts on biodiversity. 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 the notes to a particular decision on environmental conditions, which is obtained individually for each pipeline.

During project development, GAZ-SYSTEM S.A. appoints environmental supervisors who control the implementation of the recommendations set out in the environmental decisions and the response to unexpected situations, e.g. collisions with protected species during pipeline laying. In 2014, the environmental supervision covered the construction of the following gas pipelines: Świnoujście-Szczecin, Szczecin-Lwówek, Gustorzyń-Odolanów, Rembertowice-Gustorzyń, Gałów-Kiełczów and Lasów-Jeleniów.

In some cases, the monitoring of the environmental impact of the gas pipeline is also undertaken. In the reporting period, such monitoring was carried out for gas pipelines Świnoujście-Szczecin, Szczecin-Gdańsk and Szczecin-Lwówek. In addition, in 2014, GAZ-SYSTEM S.A. obtained the approval for the results of the monitoring for gas pipelines Świnoujście-Szczecin and Szczecin-Gdańsk undertaken in 2013. According to the provisions of the relevant environmental decisions, the reports from monitoring for the year 2014 were presented for approval by the end of the first quarter of 2015.

Newly built gas pipelines cross protected areas, including Natura 2000 areas. In view of the need to prevent any adverse impacts on valuable habitats and species, the environmental decisions require that GAZ-SYSTEM S.A. as the investor uses trenchless pipeline laying techniques, including HDD crossings.

In connection with its investment projects, GAZ-SYSTEM S.A. undertakes further measures to mitigate the adverse impact on the environment.

In 2014, the company planted around 594,000 trees and shrubs worth PLN 1.1 million within the scope of the following projects:

- Rembertowice-Gustorzyń, Szczecin-Gdańsk, Gałów-Kiełczów, Lasów-Jeleniów, Świnoujście-Szczecin, Szczecin-Lwówek, Gustorzyń-Odolanów, Jachy-Odolanów, Sandomierz, connection of the CHP Plant in Gorzów Wielkopolski and the upgrade of the system point in Rembertowice.

The year 2014 was a time of intensive efforts of the company aimed at the development of energy security of the country and the region, crowned with a number of achievements.

Above all, the first ever ten-year “Development Plan of GAZ-SYSTEM S.A. for satisfying the current and future transmission demand for natural gas for 2014-2023” was defined and agreed with the regulator. The document sets out the planned activities of the transmission system operator in pursuit of the directions and objectives which are consistent with Poland's energy policy, as well as the guidelines concerning the security and market integration in the European Union and the region. In this context, the North-South Gas Corridor will play a special role, with interconnections between Poland and, respectively, the Czech Republic and Slovakia, as well as the Gas Interconnection Poland-Ukraine. It is worth noting that these projects have a PCI (Project of Common Interest) status, which is a major success as it provides the source of substantial financial support from the EU funds.

In 2014, the company also managed to finalise development activities to enable access to new technical capacity for gas imports from the west, using the Yamal gas pipeline. The contracts for capacity in western interconnections have attracted unwavering interest of system users, which proves that the development of transmission infrastructure changes and develops market mechanisms in Poland.

The company continued its activities aimed at opening Poland to new directions of gas supply and, consequently, ensuring physical diversification of the directions of gas imports. The infrastructure investments implemented in 2014 are key for the development of an integrated and competitive market for natural gas in Central Europe, and for the improvement of energy security.

The year 2014 was a time of intensive efforts of the company aimed at the development of energy security of the country and the region, crowned with a number of achievements.

Above all, the first ever ten-year “Development Plan of GAZ-SYSTEM S.A. for satisfying the current and future transmission demand for natural gas for 2014-2023” was defined and agreed with the regulator. The document sets out the planned activities of the transmission system operator in pursuit of the directions and objectives which are consistent with Poland's energy policy, as well as the guidelines concerning the security and market integration in the European Union and the region. In this context, the North-South Gas Corridor will play a special role, with interconnections between Poland and, respectively, the Czech Republic and Slovakia, as well as the Gas Interconnection Poland-Ukraine. It is worth noting that these projects have a PCI (Project of Common Interest) status, which is a major success as it provides the source of substantial financial support from the EU funds.

In 2014, the company also managed to finalise development activities to enable access to new technical capacity for gas imports from the west, using the Yamal gas pipeline. The contracts for capacity in western interconnections have attracted unwavering interest of system users, which proves that the development of transmission infrastructure changes and develops market mechanisms in Poland.

The year 2014 was a time of intensive efforts of the company aimed at the development of energy security of the country and the region, crowned with a number of achievements.

Above all, the first ever ten-year “Development Plan of GAZ-SYSTEM S.A. for satisfying the current and future transmission demand for natural gas for 2014-2023” was defined and agreed with the regulator. The document sets out the planned activities of the transmission system operator in pursuit of the directions and objectives which are consistent with Poland's energy policy, as well as the guidelines concerning the security and market integration in the European Union and the region. In this context, the North-South Gas Corridor will play a special role, with interconnections between Poland and, respectively, the Czech Republic and Slovakia, as well as the Gas Interconnection Poland-Ukraine. It is worth noting that these projects have a PCI (Project of Common Interest) status, which is a major success as it provides the source of substantial financial support from the EU funds.

In 2014, the company also managed to finalise development activities to enable access to new technical capacity for gas imports from the west, using the Yamal gas pipeline. The contracts for capacity in western interconnections have attracted unwavering interest of system users, which proves that the development of transmission infrastructure changes and develops market mechanisms in Poland.
PCi PROJECTS

In the reporting period, GAZ-SYSTEM S.A. continued its activities aimed at the implementation of projects with PCI (Project of Common Interest) status. These projects are:

1. North-South Gas Corridor in Central Eastern Europe and South Eastern Europe, which includes:
   - Western line of the North-South Gas Corridor in Poland (including the PL-CZ Interconnection (gas pipeline sections: Lwówek-Odolanów, Czeszów-Kiełczów, Zdzieśówka-Wrocław, Zdzieśówka-Kędzierzyn Koźle, Tworóg-Twarzew, Tworóg-Kędzierzyn Koźle, Pogórska Wola, as well as the compressor stations in Odolanów and the PL-CZ interconnection with the associated infrastructure),
   - Eastern line of the North-South Gas Corridor in Poland together with the PL-SK interconnection (compressor station in Rembelszczyzna, gas pipelines: Rembelszczyzna-Wola Karczewska, Wola Karczewska-Wronów, Rozwadow-Kośliskowola-Wronów, Jarosław-Rozwadow, Hermanowice-Jarosław, Hermanowice-Strachocina, Wronów system point and interconnection Poland-Slovakia together with associated infrastructure).

2. BEMP (Baltic Energy Market Interconnections Plan):
   - Gas Interconnection Poland-Lithuania,
   - Baltic Pipe,
   - Expansion of the LNG Terminal in Świnoujście,
   - Upgrading of entry points to the Yamal-Europe pipeline in Lwówek and Włocławek.

North-South Gas Corridor

In 2014, GAZ-SYSTEM S.A. continued analytical studies concerning the development of the North-South Gas Corridor which will enable the interconnection of the transmission networks of Poland, the Czech Republic, Slovakia and Hungary.

The development of the North-South Corridor aims to:
- strengthen regional gas markets integration
- enhance security of supply
- enable access to new sources of supply (LNG, Norway) for Eastern Europe
- coordinate regional infrastructure projects
- harmonise the rules prevailing on the European gas market
- enable the implementation of regional prevention and emergency procedures in case of extraordinary situations.

The North-South Corridor will make feasible the supply of gas from the Caspian Sea region, and the import and export of gas from LNG terminals.

The inclusion of the above projects on the PCI list allowed GAZ-SYSTEM S.A. to apply jointly with the transmission system operators from the Czech Republic, Slovakia, and Lithuania, for co-financing of design and construction works in the first call for proposals under the Connecting Europe Facility (CEF), which was open until 19 August 2014. On 29 October 2014, four applications were approved for co-financing. This means that the interconnections Poland-Lithuania (design and construction works), Poland-Czech Republic (design works) and Poland-Slovakia (design works) may receive in total as much as PLN 1.3 billion (EUR 312 million) of co-financing, to be shared among GAZ-SYSTEM S.A. and its partners.

Interconnection Poland-Czech Republic

The parties to the project are GAZ-SYSTEM S.A. and NET4GAS s.r.o., the Czech transmission system operator. This project is now at the pre-investment stage.

In 2014, the companies continued preparatory works to define the legal and regulatory conditions for the investment project. In April 2014, a cooperation agreement was signed to undertake pre-investment studies in order to assess the feasibility of the interconnection Poland-Czech Republic, including the organisation and technology-related aspects, as well as the projects’ CAPEX, OPEX and economics.

In November 2014, the companies agreed coordinated decisions on cross-border cost allocation for the project, and in August 2014 applied for co-financing of the design and construction works in the first call for proposals under the Connecting Europe Facility (CEF). In October 2014, the interconnection Poland-Czech Republic was granted financial aid from the CEF for project studies and engineering.
Gas Interconnection Poland-Lithuania (GIPL)

The parties to the project are GAZ-SYSTEM S.A. and Amber Grid, the Lithuanian transmission system operator. The project of a gas interconnection between Poland and Lithuania envisages the construction of a new cross-border gas pipeline that will connect the natural gas transmission systems of Poland and Lithuania.

The Poland-Lithuania interconnection will allow full integration of the Baltic countries with the EU gas market by giving them access to a range of gas supply options available from the developed gas markets of Western Europe. The connection will also provide the Baltic States with access to the global LNG market via the LNG Terminal in Świnoujście.

In 2014, the parties continued pre-investment studies to define the feasibility of the Gas Interconnection Poland-Lithuania, including its legal and regulatory conditions, organisational and technology-related aspects, as well as the project’s CAPEX, OPEX and economics.

In the reporting period, the contractor for the environmental impact assessment for the project purposes was selected. Co-organisation and technology-related aspects, as well as the project’s CAPEX, OPEX and economics, and carried out internal analyses with a view to defining recommendations regarding the optimum option for the development of cross-border transmission capacity between Poland and Lithuania. A feasibility study to be completed under the agreement will provide the basis for further decisions as to the development of the transmission systems of both countries.

Interconnection Poland-Ukraine

In 2014, GAZ-SYSTEM S.A., continued pre-investment studies to define the feasibility of the gas interconnection Poland-Ukraine, including specifically its legal and regulatory conditions, organisation and technology-related aspects, as well as the project’s CAPEX, OPEX and economics, and carried out internal analyses with a view to defining recommendations regarding the optimum option for the development of the Baltic Pipe project as part of the Baltic Energy Market Interconnections Plan (BEMIP).

Interconnection Poland-Denmark

In 2014, GAZ-SYSTEM S.A., continued pre-investment studies to define the feasibility of the gas interconnection Poland-Denmark, including specifically its legal and regulatory conditions, organisation and technology-related aspects, as well as the project’s CAPEX, OPEX and economics, and carried out internal analyses with a view to defining recommendations regarding the optimum option for the development of the Baltic Pipe project as part of the Baltic Energy Market Interconnections Plan (BEMIP).

LNG Terminal

The offtake and regasification terminal for liquefied natural gas (LNG) in Świnoujście will provide access to the global LNG market and ensure full independence of Poland with regard to gas supply.

In accordance with the Act of 24 April 2009 on Investments in the regasification terminal for liquefied natural gas in Świnoujście, the project partners, i.e. the Maritime Office in Szczecin, the Szczecin and Świnoujście Seaports Authority, Polskie LNG S.A. and GAZ-SYSTEM S.A., implement their respective tasks with a view to the development and commissioning of the LNG Terminal. The overall responsibility for the construction and subsequent operation of the Terminal rests with Polskie LNG S.A. - GAZ-SYSTEM S.A. acts as the project coordinator and is responsible for the connection of the Terminal to the national transmission network and participates in the financing of the project.

The key challenge in 2014, as regards the coordination of the construction of the LNG Terminal in Świnoujście, was to harmonise the operational activities and ensure the sub-projects, i.e. the Breakwater, Jetty and Gas Pipeline, are completed with a time frame that does not entail any delays in the Terminal sub-project. The facilities and installations making part of the completed projects remain ready for the operation of the LNG Terminal.

The commissioning of the entire project hinges on the completion of the last phase of the Terminal sub-project.

At this stage, the project is focused on getting the LNG Terminal ready for the operation, as it has to meet stringent safety standards of the LNG industry. The readiness of the LNG Terminal for the arrival of the first cargo, i.e. the achievement of a functional safety status, will be confirmed by, among other things: positive results of inspections and tests of relevant installations and facilities, positive assessment by the LNG supplier of the Terminal’s readiness for the acceptance of a commissioning LNG cargo and the completion of over 90% of the tasks from the FOC Checklist, which is based on the know-how of the Project Partners, expertise and best practices of the LNG industry.

The entire project will be deemed completed when it achieves the status defined in the Special Act, i.e. when the regasification terminal for liquefied natural gas in Świnoujście, together with the necessary installations and facilities required for its commissioning and operation is developed.

To this end, the cooperation of the partners and all the stakeholders is a must, regardless of the completion status of individual sub-projects.

Krzysztof Wiśniewski
Director of LNG Division
GAZ-SYSTEM S.A.
In 2014, the coordinator together with the partners concentrated on efforts aimed at achieving full operational capability (FOC). FOC means a stage when, after the completion of all construction and installation work, it is possible, in a safe manner and in accordance with applicable laws, standards, guidelines and good practice, to proceed with the arrival, docking, unloading and departure of an LNG vessel, as well as the regasification of the received LNG and the export of gas of required parameters and in the required quantity into the domestic gas transmission system, or its loading in liquefied state to LNG trucks. This capability must be achieved prior to the arrival of the first “commissioning” cargo. To this end, GAZ-SYSTEM S.A. implemented a project to enable the monitoring of the progress towards the FOC in the LNG Terminal and its environment. A checklist, which is an inherent part of the FOC assessment, comprised 250 tasks (status as at 31 December 2014), related to various areas including: marine and jetty operations, LNG Terminal, Świnoujście-Szczecin gas pipeline, public administration and the Terminal user.

In the course of the execution of the above-mentioned tasks, the coordinator and the project partners used the Terminal Construction Coordination System (SKBT) which was implemented by GAZ-SYSTEM S.A. Currently, Polskie LNG S.A. is implementing the final construction phase and is getting ready for the operation. Pre-commissioning tests and activities have started.

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

All the operation-related activities undertaken within the transmission network are subject to scheduling and are carried out by personnel with legally required qualifications. Each element of gas infrastructure undergoes an annual assessment of its technical condition, and based on its outcome is designated for continued use, or for potential maintenance or upgrade.

Pipeline pigging is one of such operations. The use of “pigs” for pipeline cleaning is a standard operation envisaged in the maintenance schedule. However, inspections with the aid of the so-called intelligent pigs are an additional operation which enables the assessment of the technical condition of the pipeline from the inside. In 2014, pipeline sections of a total length of 297 km were inspected with intelligent pigs.

In the reporting period, the SESP system was updated in accordance with new legal regulations and learnings from operation experience. The changes concerned the procedures for technical condition assessment, procedures for performance of hazardous works in explosive gas atmospheres and emergency procedures. At the same time, projects were initiated to provide the company’s personnel with additional equipment required for efficient response in emergency situations. The necessary supplies were purchased for the organisation of a failure recovery site and a tender for the supply of mobile communications centres was called out.

In 2014, the process of in-sourcing of operation-related activities to in-house crews was continued in the Branch in Tarnów. Only in the Branch in Świerklany the operation-related activities are still performed by third parties. The migration of the entire system operation process to in-house crews is to be completed in 2016.
With regard to environmental protection aspects, GAZ-SYSTEM S.A. operates an Environmental Management System conforming to the requirements of the EN ISO 14001:2005 standard. In the reporting period, the company revised its policies aimed at ensuring readiness and response to hazardous situations and environmental failures, which define the solutions applicable in case of occurrences that may cause environmental damage.

In December 2014, the Gas Meter Calibration Laboratory received a permit to operate. It is the only laboratory of this kind in Poland and will be capable of calibrating gas meters of various designs, including turbine, rotary, vortex, coriolis, ultrasonic, critical flow nozzles and orifice meters. The laboratory is a unique solution on the European scale because it can operate both in a closed loop mode using its own high-pressure blower which enables the operation independent of the gas compressor station within a pressure range from 3.5 to 45, and in an open mode using the gas flow generated by gas compressors at Holowczyce I and Holowczyce II compressor stations.

Adam Nowakowski
Director of Operation Division
GAZ-SYSTEM S.A.

Dorota Bagińska
Manager,
Environmental Protection Department
GAZ-SYSTEM S.A.

ENVIRONMENTAL IMPACT MANAGEMENT

In 2014, we aligned our operations with the requirements resulting from, inter alia, the amendments to the Waste Act and the Environmental Protection Law. At the same time, it was the second year when the requirements concerning carbon dioxide emission allowance trading were in force. For the first time, GAZ-SYSTEM S.A. was required to review the annual reports concerning the level of CO₂ emissions prepared for the year 2013 for the compressor stations which are covered by the obligation to account for such emissions. A positive outcome of the review which was carried out by an independent, authorised party, allowed the company to redeem 45,733 CO₂ emission allowances and successfully conclude the first reporting year.

Also in 2014, the contractors for environmental monitoring surveys to be carried out along gas pipelines Świnoujście-Szczecin and Szczecin-Gdańsk after their commissioning were selected.

Dorota Bagińska
Manager,
Environmental Protection Department
GAZ-SYSTEM S.A.
ENVIRONMENTAL COSTS OF TRANSMISSION NETWORK OPERATION

Operating expenses:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of environmental charges paid to the Voivodeship Marshal:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>charges for air emissions</td>
<td>PLN 121 208</td>
<td>PLN 134 003</td>
</tr>
<tr>
<td>charges for water consumption</td>
<td>PLN 10 717</td>
<td>PLN 2 732</td>
</tr>
<tr>
<td>charges for effluent discharge to water or to the ground</td>
<td>PLN 12 760</td>
<td>PLN 12 488</td>
</tr>
<tr>
<td>Total cost of waste disposal (external providers)</td>
<td>PLN 358 116</td>
<td>PLN 434 879</td>
</tr>
<tr>
<td>Total cost of water sourcing (external providers)</td>
<td>PLN 121 233</td>
<td>PLN 109 837</td>
</tr>
<tr>
<td>Total cost of effluent collection (external providers)</td>
<td>PLN 153 931</td>
<td>PLN 117 485</td>
</tr>
</tbody>
</table>

WATER ABSTRACTION:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total volume of water drawn by the organisation and intermediaries (e.g. utility companies) regardless of the source:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>through intermediaries</td>
<td>27 155 m³</td>
<td>21 803 m³</td>
</tr>
<tr>
<td>total volume of water drawn from groundwater (only water drawn and used directly by the organisation)</td>
<td>127 468 m³</td>
<td>19 732 m³</td>
</tr>
</tbody>
</table>

EFFLUENTS PRODUCED:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total volume of liquid waste</td>
<td>70 355 m³</td>
<td>39 591 m³</td>
</tr>
<tr>
<td>Includes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>effluents discharged to surface waters (lakes, rivers, etc.)</td>
<td>48 998 m³</td>
<td>21 312 m³</td>
</tr>
<tr>
<td>effluents discharged to sewage system</td>
<td>20 434 m³</td>
<td>17 029 m³</td>
</tr>
<tr>
<td>effluents discharged through the soil</td>
<td>257 m³</td>
<td>257 m³</td>
</tr>
<tr>
<td>effluents disposed of by vehicles to waste water treatment plants</td>
<td>673 m³</td>
<td>993 m³</td>
</tr>
</tbody>
</table>

GAZ SYSTEM S.A. continuously monitors and strives to reduce its water consumption.

The difference in the volume of water drawn from groundwater sources is explained by the disposal of the "Zabuże" water intake located at the site of the gas compressor station in Holowncze.

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 to septic tanks.
ELECTRICITY
In 2014, the company called out another tender for centralised procurement of electricity for gas compressor stations, gas stations, cathodic protection stations, administration buildings, as well as ancillary and other facilities, for a 12 months’ term. As a result of new agreement, the company obtained a reduced price for its electricity purchases, which is independent of the current tariffs.

SECONDARY ENERGY CONSUMPTION*:

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (GJ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>262 313.64</td>
</tr>
<tr>
<td>2014</td>
<td>207 973.10</td>
</tr>
</tbody>
</table>

TOTAL NATURAL GAS CONSUMPTION:

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (GJ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2 194 259.00</td>
</tr>
<tr>
<td>2014</td>
<td>2 394 477.95</td>
</tr>
</tbody>
</table>

*Refers to non-renewable secondary sources

RENEWABLE ENERGY SOURCES
In the reporting period, the options for the application of renewable energy sources (RES) in the natural gas transmission system were also evaluated. For all twelve facilities selected for the analysis (gas stations, system points, office buildings) the installation of various RES technologies was proved to be a viable option, including photovoltaic panels, micro wind farms, solar cells and heat pumps. However, these solutions may serve as supporting installations for the main power supply systems rather than justify a complete disconnection from the power grid.

ENERGY CONSUMPTION:

The analysis results demonstrated that in few cases only the use of RES installations is economically justified. Nevertheless, the difference between the costs of electricity generation in optimised RES solutions and the current electricity prices is not substantial, which means that in the future the RES application, e.g. at gas stations, could be supported by sound business rationale.

WASTE
All waste generated by GAZ-SYSTEM S.A. is sorted, neutralized or recycled in accordance with the applicable regulations, and collected by authorized recipients.

<table>
<thead>
<tr>
<th>Year</th>
<th>Hazardous waste (Mg)</th>
<th>Non-hazardous waste (Mg)</th>
<th>Total weight of waste (Mg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>311.08</td>
<td>1 780.77</td>
<td>2 091.85</td>
</tr>
<tr>
<td>2014</td>
<td>311.08</td>
<td>1 780.77</td>
<td>2 091.85</td>
</tr>
</tbody>
</table>
In the reporting period, a methodology for noise emissions assessment and reduction in the vicinity of gas compressor stations and gas stations was developed. The study covered 12 gas stations and one gas compressor station. In each of those facilities, an on-site visit was followed by the identification of the supposed main sources of noise, appropriate measurements and the determination of the acoustic power of the noise sources. In case of some of the gas stations and the gas compressor station the acceptable noise levels during the daytime proved to be exceeded. For two gas stations and the gas compressor station model calculations were made. They are useful for the analysis of facilities located in areas characterised by major environmental disturbance, which prevents accurate measurement, or in case of more complex facilities with considerable operating variability, for which such measurement could be not representative. The methods of reduction of noise emission levels were also identified. As part of pro-environmental commitment of the company, R-22 cooling agent in all the air-conditioning systems was replaced with a more eco-friendly agent. Furthermore, sites were activity causing potential contamination of the ground surface was carried out. In this regard, a research and development study was also undertaken, which concerned the identification of the type of other environmental initiatives. As part of pro-environmental commitment of the company, R-22 cooling agent in all the air-conditioning systems was replaced with a more eco-friendly agent. Furthermore, sites were activity causing potential contamination of the ground surface was carried out. In this regard, a research and development study was also undertaken, which concerned the identification of the type of material air emissions of other substances:

- **Nitrogen compounds**: 140.96 Mg (2013) → 142.9 Mg (2014)
- **Sulphur compounds**: 1.27 Mg (2013) → 1.78 Mg (2014)
- **Volatile organic compounds**: 3.67 Mg (2013) → 3.15 Mg (2014)
- **Particulate matter**: 0.98 Mg (2013) → 0.85 Mg (2014)

**Greenhouse gas emissions to the atmosphere are mostly constituted by methane and carbon dioxide. Methane is emitted to the atmosphere during pipeline blow-down process, due to gas leaks from networks or failures. Carbon dioxide is produced as a result of the combustion of natural gas used for the company's needs.**

### GREENHOUSE GAS EMISSIONS:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct greenhouse gas emissions (including breakdowns)</td>
<td>245.713 Mg CO₂</td>
<td>190.639 Mg CO₂</td>
</tr>
<tr>
<td>Combustion processes</td>
<td>81.812 Mg CO₂</td>
<td>75.748 Mg CO₂</td>
</tr>
<tr>
<td>Gas emissions/escapes (Including breakdowns)</td>
<td>163.901 Mg CO₂</td>
<td>114.891 Mg CO₂</td>
</tr>
<tr>
<td>Indirect greenhouse gas emission resulting from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased electricity*</td>
<td>44.721 Mg CO₂</td>
<td>47.030 Mg CO₂</td>
</tr>
<tr>
<td>If total greenhouse gas emissions as the sum of direct and indirect emissions in tonnes of CO₂ equivalent</td>
<td>290.434 Mg CO₂</td>
<td>237.669 Mg CO₂</td>
</tr>
</tbody>
</table>

* Calculated in accordance with GHG Protocol Initiative

GAZ-SYSTEM S.A. is obliged to conform to legal requirements concerning greenhouse emission allowance trading with respect to three of its facilities. The company has implemented relevant regulations and the activities related to the monitoring, reporting and accounting for CO₂ emission volumes are undertaken on a daily basis. In April 2014, GAZ-SYSTEM S.A. redeemed 40,753 carbon dioxide emission allowances for 2013. To this end, the company bought 2,000 certified emission reduction (CER) units on the German EEX market.

In 2014, GAZ-SYSTEM S.A. embarked on the assessment of emission levels and opportunities for abatement of natural gas emissions from block valve stations in its transmission system. Tightness inspections and natural gas emission measurements were carried out at 60 different block valve stations. As a result, leaks were discovered, mostly from gauge cocks, which were responsible for approx. 30% of total emissions. Based on these findings, a new emission coefficient was proposed for block valve stations divided into respective categories, and a new coefficient for gas pipelines (for pipeline sections only). It was also concluded that increased inspection frequency in combination with quick removal of any identified leaks which do not require switching off the block valve station is the most efficient and easy to implement method of reducing emissions from block valve stations.

### OTHER ENVIRONMENTAL INITIATIVES

As part of pro-environmental commitment of the company, R-22 cooling agent in all the air-conditioning systems was replaced with a more eco-friendly agent. Furthermore, sites were activity causing potential contamination of the ground surface was carried out. In this regard, a research and development study was also undertaken, which concerned the identification of the type of the identified pollutants. The related report was entitled: “Developing the methodology for the identification and mitigation of contamination and assessment of the condition of soil and water environment around gas transmission facilities”.

---

**EMISSIONS**

**ANNUAL REPORT 2014**
SECTION 4
LOCAL COMMUNITIES

Communication with Local Communities ........................................... 100
Land Ownership Regulations .............................................................. 102
Aid for the Victims of the Gas Pipeline Fire in Janków Przygodzki ....... 104
Community Initiatives of GAZ-SYSTEM S.A. ................................. 105
As a responsible investor, GAZ-SYSTEM S.A. attaches special importance to the communication with local communities in the areas where the company carries out its investment projects.

In 2014, the related activities involved the implementation of the plans of communication with local communities for 21 pipeline sections and 6 facilities developed by the company.

The communication activities addressed to local communities were primarily meant to:

- provide the local authorities, landowners and residents with information about investment projects,
- build and maintain relations with local authorities, landowners and stakeholders in individual municipalities,
- build a responsible communication model at each stage of project development.

The communication tools were individually selected depending on the project phase, and included:

- organisation of information meetings for local authorities or landowners in each of the municipalities along the route of the gas pipeline,
- distribution and display of information materials (leaflets, posters) in municipality offices or during local events in individual municipalities,
- organisation of meetings at Voivodeship Offices.

GAZ-SYSTEM S.A. considers good relations with local communities and authorities in the areas where the company carries out its investment projects to be one of the priority objectives of its communication strategy. The communication is crucial at every stage of project development, starting from the design and subsequent execution and up to compensation payment to landowners.

Social dialogue concerning the investment projects, with both local authorities at all levels and the landowners of properties where projects are carried out, is one of the key elements of communication activities. It takes form of numerous information meetings, distribution of information materials in municipality offices and information and promotion stands installed during local cultural events.

Particularly, in tough cases we try to take communication seriously and responsibly. Such situations require mediation skills and often just simple human empathy, as I learned during meetings with the residents of Janków Przygoda.

Anna Ciskowska
Corporate Communication Manager
GAZ-SYSTEM S.A.
Branch in Poznań
GAZ-SYSTEM S.A. frequently implements its investment projects on land owned by private individuals and therefore has to obtain their consents for temporary or permanent use of the property. The owners are entitled to compensation in connection with the construction of strategic gas pipelines on their land, with two types of compensation being applicable under the law:
- on the grounds of restricted ability to use the property,
- for the expropriation and in connection with the expropriation, and in case of physical damage (e.g. for crop losses).

Under the Act of 24 April 2009 on the investments in the liquefied natural gas regasification terminal in Świnoujście, which forms the basis for most GAZ-SYSTEM S.A.’s strategic investments, the Voivode is the competent authority to grant compensation.

The level of compensation for the restriction of the ownership right in connection with the establishment of a pipeline buffer zone, for the property occupation during the construction and for farming and other damage caused during the pipeline construction is subject to the decision of the provincial governor taken on the basis of assessments made by certified property valuers. The compensation payment is made within 14 days of the above decision becoming final.

The payment of compensation due for expropriation and in connection with expropriation is agreed in writing between the Voivode and the person entitled to such compensation. In case when the parties fail to reach an agreement, the amount of the compensation is determined by way of a decision of the Voivode, within 30 days of the initiation of the proceedings.

In the reporting period, 210 cases were filed with common courts, the bulk of which concerned the location of the gas transmission infrastructure on the properties. A large part of the cases is limited to the so-called summons for conciliatory hearing, and some of them, including the motions concerning acquisition of property rights, were filed at the initiative of GAZ-SYSTEM S.A.

In April 2014, the company organised a two-day conference on compensation payments, in connection with the completion of several major gas pipelines. The conference was attended by around 70 participants, mostly representatives of Voivodeship Offices and the Juridical Department of the Ministry of Infrastructure and Development, as well as the company’s specialists.

GAZ-SYSTEM S.A. also receives claims from 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 rights-of-way with respect to gas pipelines running through properties of either private individuals or business entities. The assessment of financial claims is made based on reports prepared by independent property valuers.

Meanwhile, the legal status of the gas infrastructure owned by the company but located on the land of the National Forest Holding is regulated by the “Agreements setting out the rules for the execution of agreements establishing transmission easements”, which provides the basis for mutual settlements.

In 2014, GAZ-SYSTEM S.A. paid property tax to 786 municipalities in the total amount of nearly PLN 97.3 million.
AID FOR THE VICTIMS OF THE GAS PIPELINE FIRE IN JANKÓW PRZYGODZKI

In 2013, an accident occurred in Janków Przygodzki during the construction of the Gustorzyn-Odolanów gas pipeline. An active gas pipeline was damaged and caught fire, resulting in two casualties among the contractor’s personnel, over ten people having been injured and houses and property of outsiders having been burnt down.

In 2014, GAZ-SYSTEM S.A. continued the initiatives to provide assistance to the affected individuals so as to compensate for all damage resulting from the event. The support provided by the company amounted to approx. PLN 12 million, of which voluntary direct support from GAZ-SYSTEM S.A. reached PLN 5 million. This amount was spent by the company on direct support for the victims, purchase of land and reconstruction of municipal infrastructure in Janków Przygodzki, as well as on donations to local community. The remainder was paid as compensation to claimants under the insurance policy held by GAZ-SYSTEM S.A.

COMMUNITY INITIATIVES

Grant competition of the Natural Energy Fund – 11 grants awarded for the value of PLN 106,345.
School kits for first farmers – 2,000 rucksacks with a pencil case and shoe sack worth PLN 99,992.50 donated to local communities.
Smiling School Bag – 40 school bags filled with school instruments by 121 employees and donated to impoverished children.
Sponsored events – 158 projects for the value of PLN 2,949,500.
Donations – PLN 4,137,134.61 (including donations for Janków Przygodzki).
GAZ-SYSTEM. Together for Local Communities – 13 projects implemented for local communities by 44 volunteers, for the value of PLN 39,000.
GAZ-SYSTEM. Together for Others – the amount of PLN 57,241 raised by 499 volunteers for seven child care facilities.

The grant competition of the Natural Energy Fund is an excellent instrument to engage local communities in joint environmental initiatives.

We have already undertaken the second project in cooperation with GAZ-SYSTEM S.A., called “School with Energy”. It contributes to increasing the environmental awareness among the residents of Sierpc municipality as regards the possibility of using alternative sources of energy, continuously stimulates community initiatives promoting sustainable development.

Thanks to the grants we were able to broaden the scope of our educational activities and introduce additional classes, outdoor activities and numerous competitions, excursions and workshops. These activities were complemented by the creation of a local centre of environmental education – an ECO-PARK with a “Green Laboratory”, sundial, meteorological garden and outdoor gym. It will not only serve for teaching classes and sports activities but also for community meetings. This undertaking will be a wonderful contribution to the awareness of environmental initiatives addressed to the local community. We are glad that the local community is taking an active part in the promotion of environmental attitudes and is willing to get involved.

The large participation in the competition of the Natural Energy Fund is a sign of enduring interest in environmental protection and awareness building issues.

Malgorzata Karpolska
Teacher at Secondary School in Borków Kościelny

NATURAL ENERGY FUND

It has already been five years since the Natural Energy Fund grant competition supporting the implementation of environmental projects has been organised by GAZ-SYSTEM S.A. The purpose of the competition is to provide financial support for the best environmental protection ideas in the region, the initiative is addressed to the communities of individual voivodeships, and specifically municipalities, schools, non-profit-making organisations, foundations and associations. The regular partners include “Our Earth” Foundation, Voivodeship Offices and Voivodeship Funds for Environmental Protection and Water Management.

In 2014, institutions from Wielkopolskie, Dolnośląskie, Mazowieckie, Podkarpackie and Opolskie voivodeships took part in the competition.
The Natural Energy Fund is, first of all, a proof that environmental questions are proactively approached by local communities. The initiatives which are planned and implemented with the support of the competition funds are meaningful and much needed, not only from the environmental perspective but also for the development of ecological education in Poland. Interesting, innovative solutions, passion and commitment of those involved in the implementation and activation of participants with different social backgrounds add up to the enormous success of this competition. Positive changes taking place owing to the implemented projects are very significant for each of us in building the sense of responsibility for the environment. We are proud to support this initiative because it is a chance for specific, useful initiatives for the benefit of the local environment.

Katarzyna Dytrych
Member of the Management Board, “Our Earth” Foundation

GAZ-SYSTEM S.A. has been supporting the “Energy Academy” project organised by the Lesław Paga Foundation.

The “Energy Academy” is an educational initiative addressed to students and graduates up to 26 years of age. It features a series of lectures, workshops and debates which, apart from the participants, attract leading experts, scientists, politicians and representatives of the companies with the strongest influence on the energy market in Poland. The project aims to build an educational institution and a broad alliance of various institutions for energy security and the sustainable development of the energy market in Poland. After completing the training programme, each participant serves a two-month, paid internship with one of the partner institutions supporting the initiative.

In 2014, GAZ-SYSTEM S.A. offered internships to four students of the “Energy Academy”, which allowed them to gain the knowledge of the development of the transmission system and gas market while offering a chance to apply in practice their skills developed in the course of the studies.

“Pass It On” is a charity clothing collection programme operated by the Anna Dymna’s Foundation and 3R Recycling Solutions.

Each kilogramme of goods collected represents tangible support for the Foundation’s beneficiaries – PLN 0.30 per 1 kg of clothing and PLN 0.50 per 1 kg of shoes. In 2014, in the course of this initiative, the employees of GAZ-SYSTEM S.A. filled 78 containers with clothes and textiles.

78 containers

filled with textiles, of which:

24
Branch in Tarnów

11
Head Office

13
Branch in Wrocław

8
Branch in Świętokrzyski

12
Branch in Poznań

5
Branch in Gdańsk

5
Branch in Rembielszczyzna

ENERGY ACADEMY

PASS IT ON
The employee volunteering program has been implemented since 2013 for the benefit of local communities and allows the employees to become involved in assistance for child care facilities, perform some work related to environmental protection, or implement their own projects.

GAZ-SYSTEM S.A. has supported the Children’s Home in Supraśl since 2013. Our relationship started with the participation of the children in a picnic organised in Warsaw. Since then, the contacts with our institution have been very frequent and brought about numerous attractions and assistance on multiple dimensions.

The sponsorship by GAZ-SYSTEM S.A. means enormous support for our institution. It has offered additional leisure activities, including trips to Warsaw which are organised each year. Older children have had the opportunity to visit the company’s facility in Hłowczyce. In addition, the children can enjoy many attractions such as pizza, bowling or go-cart outings, cinema tickets or entry to a climbing park. The children also benefit from material aid. On many occasions they have received various gifts, ranging from sweets, cosmetics, clothing and stationary products to electronic equipment. Thanks to the assistance provided by GAZ-SYSTEM S.A., the institution was dowered with new bicycles, household appliances and linen.

The relations with the company often take a purely human dimension. The children have got to know and like the employees who visit the institution. They are eager to meet them and share their dilemmas and achievements, to talk about themselves and their plans.

The assistance of GAZ-SYSTEM S.A. has an enormous significance for the institution because it is multidimensional. The children not only receive material aid but also emotional support which is a valuable experience for them.

I support the volunteering concept as it allowed us to engage in the cooperation with the Little Wanderer Club at the Kindergarten No 74 in Poznań. Institutions of this kind have a limited ability to implement additional initiatives and therefore it is wonderful to show new forms of leisure activities and, at the same time, combine business with pleasure.

GAZ-SYSTEM S.A. has been affording exceptional care to our kindergarten. We are deeply moved by your interest in our problems and your presence at our kindergarten. We not only receive financial support which allows us to rehabilitate children with complex disabilities but, first and foremost, we experience your solidarity with the families struggling to bring up these very disadvantaged children. This gives us all extra strength and encouragement to carry on with our work.

The smiling faces of children from child care institutions, after an outing which turned out well, made me truly joyful and I know that each minute of volunteer work was worth it. I can definitely say that helping those who deserve such help is very rewarding and means a value-added for the helper as well. I am very glad that we have been given the opportunity to engaged in projects as part of employee volunteering program.
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 2014. The fiscal year in the company’s reporting corresponds to the calendar year.

The present document is the fourth report prepared in accordance with the Global Reporting Initiative’s G3.1 Guidelines at Application Level B+. The report presents 45 economic, social and environmental performance 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.

The readers of this integrated annual report, i.e. customers, business partners, employees and local communities, were identified during a dedicated workshop organised by GAZ-SYSTEM S.A. for the management team. The workshop participants were divided into thematic groups and discussed issues related to the market, workplace, environmental impact and local communities. The goal of the workshop was to:

- work out jointly the concept for the non-financial part of the next integrated annual report,
- select relevant issues to be reported,
- define the approach to individual GRI indicators.

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) (“Assurance Engagements Other than Audits or Reviews of Historical Financial Information”) established by the International Federation of Accountants, IFAC.

Any queries concerning this integrated annual report should be addressed to:

Małgorzata Polkowska
Director of Corporate Communication and Spokesperson
phone. +48 22 220 15 46, e-mail: pr@gaz-system.pl

In the process of the definition of the scope of the report, a list of key issues addressed in the report was created. They include:

- Customer relations and gas market liberalisation.
- Safe operation of the transmission system.
- Construction of gas pipelines and new investment plans related to the development of the transmission network.
- Relations with local communities in areas where investment projects are implemented.
- Employment-related issues.
Independent assurance report pertaining to the non-financial part of the Integrated Annual Report 2014 of GAZ-SYSTEM S.A.

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

We have reviewed the non-financial part of the Integrated Annual Report 2014 of GAZ-SYSTEM S.A. (Integrated Annual Report) developed by GAZ-SYSTEM S.A. with the registered address in Warsaw, at ul. Motłowska 44 ("Company") with respect to indicators included in the scope 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 2014 to 31 December 2014 with respect to quantity and quality of available evidence.

The Management Board of the Company is responsible for reliable, correct and fair information and for correct presentation 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 regarding completeness 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 auditors’ Report nor do we make statements regarding the financial statements of the Company as determined in regulations and rules in force.

Planning and performing our work has led to the nature of a limited assurance engagement performed in line with G3.1 Sustainable Development Reporting Guidelines. Other than Audit or Review 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 our review of the Integrated Annual Report significantly differ from those applied during an audit, which is aimed at ensuring reasonable assurance. The purpose of the review is to issue an opinion on correct, true and fair nature of the Integrated Annual Report, and therefore, such opinion has been issued. The procedures followed during the review of the non-financial part of the Integrated Annual Report included:

- Identifying issues and results significant for the content of the Integrated Annual Report from the viewpoint of the company social responsibility strategy followed by the Company and shareholders expectations;
- Considering data included in the non-financial part of the Integrated Annual Report to those presented in the Financial Statements of GAZ-SYSTEM S.A.;
- Examining, in advance, the scope of G3.1 Sustainable Development Reporting Guidelines;
- Examining, in advance, the scope of G3.1 Sustainable Development Reporting Guidelines;
- 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 is compliant with G3.1 Sustainable Development Reporting Guidelines for level B issued by Global Reporting Initiative.

Deloitte Advisory B.V.

Warsaw, 23 June 2016

G3 Reporting is the Global Reporting Initiative (GRI) | CRD No. 0018031042 | VAT No. PL8721323700 | REGON 004259092 | Netherlands Chamber of Commerce


---

### CSR Activities – Performance in 2014

**Goal**

<table>
<thead>
<tr>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARKET</td>
</tr>
<tr>
<td>5 workshops and 5 consultation sessions dedicated to customers</td>
</tr>
<tr>
<td>Review and broadening of the Customer Satisfaction Survey</td>
</tr>
<tr>
<td>Development of the Information Exchange System</td>
</tr>
<tr>
<td>Implementation of the Code of Conduct for Suppliers</td>
</tr>
<tr>
<td>Trainings for suppliers and subcontractors</td>
</tr>
<tr>
<td>Preparation of an integrated annual report according to GRI guidelines at Application Level B+</td>
</tr>
</tbody>
</table>

**WORKPLACE**

<table>
<thead>
<tr>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of knowledge and skills as well as employee awareness in the Health and Safety area</td>
</tr>
</tbody>
</table>

**ENVIRONMENT**

<table>
<thead>
<tr>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Natural Energy Fund Grant Competition</td>
</tr>
<tr>
<td>Compensatory planting and monitoring</td>
</tr>
<tr>
<td>Environmental monitoring related to gas pipeline construction projects</td>
</tr>
</tbody>
</table>

**LOCAL COMMUNITIES**

<table>
<thead>
<tr>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community dialogue related to executed investment projects</td>
</tr>
<tr>
<td>School kit programme for first formers</td>
</tr>
<tr>
<td>Sponsoring initiatives</td>
</tr>
</tbody>
</table>
1.1 6.2 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. 4-5 full
1.2 Description of key impacts, risks, and opportunities. 4.5,48-49 full
2.1 Name of the organisation. 8 full
2.2 Primary brands, products, and/or services. 8 full
2.3 6.2 Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. 8 full
2.4 Location of organisation’s headquarters. 8 full
2.5 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. 8 full
2.6 Nature of ownership and legal form. 8,10 full
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). 58 full
2.8 Scale of operations. 10 full
2.9 Significant changes during the reporting period regarding size, structure, or ownership. No material changes full
2.10 Awards received in the reporting period. 51 full
3.1 Reporting period. 112 full
3.2 Date of most recent previous report. 30 June 2014 full
3.3 Reporting cycle. 112 full
3.4 Contact person. 112-113 full
3.5 Process for defining report content, including:
  • Determining materiality of specific issues for the organisation and its stakeholders
  • Prioritizing topics within the report
  • Identifying stakeholders the organisation expects to use the report. 112-113 full
3.6 Boundary of the report (e.g., countries, Divisions, subsidiaries, leased facilities, joint ventures, suppliers). 112 full
<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Global Compact Principle</th>
<th>ISO 26000 Indicator</th>
<th>Page</th>
<th>Reporting level</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.7</td>
<td></td>
<td>PRZECIWDZIĄANIE KORUPCJI I NADUŻYCIOM</td>
<td>full</td>
<td></td>
</tr>
<tr>
<td>3.8</td>
<td></td>
<td>Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.</td>
<td>8</td>
<td>full</td>
</tr>
<tr>
<td>3.9</td>
<td></td>
<td>Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimation applied to the completion of the Indicators and other information in the report.</td>
<td>112</td>
<td>full</td>
</tr>
<tr>
<td>3.10</td>
<td></td>
<td>Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., merger/acquisitions, change of base year/period, nature of business, measurement methods).</td>
<td>no re-statement</td>
<td>full</td>
</tr>
<tr>
<td>3.11</td>
<td></td>
<td>Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.</td>
<td>no changes</td>
<td>full</td>
</tr>
<tr>
<td>3.12</td>
<td></td>
<td>Table identifying the location of the Standard Disclosures in the report.</td>
<td>117-123</td>
<td>full</td>
</tr>
<tr>
<td>3.13</td>
<td></td>
<td>Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explanation of the scope and basis of any external assurance provided.</td>
<td>112</td>
<td>full</td>
</tr>
<tr>
<td>4.1</td>
<td></td>
<td>Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.</td>
<td>14, 16, 19</td>
<td>full</td>
</tr>
<tr>
<td>4.2</td>
<td></td>
<td>Mechanism for shareholder and employees to provide recommendations or direction to the highest governance body.</td>
<td>18</td>
<td>full</td>
</tr>
<tr>
<td>4.3</td>
<td></td>
<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>18</td>
<td>full</td>
</tr>
<tr>
<td>4.4</td>
<td></td>
<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>16, 18</td>
<td>full</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Global Compact Principle</th>
<th>ISO 26000 Indicator</th>
<th>Page</th>
<th>Reporting level</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.6</td>
<td></td>
<td>Processes in place for the highest governance body to ensure conflicts of interest are avoided.</td>
<td>16</td>
<td>full</td>
</tr>
<tr>
<td>4.7</td>
<td></td>
<td>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.</td>
<td>16</td>
<td>full</td>
</tr>
<tr>
<td>4.8</td>
<td></td>
<td>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.</td>
<td>14, 15</td>
<td>full</td>
</tr>
<tr>
<td>4.9</td>
<td></td>
<td>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 or compliance with internationally agreed standards, codes of conduct, and principles. Include frequency with which the highest governance body assesses sustainability performance.</td>
<td>18</td>
<td>full</td>
</tr>
<tr>
<td>4.10</td>
<td></td>
<td>Processes for evaluating the highest governance body’s own performance, particularly with respect to economic, environmental, and social performance.</td>
<td>18</td>
<td>full</td>
</tr>
<tr>
<td>4.11</td>
<td></td>
<td>Explanation of whether and how the precautionary approach or principle is addressed by the organisation.</td>
<td>22, 89</td>
<td>full</td>
</tr>
<tr>
<td>4.12</td>
<td></td>
<td>Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses. To which the organisation subscribes or endorses.</td>
<td>50</td>
<td>full</td>
</tr>
<tr>
<td>4.13</td>
<td></td>
<td>Memberships in associations (such as industry associations) and, or national/international advocacy organisations in which the organisation is a member.</td>
<td>50</td>
<td>full</td>
</tr>
<tr>
<td>4.14</td>
<td></td>
<td>List of stakeholder groups engaged by the organisation.</td>
<td>46-47</td>
<td>full</td>
</tr>
<tr>
<td>4.15</td>
<td></td>
<td>Basis for identification and selection of stakeholders with whom to engage.</td>
<td>112</td>
<td>full</td>
</tr>
<tr>
<td>4.16</td>
<td></td>
<td>Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.</td>
<td>46-47, 60, 69</td>
<td>full</td>
</tr>
<tr>
<td>4.17</td>
<td></td>
<td>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.</td>
<td>46-47, 60, 69</td>
<td>full</td>
</tr>
</tbody>
</table>
Management Approach – Economics

<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Global Compact Principle</th>
<th>Indicator</th>
<th>Page</th>
<th>Reporting level</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC1 6.8, 6.8.3, 6.8.7, 6.8.9</td>
<td>Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.</td>
<td>26-31  partial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EC5 1 6.4.3</td>
<td>Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.</td>
<td>37  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EC9 6.4.3</td>
<td>Understanding and describing significant indirect economic impacts, including the extent of impacts.</td>
<td>48-49, 103, 105  full</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Management Approach – Environment

<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Global Compact Principle</th>
<th>Indicator</th>
<th>Page</th>
<th>Reporting level</th>
</tr>
</thead>
<tbody>
<tr>
<td>EN3 8 6.5, 6.5.4</td>
<td>Direct energy consumption by primary energy source.</td>
<td>94  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN4 8 6.5, 6.5.4</td>
<td>Indirect energy consumption by primary energy source.</td>
<td>94  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN8 8 6.5.4</td>
<td>Total water withdrawal by source.</td>
<td>93  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN11 8 6.5.4</td>
<td>Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.</td>
<td>80  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN12 8 6.5.6</td>
<td>Description of significant impacts of activities, products, and services on biodiversity: 1) in protected areas, 2) and areas of high biodiversity value outside protected areas.</td>
<td>82  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN13 8 6.5.6</td>
<td>Habitats protected or restored.</td>
<td>82  partial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN14 8 6.5.6</td>
<td>Strategies, current actions, and future plans for managing impacts on biodiversity.</td>
<td>81, 82  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN15 8 6.5.6</td>
<td>Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.</td>
<td>81  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN16 8 6.5.5</td>
<td>Total direct and indirect greenhouse gas emissions by weight.</td>
<td>96  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EN18 8 6.5, 6.5.5</td>
<td>Initiatives to reduce greenhouse gas emissions and reductions achieved.</td>
<td>97  full</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Management Approach – Labour Practices and Decent Work

<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Global Compact Principle</th>
<th>Indicator</th>
<th>Page</th>
<th>Reporting level</th>
</tr>
</thead>
<tbody>
<tr>
<td>LA1 6.4.3</td>
<td>Total number of employees according to the type of employment contract, position and region, broken down by gender.</td>
<td>20  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA2 6 6.4.3</td>
<td>Total number and rate of new employee hires and employee turnover by age group, gender, and region.</td>
<td>34-35  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA3 6.4.3, 6.4.4</td>
<td>Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.</td>
<td>39  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA4 1, 3 6.4</td>
<td>Percentage of employees covered by collective bargaining agreements.</td>
<td>32  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA6 1 6.4.6</td>
<td>Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.</td>
<td>40  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA7 1 6.4.6</td>
<td>Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.</td>
<td>42-43  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA9 1 6.4.6</td>
<td>Health and safety topics covered in formal agreements with trade unions.</td>
<td>40  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA10 6.4.7</td>
<td>Average hours of training per year per employee by gender, and by employee category.</td>
<td>38  full</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA11 6.4.7</td>
<td>Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.</td>
<td>38, 39  full</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Management Approach – Human Rights

LA13 1, 6 6.3.7, 6.3.10, 6.4.3 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.

LA14 1, 6 6.4.3 Ratio of basic salary and remuneration of women to men by employees category, by significant locations of operation.

LA15 6.4.3 Return to work and retention rates after parental leave, by gender.

Management Approach – Society

SC1 6.8.3 Percentage of operations with implemented local community engagement, impact assessments, and development programs.

SC2 6 6.6.3 Percentage and total number of business units analysed for risks related to corruption.

SC4 6 6.6.3 Actions taken in response to incidents of corruption.

SC5 6.6.4 Public policy positions and participation in public policy development and lobbying.

SC6 6 6.6.4 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

SC7 6.6.4, 6.6.7 Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.

SC8 6.6.4, 6.6.7 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.

SC9 6.8.3 Operations with significant potential or actual negative impacts on local communities.

SC10 6.8.3 Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.

Management Approach – Responsibility for products and services

PR1 6.3.9, 6.6.6, 6.7, 6.7.4, 6.7.5 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.

PR5 6.7, 6.7.4, 6.7.5, 6.7.6, 6.7.8, 6.7.9 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

PR6 6.7.3 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.

PR7 6.3.7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.

PR9 6.7.6 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.

ECOCALCULATOR

Thanks to using Cocoon Silk paper instead of non-recycled paper adverse impact on the environment has been reduced by:

- less waste 1 752 kg
- less water used 63 203 litres
- less greenhouse gases 2 354 km
- less energy used 3 874 kWh
- less wood used 2 847 kg

Source: Carbon footprint data evaluated by Labelia Conseil in accordance with the Bilan Carbone® methodology. Calculations are based on a comparison between the recycled paper used versus a virgin fibre paper according to the latest European BREF data (virgin fibre paper) available. Results are obtained according to technical information and subject to modification.