COMPANY OVERVIEW

TRANSMISSION SYSTEM OPERATOR GAZ-SYSTEM S.A. IS A DYNAMICALLY GROWING COMPANY RESPONSIBLE FOR THE TRANSPORTATION OF GAS THROUGH STRATEGIC HIGH-PRESSURE PIPELINES IN POLAND

The company’s responsibilities include:

- management of the network operations in a coordinated and efficient manner, while maintaining the required reliability of gas supply and quality standards,
- providing non-discriminatory access to the transmission network for all the players in the gas market,
- operation, maintenance and development of transmission facilities, with due respect for the natural environment,
- providing each transmission, storage, distribution or LNG system operator with sufficient information to enable them to carry out transportation and storage of natural gas in a proper manner so as to ensure safe and efficient operation of the interconnected systems, providing the users of the transmission system with necessary information to ensure effective access to the system,
- other duties arising under specific implementing regulations and the Energy Law of 10 April 1997 with subsequent amendments.

By virtue of the Regulation of the Council of Ministers of 7 November 2007, GAZ-SYSTEM S.A. was included in the list of national companies of key importance to the Polish economy. The Ministry of State Treasury continues to recognise GAZ-SYSTEM S.A. as a company of major importance for the public order and safety.

In 2007, the company received the Pearl of Polish Economy award, in a ranking prepared by the Institute of Economic Sciences of the Polish Academy of Science, for consistent implementation of the business policy and strategy and its leadership position among the most dynamic and efficient companies in Poland. The leading position of GAZ-SYSTEM S.A. was further confirmed by its runner-up position in the ranking of the infrastructure sector.

The ownership supervision over the company is exercised by the State Treasury as the holder of 100% of the shares.

The share capital of GAZ-SYSTEM S.A. currently amounts to PLN 2,069,399,602.
GAN-SYSTEM S.A. operates a transmission network comprising 9,777 kilometres of pipelines, which carried around 14.9 bcm of natural gas (including transportation to underground gas storage facilities) in the financial year 2007/2008.

The company is also overseeing the operation of other transmission system facilities, which include 14 compressor stations, 57 interconnection points and 970 exit points. The company has over 1,900 employees who, with their professional attitude and diverse skills ensure proper operation of the transmission system.

Six branches of GAN-SYSTEM S.A. across Poland are responsible for the operation of the transmission network.

Ongoing monitoring and improvements in the performance of the system components ensure safe transmission of natural gas. In the financial year 2007/2008, the company spent nearly PLN 280 million on investments, modernisation and maintenance of the transmission infrastructure.

As part of the commitment to maintain the highest standards of natural gas transmission, GAN-SYSTEM S.A. is drawing on the leading technology solutions available in the market in such areas as transmission network control, measurement of the natural gas parameters and modernisation of high-pressure pipelines.

Furthermore, GAN-SYSTEM S.A. initiates research aimed at ensuring the safety and full technical operability of the of the transmission system. In the last reporting year, the methods of remote methane detection during aerial inspection of pipeline routes were tested. The pilot program combined research on laser methods of methane detection with operating activities defined in the procedures set out in the Transmission Network Operation System.
GAZ-SYSTEM S.A. participates in research on sustainable development and identification of the methods and best practices for minimising the environmental impact by a TSO. The company takes part in the Methane to Markets Partnership (M2M) – an international cooperation platform established in Washington (USA) to promote methane recovery and use as a clean energy source. The cooperation with M2M is centred around the NATURAL GAS STAR programme, which includes, among other things, the preparation of a report on the methods, procedures and techniques to reduce gas emissions.
Based on the national and European legal requirements, GAZ-SYSTEM S.A. has developed a set of principles applicable to the operation of high-pressure pipelines – the Transmission Network Operation System (TNOS).

The operating procedures and manuals of TNOS are structured around the following key topics:

• pipelines,
• gas stations,
• anticorrosion protection,
• gas compressor stations,
• gas dehydration.

The application of the procedures of the Transmission Network Operation System ensures safe operation of the facilities and high-pressure gas pipelines.

In 2007, GAZ-SYSTEM S.A. signed an inter-operator agreements with ONTRAS-VNG Gastransport GmbH concerning the cooperation at the border points of Lasów, Gubin and Kamminke.

The document regulates the questions related to technical conditions in the border points where the measurements of gas volume and quality are taken. The agreement also defines the methods and procedures of information exchange between the operators and the rules of behaviour in emergency situations.

Similar agreements were signed by GAZ-SYSTEM S.A. with the operators in Belarus (OAO Bieltransgaz) and Ukraine (Ukrtransgaz NAK Naftogaz).

In order to ensure safe operation of the transmission network and maintain high service levels, GAZ-SYSTEM S.A. drew up the Transmission Network Code. The document sets out the rules applicable to the use of gas transmission services taking into account legal, technical and organisational requirements. The scope of the Network Code encompasses the entire technical infrastructure managed by the operator and sets forth the rights and obligations of the parties involved in the process of gas transmission.

Taking into account the changing legal environment and the concern to secure uninterrupted natural gas supply to its customers, GAZ-SYSTEM S.A. revised Section II of the Transmission Network Code.
The principal service provided by GAZ-SYSTEM S.A. concerns transport-ation of natural gas from the entry points selected by the shipper to the designated exit points under a transmission service agreement.

The conclusion of the agreement is conditional on the acceptance of the application for access to the transportation service and presentation of the documents specified in the Transmission Network Code. In case when there is no connection line or the capacity in the existing exit point from the transmission system is insufficient, the shipper applies for the definition of connection conditions in accordance with the provisions of the Energy Law. The connection of a new consumption point takes place on the basis of an agreement between GAZ-SYSTEM S.A. and the party for whom the connection conditions have been defined.

In the financial year 2007/2008 GAZ-SYSTEM S.A. provided natural gas transportation service under two agreements with Polish Oil and Gas Company, transmission agreements with two regional gas distribution companies (Mazowiecka Spółka Gazownictwa Sp. z o.o. and Wielkopolska Spółka Gazownictwa Sp. z o.o.) and a transmission agreement with HANDEN Sp. z o.o.

Acting in accordance with the provisions of Regulation 1775/2005 of the European Parliament and the Council, GAZ-SYSTEM S.A. offered its customers the option of trading in acquired capacity rights. The customers of the company can notify their intention to transfer spare transportation capacity or their demand for capacity.

Detailed information concerning the procedures related to the secondary market for capacity rights can be found at www.gaz-system.pl under the tabs “Secondary market” and “Transmission Network Code.”
INFORMATION EXCHANGE SYSTEM (IES)

GAZ-SYSTEM S.A. conforms to the legal obligations imposed by the EU authorities and the Energy Regulatory Office with respect to the publication and exchange of data with other market players. To this end, the company is planning to implement an IT platform known as the Information Exchange System (IES). IES will mainly serve as a platform for publication and exchange of technical and commercial information between the TSO and the market participants (shipper, distribution system operator). The information exchange systems are based on common standards that allow all the parties to align their own IT solutions with the requirements of the transmission system operator.

INTERRUPTIBLE TRANSMISSION SERVICE

GAZ-SYSTEM S.A. developed and implemented a standard agreement for the provision of interruptible gas transmission service. The document was drafted in accordance with the provisions contained in the Tariff for Gas Transmission Services No. 2 and conforms to the legal requirements set out in Regulation 1775/2005.

The interruptible gas transmission service enables optimised utilisation of the technically available network capacity and the connection of new consumers in those network areas where the provision of firm service is not possible. It will also drive up the levels of contracted capacity and gas consumption volumes among the existing consumers to whom the new service will be provided.

QUALITY MANAGEMENT SYSTEM

GAZ-SYSTEM S.A. aspires to being a modern and efficiently managed company engaged in the provision of transmission services up to the European standards and drawing on environmentally friendly and safe technologies.
The company’s interactive website www.gaz-system.pl was upgraded at the beginning of 2008 to become a modern source of comprehensive information about the company and its services. It is a place where interested users will find information on the current activities of GAZ-SYSTEM S.A., legal documents governing the activities of the operator, details of the transmission system components, as well as the current tariffs and reference price for gas. The corporate website also provides a tool for trading in acquired capacity rights.

On the transmission system maps posted on www.gaz-system.pl interested parties can look up the gas pipeline routes, and the location, name and reference number of the entry and exit points to and from the transmission system. It is also possible to verify through the website if spare capacity is available at a given entry/exit point.
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Through the participation of its representatives in the workshops and plenary sessions of the above organisations, the company gains access to up-to-date information on the plans for the development of the gas industry prepared at the European Union level and can analyse the impact of the Community legislation on the Polish gas market.

GAZ-SYSTEM S.A. signed a tripartite agreement with Energinet.dk, the Danish operator of electricity and gas transmission systems, and PGNiG concerning cooperation on a gas pipeline connection between Poland and Denmark. For GAZ-SYSTEM S.A. as the operator of the gas transmission system, the location of a gas supply source in the north of Poland will mean the opportunity to cater to gas transportation needs of new consumers in the region. These developments will significantly contribute to efficiency improvements in the natural gas transmission system in Poland.

In May 2008, GAZ-SYSTEM S.A. opened up its permanent representative office in Brussels, which will ensure effective promotion of the company’s interests at the forum of EU institutions, as well as ongoing monitoring of gas-related developments in the European Union and legislative processes that affect the future of the energy sector.
A BRIDGE TO YOUR SUCCESS
FINANCIAL INFORMATION

The aspiration of GAZ-SYSTEM S.A. is to continuously improve the quality of its services taking into account customer expectations. Bearing them in mind, the company always strives to optimise its operating costs.

The company was involved in the drafting of a new tariff regulation concerning detailed principles of tariff design and calculation and settlements in gas trade (Dz.U. No. 28, item 165). The most significant change in the new regulation for GAZ-SYSTEM S.A. as the transmission system operator, concerned resolution of the question of viable return on capital employed, based on which tariffs are calculated.

So far, the rate of return on capital employed was set by the President of Energy Regulatory Office. Currently, the rate of return is to be calculated in accordance with a formula based on weighted average cost of capital (WACC) applied to the net value of fixed and current assets of the company.

The above approach to the calculation of return on capital is in line with the European and global regulatory practice and leads to reduced regulatory risk while decreasing the cost of external funding and improving the accuracy of financial projections for long-term investment processes. The application of a new method of compensating for the capital employed, which is based on the economic theory means a lower regulatory risk for the industry and more accurate financial forecasting.

Other important changes introduced with the new regulation include:

- introduction of the network charges calculated by the party providing a comprehensive service (sale and transportation of natural gas),
- new method of calculating the capacity overrun charges,
- simplified penalty regime for business entities involved in illegal gas consumption, based on notional volumes.
The Tariff for Gas Transmission Services No. 2 has been designed in compliance with the provisions of the Energy Law of 10 April 1997 and the Regulation of the Minister of Economy concerning detailed principles of setting and calculating tariffs and the principles of settlement in gas trade.

**COMPARISON OF KEY FINANCIAL FIGURES**

<table>
<thead>
<tr>
<th></th>
<th>2006/2007</th>
<th>2007/2008</th>
<th>change, %</th>
</tr>
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<tbody>
<tr>
<td>Equity</td>
<td>1.51</td>
<td>2.67</td>
<td>+77</td>
</tr>
<tr>
<td>Balance-Sheet Total</td>
<td>5.21</td>
<td>4.79</td>
<td>-8</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>0.22</td>
<td>0.46</td>
<td>+104</td>
</tr>
<tr>
<td>Net Profit</td>
<td>0.15</td>
<td>0.32</td>
<td>+113</td>
</tr>
<tr>
<td>Revenue from Sales</td>
<td>1.46</td>
<td>1.55</td>
<td>+7</td>
</tr>
</tbody>
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*In PLN billion*
KEY FINANCIAL RATIOS

- **EBITDA**: 0.9 [PLN billion] (2006/2007) vs. 1.0 [PLN billion] (2007/2008)
- **EBIT**: 0.5 (2006/2007) vs. 0.6 (2007/2008)
Guided by the concern to ensure proper performance of the transmission system and in line with the assumptions of the Investment Plan of GAZ-SYSTEM S.A., in the course of the last financial year the company completed a number of investment, modernisation and maintenance projects on both own and leased assets. The amount spent on the above activities totalled PLN 280 million.

By 2013/2014 GAZ-SYSTEM S.A. plans to built over 600 kilometres of gas pipelines in north-western Poland. The investment value is estimated at over PLN 2 billion. The plans include new pipeline sections along the following routes: Świnoujście–Szczecin, Szczecin–Lwówek, Szczecin–Gdańsk, and the construction of a gas compressor station in Goleniów. The expansion of the gas transportation system was included in the governmental Operational Programme Infrastructure and Environment, Action 10.1 – Energy Security, including the diversification of energy sources.

The construction of gas pipelines in this region of the country is aimed at increasing the transported volumes of gas and enabling the supply of this eco friendly fuel to the areas where the gas network has not been developed so far. With the development of natural gas network the investment attractiveness of north-western Poland will be enhanced. Furthermore, the construction of a gas pipeline system in the north-west of Poland will enable off-take and transportation of gas from the LNG terminal and the Baltic Pipe, which will strengthen the national energy security.
INVESTMENTS PLANNED IN NORTH-WEST OF POLAND

- GAS PIPELINE ŚWINOUJSIE–SZCZECIN
- GAS PIPELINE WŁOCŁAWEK–GDYNIA
- GAS PIPELINE GUSTORZYN–ODOLANÓW
- GAS PIPELINE ŚĆWECIN–GDANSK
- GAS PIPELINE GÓLERÓW
- GAS COMPRESSOR STATION IN GÓLEROВ

Regional Areas:
- Zachodniopomorskie
- Kujawsko-Pomorskie
- Wielkopolskie
- Lubuskie
- Pomorskie

Map of key cities:
- Gdańsk
- Świnoujście
- Szczecin
- Lwówek
- Odolanów
- Włocławek

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A BRIDGE TO YOUR SUCCESS
The activities of Gaz-System S.A. will focus primarily on the execution of strategic investments to improve the energy security of the country.

Gaz-System S.A. is preparing the national transmission system to receive gas from new supply sources – the LNG terminal and a direct gas pipeline landing on the Polish coast. The projects being currently underway will involve further development and modernisation of the system to secure increased gas transmission capacity.

On 26 September 2007, the Supervisory Board expressed its positive opinion on the Outline Strategy for Gaz-System S.A. The implementation of the programmes defined in the Strategy will lead to operational efficiency improvement, and ultimately will enable the achievement of the strategic goals, strengthen the position of Gaz-System S.A. on the European gas market and enhance the energy security.

The operating strategy of Gaz-System S.A. is based on six functional operating programmes:

- **OPTIMA:** optimisation of the asset structure,
- **GIGA:** performance efficiency improvement,
- **IT START:** implementation of IT systems to streamline the management and functioning of the company,
- **IMPACT:** maintaining the dominant position of Gaz-System S.A. in the transmission services market,
- **PROJECT:** preparation and implementation of strategic investment projects,
- **EMOTIONS:** development of one of the key assets of the company – its Employees.

Gaz-System S.A. is engaged in the continuous development of the natural gas market in Poland. This is achieved through its active presence in the European gas industry forum, effective cooperation with other EU operators, implementation of modern technology solutions and anticipation of growing customer expectations.