A BRIDGE TO YOUR SUCCESS

2007/2008
ANNUAL REPORT
LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

Poland’s membership in the European Union poses new challenges for our company. With the implementation of new EU strategies, fulfillment of the directives in force and participation in international projects and agreements, Polish companies are becoming perceived as important partners in the development of the European economy. The cooperation between national companies responsible for energy security and EU companies is reaching ever further.

GAZ-SYSTEM S.A. is actively joining this cooperation. In the financial year 2007/2008, the company concluded an international agreement concerning a gas pipeline connection between Poland and Denmark and established inter-operator agreements with its western and eastern counterparties.

In the years 2007/2008, the Supervisory Board of GAZ-SYSTEM S.A., acting within its powers, has supported the implementation of the key investment projects under the governmental Policy for the Natural Gas Industry. The value of investments in upgrading and development of high pressure gas pipelines reached nearly PLN 280 million in the years 2007/2008.

Last financial year was marked by the contribution of another portion of assets to GAZ-SYSTEM S.A. by the State Treasury, as a result of which the tangible value of the company exceeded PLN 2 billion. The company’s standing was further consolidated by its inclusion in the list of national companies of strategic importance for the Polish economy and public security.

The Supervisory Board members participated in various committees working on long-term projects of vital importance to the company’s activities, including the Strategy Committee. In September 2007, the Supervisory Board expressed its positive opinion on the Outline Strategy of GAZ-SYSTEM S.A. The implementation of the programs described in the Outline will lead to improvement of the company’s operating efficiency and, as a result, facilitate the achievement of its strategic goals and general
strengthening of its position on the European gas market.

I would like to use this opportunity to thank all the members of GAZ-SYSTEM’s Supervisory Board, its Management Board and personnel who all contributed to the excellent financial results achieved by the company in the last year, as well as its prominent position in both national and European economy. I would also like to express my gratitude for their professional attitude and commitment which are the driving force behind the growth of our company, both in terms of its value as well as the quality of its services.

Yours faithfully,

Jerzy Malak
Chairman of the Supervisory Board
Composition of the Supervisory Board:

1. Zbigniew Marek – Member of the Supervisory Board
2. Agnieszka Godula – Member of the Supervisory Board
3. Włodzimierz Wolski – Secretary of the Supervisory Board
4. Marzanna Kwiecień – Member of the Supervisory Board
5. Jerzy Molak – Chairman of the Supervisory Board
6. Monika Kacprzyk-Wojdyga – Deputy to the Chairman of the Supervisory Board

* Composition of the Supervisory Board appointed on 21 April 2008
Until 20 April 2008, the Supervisory Board of GAZ SYSTEM S.A. performed its duties in the following composition: Andrzej Herman – Chairman of the Supervisory Board, Michał Kurtyka – Deputy to the Chairman of the Supervisory Board, Krzysztof Kowalik – Secretary of the Supervisory Board, Jakub Kożara – Member of the Supervisory Board, Monika Kacprzyk-Kowalewski – Member of the Supervisory Board.
LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

on behalf of the Management Board, it is my great pleasure to present another Annual Report of GAZ-SYSTEM S.A.

This year, we chose the bridge as the recurring theme for the publication, which symbolises a structure designed to unite and bond. It is a meeting place of two parties offering an opportunity to overcome difficulties and transcend barriers as well as continue one’s journey in the quest for new solutions and achievement of the pursued goals.

For GAZ-SYSTEM S.A. and its business activity, the bridge represents dialogue with our business partners, the company’s strategic position on the energy market and its growth through investment activity aimed at the development of its transmission infrastructure.

The current publication summarises the implementation of our undertakings and projects in the period running from May 2007 until April 2008. It also serves as a proof of achievement of our goals set in the past to build a long-term strategy for GAZ-SYSTEM S.A. focused on its growth and value improvement.

The financial year 2007/2008 was a time of challenge for us. 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 strategic importance for the Polish economy and public security. To us, such decisions represent a special commitment to ensure the continuity and reliability of gas transmission through the strategic pipelines, as well as the quality of our services up to the highest standards.

GAZ-SYSTEM S.A. has developed an investment plan to build over 600 kilometres of new gas pipelines in north-western Poland. This will allow us to increase the volume of gas delivered to consumers, and to supply this eco friendly fuel to the areas, which, so far, have not had access to the gas network. It will also make it possible for us to take gas from the new supply sources on the Polish coast, which will improve the overall energy security of the country.

Igor Wasilewski
President of the Management Board
As a result of its international relations, the company concluded an inter-operator agreement with ONTRAS-VNG Gastransport GmbH to regulate the technical conditions at border points where the volumes and quality of gas transmitted to Poland are measured, as well as a tripartite cooperation agreement with Energinet.dk of Denmark and PGNiG SA concerning the project to build a gas pipeline connecting Poland and Denmark (Baltic Pipe). Being a gas transmission operator, our company will benefit from the location of a new source of supply in the North of Poland, as this will improve the efficiency of natural gas transmission and enable us to serve new consumers in the area.

The growth of the company’s value is definitely attributable to both the capital increase by over PLN 850 million, as a result of which the overall value of GAZ-SYSTEM’s transmission assets reached over PLN 2 billion, and the company’s efforts focused on maintaining and further improving the high service levels. GAZ-SYSTEM S.A. was awarded an Integrated Management System certificate in the area of organisation and safety of natural gas transmission via high-pressure pipelines and balancing the transmission network, including safe operation of the natural gas transmission system in an environmentally friendly manner.

In order to meet customer expectations, GAZ-SYSTEM S.A. increased its focus on cost optimisation during the last financial year. As a result, the recently introduced new Tariff for Gas Transmission Services No. 2 brought about an average 8.5% drop in the tariff rates as compared to the previously applicable ones.

Poland’s membership in the European Union makes our company, as the national gas transmission operator, an important partner in shaping the European energy market. GAZ-SYSTEM’s representatives participated actively in the proceedings of international institutions, which facilitated the exchange of experience and information related to the use of modern technologies and planning of important investment projects for the development of the gas industry.

Last year was marked by the company’s preparations to open its representative office in Brussels. In the future, it will ensure effective promotion of GAZ-SYSTEM’s interests on the European forum and ongoing monitoring of the developments within the gas industry and the legislative processes influencing the future of the energy industry.

The past achievements have opened new development opportunities for GAZ-SYSTEM S.A. We have embarked on further development of the national transmission system – an ambitious, strategic plan whose implementation will support the growth of the natural gas market in Poland and improve the country’s energy security. Our long-term goal is to develop new services of sufficient scope and quality to meet the ever-growing market expectations and customer requirements. We want to build a coherent and integrated organisation with motivated and committed personnel.

The company will continue its endeavours to implement the functional programmes set out in the Outline Strategy of GAZ-SYSTEM S.A., with a view to optimising the company’s assets structure, improving operational efficiency, implementing IT systems to enhance the company’s management and performance, preparing and implementing strategic investment projects and developing one of the company’s major assets – its personnel. Achieving the above shall contribute to ensuring GAZ-SYSTEM’s strong position on the competitive gas market.

I truly hope that the present Annual Report will update you on the major last year’s events in GAZ-SYSTEM S.A. as well as broaden your knowledge of its activity. I trust that our efforts have fulfilled the expectations of both our business partners and customers.

Let me also use this opportunity to express my sincere gratitude to GAZ-SYSTEM’s personnel for their contribution and commitment to the achievement of our goals and, to our business partners for bestowing their trust in our organisation.

I wish all of you and myself that the symbolic bridge of cooperation contribute to the achievement of our objectives and long-term success of our pursuits.

Yours faithfully,

Igor Wasilewski
President of the Management Board
Composition of the Management Board:
1. Paweł Stańczak – Member of the Management Board for Technical Issues
2. Igor Wasilewski – President of the Management Board
3. Krzysztof Rogala – Member of the Management Board for Financial Issues
CALENDAR OF EVENTS

2007

29 JUN
Signing of the inter-operator agreement with ONTRAS-VNG Gastransport GmbH in Germany.

2 JUL
Signing of the agreement with PGNiG SA and the distribution system operators concerning the exclusion of distribution assets from the lease agreement.
Extension of the effectiveness of the Transmission Network Code by the President of the Energy Regulatory Office with respect to its section concerning the transmission system balancing and congestion management until 1 August 2008.

Conclusion of agreements with PGNiG with respect to the transmission of low-methane and high-methane natural gas for a term exceeding three years, i.e. until 31 December 2010.

Increase of the value of transmission assets up to over PLN 2 billion (acquisition of assets in-kind from the State Treasury as a non-cash dividend from PGNiG).

Signing of a cooperation agreement between GAZ-SYSTEM S.A., PGNiG and Energinet.dk, concerning the Baltic Pipe project.

Award of an Integrated Management System certificate to GAZ-SYSTEM S.A. by the Technical Committee of the Polish Centre for Testing and Certification. The certificate is valid for two years and covers the area of security and organisation of natural gas transportation through high-pressure pipelines on a national scale.

Signing of an agreement concerning the implementation of a measurement data collection system in the company.

Approval of the Tariff for Gas Transmission Services No. 2 by the President of the Energy Regulatory Office for the term of 12 months effective as of 1 May 2008.

Appointment of the new Supervisory Board of GAZ-SYSTEM S.A. by the General Shareholder Meeting of the company.

Approval by the President of the Energy Regulatory Office of the amendments to the Transmission Network Code, as agreed in the public consultation process, concerning the section on transmission system balancing and congestion management.
GAZ-SYSTEM S.A. is a dynamically growing company responsible for the transportation of gas through the transmission networks across the country.

The establishment of GAZ-SYSTEM S.A. in 2004 was a result of the new Gas Directive adopted by the Council and the European Parliament, which requires gas undertakings to unbundle their physical gas transportation activity from the supply activity and to ensure equal treatment for all parties seeking access to natural gas transportation services through transmission networks.

On 30 June 2004, the company obtained a license for transmission and distribution of natural gas from the President of the Energy Regulatory Office for the years 2004-2014, while on 18 December 2006, GAZ-SYSTEM S.A. was designated as the transmission system operator until 1 July 2014.

The purpose of GAZ-SYSTEM S.A. as the national transmission system operator is to provide the gas transportation service through strategic gas pipelines in Poland.

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 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.

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.
1. Przemysław Kotwicki – Deputy Director of Support Division
2. Grzegorz Stepiński – Director of IT Division
3. Andrzej Gregorczyk – Director of Audit, Security and HSE Division
4. Bożena Mikołajczyk – Director of Trade Division
5. Jerzy Sobczak – Director of Human Resources Division
GAZ-SYSTEM S.A. operates a transmission network comprising in total 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 total value of assets owned by GAZ-SYSTEM S.A. exceeds PLN 2 billion. The remaining assets are operated by the company under a long-term lease agreement with PGNiG.

TRANSMISSION NETWORK CODE

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, last year GAZ-SYSTEM S.A. decided to revise Section II of the Transmission Network Code.

The amendments were triggered by a number of developments, the key one among them being the adoption of the Act on mandatory stocks of crude oil, petroleum products and natural gas and the rules of conduct in case of threat to the national fuel security and disruptions in the petroleum market together with the related secondary legislation. GAZ-SYSTEM S.A. aligned the relevant operating procedures in the event of threat to the energy security taking specifically into account the imposition of gas supply restriction schemes and mandatory stocks.

Based on the past experience and the arrangements under the inter-operator agreements, the provisions on nomination, re-nomination and allocation at system entry and exit points were updated in the Transmission Network Code. The section concerning contractual restrictions was expanded to cover the rules applicable to the trading in acquired capacity rights and the related allocation procedures.

Furthermore, the regulations concerning the application charges and discounts for failure to meet
GAS TRANSMISSION PIPELINE SYSTEM

High-methane gas pipelines (H)
Low-methane gas pipelines (L)
Low-methane gas pipelines (Lw)
Underground gas storage
the water dew point specifications and the charges for failure to maintain the required pressure at the entry point to the transmission system were supplemented.

The proposed amendments were subject to public consultation with the users of the transmission system. On 27 March 2008, the President of the Energy Regulatory Office (ERO) approved the pre-agreed changes.

CURTAILMENT PLANS

As a transmission pipeline operator, GAZ-SYSTEM S.A. is required to devise emergency plans for imposition of restrictions on natural gas consumption, prepare their yearly updates and present them to the President of Energy Regulatory Office for approval.

On 20 December 2007, the President of ERO approved the Plan for curtailment of natural gas consumption No. 1/2007. It was the first plan prepared by GAZ-SYSTEM S.A. under the new legal regulatory framework set out in the Act on mandatory stocks of crude oil, petroleum products and natural gas and the rules of conduct in case of threat to the national fuel security and disruptions in the petroleum market.

The updated Curtailment Plan was approved by the President of ERO on 23 April 2008. The document takes into account the exclusion of certain distribution-related components of the transmission network from the lease agreement.

TRANSFER OF ASSETS TO DISTRIBUTION SYSTEM OPERATORS

In implementation of the EU Gas Directive, which introduces mandatory unbundling of the distribution and supply activities by energy undertakings and establishes system operators, and in accordance with the provisions of the Policy for Natural Gas Industry adopted by the Council of Ministers on 20 March 2007, GAZ-SYSTEM S.A. excluded certain distribution-related components of the transmission system from the leased asset base. GAZ-SYSTEM S.A. unbundled only those network components which are not essential for the operation of the transmission system operator. The process did not affect the transmission capacity or safe operation of the gas pipelines. Meanwhile, the number of exit points from the system (i.e., points of gas off-take from the transmission system) decreased. Following the separation of these transmission network components, GAZ-SYSTEM S.A. concentrated on the management of key gas pipelines and expansion of the national transmission system.

SAFE OPERATION – MODERN SOLUTIONS

Six branches of GAZ-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, GAZ-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. To this end, the company has implemented a number of practices, including:

- high-pressure pipeline diagnostics using intelligent pigs – the purpose of inspection is to assess the technical condition of the gas network and, specifically, to identify any potential defects. Due to such tests, GAZ-SYSTEM’s crews are able to minimise the risk of potential threat to the safety of system operation;
- advanced hermetic technology by T.D. Williamson – the service consists in on-line intervention on pipelines in order to launch new pipeline sections, connect gas facilities, remove damage caused by failures and perform repairs. In addition to being environmentally friendly, the solution provided by T.D. Williamson enables the above activities to be performed without disrupting the natural gas flow.
- gas emergency service vehicles equipped with best-in-class technical and rescue equipment to ensure efficient emergency response,
- six-path ultrasonic gas meter – the appliance offers such advantages as the capability to measure the gas flow in both directions and, in case of the ultrasonic indicator malfunction, quick repair time without the need to interrupt the operation of the gas meter.

Furthermore, GAZ-SYSTEM S.A. initiates research aimed at ensuring good technical condition 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.

During the inspection of gas pipeline routes, measurements were taken using the ALMA laser based system for methane leak detection in combination with specialist software by Pergam-RETUIS. As a result of this effort, detailed data on the location of methane leak points was collected in the form of GPS coordinates, as well as the concentration levels of the methane cloud.
TRANSMISSION NETWORK OPERATION SYSTEM (TNOS)

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.

TRANSMISSION NETWORK INVENTORY SYSTEM (EWISTA)

During the last financial year GAZ-SYSTEM S.A. expanded the transmission system inventory system – Ewista, which enables registration (in a single central...
database) of the details of transmission infrastructure components, including the equipment installed at the gas stations, as well as the analysis of collected data through generation of reports and summaries.

The system was enhanced through the implementation of the following functionalities:

- operating maintenance scheduling for individual facilities of the gas network,
- collection of documentation from the Transmission Network Operation System (TNOS) related to the rules of conduct during operation of high pressure gas pipelines,
- inventory of gas pipelines.

**MEASUREMENT DATA COLLECTION SYSTEM**

The company embarked on the implementation of the measurement data collection system – a solution supporting the transmission system operator in the process of comprehensive data collection from measurement stations. The system functionalities will include management of the collected data, as well as its replication, archiving, presentation and sharing with other systems of the operator in a standardised format. The above implementation will cover the entire transmission network operated by the company across the country.

**NETWORK FLOW MANAGEMENT SYSTEM (SCADA)**

GAZ-SYSTEM S.A. continues implementing a new SCADA system project, which is indispensable for efficient and safe control of natural gas flows in the transmission system. The system, owing to modern IT solutions, enables management of network flows and ongoing monitoring of system components, both under normal operating conditions and in emergency situations. In addition, the SCADA system features advanced applications for forecasting and simulation of the transmission system operation.

**PASSPORTING SYSTEM**

As part of the implementation of the guidelines set out by the “Strategy and Architecture of Data Communication Systems in GAZ-SYSTEM S.A. for the years 2006–2009” the company continued to develop the passporting system – an IT solution to support the processes related to the operation of the transmission infrastructure and investments and development by tracking the inventory of the system components.

**COOPERATION AGREEMENT WITH ONTRAS-VNG GA TRANSPORT GMBH**

On 29 June 2007, GAZ-SYSTEM S.A. signed an inter-operator agreement with ONTRAS-VNG Gastransport GmbH concerning the cooperation at the border points of Lasów, Gubin and Kamminke.

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

Similar agreements were signed by GAZ-SYSTEM S.A. in 2007 with the operators in Belarus (OAO Bieltransgaz) and Ukraine (Ukrtransgaz NAK Naftogaz).
THE KEY TASK OF GAZ-SYSTEM S.A. AS THE TRANSMISSION SYSTEM OPERATOR IS TO TRANSPORT GAS THROUGH THE TRANSMISSION NETWORK ACROSS THE COUNTRY, IN ORDER TO DELIVER IT TO THE DISTRIBUTION NETWORKS AND FINAL CONSUMERS SUPPLIED FROM THE TRANSMISSION SYSTEM.
1. Mikołaj Szenke – Director of Branch in Rembelszczyzna
2. Jerzy Leszczyński – Director of Branch in Świerklany
3. Roman Rozak – Director of Branch in Poznań
4. Andrzej Lisowski – Director of Branch in Wrocław
5. Eugeniusz Berwald – Director of Branch in Gdańsk
6. Ryszard Ryba – Director of Branch in Tarnów
CUSTOMER RELATIONSHIPS

SERVICES

The principal service provided by GAZ-SYSTEM S.A. concerns transportation 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. GAZ-SYSTEM S.A. processed 4 applications for the provision of transportation service, 90 applications for the definition of connection conditions, issued 77 decisions specifying the connection conditions and entered into 25 connection agreements.

TRADING IN ACQUIRED CAPACITY RIGHTS

Acting in accordance with the provisions of Regulation 1775/2005 of the European Parliament and the Council, GAZ-SYSTEM S.A. has offered to its customers the option of trading in the acquired capacity rights.

The customers of the company can notify their intention to transfer spare transportation capacity or their demand for capacity. The interested party has to complete the relevant form, which can be downloaded from the corporate website www.gaz-system.pl and send it by electronic mail.

In case when spare capacity is offered for resale, GAZ-SYSTEM S.A. reviews the received schedule. Next, the offer is published on the website under the Bulletin Board tab and waits for the notification of an offer.
interested counterparty. The request of the party notifying the demand for capacity is posted under the same tab. Once there are parties interested in the offers posted in the Bulletin Board, the matching of the relevant resale and demand offers takes place. The interested parties jointly apply to GAZ-SYSTEM S.A. for the transfer of the capacity rights.

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 transmission system operator 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.

IES will offer such unquestionable benefits as:

- on-line access to capacity information,
- reduction of the application processing time (possibility of submitting on-line applications confirmed with a certified electronic signature),
- improved quality of applications for the definition of connection conditions and for the provision of transportation service.

The requirements to be fulfilled by GAZ-SYSTEM S.A. with respect to publication, sharing and exchange of information are set out in a number of documents, including: Regulation 1775/2005 of the European Parliament and the Council, Gas Directive, Guidelines for Good TPA Practice, Transmission Network Code, Energy Law and the Program of Introducing a Competitive Gas Market in Poland and the Related Implementation Schedule adopted by the Government.

CUSTOMER SATISFACTION SURVEY

GAZ-SYSTEM S.A. holds yearly Customer Satisfaction Surveys to continuously improve the quality of service and understand the mutual expectations.

As shown by the survey carried out in 2007, the clients of GAZ-SYSTEM S.A. highly valued the following:

- professional and competent personnel,
- outstanding customer service culture,
- individualised approach to customer issues,
- good communication skills/responsiveness of personnel.

The comments and suggestions gathered during the survey are a valuable source of knowledge for the company, which is used to enhance the relationships with the existing and future business partners.
INTERRUPTIBLE GAS TRANSMISSION SERVICE AGREEMENT

To come across the customer expectations, GAZ-SYSTEM S.A. drafted 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 of the European Parliament and the Council.

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 also drives up the levels of contracted capacity and gas consumption volumes among the existing consumers to whom the new service will be provided.

In drafting the agreement, the results of a comparative study to identify different options available for applying interruptible contracts were used, based on the experience of selected TSOs in a number of EU countries, namely Belgium, France, Netherlands, Italy and Denmark.

MEETING WITH BUSINESS PARTNERS

In order to share experience and develop dialogue with its stakeholders, on 20 September 2007, GAZ-SYSTEM S.A. held an official meeting with the customers and representatives of companies and institutions involved in cooperation with the com-
The company’s interactive website at 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 can 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.
INVESTMENT PROJECTS

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 projects including modernisation and maintenance activities on both own and leased assets. The amount spent on the above activities totalled PLN 280 million. With respect to infrastructure development, the undertaken investment projects were primarily focused on:

- modernisation of the transmission system and preparation for interoperability with the planned new sources of natural gas supply in north-western Poland (Baltic Pipe and LNG terminal);
- elimination of capacity constraints existing along specific sections of the transmission system due to bottleneck and full utilisation of the available technical capacity;
- development of telemetric systems in order to improve the standard of services provided to eligible customers;
- preparation for construction of system interconnections.

The company’s efforts included both the continuation of ongoing investments and the preparation and launch of new projects featured in the Operational Programme Infrastructure and Environment, Action 10.1 – Energy Security, including the diversification of energy sources.

In addition, the pool of key improvements in the transmission system also included the construction of a new compressor station in Goleniów, which will increase the system capacity in congested regions.
The transmission system facilities commissioned as part of the implementation of the investment plans for 2007/2008 include the following:

- Nowogard–Płoty gas pipeline,
- branch-off from Mogilno–Gustorzyn pipeline to Radziejów,
- Szczutków–Lubaczów gas pipeline,
- connection of the Gas Gathering Centre in Żołynia,
- branch-off from Oświęcim–Świerklany pipeline to the Pressure Reduction and Measurement Station in Stara Wieś,
- branch-off from Kluczbork–Opole–Przywory pipeline to the Pressure Reduction and Measurement Station in Bogacica,
- branch-off from Szobiszowice–Blachownia pipeline to the Pressure Reduction and Measurement Station in Kędzierzyn–Koźle.
Progress of key projects implemented by GAZ-SYSTEM S.A. in the years 2007/2008

**GAS PIPELINE SZCZECIN–GDAŃSK**
- Phase I and II Płoty–Karlin–Koszalin – consultations concerning the incorporation of the project into the local development plan
- Phase III and IV Koszalin–Słupsk–Wiczlino – definition of the functional and development concept

**GAS PIPELINE SZCZECIN–LWÓWEK**
- Beginning of planning and pre-engineering studies in the communes of Kłodawa, Santok, Deszczno

**GAS PIPELINE ŚWINOUJŚCIE–SZCZECIN**
- Definition of the functional and development concept for the gas pipeline and preliminary feasibility study covering the technical aspects of the project
- Preliminary environmental opinions
- Consultations concerning the incorporation of the project into the local development plan
- Preliminary environmental opinions
- Preparation of the documentation on the project impact on Natura 2000 areas

**GAS PIPELINE REMBELSZCZYN–GUSTORZYN**
- Preparation of the feasibility study for the gas pipeline – functional and analytical part

**GOLENIÓW COMPRESSOR STATION**
- Definition of the functional and development concept
- Building permit application

**GAS PIPELINE GUSTORZYN–ODOLANÓW**
- Feasibility study for the gas pipeline – analytical and technical part

**GAS PIPELINE WŁOCŁAWEK–GDYNIA**
- Physical execution of the project within the communes of Gniew and Pelpin
- Building permit procedure underway in the commune of Tczew

**LEGENDA**

- High-methane gas pipelines (E)
- Low-methane gas pipelines (Ls)
- Low-methane gas pipelines (Lw)
- Underground gas storage
1. Adam Nowakowski – Director of Operation Division
2. Tadeusz Abramowski – Director of National Gas Dispatching Centre
3. Adam Bryzawski – Director of Finance Division
4. Rafał Wittmann – Director of Development and Investments Division
5. Anna Llas – Chief Accountant
HUMAN RESOURCES POLICY

The employees of GAZ-SYSTEM S.A. are one of the key assets of the company. They make up a team of 1939 people employed at the headquarters and regional branches. With their creativity, professional attitude and diverse skills they are a major driving force behind the company’s growth and contribute to its success.

GAZ-SYSTEM S.A. cares about the development of good relations among its employees at different levels of the organisation and recognises their commitment to the goals and challenges faced by a modern company.

GAZ-SYSTEM S.A. CARES ABOUT BUILDING GOOD RELATIONS AMONG ITS EMPLOYEES AND RECOGNISES THEIR COMMITMENT TO THE ACHIEVEMENT OF COMPANY GOALS AND OBJECTIVES

COMPETITION

In the year 2007, the company awarded the title of the Employee of the Year as part of the Magnificent Seven competition already held for the second time. Seven nominees were selected for the competition from among the employees of GAZ-SYSTEM S.A. representing the headquarters and the branches. As a result, Joanna Teske from the Head Office in Warsaw who developed and implemented a number of innovative controlling solutions was voted the Employee of the Year 2007.

The employees of GAZ-SYSTEM S.A. are striving to continuously improve their knowledge and skills. The company encourages professional development and improvement of qualifications by offering a broad range of training opportunities. GAZ-SYSTEM S.A. tries to make sure that the training programmes addressed to the employees match their needs and expectations.
The company ensures a safe working environment to protect the employees’ health in conformity with the highest applicable safety standards. Furthermore, GAZ-SYSTEM S.A. provides its workforce with access to a package of additional benefits, which include: professional health care, organisation and partial funding of holidays for children and teenagers, and financial support for families in difficulties.

In the past financial year, the Human Resources policy of GAZ-SYSTEM S.A. was primarily focused on supporting the corporate strategy through the alignment of internal regulations and providing the management team with the tools to support the management of the company. Specifically, the following projects were implemented:

- introduction of standard procedures in recruitment, hiring, training and professional development,
- agreeing the content of the Working Regulations with Trade Union Organisations,
- first edition of the Employee Assessment Programme.
NUMEROUS SPORTS EVENTS GAZ-SYSTEM S.A. TAKES PART IN, ARE AN OPPORTUNITY FOR EMPLOYEE INTEGRATION AND DEVELOPMENT OF THEIR INTERESTS
INTERNATIONAL ACTIVITIES

COOPERATION WITH INDUSTRY ORGANISATIONS

Through its representatives in the EU organisations, GAZ-SYSTEM S.A. is an active member of the European forum where the discussion on the future shape of the European gas market is taking place. As a result of this debate, specific legislative regulations are developed, which influence the environment the company operates in.

GAZ-SYSTEM S.A. is involved in the work of international industry organisations, including: GIE – Gas Infrastructure Europe (including GTE – Gas Transmission Europe), EASEE-GAS – European Association for the Streamlining of Energy Exchange, GERG – European Gas Research Group and BALTIC GAS. The organisations were established with a view to supporting the economic development of EU countries through, inter alia, identification of investment issues, consulting or training support.

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. This also enables an effective representation of the interests of the Polish gas industry in the international arena, facilitates decision making and efforts to secure EU funding for the projects of vital importance for Poland’s energy security.

The work of international teams of gas industry experts leads to new agreements and arrangements, e.g. concerning correlation equipment for determining gross calorific value of gas.

PARTICIPATION OF GAZ-SYSTEM S.A. IN REPRESENTATIVES WORKSHOPS AND PLENARY SESSIONS ENABLES EFFECTIVE REPRESENTATION OF THE INTERESTS OF POLISH GAS INDUSTRY IN THE INTERNATIONAL ARENA AND FACILITATES ACCESS TO EU FUNDING FOR VITAL PROJECTS TO ENHANCE THE ENERGY SECURITY OF POLAND

The company’s representatives took part, among other events, in the meeting of the 2nd Programme Committee of GERG “Transmission&Storage” and the meeting of experts concerning the launch of a joint organisation project on the inspection of non-piggable pipelines. The participants of the meeting also discussed the results of a research on an infra-red camera prototype, assessed the reliability of the AE (acoustic emission) system under the normal operating conditions of a buried pipeline (Vigilant system INSTALLATION) and reviewed the options for application of this technique for detection and location of pipeline defects (Vigilant system ANALYSIS).
CARING ABOUT THE NATURAL ENVIRONMENT, GAZ-SYSTEM S.A. PARTICIPATES IN METHANE TO MARKETS PARTNERSHIP (M2M) – AN INTERNATIONAL COOPERATION PLATFORM ESTABLISHED IN WASHINGTON TO PROMOTE METHANE RECOVERY AND USE AS A CLEAN ENERGY SOURCE

GAZ-SYSTEM S.A. presented the progress under the project on Measurement of particulate matter particles using optical methods and findings from the project concerning the identification of methane leak measurement methods. In addition, new projects were discussed during the meeting, namely: assessment of a new welding method, comparison of the applicability of various fibre optic methods for the identification of third party intervention (TPI) and field tests of the performance of ThreatScan (GE-Pil), system, which enables the detection and localisation of pipeline impact from the distance of more than one kilometre.

INTERNATIONAL GAS UNION (IGU)
As part of the work carried out by the International Gas Union (IGU), GAZ-SYSTEM S.A. participated in a study on sustainable development and identification of the methods and best practices for minimising the environmental impact of TSOs. The results of the study will be officially presented during the summary of IGU work under the 2006–2009 Triennial Work Programme at the 24th World Gas Conference to be held in 2009 in Buenos Aires.

METHANE TO MARKETS PARTNERSHIP
Caring about the natural environment, GAZ-SYSTEM S.A. participates 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.

AGREEMENT WITH ENERGINET.DK AND PGNiG SA
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.
During the last financial year, GAZ-SYSTEM S.A. was preparing for the launch its permanent representative office in Brussels.

The representative office in Brussels 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. It will also facilitate the exchange of experience with the operators of gas transmission systems in other EU countries, including such topics as execution of investments and application of new technologies. The active presence of the company on the EU forum is also expected to bring the Polish industry standards in line with those used or currently implemented by other European operators.
ECONOMIC INFORMATION

NEW TARIFF

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, which brought about an average decrease of the tariff levels by 8.5% comparing to the previously applicable ones.

The Tariff for Gas Transmission Services No. 2 came into force on 1 May 2008. This is already the second tariff designed independently by GAZ-SYSTEM S.A., which regulates the charges for transmission services in accordance with the EU requirements. The tariff provides for group-based tariff rates, separate charges for gas odorisation, and offers a choice of contract options including short-term and interruptible agreements. The tariff rates set in the document will be effective for 12 months.

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 settlements in gas trade.

NEW TARIFF REGULATION

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 a 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, 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 national volumes.

CONTROLLING ON-LINE

In the financial year 2007/2008 GAZ-SYSTEM S.A. implemented the Controlling On-Line platform in the entire company, which supports the budgeting process. The system enables comprehensive management of financial processes throughout the company, which streamlined the following activities: planning, ongoing monitoring, reporting and budget control.
COMPARISON OF KEY FINANCIAL FIGURES

<table>
<thead>
<tr>
<th></th>
<th>2006/2007</th>
<th>2007/2008</th>
<th>Change, %</th>
</tr>
</thead>
<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>
</table>

KEY FINANCIAL RATIOS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>EBIT</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>ROA</td>
<td>3.0</td>
<td>6.5</td>
</tr>
<tr>
<td>ROE</td>
<td>14.0</td>
<td>15.5</td>
</tr>
</tbody>
</table>
A BRIDGE TO YOUR SUCCESS
Social responsibility is an inherent part of business management. GAZ-SYSTEM S.A. pursues a long-term strategy whereby it consciously engages in responsible dialogue with the customers and stakeholders, improves the service standards and implements pro-environmental policy. These activities lead to the growth of the company’s social equity and continuous improvement of the relationships between GAZ-SYSTEM S.A. and its environment.

In order to share experience and develop the dialogue with its business partners, GAZ-SYSTEM S.A. holds yearly meetings for the cooperating companies and institutions. Such meetings offer an opportunity to discuss existing projects and initiate new forms of activity.

To get a better insight into customer expectations, the company carried out a Customer Satisfaction Survey, which showed that GAZ-SYSTEM S.A. was most highly valued for its professional and competent personnel, outstanding service culture and access to complete and reliable information.

In the effort to further improve the standard of its services provided on a non-discriminatory basis, the company updated the Transmission Network Code.

Under the Energy Law GAZ-SYSTEM S.A. is obliged to draft, implement and monitor the Compliance Programme of the Transmission System Operator. The document specifies the basic measures to be taken by the company in order to ensure non-discriminatory and equal treatment of the transmission system users; it defines the responsibilities of the company’s employees with respect to this objective and sets out methods of monitoring and control of the Programme implementation. The declarations made by GAZ-SYSTEM S.A. confirmed that no violations of the Programme were observed in the last year, and the staff did not break its provisions.

The company also prepared a report from the operation of the Compliance Programme of the Transmission System Operator, which was published in the newsletter of the Energy Regulatory Office.

GAZ-SYSTEM S.A. cares about the development, health and safety of its employees by observing the health and safety standards, providing training opportunities and an extensive health care package. Additional benefits such as sports activities, language courses and integration meetings help the
employees pursue their passions and interests and support efficient cooperation.

As a member of European and global associations, GAZ-SYSTEM S.A. initiates research studies to ensure the safety and full technical operability of the transmission system.

CORPORATE RISK MANAGEMENT POLICY

As a result of the next phase of the project to introduce a systematic and modern approach to risk in the process of organisational management, the company developed and adopted the Corporate Risk Management Policy in GAZ-SYSTEM S.A. The Policy builds on the best global standards in ERM (Enterprise Risk Management) and covers the risks across all areas of the company’s operations. The document defines the risk management infrastructure, assigns roles and responsibilities, includes the necessary procedures to define the ERM process and indicates the direction for further improvement of the standards.

Upon adoption of the document, the company started its gradual implementation. Once the risk identification, assessment and reporting principles contained in the Policy become effective, the management will gain access to more comprehensive information on the threats and opportunities resulting from the company’s activities. Thereby, it will be able to take proper measures well in advance.

Another step towards full functionality of the Policy concerns the implementation of a dedicated IT system to support the risk management process.

Ultimately, the risk management system will be one of the tools to be used in strategic and operational management and will enhance effective execution of the projects undertaken by the company. This will
bring the company in line with leading global practices while anticipating Polish and European regulatory changes related to risk management in the public sector.

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 Occupational Health and Safety Management System and the Environmental Management System confirmed that the strategic goals of the company, i.e. transportation of natural gas through the transmission network on a national scale, regardless of the sources of its origin, as well as balancing of the transmission network, are being achieved in a manner that ensures secure operation of the transmission system and due respect for the natural environment.

In the past financial year, the existing Quality Management System was audited with regard to customer service aspects, including in particular: provision of public information, issuance of conditions for connection to the transmission network, conclusion of connection agreements and gas transmission agreements and settlements for the services provided, to confirm the compliance with the requirements of PN-EN ISO 9001-2001 standard – Quality Management Systems – Requirements. The audit rendered a positive opinion by the Polish Centre for Testing and Certification. Accordingly, GAZ-SYSTEM S.A. retained the certificate obtained in the previous year.

GAZ-SYSTEM S.A. conforms to the requirements of the following standards:

**PN-EN ISO 14001:2005**

**PN-N-18001:2004**
Occupational Health and Safety Management Systems – Requirements

**PN-EN ISO 9001-2001**
A BRIDGE TO YOUR SUCCESS
CHALLENGES

Just as a bridge overcomes obstacles and opens up opportunities, the new challenges taken up by GAZ-SYSTEM S.A. are both a way to achieving the chosen strategy and goals, and a contribution to the growth of other players in the gas industry to the satisfaction of the customers and business partners of the company.

In the coming financial year 2008/2009, the activities of GAZ-SYSTEM S.A. will focus primarily on the execution of strategic investments for 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 transmission system with a view to increasing its capacity, which is the necessary condition for expanding the customer base of the TSO.

On 26 September 2007, the Supervisory Board expressed its positive opinion the Outline Strategy for GAZ-SYSTEM S.A., which describes the functional programmes together with the proposed indicators to measure the implementation progress of each activity. The implementation of the above programmes will result in higher operational efficiency and improved image of the company, and ultimately will enable the achievement of the strategic goals, strengthen the position of GAZ-SYSTEM S.A. in the European gas market and enhance the energy security. The challenge ahead of the company is to build a coherent, integrated organisation with clear split of responsibilities and flexible remuneration system, with motivated and committed employees.

In the longer term, the company is planning to develop new services carefully designed to match the scope and quality of service to the expectations of the market and increasingly demanding customers.

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 a competitive 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.
INDEPENDENT AUDITOR’S REPORT

To the Shareholder and Supervisory Board of Gas Transmission Operator GAZ-SYSTEM S.A.

We have audited the attached financial statements of Gas Transmission Operator GAZ-SYSTEM S.A., having its registered office in Warsaw, Poland, at 21 Bohomolca St., which comprise:

- Introduction to the financial statements,
- Balance-sheet prepared as at 30 April 2008 with total assets and equity plus liabilities of PLN 4,786,715,458.39,
- Income statement for the period from 1 May 2007 to 30 April 2008, disclosing a net profit of PLN 324,275,895.26,
- Statement of changes in equity for the period from 1 May 2007 to 30 April 2008, disclosing an increase in equity of PLN 1,159,474,279.26,
- Cash flow statement for the period from 1 May 2007 to 30 April 2008, showing a net cash infl ow of PLN 19,275,104.16,
- Notes and explanations.

Preparation of these financial statements is the responsibility of the Management Board of the Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these financial statements and the correctness of accounts, which were the basis for its preparation.

We have planned and carried out the audit of financial statements in accordance with:

- Section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002, No. 76, item 694, as amended),
- Auditing standards issued by the National Council of Certified Auditors in Poland,
- Notes and explanations.

Preparation of these financial statements is the responsibility of the Management Board of the Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these financial statements and the correctness of accounts, which were the basis for its preparation.

We have planned and carried out the audit of financial statements in accordance with:

- Section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002, No. 76, item 694, as amended),
- Auditing standards issued by the National Council of Certified Auditors in Poland,
- Notes and explanations.

Preparation of these financial statements is the responsibility of the Management Board of the Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these financial statements and the correctness of accounts, which were the basis for its preparation.

We have planned and carried out the audit of financial statements in accordance with:

- Section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002, No. 76, item 694, as amended),
- Auditing standards issued by the National Council of Certified Auditors in Poland,
- Notes and explanations.

Preparation of these financial statements is the responsibility of the Management Board of the Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these financial statements and the correctness of accounts, which were the basis for its preparation.

We have planned and carried out the audit of financial statements in accordance with:

- Section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002, No. 76, item 694, as amended),
- Auditing standards issued by the National Council of Certified Auditors in Poland,
- Notes and explanations.

Preparation of these financial statements is the responsibility of the Management Board of the Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these financial statements and the correctness of accounts, which were the basis for its preparation.

We have planned and carried out the audit of financial statements in accordance with:

- Section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002, No. 76, item 694, as amended),
- Auditing standards issued by the National Council of Certified Auditors in Poland,
- Notes and explanations.

Preparation of these financial statements is the responsibility of the Management Board of the Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these financial statements and the correctness of accounts, which were the basis for its preparation.
## INCOME STATEMENT

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A  NET REVENUES FROM SALES AND EQUIVALENT, INCLUDING:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I  Net revenues from sales of products</td>
<td>1,538.42</td>
<td>1,451.69</td>
</tr>
<tr>
<td>II Change in product inventories (increase – positive value, decrease – negative value)</td>
<td>16.29</td>
<td>5.26</td>
</tr>
<tr>
<td>III Manufacturing cost of products for internal purposes</td>
<td>0.35</td>
<td>0.22</td>
</tr>
<tr>
<td>IV Net revenue from sales of goods and materials</td>
<td>0.41</td>
<td>0.35</td>
</tr>
<tr>
<td><strong>B OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Depreciation</td>
<td>365.92</td>
<td>381.19</td>
</tr>
<tr>
<td>II Consumption of materials and energy</td>
<td>102.75</td>
<td>105.57</td>
</tr>
<tr>
<td>III External services</td>
<td>211.09</td>
<td>228.05</td>
</tr>
<tr>
<td>IV Taxes and charges</td>
<td>128.90</td>
<td>133.99</td>
</tr>
<tr>
<td>V Salaries</td>
<td>110.85</td>
<td>109.63</td>
</tr>
<tr>
<td>VI Social security and other benefits</td>
<td>40.65</td>
<td>39.10</td>
</tr>
<tr>
<td>VII Other allocated costs</td>
<td>14.29</td>
<td>11.21</td>
</tr>
<tr>
<td>VIII Value of goods and materials sold</td>
<td>0.31</td>
<td>0.44</td>
</tr>
<tr>
<td><strong>C PROFIT (LOSS) ON SALES (A–B)</strong></td>
<td>581.11</td>
<td>438.74</td>
</tr>
<tr>
<td><strong>D OTHER OPERATING REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Profit on sale of non-financial fixed assets</td>
<td>0.31</td>
<td>0.07</td>
</tr>
<tr>
<td>II Subsidies</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>III Other operating revenues</td>
<td>99.44</td>
<td>25.06</td>
</tr>
<tr>
<td><strong>E OTHER OPERATING EXPENSES</strong></td>
<td>64.95</td>
<td>17.28</td>
</tr>
<tr>
<td>I Loss on disposal of non-financial fixed assets</td>
<td>0.54</td>
<td>0.25</td>
</tr>
<tr>
<td>II Revaluation of non-financial assets</td>
<td>4.47</td>
<td>9.78</td>
</tr>
<tr>
<td>III Other operating expenses</td>
<td>59.94</td>
<td>1.23</td>
</tr>
<tr>
<td><strong>F OPERATING PROFIT (LOSS) (C+D–E)</strong></td>
<td>615.91</td>
<td>452.61</td>
</tr>
<tr>
<td><strong>G FINANCIAL INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Dividends and shares in profit</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>II Interest</td>
<td>33.54</td>
<td>13.62</td>
</tr>
<tr>
<td>III Gain on disposal of investments</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>IV Revaluation of investments</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>V Other</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td><strong>H Financial expenses</strong></td>
<td>190.87</td>
<td>244.88</td>
</tr>
<tr>
<td>I Interest</td>
<td>0.11</td>
<td>0.47</td>
</tr>
<tr>
<td>II Loss on disposal of investments</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>III Revaluation of investments</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>IV Other – interest arising from Financial Lease</td>
<td>190.76</td>
<td>244.41</td>
</tr>
<tr>
<td><strong>I PROFIT (LOSS) ON BUSINESS ACTIVITIES (F+G–H)</strong></td>
<td>458.59</td>
<td>221.36</td>
</tr>
<tr>
<td><strong>J RESULT ON EXTRAORDINARY EVENTS (I±J)</strong></td>
<td>(0.02)</td>
<td>0.06</td>
</tr>
<tr>
<td>I Extraordinary gains</td>
<td>0.04</td>
<td>0.58</td>
</tr>
<tr>
<td>II Extraordinary losses</td>
<td>0.06</td>
<td>0.52</td>
</tr>
<tr>
<td><strong>K PROFIT (LOSS) BEFORE TAXATION (IIJ)</strong></td>
<td>458.57</td>
<td>221.42</td>
</tr>
<tr>
<td><strong>L INCOME TAX</strong></td>
<td>80.88</td>
<td>41.60</td>
</tr>
<tr>
<td><strong>M OTHER STATUTORY REDUCTIONS IN PROFIT (INCREASES IN LOSS)</strong></td>
<td>53.41</td>
<td>24.99</td>
</tr>
<tr>
<td><strong>N NET PROFIT (LOSS) (K±L±M)</strong></td>
<td>324.28</td>
<td>154.83</td>
</tr>
</tbody>
</table>
## CASH FLOW STATEMENT

**(Indirect method)**

### A  CASH FLOW FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>324.28</td>
<td>154.83</td>
</tr>
<tr>
<td>II</td>
<td>601.42</td>
<td>596.96</td>
</tr>
<tr>
<td>III</td>
<td>925.70</td>
<td>751.79</td>
</tr>
</tbody>
</table>

### B  CASH FLOW FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>0.19</td>
<td>0.32</td>
</tr>
<tr>
<td>II</td>
<td>482.85</td>
<td>309.10</td>
</tr>
<tr>
<td>III</td>
<td>359.90</td>
<td>303.67</td>
</tr>
</tbody>
</table>

### C  CASH FLOW FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>II</td>
<td>423.76</td>
<td>444.25</td>
</tr>
<tr>
<td>III</td>
<td>152.85</td>
<td>197.40</td>
</tr>
</tbody>
</table>

### D  TOTAL NET CASH FLOW (A.III±B.III±C.III)

|   | 19.28     | (72.04)   |

### E  BALANCE SHEET CHANGE IN CASH

|   | 19.27     | (72.04)   |

### F  CASH OPENING BALANCE

|   | 212.16    | 284.20    |

### G  CASH CLOSING BALANCE (F+D)

|   | 231.44    | 212.16    |
## BALANCE-SHEET – ASSETS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A FIXED ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Intangible assets</td>
<td>4.77</td>
<td>4.77</td>
</tr>
<tr>
<td>II Plant and equipment</td>
<td>3,551.21</td>
<td>4,474.81</td>
</tr>
<tr>
<td>III Long-term receivables</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>IV Long-term investments</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>V Long-term accruals</td>
<td>55.44</td>
<td>41.21</td>
</tr>
<tr>
<td><strong>B CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Inventories</td>
<td>35.57</td>
<td>33.58</td>
</tr>
<tr>
<td>II Short-term receivables</td>
<td>134.18</td>
<td>112.90</td>
</tr>
<tr>
<td>III Short-term investments</td>
<td>971.49</td>
<td>523.09</td>
</tr>
<tr>
<td>IV Short-term accruals</td>
<td>32.04</td>
<td>14.94</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>4,786.72</td>
<td>5,205.80</td>
</tr>
</tbody>
</table>

## BALANCE-SHEET – EQUITY AND LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Share capital</td>
<td>2,069.40</td>
<td>1,219.40</td>
</tr>
<tr>
<td>II Called-up share capital (negative value)</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>III Own shares (negative value)</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>IV Supplementary capital</td>
<td>276.63</td>
<td>148.14</td>
</tr>
<tr>
<td>V Revaluation reserve</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>VI Other capital reserves</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>VII Accumulated profit (loss)</td>
<td>0.00</td>
<td>(1.54)</td>
</tr>
<tr>
<td>VIII Net profit (loss)</td>
<td>324.28</td>
<td>54.83</td>
</tr>
<tr>
<td>IX Write-off on net profit during the financial year (negative value)</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>B LIABILITIES AND PROVISIONS FOR LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Provisions for liabilities</td>
<td>105.91</td>
<td>54.83</td>
</tr>
<tr>
<td>II Long-term liabilities</td>
<td>1,595.20</td>
<td>3,241.31</td>
</tr>
<tr>
<td>III Short-term liabilities</td>
<td>373.22</td>
<td>365.92</td>
</tr>
<tr>
<td>IV Accruals</td>
<td>42.08</td>
<td>32.91</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY AND LIABILITIES</strong></td>
<td>4,786.72</td>
<td>5,205.80</td>
</tr>
</tbody>
</table>
CONTACT US

REGISTERED OFFICE ADDRESS:

Gas Transmission Operator
GAZ-SYSTEM S.A.
ul. Bohomolca 21, 01-613 Warszawa
phone +48 22 560 18 00
fax +48 22 560 16 06
e-mail: pr@gaz-system.pl
www.gaz-system.pl

MANAGEMENT BOARD:

President of the Management Board
phone +48 22 560 18 01
e-mail: sekretariat.p@gaz-system.pl

Board Member for Technical Issues
phone +48 22 560 18 05
fax +48 22 560 17 98
e-mail: sekretariat.t@gaz-system.pl

Board Member for Financial Issues
phone +48 22 560 18 07
fax +48 22 560 17 98
e-mail: sekretariat.f@gaz-system.pl

DIVISION:                PHONE:                FAX:                E-MAIL:
financial               +48 22 560 18 19     +48 22 560 16 94     sekretariat.pf@gaz-system.pl
Trade                 +48 22 560 18 27     +48 22 560 16 38     sekretariat.pf@gaz-system.pl
National Gas Dispatching Centre
                    +48 22 532 49 44     +48 22 532 49 42     sekretariat.pk@gaz-system.pl
Operation             +48 22 560 18 25     +48 22 560 16 61     sekretariat.pe@gaz-system.pl
Development and Investments
                    +48 22 560 18 22     +48 22 560 17 45     sekretariat.pr@gaz-system.pl
Human Resources        +48 22 560 18 15     +48 22 560 17 44     sekretariat.pp@gaz-system.pl
Support                +48 22 560 18 09     +48 22 560 17 70     sekretariat.pw@gaz-system.pl
IT                      +48 22 560 18 13     +48 22 560 17 63     sekretariat.pi@gaz-system.pl
Audit, Security and HSE
                    +48 22 560 17 59     +48 22 560 17 16     sekretariat.pa@gaz-system.pl
Spokesperson          +48 22 560 17 55     +48 22 560 17 44     pr@gaz-system.pl

BRANCHES

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Gdańsk
ul. Podstoczną 10/11, 80-860 Gdańsk
ul. Wałowa 41/43, 80-858 Gdańsk (for correspondence)
phone +48 58 323 05 00, fax +48 58 323 05 01
sekretariat.gdansk@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Świerklany
ul. Władysława 54, 44-266 Świerklany
phone +48 32 439 25 00, fax +48 32 439 25 60
sekretariat.swierklany@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Poznań
ul. Gróbla 15, 61-859 Poznań
phone +48 61 854 43 12, fax +48 61 854 43 12
sekretariat.poznan@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Tarnów
ul. Bandrowskiego 16A, 33-100 Tarnów
phone +48 14 621 37 31, fax +48 14 621 37 31
sekretariat.tarnow@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Rembelszczyzna
ul. Jana Kazimierza 3, 05-126 Niepołomice, Rembelszczyzna
phone +48 22 767 07 08, fax +48 22 767 09 52
sekretariat.rembelszczyzna@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Wrocław
ul. Gazowa 3, 50-513 Wrocław
phone +48 71 335 31 00, fax +48 71 335 31 01
sekretariat.wroclaw@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Kraków
ul. św. Wawrzyńca 6, 30-703 Kraków
phone +48 12 423 00 00, fax +48 12 423 00 00
sekretariat.krakow@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Bydgoszcz
ul. Wandy 9, 85-090 Bydgoszcz
phone +48 58 335 31 00, fax +48 58 335 31 01
sekretariat.bydgoszcz@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Opole
ul. Śląska 3, 45-900 Opole
phone +48 45 335 31 00, fax +48 45 335 31 01
sekretariat.opole@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Poznań
ul. Gróbla 15, 61-859 Poznań
phone +48 61 854 43 12, fax +48 61 854 43 12
sekretariat.poznan@gaz-system.pl

Gas Transmission Operator GAZ-SYSTEM S.A.
Branch in Warsaw
ul. Bohomolca 21, 01-613 Warszawa
phone +48 22 560 18 00
fax +48 22 560 16 06
e-mail: pr@gaz-system.pl
www.gaz-system.pl