

Responsible energy

CSR Report 2010

Market

Workplace

Local communities

Natural environment

Responsible energy

CSR Report 2010

Responsibility is at the heart of everything the PGNiG Group and its employees do. It is our core value.

In all our activities, we strive for balance and a smooth combination of business, social and environmental objectives.

1. Mission and values

Our mission in the area of sustainable development is to be a responsible actor on the Polish energy market, one that understands and respects the needs and expectations of key stakeholders and the natural environment, and promotes innovative and environment-friendly solutions and technologies.

Responsibility

is the foundation of day-to-day work of each PGNiG employee, irrespective of their job; it is also a challenge motivating us to work towards our common good.

We understand responsibility as:

- care for our economic, social and natural environment
- joint efforts designed to build the Company's value and reputation
- care for the security of our business partners and customers
- avoiding conflicts of interest
- refraining from accepting and offering gifts and undue financial benefits

Partnership

is the building of long-term relationships, based on mutual trust and benefiting all parties involved, both within PGNiG – with our employees and trade unions, and externally – with our customers, local communities and other market players.

We understand partnership as:

- creating conditions conducive to cooperation
- care for the interpersonal relations among employees
- tolerance for diverse views and expectations at the workplace
- dialogue with the Company's stakeholders and responsiveness to their needs

Reliability

is a long-term and consistent effort aimed to foster a culture of communication, based on dialogue and inspiring trust among all our stakeholders.

We understand reliability as:

- maintaining confidentiality of information and protecting business secrets
- ensuring transparency of operations and information
- acting on our commitments
- fair and responsible competition
- transparency of sponsorship, grants and CSR programmes

Quality

is the constant perfecting of our products and services by implementing innovative technologies, streamlining management systems and creating ethics-driven environment at PGNiG SA, in line with the aspirations of our customers, employees and partners.

We understand quality as:

- building our relations with customers and business partners
- ensuring high standards of advertising
- focus on development
- making good use of our employees' potential

2. Letter from the President

Ladies and Gentlemen,
It is a pleasure for me to present another “Responsible energy” report, which showcases the social and environmental involvement of PGNiG and its entire Group.

It is no coincidence that we have decided to keep the title adopted two years ago, which is at the same time the name of a series of conferences dealing with the issue of sustainable development in the energy industry, organised every year in June. The energy sector’s responsibility cannot be overestimated in the face of the shrinking natural resources, energy shortages, or even energy poverty affecting many families, and – on the other hand – the growing challenges of counteracting climate change and reducing CO2 emissions.

For this reason, PGNiG is determined to mobilise the energy industry around the idea of sustainable development – we do believe that we are able to cooperate in this field to the benefit of all. Hence our ideas of the Responsible Energy Conference and the Declaration on Sustainable Development in the Energy Sector in Poland, which has already been signed by 20 companies in Poland. We are all the more eager to get involved in initiatives undertaken by our partners, including the Responsible Business Forum, the Employers of Poland and the Warsaw Stock Exchange – sponsor of the RESPECT Index. We attach as much importance to their projects as to our own initiatives aimed at developing and increasing the value of PGNiG and the entire PGNiG Group, in line with the sustainability principles. Our participation in the United Nations Global Compact initiative proves that the PGNiG Group is part of the global business community, which is concerned with fostering values and making progress for the sake of the future social and natural environment, and not just to maximise profits.



In 2010, we carried out a number of business projects of great importance for the PGNiG Group. First of all, we successfully concluded negotiations with our Russian partner, gaining confidence that we will be able to meet our fundamental objective, which has always been to provide secure and reliable energy supplies. In addition, we completed work on the underground storage facility for nitrogen-rich gas in Bonikowo and carried out the first projects that will allow PGNiG to become one of the key players of the power sector. The latter included the construction project, executed jointly with Tauron, for Poland's biggest natural gas-fired CHP plant in Stalowa Wola, as well as agreements concluded with Lotos and KGHM. The assets of the PGNiG Group's existing assembly and construction companies were used to establish a new company, PGNiG Technologie, which will enhance our competitiveness in this area. In 2010, PGNiG Norway acquired interests in new exploration licences on the North Sea, and work was continued to enable PGNiG to launch crude oil and natural

gas production from the Norwegian Continental Shelf in 2011. Our German subsidiary, POGC Trading, whose business activity will involve trading in natural gas, is also due to commence operations in 2011. The 2010 financial performance was the best since the Company floated its shares on the Warsaw Stock Exchange – with sales revenue at a record-breaking level.

I am all the more pleased that we managed to continue all along with the implementation of our Sustainable Development and Corporate Responsibility Strategy, including work on the Code of Ethics, as a result of which we were able to formally appoint the Ethics Officer in 2011 and develop the appropriate system, which has recently been put in place in the entire Company.

Once again, PGNiG was named the most socially responsible company from the fuel and energy sector in the Ranking of Responsible Companies published by the Dziennik Gazeta Prawna daily. We have also been included in the RESPECT Index of the Warsaw Stock Exchange since its inception. These are all reasons for satisfaction, but also a stimulus to improve further. 2010 was the first year in our history when the PGNiG Group operated in accordance with the Sustainable Development and Responsible Business Strategy. This is the right way to move the Company closer to its stakeholders – customers, business and social partners, state authorities and local governments. I am truly grateful to all employees of PGNiG and the whole Group for their commitment, professionalism, and creativity. I believe that by conducting our business in a sustainable way we are laying the most solid foundation to successfully build the PGNiG Group's long-term value, in line with the aspirations of our shareholders, management staff, employees and all partners.

I encourage you to read the "Responsible energy" report and share your opinions, doubts, and ideas. Together we can achieve more.

Yours faithfully,



Michał Szubski
President of PGNiG SA

3. PGNiG company profile: key results in 2010

Natural gas production

4.22 billion cubic metres

Crude oil production

501 thousand tonnes

Natural gas imports

10.07 billion cubic metres

Natural gas sales

14.42 billion cubic metres

Length of the distribution network

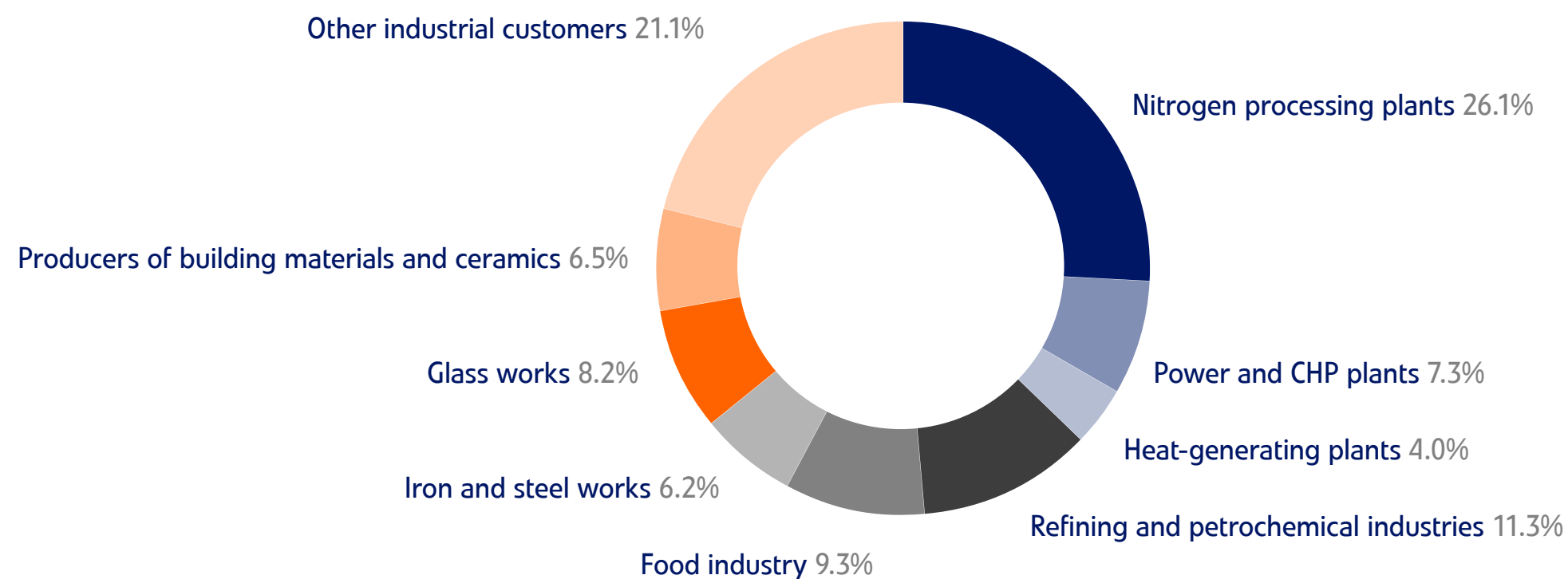
117 thousand km

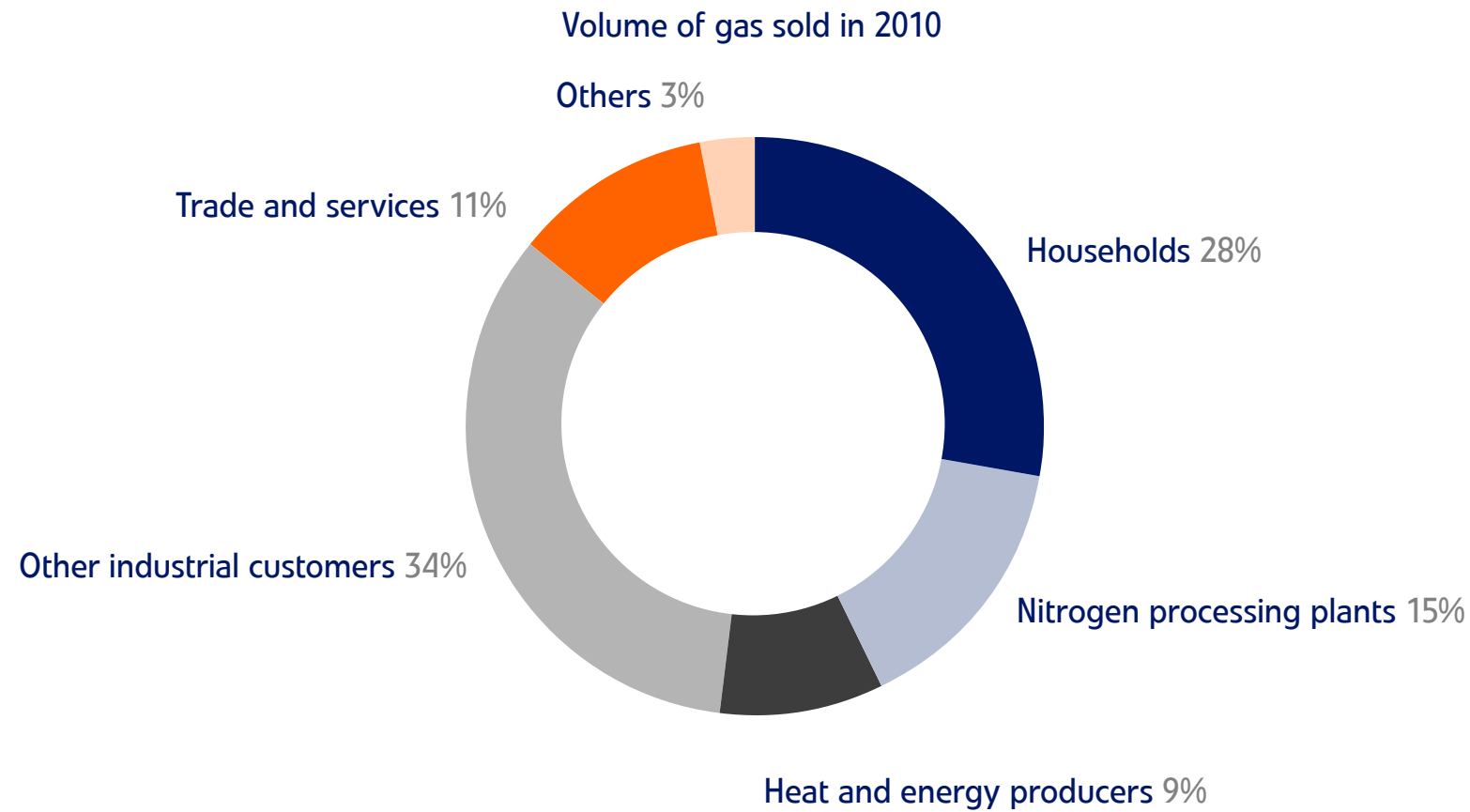
Gaseous fuel distribution

	DSG	GSG	KSG	MSG	PSG	WSG	Total
No. of customers (million)	0.75	1.3	1.4	1.5	0.75	0.9	6.6
Volume distributed (million cubic metres)	1078	1466	1924	2132	992	1688	9280
Length of distribution network, excluding connections (thousand km)	7.74	20.88	44.76	18.90	9.59	15.49	117.36

PGNiG's sales of natural gas to industrial customers in 2010

Structure of natural gas sales to industrial customers in 2010





Headcount as at the end of 2010, by segment (persons)

	2010	2009	2008
PGNiG Head Office	840	833	837
Exploration and Production	11,592	10,800	10,725
Trade and Storage	3,809	3,836	3,793
Distribution	13,881	13,851	13,746
Other Activities	2,296	2,073	2,044
Total	32,418	31,393	31,145

Financial highlights of the PGNiG Group

[PLNm]	2010	2009	2008	2007	2006	2005
Sales revenue	21 281	19 332	18 432	16 652	15 198	12 560
Net profit (loss)	2 457	1 237	866	916	1 328	881
Assets	34 316	31 074	29 745	28 402	30 677	30 364
Equity	23 519	21 435	20 716	21 022	21 153	20 768

* Data sourced from the annual Consolidated Financial Statements

In 2010, PLN 6,000,800 was donated by the PGNiG Head Office to finance various purposes, including the activity of PGNiG's Ignacy Łukasiewicz Foundation.

In 2010, the Group recorded the best financial results since the first listing of its stock on the Warsaw Stock Exchange. Sales revenue reached a record-high level of PLN 21.3bn and net profit amounted to 2.5bn. Such robust results can be attributed mainly to a record-breaking volume of natural gas sold, but also to higher revenues from sales of crude oil, as well as geological, geophysical and exploration services.

The PGNiG Group is the leader of the Polish natural gas market. Companies of the PGNiG Group employ approximately 30 thousand people, deployed in Belgium, Belarus, Denmark, Egypt, Norway, Pakistan, Russia, Ukraine and, primarily, Poland, where we are one of the largest employers.

Our core business consists in the production and sale of natural gas and crude oil. Both domestically and abroad, we are engaged in geophysical and geological research, exploration for and production of hydrocarbons, as well as preparation of products for sale. We operate in Denmark, Egypt, India, Yemen, Kazakhstan, Mozambique, Pakistan and Uganda. PGNiG is also involved in projects related to the production of hydrocarbons from the fields on the Norwegian Continental Shelf.

The Group sells natural gas produced in Poland, as well as imported gas. To secure stable and continuous supplies of natural gas, the PGNiG Group stores gas in eight modern underground gas storage facilities. Our gas is supplied through thousands of kilometres of pipelines, owned and operated by our six regional gas companies, to households, small and medium-sized businesses and large industrial plants.

PGNiG has been listed on the Warsaw Stock Exchange since September 2005. The PGNiG Group has enjoyed growing confidence of the capital market and has been assigned excellent credit ratings. Our stature is confirmed by the fact that PGNiG shares are included in WIG20, the blue-chip index of the Warsaw Stock Exchange. Since October 2009, the shares have also been included in the Respect social responsibility index.

3.1. Structure of the PGNiG Group

As at the end of 2010, the PGNiG Group comprised PGNiG (the parent undertaking) and 37 production and service companies, including:

25 subsidiaries

PNiG Jasło Sp. z o.o.
 GK PNiG Kraków
 PNiG Nafta Sp. z o.o.
 Geofizyka Kraków Sp. z o.o.
 Geofizyka Toruń Sp. z o.o.
 PN Diament Sp. z o.o.
 ZRG Krosno Sp. z o.o.
 PGNiG Norway AS
 POGC – Libya B.V.
 INVESTGAS SA
 Operator Systemu Magazynowania Sp. z o.o.
 Dolnośląska Spółka Gazownictwa Sp. z o.o.
 Górnośląska Spółka Gazownictwa Sp. z o.o.
 Karpacka Spółka Gazownictwa Sp. z o.o.
 GK Mazowiecka Spółka Gazownictwa
 Pomorska Spółka Gazownictwa Sp. z o.o.
 Wielkopolska Spółka Gazownictwa Sp. z o.o.
 Geovita Sp. z o.o.
 PGNiG Energia SA
 POGC Trading GmbH
 PGNiG Technologie Sp. z o.o.
 BSiPG Gazoprojekt SA
 Polskie Elektrownie Gazowe Sp. z o.o.
 NYSAGAZ Sp. z o.o.
 BUD-GAZ P.P.U.H. Sp. z o.o.

12 indirect subsidiaries

BUG Gazobudowa Sp. z o.o.
 ZUN Naftomet Sp. z o.o.
 ZRUG Sp. z o.o. (Pogórska Wola)
 BN Naftomontaż Sp. z o.o.
 Oil Tech International – F.Z.E.
 Powiśle Park Sp. z o.o.
 Geofizyka Toruń Kish Ltd (Rial)
 Zakład Gospodarki Mieszkaniowej Sp. z o.o.
 Biogazownia Ostrowiec Sp. z o.o.
 CHEMKOP Sp. z o.o. Kraków
 GAZ Sp. z o.o.
 GAZ MEDIA Sp. z o.o. (Wołomin)

3.2. PGNiG on the stock exchange

The year 2010 marked the fifth anniversary of PGNiG's IPO on the Warsaw Stock Exchange. The year was notable for yet another reason – in July the Company's free float increased from 15% to 27%.

PGNiG is one of the largest Polish companies listed on the Warsaw market. The Company enjoys the „blue-chip” status, and its shares are listed as part of the WIG20 index (since December 15th 2005) and the prestigious index of socially responsible companies. Alongside nine other names from the fuel sector, PGNiG is included in the WIG-Fuels sectoral index.

On January 25th 2011, for the second time the WSE announced a list of companies to be included in the RESPECT social responsibility index. PGNiG was again among the select group of 16 names listed as part of that index. The Company stock was also included in the new WIGdiv index, listed since January 3rd 2011. WIGdiv comprises 30 stocks with the highest dividend yields and regular dividend payments.

3.3. Corporate governance

Compliance with corporate governance principles is of vital importance to the PGNiG Group. We treat all our shareholders in a fair, equal and honest manner, making every effort to build excellent relations between investors and the Company's governing bodies.

General Shareholders Meeting

The General Shareholders Meeting is the supreme body of PGNiG, exercising shareholder rights. Through the General Shareholders Meeting shareholders perform their corporate rights, by examining and approving Directors' Reports, taking decisions as to the amount, method and date of dividend payment, and more. The GSM grants discharge to members of the other governing bodies in respect of their performance of duties, appoints members of the Supervisory Board, and takes decisions concerning the Company's assets.

Supervisory Board

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations, pursuant to the Rules of Procedure for the Supervisory Board. The Supervisory Board is composed of five to nine members, including one independent member, appointed by the General Shareholders Meeting for a joint three-year term. The State Treasury is entitled to appoint and remove one member of the Supervisory Board for as long as it remains a shareholder of PGNiG. In addition, two members are elected by PGNiG's employees if the Supervisory Board consists of up to six members, and three if there are from seven to nine Supervisory Board members.

Until July 19th 2010, the Supervisory Board was composed of eight members, including Stanisław Rychlicki, Grzegorz Banaszek, Agnieszka Chmielarz, Marek Karabuła, Mieczysław Kawecki, Marcin Moryń, Mieczysław Puławski, and Jolanta Siergiej. Currently, the Supervisory Board has seven members, as Mr Marek Karabuła was appointed Vice-President of the Management Board for Petroleum Mining.

The Chairman of the Supervisory Board, Mr Stanisław Rychlicki, does not perform any executive or managerial functions at the Company.

Management Board

The Management Board is the executive body managing the Company's business and representing the Company in all actions before and out of court. The Management Board is composed of two to seven members, with the precise number defined by the Supervisory Board. Members of the Management Board are appointed for a joint three-year term. The powers of the Management Board include all matters pertaining to the management of PGNiG's business which have not been reserved for or delegated to other governing bodies of the Company by any applicable laws or the Company's Articles of Association. The Management Board operates on the basis of applicable laws, including in particular the Commercial Companies Code, as well as on the basis of the Company's Articles of Association and the Rules of Procedure for the Management Board.

Currently, the Management Board is composed of five members: Michał Szubski – President, Radosław Dudziński – Vice-President, Strategy; Sławomir Hinc – Vice-President, Finance; Marek Karabula – Vice-President, Petroleum Mining; and Mirosław Szkałuba – Vice-President.

PGNiG has appropriate procedures in place to prevent conflicts of interests for members of its supreme supervisory body. The process of preventing such conflicts is part of the public recruitment procedure: a job opening is announced on the website of the Ministry of State Treasury.

In 2009, the PGNiG Group introduced Management by Objectives (MBO), a system whereby it is possible to measure employees' performance, rather than compensate them for their working time.

MBO was initially implemented for management boards of subsidiaries, heads of branches and heads of departments at the PGNiG Head Office. After one year, the managerial staff was obliged to report on the progress with the objectives assigned to them. If they were attained, a bonus was granted to well-performing managers. This management system provides great support for the PGNiG Management Board in the pursuit of objectives set in the Group's strategy, by linking the objectives set before individual organisational units with the broad framework of strategic objectives.

Michał Szubski – President

(appointed to the Management Board on March 12th 2008, re-appointed for another term of office on March 13th 2011)

Mr Michał Szubski graduated from the Faculty of Law and Administration at the University of Warsaw. He completed postgraduate courses in management of energy companies and natural gas transport and distribution. He joined PGNiG in 1994 and was first employed as Head of the Presidium Office of the Company. He later held the position of Head of the Legal Office and then served as Head of the Corporate Office. Since October 2000, he worked at the Mazovian Gas Distribution Division, the Warsaw Gas Sales Unit, first as Deputy Director for Restructuring and then as General Director. Between 2003 and 2007, he was President of the Management Board of gas distribution company Mazowiecka Spółka Gazownictwa Sp. z o.o. From July 2007 to March 2008 he served as advisor to the Management Board of PGNiG. Currently, Mr Michał Szubski holds the position of Vice-Chairman of the Supervisory Board of System Gazociągów Przesyłowych EuRoPol GAZ SA and serves as Chairman of the Board of Directors of PGNiG Norway A/S.

Audit Committee

The Audit Committee has been a standing committee of the Supervisory Board since November 27th 2008. It consists of at least three members of the Supervisory Board, including at least one member who is independent of the Company and of entities having significant links with PGNiG and who is elected by the General Shareholders Meeting pursuant to PGNiG's Articles of Association. Such a person has to be competent in accounting and finance. Members of the Audit Committee are appointed by the Supervisory Board.

Best practices

The Management Board of PGNiG is strongly committed to compliance with the principles of corporate governance. Since its debut on the stock exchange in 2005, the Company has followed the recommendations of the Warsaw Stock Exchange contained in "Best Practices for WSE Listed Companies". PGNiG's corporate governance reports have been published on the Company's website at www.pgnig.pl in the Corporate Governance section.

Culture of dialogue

PGNiG is engaged in a broad-based dialogue with the market. The Company meets its disclosure obligations towards shareholders and other stakeholders of the capital market by publishing reports on its current operations and financial reports, and by organising press conferences devoted to the Company's key projects and strategic objectives. Rules of Procedure for the General Shareholders Meeting, the Supervisory Board, the Management Board and the Audit Committee, as well as the Articles of Association, are available on the Company website at www.pgnig.pl, in the Investor Relations/Corporate Governance section.

3.4. Operations and the value chain

PGNiG's key objective is to ensure reliable and secure supplies of clean, environment-friendly energy. The PGNiG Group is open to new challenges, while remaining faithful to its tradition and striving to retain its customers' trust. In our business activities, we want to be a reliable partner, developing and building value in line with the sustainable growth principles.

PGNiG is a company with a long-standing tradition, enjoying an established position of the leader of the Polish gas market. Over the many years of its development, the Company has accumulated valuable assets and now controls a number of segments of the energy market (natural gas production, storage, sale and distribution), which provides a solid foundation for PGNiG's further growth and steady value increase.

The overarching strategic objective pursued by PGNiG SA is to enhance its shareholder value. In its efforts to achieve this objective, in June 2011 the Company adopted 18 strategic objectives under the "Updated Strategy for the PGNiG Group until 2015", pursued within six components of the value chain:

The following main strategic objectives make up the PGNiG Group's vision: to become, by 2015, a modern and efficiently-managed organisation controlling almost the entire value chain in the gas sector, and holding assets in the fuel and power sectors. The attainment of those strategic objectives will largely rely on activities concentrating in three areas:

- 1) hydrocarbon exploration and production undertaken domestically and abroad, to ensure access to new oil and gas reserves;
- 2) the power sector, focusing on the development of gas-fired power generation in Poland;
- 3) management of the Company's natural gas portfolio and activities on the European gas trading market.

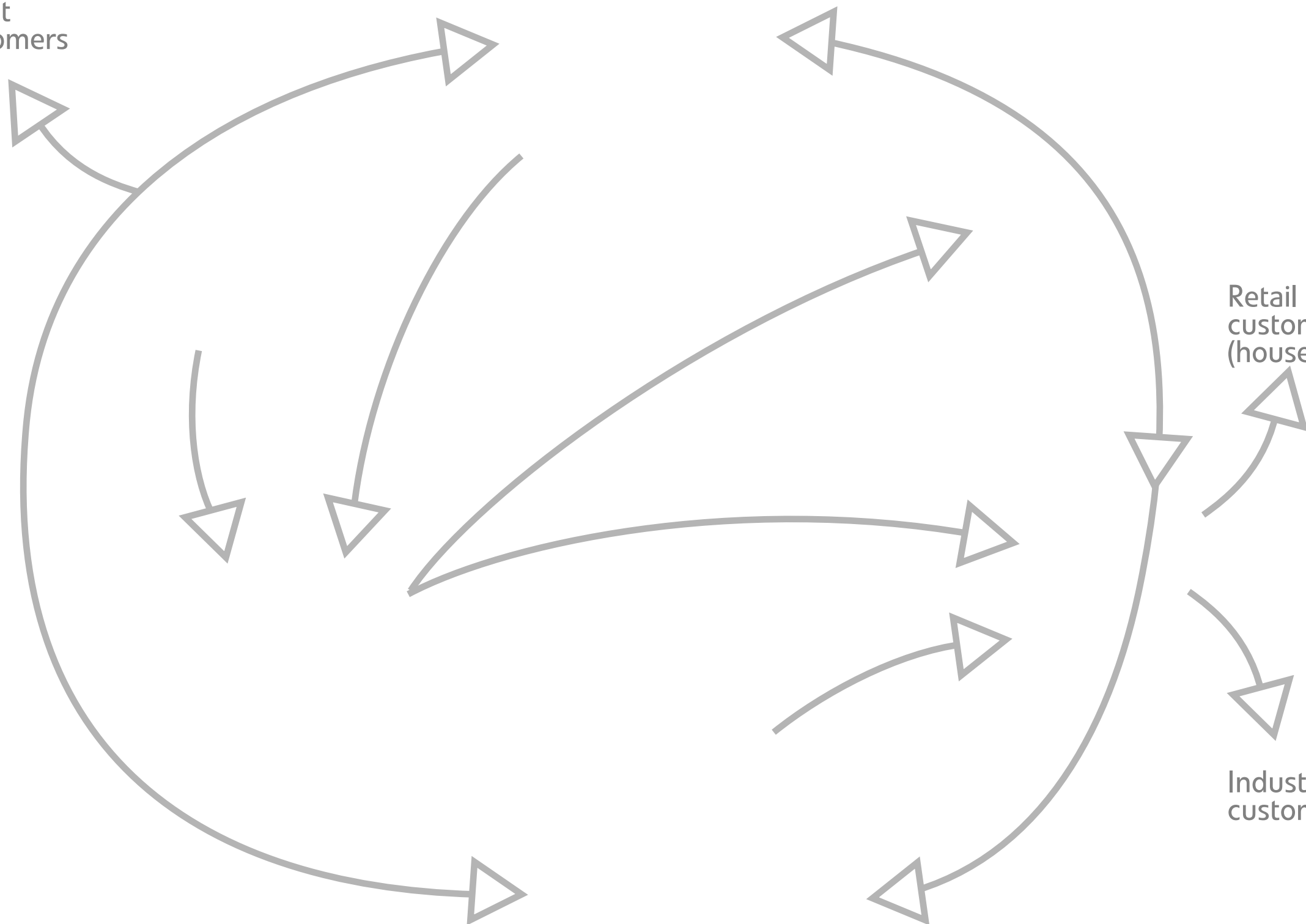


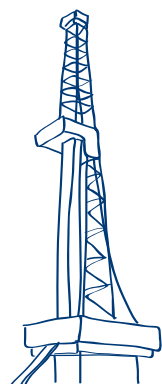
The PGNiG Group's value chain

Direct
customers

Retail
customers
(households)

Industrial
customers





Exploration and Production

Access to own reserves is a key to success. For this reason, PGNiG is developing its exploration and production business both in Poland and abroad. The updated strategy sets the following strategic objectives:

- to develop the exploration and production business in Poland;
- to develop the international E&P business focused on key regions;
- to enhance capabilities and optimise activities in the Exploration and Production Business.

Actions taken to pursue these objectives include:

- Increasing domestic production of natural gas to about 4.5 billion cubic metres and crude oil to about 1.0 million tonnes; developing exploration and production from deep geological formations and non-structural traps; maintaining the leading position among holders of licenses for unconventional gas exploration in Poland; and maintaining the reserves sustainability index at no less than 1.1.

- Increasing the annual international production of natural gas to 1.5 billion–2.0 billion cubic metres and crude oil to 0.6 million–1.0 million tonnes in the key regions; and increasing the international reserves of natural gas to 18.0 billion – 22.0 billion cubic metres and crude oil to 7.5 million – 9.5 million tonnes.
- Developing capabilities in the international offshore exploration and production, and in the exploration and production of unconventional gas, introducing new systems of fees and charges for work performed by the service companies (including the daily rate system), and investigating the feasibility of enhancing crude oil and gas production with the use of CO₂ injections.

Our achievements to-date

The majority of tasks performed in 2010 focused on the development of new fields and enhancement of recovery from producing fields. The most important one was the LMG project consisting in the development of the Lubiatów, Międzychód and Grotów crude oil and natural gas fields, on which the Company spent over PLN 400m in 2010. Other significant projects implemented under this objective included the construction of a denitriding plant in Grodzisk Wielkopolski (completed in 2010), including connection of wells, as well as development of fields in Środa Wielkopolska, Rudka, Rylowa-Rajsko, Wola Różaniecka and Góra Ropczycka.

As part of the exploration work and surveys, PGNiG carried out almost 50 kilometres of drilling, acquired 2.9 thousand kilometres of 2D seismic and nearly 900 square kilometres of 3D seismic in Poland and abroad. The development of the Skarv field on the Norwegian Continental Shelf is currently the largest and most advanced of the Company's international exploration and production projects. Production from the Skarv field is scheduled to be launched in the second half of 2011, doubling the annual production of crude oil, which currently totals 0.5 million tonnes.

In Poland, PGNiG SA currently holds 15 licenses covering areas where shale gas has been or will be explored and appraised. The licences cover an area stretching from the Pomerania region to the Mazovia and Lublin regions, to the Rzeszów region. Furthermore, the Company holds several licenses covering areas with tight gas potential, primarily in Greater Poland.

In July 2010, the first test well (Markowola-1) was drilled in the Lublin region with a view to exploring shale gas. PGNiG carried out Poland's first two hydraulic fracturing procedures. The second well (Lubocino-1) was drilled in the Pomerania region, near Wejherowo. Drilling of the well with a total depth of 3.5 kilometres was completed in March 2011. The drilled well revealed promising gas flows in silurian shales, which is to be analysed in the coming months. The Company has also been carrying out study and design work in other license areas.



Wholesale/Trading

In order to accommodate domestic demand for natural gas, the PGNiG Group produces gas from its own reserves and purchases gas abroad. The Group's own production covers around 30% of total demand, with the balance covered by imports, mainly from countries east of Poland (with Gazprom Export being the largest supplier). In an effort to ensure uninterrupted and secure supplies of natural gas, the updated strategy sets the following strategic objectives:

- to maximise the use of existing infrastructure and to secure sufficient capacities;
- to increase flexibility of natural gas supplies;
- to develop domestic/international multi-commodity trading and international sales.

Actions taken to pursue the objectives include:

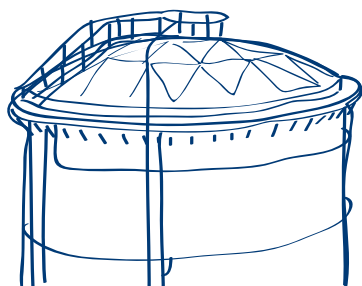
- using spare capacities of the LNG terminal, reserving capacities at the Lasów interconnector and capacities potentially available in the virtual reverse flow on the Yamal pipeline;
- renegotiating long-term contracts, increasing their flexibility and changing the purchase portfolio structure by increasing the share of volumes purchased under short-term contracts to 15%;
- creating the Portfolio Management and Risk Management functions within PGNiG, as well as launching oil, gas, electricity and emission certificate trading, and launching sales to industrial customers on the German market at the level of 0.5 billion – 0.7 billion cubic metres. Moreover, efforts are being made to combine gas and electricity trading within one entity and to develop a concept for the use of oil and gas volumes produced as part of international cooperation.

Our achievements to-date

With a view to securing an appropriate structure of import contracts, in June 2009 PGNiG signed an agreement with Qatargas Operating Company for the sale and delivery of LNG from Qatar to the LNG terminal in Świnoujście. Under the agreement, starting from 2014, Qatargas will be delivering to PGNiG 1 million tonnes of LNG a year for a period of 20 years.

In October 2010, following a long round of negotiations, PGNiG and Gazprom Export executed an annex to the Yamal Contract, whereby the annual volume of natural gas supplies to Poland in 2010–2022 was increased by approximately 2 billion cubic metres and the ban on gas re-export to third-party countries was lifted. The annex also introduces a preference price in the period 2010–2014 for the quantities of gas offtaken in a given year above the contracted Minimum Annual Quantities.

Then, in December 2010, PGNiG established POGC Trading GmbH of Munich, Germany, through which it intends to conduct international trading in natural gas and crude oil. Through the newly-established company, PGNiG intends to become fully involved in gas trading on the German market starting from 2012, using its own gas from Norway. Subsequently, POGC Trading may expand its operations to enter the Dutch or even the British markets.



Storage

The storage business plays a key role in stabilising the volatile demand for natural gas and ensuring secure gas supplies to our customers. Given the development of the market and the need to harmonise the storage capacities with the legal requirements, PGNiG is involved in projects designed to expand the existing and construct new underground gas storage facilities. By 2015, the planned expansion projects are expected to increase our storage capacities to approximately 3 billion cubic metres.

The updated strategy sets the following strategic objectives relating to the storage capacity expansion:

- to ensure sufficient storage capacities;
- to separate Storage System Operator activities and transfer them to a new entity;
- to maintain the profitability of the Storage Business following the launch of new underground gas storage facilities.

Actions taken to pursue these objectives include:

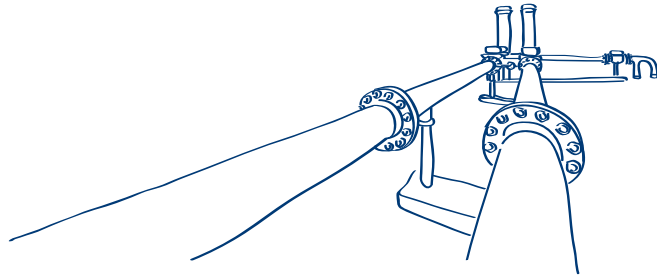
- increasing the storage capacities by approximately 1.4 billion cubic metres, to a total of approximately 3.0 billion cubic metres, as well as securing EU funds to finance the projects;
- establishing an internal organisational structure for the separated Storage System Operator and executing service agreements with the PGNiG Group;
- maintaining the pre-tax WACC at 8%–10% and maximising sales of storage services.

Our achievements to-date

In 2010, over 60% of all funds allocated to the construction and expansion of high-methane gas storage facilities were spent to extend the Wierchowice facility, the largest natural gas storage site in Poland. In November 2008, a contract for extension of the Wierchowice underground gas storage facility from its current capacity of 0.575 billion cubic metres to 1.2 billion cubic metres was executed with a consortium led by PBG. The contract value is about PLN 1.1bn. More importantly, in 2010 the European Commission approved PGNiG SA's application for financial support and awarded co-financing for four underground gas storage projects in Poland for a total amount of PLN 673.4m, including PLN 503.6m for the Wierchowice facility.

Also in November 2008, the process of formal and legal separation of the Storage System Operator was completed. Under a decision of December 31st 2008, the President of the Energy Regulatory Office (URE) appointed PGNiG as the Storage System Operator. In November 2010, Operator Systemu Magazynowania Sp. z o.o. was established to ensure compliance with the requirements of Directive 2009/73/EC with respect to legal separation of gaseous fuel storage from other types of business conducted by a vertically integrated gas utility.

In November 2009, the Daszewo underground gas storage facility – a new facility and Poland's first capacity for storage of nitrogen-rich gas – came online. The working capacity of the Daszewo facility is 30 million cubic metres. The construction of the Bonikowo underground gas storage facility for nitrogen-rich gas was also completed in 2010. Its capacity amounts to 200 million cubic metres.



Distribution

Distribution has an important role to play in the building of the PGNiG Group's value. The updated strategy provides for the following strategic objectives relating to the distribution business:

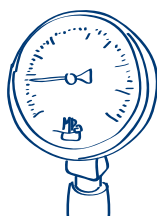
- to improve the profitability of the Distribution Business;
- to optimise costs and functions;
- to optimise development of the distribution network.

Actions taken to pursue these objectives include:

- increasing the regulatory value of assets approved by the Energy Regulatory Office and closing the cost gap in the tariff;
- implementing the strategic procurement functions at the distribution companies, establishing a shared services centre for the distribution companies and optimising network/improving efficiency;
- establishing uniform rules for the distribution network development (including ten-year investment plans), streamlining the legally permitted platform of communicating demand generated by customers and the Sales Business, and launching a pilot programme to assess the feasibility of implementing a smart meter reading system.

Our achievements to-date

In 2010, approximately a quarter of the capital expenditure incurred in the distribution segment was allocated to development of the distribution network. As a result, in 2010 the length of the network was extended by approximately 1500 kilometres. The distribution companies carried out a number of projects involving construction of new connections, upgrade and replacement of cast iron pipes and procurement of new metering systems. In 2010, the segment's expenditure on the network accounted for 80% of the aggregate capital expenditure.



Sales

As part of its trading business, PGNiG satisfies domestic demand for gaseous fuel through transactions involving purchase/sale of natural gas. Natural gas is sold to both retail customers (households) and the industrial sector. Given the dynamic changes in the legal and business environments, the PGNiG Group takes various steps in the gas trading area to maintain its leading position on the liberalised Polish market.

The updated strategy provides for the following strategic objectives relating to the sales business:

- to maintain the leading position on the Polish market;
- to improve operating efficiency.

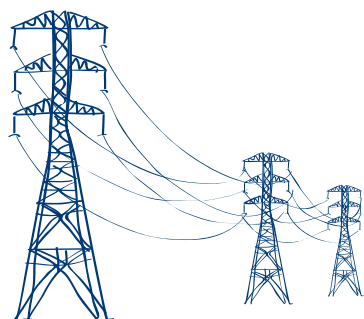
Actions taken to pursue these objectives include:

- developing new products and product ranges, improving customer service, winning new customers both within and outside of the gas transmission network's geographical coverage, entering the electricity market by approaching small and medium-sized enterprises and business customers with a dual-fuel offering (the „gas plus electricity” package);
- developing and implementing actions supporting deregulation of the natural gas market, preparing PGNiG for new competition on the Polish market.

Our achievements to-date

Since 2007, the PGNiG Group has been gradually increasing its sales of natural gas. The only exception was 2009, when due to the economic slowdown the amount of gas purchased by industrial customers dropped by 8% relative to 2008. In 2010, the Group managed to compensate for this loss with the Company's highest ever sales reaching 14.4 billion cubic metres. To meet the growing demand for gas, in October 2010 the Company executed an annex to the Yamal Contract with Gazprom Export, whereby the maximum annual volumes of gas supplies to Poland were increased by approximately 2 billion cubic metres.

PGNiG Group has also taken first steps to extend its product offering by expanding the CNG market and increasing the LNG output. This is particularly important on the Polish market, where trade in, transmission and distribution of natural gas are regulated businesses. Among the investment projects executed in 2010 by the Gas Trading Divisions was the construction of a CNG station, modernisation of boiler rooms and buildings, as well as other projects implemented to serve the needs of the 23 gas sales units.



New Business Areas

As new growth opportunities for PGNiG emerge, we take steps to expand the scope and scale of our operations through strategic alliances and – following appropriate analyses – mergers and acquisitions in the following sub-sectors:

- power generation,
- heat generation,
- crude oil.

Accordingly, the updated strategy sets the following strategic objectives for the new business areas:

- to develop the power sector;
- to reorganise the PGNiG Group;
- to enhance the efficiency of PGNiG as a project-oriented organisation;
- to review options for optimising logistics infrastructure.

Actions taken to pursue these objectives include:

- developing gas-fired generation projects in cooperation with Polish and foreign partners, using off-system gas to generate electricity in the modular technology, as well as offering power outsourcing services for the corporate sector;
- preparing and implementing a concept for: disposal of certain PGNiG Group companies, operational optimising of the Group companies with strong growth potential, optimising of intra-Group purchases, as well as preparing and implementing a Voluntary Termination scheme;
- preparing an incentive scheme for members of project teams, strengthening the management of large investment and M&A projects and enhancing research capabilities;
- developing a concept for the sale of domestically produced crude oil and analysis of the feasibility of infrastructural projects aimed to further diversify the sources of supplies.

Our achievements to-date

In November 2009, the General Shareholders Meeting of PGNiG resolved to establish PGNiG Energia. The new company will implement projects related to the transformation of the Group into an energy conglomerate. PGNiG Energia will be engaged in the construction of power-generation units, investment in gas-powered cogeneration plants and pilot biogas projects. The most important project currently carried out by PGNiG Energia is the construction of a CCGT plant in Stalowa Wola. The project was initiated with the execution of a letter of intent between Tauron Polska Energia and PGNiG on November 20th 2008. The execution agreement was signed on May 7th 2010, while the agreement on the operation of Elektrociepłownia Stalowa Wola, agreement for the sale of electricity and agreement for the supply of gaseous fuel were executed on March 11th 2011.

4. Our approach to sustainable development

4.1. The Group's stakeholders

Owing to its size and reach, the Group has a wide array of stakeholders. The nature of the business of our branches and subsidiaries, as well as their position within the value chain, determine the composition of their respective stakeholder groups. At different stages of the value chain, our impact on and relations with stakeholders vary, as do the specific commitments towards them. The PGNiG Group strives to conduct its business responsibly, with due regard to the role of social dialogue. Throughout the business decision-making

process, the Group looks for such solutions that would benefit all its stakeholder groups, taking into account both the economic and social aspects. That approach is driven by the awareness that sustainable development is only possible if there is mutual understanding between the Group and its stakeholders, and if we recognise and try to understand one another's needs and expectations.

Stakeholders	Method of dialogue
Employees – current and retired	Public consultations, Employee Council, the system of communicators (employees responsible for the internal communication process), daily electronic newsletter, internal corporate portal, staff surveys, web chats with representatives of the Management Board, occasional events, trips for retired employees
Customers	Satisfaction surveys, helpline, website, Customer Service Offices, dedicated business consultants
Operators as customers (E) Transmission System Operator (S) Customers for distribution services (D)	
Local communities	Public consultations, activities of the PGNiG Foundation and donation fund, direct interaction with local authorities and organisations
Business partners	Dedicated business consultants, direct meetings, conferences, trade declarations, involvement in worldwide humanitarian relief efforts, in Poland – through the PGNiG Foundation and donation fund
NGOs Social organisations	
Suppliers Suppliers of services and equipment (P)	Evaluation of partnership, support for local development
Research institutes, universities and other schools	Support for vocational education at all levels, conferences, the PGNiG Foundation's scholarship scheme, technical support for investment projects
Consultancies and research institutions (P, S)	
State administration and market regulator European Commission (S)	Consultations, joint initiatives, such as conferences and workshops
Shareholders and investors	Meetings with asset managers, participation in roadshows and foreign conferences for investors, dedicated newsletter, current and periodic reports
Media	Press articles, interviews, thematic inserts

Legend:

E – exploration

P – production

S – storage

D – distribution

The above stakeholder groups were selected on the basis of the Group companies' and branches' experience. Some organisational units collaborate with selected groups of stakeholders, as shown in the table. Taking their needs into account and communicating with them is also part of the risk management process.

For example, stakeholder relations within the exploration area are based on a long chain of mutual connections, although the key stakeholder group in that area are operators to which the Group companies offer their services. At the PGNiG Group, both the owner and its upstream companies (POGC Libya or PGNiG Norway AS) are operators.

The mutual relations consist in the provision of seismic, geophysical and drilling services to domestic and foreign operators. In order to meet the conditions for cooperation with an operator, the companies have to interact with public administration bodies, which issue permits for field work and monitor investment projects for their compliance with environmental criteria and other requirements; offer equipment that will enable failure-free execution of work in compliance with the environmental regulations and create a safe work environment in accordance with QHSE (Quality, Health, Safety, Environment) standards.

Another example of stakeholder cooperation is the complex network of interconnections within the gas production segment. The PGNiG Sanok and Zielona Góra Branches produce crude oil and natural gas. These activities involve a significant environmental impact, as well as cooperation with the local communities. Therefore, it is crucial for the immediate and broader environment of the oil and gas production facilities that they operate in an environmentally friendly manner. Modern facilities are often located in the middle of a forested area, equipped with state-of-the-art process monitoring systems, and built with the use of cutting-edge technologies. In this area, suppliers of equipment and customers play an important role. Their expectations and requirements concerning product quality, flexibility, timely supplies, as well as maintenance of high cooperation standards, are a key priority for the Branches. Cooperation with the local communities entails frequent public consultations, but also participation in various sports and cultural events taking place in a given region.

Corporate citizenship and lobbying policy

In order to conduct our business effectively, we share our knowledge with the market and law-makers in the process of public consultations. This facilitates our own operations and helps us better prepare for the coming changes.

In line with this policy, in 2010 PGNiG SA took active part in public consultations on the Act on Lobbying Activities in the Legislative Process of July 7th 2005 (Dz. U. of September 6th 2005), both at the level of Polish and EU regulations, by reviewing the relevant laws and, in the case of comments or doubts concerning their wording, submitting proposals for amendments to some of their provisions. In particular, proposals were submitted with regard to the following 10 laws, which are key to the Company's operations:

- 1) Energy Law,
- 2) Geological and Mining Law,
- 3) Energy Efficiency Act,
- 4) Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market,
- 5) draft Regulation of the European Parliament and of the Council concerning measures to safeguard security of gas supply and repealing Directive 2004/67/EC,
- 6) amendments to the Act on Disclosure of Information on the Environment and Environment Protection, the General Public's Involvement in Environment Protection and Environmental Impact Studies, dated October 3rd 2008,
- 7) amendments to the Environmental Protection Law,
- 8) Act on the Greenhouse Gas Emissions Management System,
- 9) Act on Transmission Corridors,
- 10) Act on Strategic Reserves.

In addition, PGNiG expressed interest in the work on draft implementing measures to the above and other legal regulations, including:

- 1) draft Regulation of the Minister of Economy on detailed conditions of operation of the gas system,
- 2) draft Regulation on detailed rules for determining and calculating tariffs for gaseous fuels and on settlements in gaseous fuels trading,
- 3) draft assumptions to the legislation introducing a protection system for socially vulnerable customers,
- 4) draft regulations relating to environmental protection: Regulation of the Minister of the Environment regarding cases where gas or dust emissions into the air do not require a permit, dated July 2nd 2010,
- 5) Regulation of the Minister of the Environment on benchmark values for certain substances in the air, dated January 26th 2010,
- 6) Regulation of the Council of Ministers on projects that may materially impact the environment, dated November 9th 2010,
- 7) Regulation of the Minister of Economy on technical conditions applicable to gas networks and their location.

PGNiG's representatives have also worked in a number of working teams responsible for developing Poland's energy policy framework, and inter-ministerial teams responsible, among other things, for the gas and energy market deregulation programme. Moreover, PGNiG's representatives were engaged in the work on the Polish Gas Law, drafted under the auspices of the Chamber of Natural Gas Industry.

In addition, in 2010 PGNiG SA (the Environmental Protection Office) submitted a number of requests for changes in existing regulations, including:

- request of November 23rd 2010 to the Chief Conservation Officer, Undersecretary of State at the Ministry of the Environment, concerning simplification of the rules for temporary exclusion of forest land from forestry production (similar request of January 28th 2011 was sent to the Minister of Agriculture and Rural Development),
- request of December 27th 2010 to the General Director for Environmental Protection, concerning amendments to the Regulation of the Council of Ministers on projects that may materially impact the environment, dated November 9th 2010 (Dz. U. No. 213, item 1397),
- request to competent authorities regarding explanation of the regulations on PRTR (Pollutant Release and Transfer Register) reporting, the act on production waste, and gas and dust emissions into the air,
- involvement in the work of a dedicated team of the Chief Inspectorate of Environmental Protection on amendments to the Seveso III Directive regarding exclusion of underground gas storage facilities from being subject to the provisions pertaining to major industrial accidents.

At present, PGNiG's representatives are engaged in the work on the draft Polish Petroleum Law, which, if enacted, will significantly facilitate our operations.

Concurrently, public consultations are under way to elicit opinions on the draft regulations of the Ministry of the Environment to the Geological and Mining Law of June 9th 2011.

We also want to successfully represent the interests of PGNiG SA and the Polish energy sector in dealings with EU institutions and international organisations. Active in this area is PGNiG's representative office in Brussels, which:

- has submitted 44 amendments to the security of gas supplies (SoS) regulation to MEPs working on the European Parliament Committee on Industry, Research and Energy,
- cooperated, from April to June, with the working group of EUROGAS on amendments to SoS, as part of negotiations between the Council of Europe, the European Parliament and the European Commission,
- regularly participated in meetings of the Gas Coordination Group, Security of Supplies Task Force, EUROGAS Strategic Committee, GSE,
- actively participated in the preparation, organisation, and conduct of EUROGAS General Meetings in Warsaw,

- undertook efforts leading to Mr Radosław Dudziński, Vice-President of PGNiG's Management Board, being invited to a meeting with MEPs in Brussels in February 2010, and delivered a speech on the SoS regulation at a mini-hearing session organised by the ITRE committee,
- arranged the participation of Mr Sławomir Hinc's, Vice-President of PGNiG's Management Board, in a meeting between two EU Commissioners and representatives of the gas industry as part of the EUROGAS Executive Committee,
- arranged and attended a meeting of Mr Michał Szubski, President of PGNiG's Management Board, with Commissioner Günther Oettinger concerning negotiations of gas supplies to Poland and an agreement between the Polish and French governments,
- arranged a meeting in Brussels for representatives of PGNiG SA aimed at exchanging experience related to their work and lobbying activities,
- cooperated with the Economic and Trade Section of the Permanent Representative Office of the Republic of Poland for the European Union and participated in meetings organised by the Polish Embassy.

4.2. Sustainable Development and Responsible Business Strategy

The Group’s Sustainable Development and Responsible Business Strategy was formally approved by the Management Board of PGNiG in July 2009. Contributors to the strategy were employees from all operational areas of the PGNiG Head Office, as well as from branches and subsidiaries of the PGNiG Group. The Sustainable Development and Responsible Business Strategy of the PGNiG Group is complementary to the Group’s business strategy. The main objective we have embarked on by formulating our sustainable development mission is to be an active player on the Polish energy market, who acts responsibly and takes into consideration the expectations and needs of its various stakeholder groups and the natural environment.

The Group’s CSR strategy addresses a range of challenges posed by our environment, and the actions we plan result both from the needs of our stakeholders and from best practices in place at the Group, in particular in the area of environmental protection and social involvement.

Sustainable development and responsible business covers all links of the PGNiG Group’s value chain and applies to all four areas of sustainable development, resting on the six strategic pillars:

- 1

Enhanced satisfaction of existing customers and acquisition of new customers through improved customer care;
- 2

Efficient and partnership-based co-operation and dialogue with social and business partners;
- 3

Pursuing business in a responsible way while caring for the natural environment;
- 4

Creating a safe and friendly workplace;
- 5

Consistent, credible and efficient communication and marketing;
- 6


Seeking new business expansion opportunities in line with the principle of sustainable development.

An integral part of the Strategy is the implementation plan, which defines the operational goals corresponding to each strategic objective. Apart from defining the operational goals and steps to achieve them, the plan also specifies success measures and implementation schedules, which enable the Group to consistently gauge the implementation progress, as well as monitor the business owners of individual goals. An additional item of the plan is a list of internal and external stakeholders for the respective operational goals. The identification of stakeholder groups is meant to better accommodate their needs in the implementation process.

The respective sections of this CSR Report present efforts taken in the areas defined by the six pillars of the Sustainable Development and Responsible Business Strategy from the perspective of parent company PGNiG and all the Group companies, which pursue their own substrategies.

4.3. Strategy management

Soon after the formal adoption of the Strategy, a dedicated structure was established to coordinate the processes related to its implementation at the Group. Within its framework, Members of the Management Board, along with the President, act as Project Sponsors. Another tier is the Steering Committee, composed of the business owners of strategic objectives. The Management Board's Proxy for the Strategy is responsible for coordinating and monitoring the Sustainable Development and Responsible Business Strategy implementation at PGNiG subsidiaries and branches, and for internal and external communication of actions on the sustainable development and responsible business agenda. The same role at the level of the Group's branches and subsidiaries is performed by regional CSR Facilitators. The group consists of a few dozen persons for whom sustainable development is the primary job responsibility. The Proxy is also responsible for monitoring progress with the implementation of the strategic and operational goals, and for reporting actions scheduled for a given period to the Management Board. The person also collects data from across the Group and prepares a CSR Report together with the regional Facilitators.

 *This year's CSR Report has been prepared by the CSR Facilitators, who have worked in teams of several people each on one of the six strategic pillars. For the first time, the Facilitators not only gathered and sent data to the Head Office, but also wrote the respective sections of this Report. This demanding but highly educational task brought a new quality into our work, allowing us to better understand the specific nature of the various business areas in which the PGNiG Group operates. I hope it will become our standard practice – all the more so because such an exercise draws on the Facilitators' competencies in the field of corporate social responsibility. In 2010, twenty-one CSR Facilitators completed their postgraduate programme in responsible business at Kozminski University of Warsaw. This is enormous potential," says Marzena Strzelczak, Management Board's Proxy for Sustainable Development and Responsible Business Strategy.*

It is worth noting that in 2010 the strategic objectives were incorporated into the evaluation of senior management staff by including them in the annual MBO targets, and thus were reflected in the objectives and targets set for individual employees and teams. All the above testifies to the strategic involvement and determination of the Group as it implements the Strategy.

In 2010, the Group companies started to conduct their businesses pursuing their own Sustainable Development and Responsible Business Strategies. Also, at the beginning of 2011, their first strategy implementation reports came in, indicating the number of tasks completed, executed according to schedule and delayed in particular pillars. The information was submitted to the Management Board in the form of a summary report, which will form the basis for decisions on further steps as part of the Strategy implementation.

Moreover, last year saw the launch of the Strategy Repository, a portal dedicated to CSR issues. With a calendar of events, a library of documents and other features, it is a website where CSR Facilitators may share information within the PGNiG Group.

4.4. Information about this Report

“Responsible Energy 2010” is the third CSR report prepared by the PGNiG Group. This Report follows the Global Reporting Initiative guidelines and IPIECA indicators. Furthermore, it is based on the guidelines and indicators following from the Global Compact and ISO 26000, which were also incorporated into the Code of Responsible Business signed by PGNiG and drawn up under the Coalition for Responsible Business (for more information on the Coalition, see the [„Coalition for Responsible Business \(page 151\)”](#) section).

- This Report presents our pursuit of the objectives defined in the Sustainable Development and Responsible Business Strategy in the period from January 2010 to June 2011, using data and/or descriptions of the practices, rules or procedures.
- Figures quoted in this Report relate to 2010, while some of the developments described here took place in the first half of 2011.
- Quantitative measures presented in this Report rely on data of parent undertaking PGNiG SA, as well as 23 gas sales units, all domestic branches of PGNiG, and most of PGNiG’s wholly-owned subsidiaries, as demonstrated by the [diagram \(page 11\)](#) in the “Structure of the PGNiG Group” section
- Each section dealing with the respective strategic pillars starts with a summary, presented in graphic form, of actions initiated under a given strategic objective by all the Group members implementing their own strategies. The graphs show the total number of tasks completed, executed according to schedule and delayed at all the Group companies.
- Quantitative measures presented in this Report do not take into account data of the following Group members: Oil Tech International – F.Z.E., PGNiG Norway AS, POGC – Libya B.V., Powiśle Park Sp. z o.o., Geovita Sp. z o.o., PGNiG Energia S.A., POGC Trading GmbH, PGNiG Technologie Sp. z o.o., ZRUG Sp. z o.o. (Pogórska Wola), Operator Systemu Magazynowania Sp. z o.o., Polskie Elektrownie Gazowe Sp. z o.o., NYSAGAZ Sp. z o.o., BUD-GAZ P.P.U.H. Sp. z o.o., Geofizyka Toruń Kish Ltd (Rial), Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła), Biogazownia Ostrowiec Sp. z o.o., CHEMKOP Sp. z o.o. Kraków, GAZ Sp. z o.o. and GAZ MEDIA Sp. z o.o. (Wołomin).

- The printed Introduction to the CSR Report 2010 contains only selected information on the PGNiG Group's operations relevant from the perspective of sustainable development and responsible business. The printed version includes a DVD, where you will find the full 2010 CSR Report and this year's Annual Report, as well as educational materials presenting our activities. The full information is also available at www.odpowiedzialna-energia.pl and www.pgnig.pl in the Responsible Business section.
- In order to understand your expectations regarding reporting and corporate social activities of the PGNiG Group, we have prepared a questionnaire, which is enclosed with this Report and made available at the above web addresses. Please fill in the questionnaire and contact us at informacje@odpowiedzialna-energia.pl
- This Report has not been reviewed externally, although selected indicators and presented financial data are consistent with the PGNiG Group's Annual Report and Financial Statements for 2010 and, as such, were verified by the auditors. Notwithstanding, independent audits were also conducted at PGNiG subsidiaries, including environmental protection system audits.
- The changes that took place within the Group in the last year do not affect the comparability of data included in the reports for previous years. Information on the changes in the Group's structure has been presented in the "Structure of the PGNiG Group" section. There is no need to adjust data included in the reports for previous years.
- All data in this Report were accurately collected directly from the entities described in this document, and from persons managing the respective areas of the PGNiG Group's operations.

2010

4.5. Key events

January

Declaration on the establishment of the Helium Cryogenics Centre at PGNiG's Odolanów Branch. The Centre is a joint project developed together with the Warsaw University of Technology, the Wrocław University of Technology, and the Department of Molecular Physics of the Polish Academy of Sciences. The purpose is to establish an institute with a research and business agenda, to be a benchmark example of collaboration between industry and science.

February

Strategic workshop on socially vulnerable customers attended by experts from the Energy Regulatory Office (URE) and the Ministry of Labour.

Given the planned introduction of new energy efficiency laws, PGNiG takes steps to prepare the Company for the new efficiency measures.

April

The Laurel of Responsibility goes to PGNiG SA under the "Promotion of Corporate Social Responsibility Standards Among Businesses" project, developed by Lewiatan, Deloitte and the Solidarność Trade Union.

Top position in the Polish Companies listing, top position in the Fuels and Energy Sector listing of the Responsible Companies Ranking 2010 by *Dziennik Gazeta Prawna*.

Agreement on co-operation in the area of ethics promotion in business between Pomorska Spółka Gazownictwa and the Gdańsk University of Technology.

May

Top position in the 24/7 Transparent CSR Leader ranking by Braun & Partners CSR. The ranking lists 25 companies with the highest 2008 profit.

2010

May/June

"Marketing in the gas industry: In compliance with the sustainable development principles" conference. PGNiG's representatives share lessons learnt from the development of the Sustainable Development and Responsible Business Strategy at the Group.

June

2nd Responsible Energy Conference – three more companies: Fortum Power and Heat Polska, LOTOS Group and Polskie Sieci Elektroenergetyczne Operator, sign the Declaration on Sustainable Development in the Energy Sector in Poland.

Completion by 21 Regional CSR Facilitators of the post-graduate programme in responsible business at the Koźminski University.

PGNiG joins the group of founding members of the LBG (London Benchmarking Group) Poland: BZ WBK, Danone, GlaxoSmithKline, Ikea and Żywiec Zdrój. The LBG Model is currently one of the world's best-tested methodologies for measuring and reporting the efficiency of CSR activities. Its implementation in Poland is managed by CSR Consulting.

October

On October 13th, Signatories of the Declaration on Sustainable Development in the Energy Sector in Poland, a representative of the Ministry of Economy and a journalist from the ThinkTank magazine met in the Forest District of Pińsk to plant 1,500 pine saplings together with the Aeris Futuro Foundation. Afterwards, they attended a workshop where new ideas for joint initiatives were discussed. Monika Foussereau and Anna Gnoińska, acting on behalf of Dalkia Polska S.A., signed the Declaration.

PGNiG takes part in the Good Practices MarketPlace held by Responsible Business Forum.

December

Distinction in a contest for the best CSR report.

Another meeting of Signatories of the Declaration on Sustainable Development in the Energy Sector in Poland. The Signatories gather to plan a new joint project with educational value and PR potential, relating to sustainable development in the energy sector.

A Survey of Employee Satisfaction is conducted among all employees of PGNiG, including the Head

Office, Branches, Gas Sales Units and Customer Service Offices. For the first time in the Group's history, the survey is carried out among such a large number of employees at once.

Representatives of PGNiG's subsidiaries and foreign branches participate in a workshop on the Group's Sustainable Development and Responsible Business Strategy.

2011

January

In January 2011, the Warsaw Stock Exchange for the second time announces a list of companies included in the Respect social responsibility index. Once again, PGNiG is selected to this elite group.

February

Polskie Górnictwo Naftowe i Gazownictwo SA is included in the group of companies standing out for their CSR efforts and clarity with which they present them on their corporate websites. The list is based on the BI-NGO 2010 Index, which evaluates how the 500 largest companies listed by the *Rzeczpospolita* daily communicate their CSR efforts over the Internet.

Introduction of Logito – an electronic system for handling complaints and requests at the PGNiG SA. LOGITO will improve the document circulation process and facilitate reporting, as well as data processing and analysis.

April

For the second time, PGNiG SA is named the most socially responsible company from the fuel and energy sector in the Ranking of Responsible Companies published by the *Dziennik Gazeta Prawna* daily. Another PGNiG subsidiary is listed among the top companies from the sector – Górnośląska Spółka Gazownictwa ranks third in the same category.

May

PGNiG introduces a Ethics Officer function, with key responsibilities to ensure adherence to the principles of ethical conduct, strengthen the corporate culture based on the highest ethical standards and promote ethical behaviour at the Company.

May/June

At the “Marketing in the gas industry: corporate social responsibility in the gas industry” conference, a representative of PGNiG speaks about the evolution of CSR, using PGNiG as an example.

June

3rd Responsible Energy Conference – the Declaration on Sustainable Development in the Energy Sector in Poland is signed by CEOs of another eight companies: Energa, PKP Energetyka, Dolnośląska Spółka Gazownictwa, Górnośląska Spółka Gazownictwa, Karpacka Spółka Gazownictwa, Mazowiecka Spółka Gazownictwa, Pomorska Spółka Gazownictwa, and Wielkopolska Spółka Gazownictwa.

Pilot tests of PGNiG’s e-passage marketing web platform, intended for advisory services and e-commerce. Never before has PGNiG applied an IT tool this advanced to provide comprehensive services to retail customers.

5. Customer satisfaction

PGNiG's priority is to secure reliable and stable supplies of natural gas to households and industrial customers. In an effort to ensure and enhance customer satisfaction, we have been taking steps to develop our offering and streamline the sales process.

Our department's primary focus is customer service. We have one key strategic objective, and that is to continually improve the quality of customer service in order to satisfy our customers. Since gas prices are officially regulated, we regard customer service and its consistent enhancement as our priority task. At present, we are pursuing this goal in a number of ways. We have managed to standardise the procedures for customer service, so that customers throughout Poland are served in the same way. A system for handling complaints has been established, enabling us to monitor incoming complaints and their number. Constant improvement is of course a fixture of our strategy, therefore we make an ongoing effort to train our employees, so they are able to meet the expectations of our customers, the Company, and the market.

Artur Bieliński
Head of the Gas Trading Department



Through its six Gas Trading Divisions, PGNiG sells natural gas to households and industrial customers, and undertakes various activities to actively support the sales process (development of new products, development of tariffs and price lists for off-tariff products and services, and marketing activities, including building strong relations with customers).

In terms of sales volumes, PGNiG's major customers are: the chemical industry, metallurgy and power industry. Retail customers (households) were the most numerous group of PGNiG's customers (around 6.4m), accounting for approximately 97% of all PGNiG's customers. The share of retail customers in the total volume of sales generated by PGNiG stood at around 30%. Industrial customers accounted for the largest share (about 58%) of the natural gas sales volume. In 2010, around 83 thousand comprehensive agreements for gaseous fuel supplies were concluded, providing for supplies both from the transmission and distribution systems.

Tasks

Completed

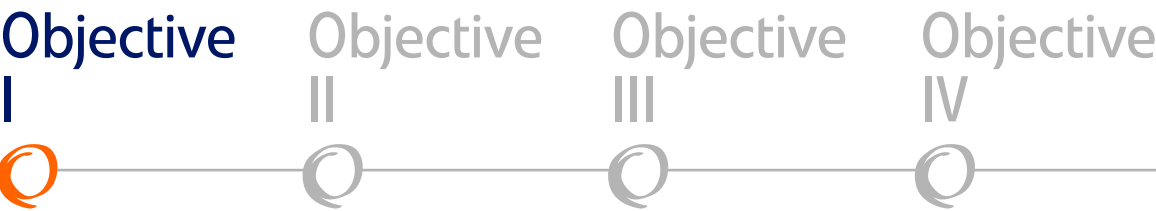


Under way

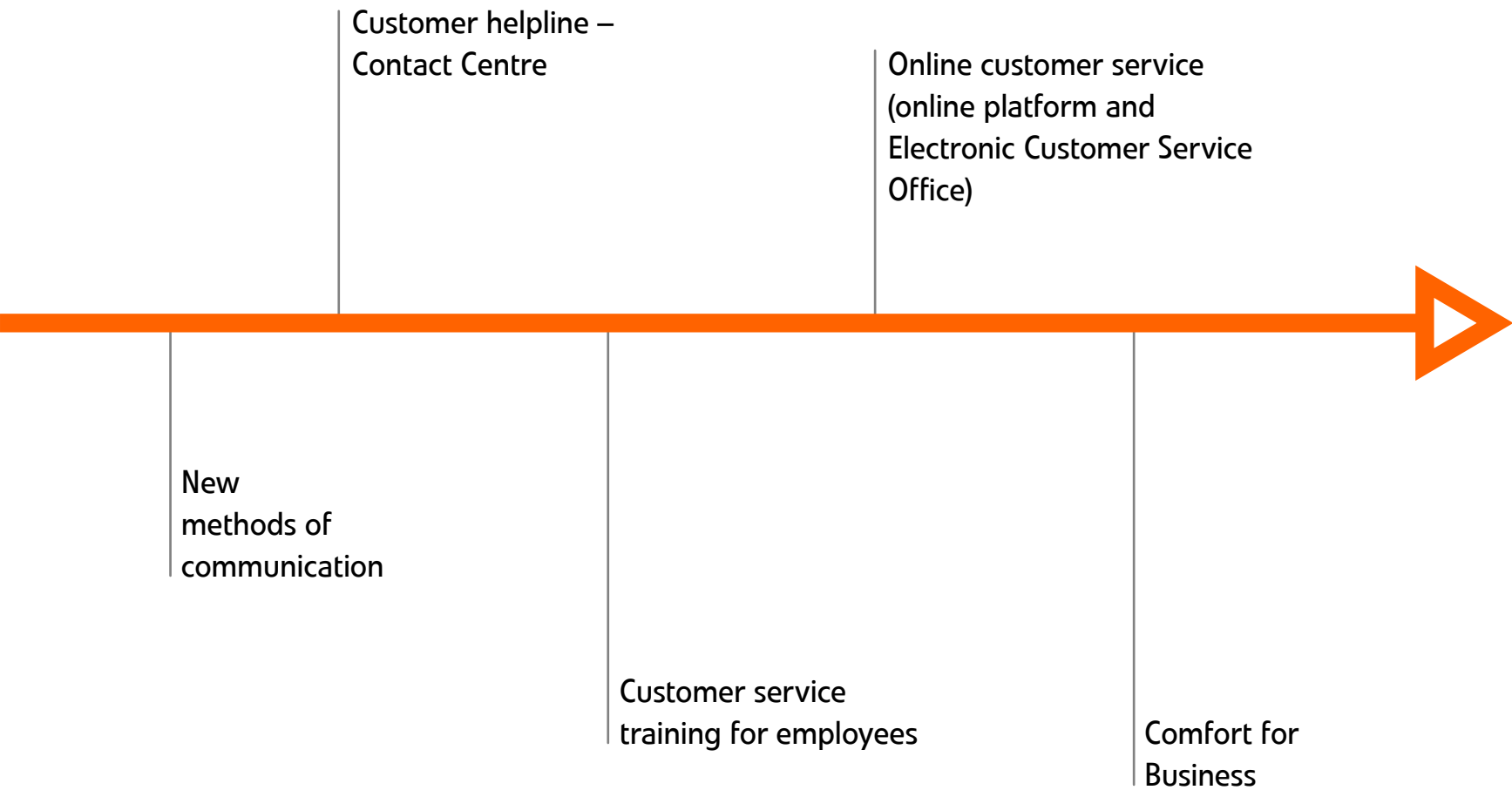


Delayed





To Develop Effective and User-Friendly Self-Service Platform

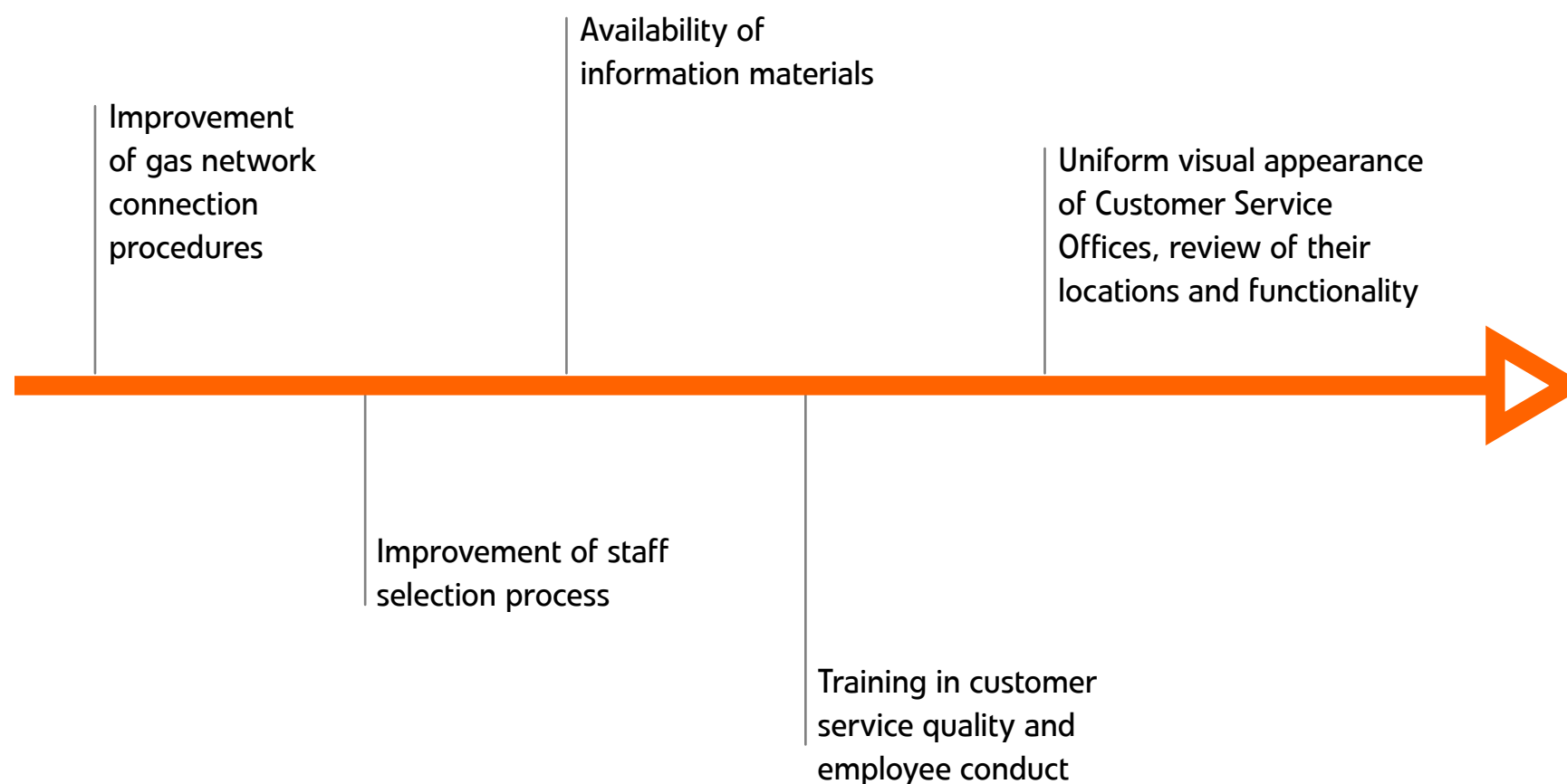


Effects

- 2,912 phone calls received by the Contact Centre at Zgorzelec Gas Sales Unit in December 2010.
- 5-12 thousand pages of electronic invoices generated each month at Szczecin Gas Sales Unit.
- 25 thousand customers registered to the Electronic Customer Service Office at Pomeranian Gas Trading Division in December 2010.
- 600 customers of Upper Silesian Gas Trading Division covered by the Comfort for Business scheme in December 2010.
- 70% of staff of Customer Service Offices at Koszalin Gas Sales Unit received training.



To Improve Quality of Service at Customer Service Offices

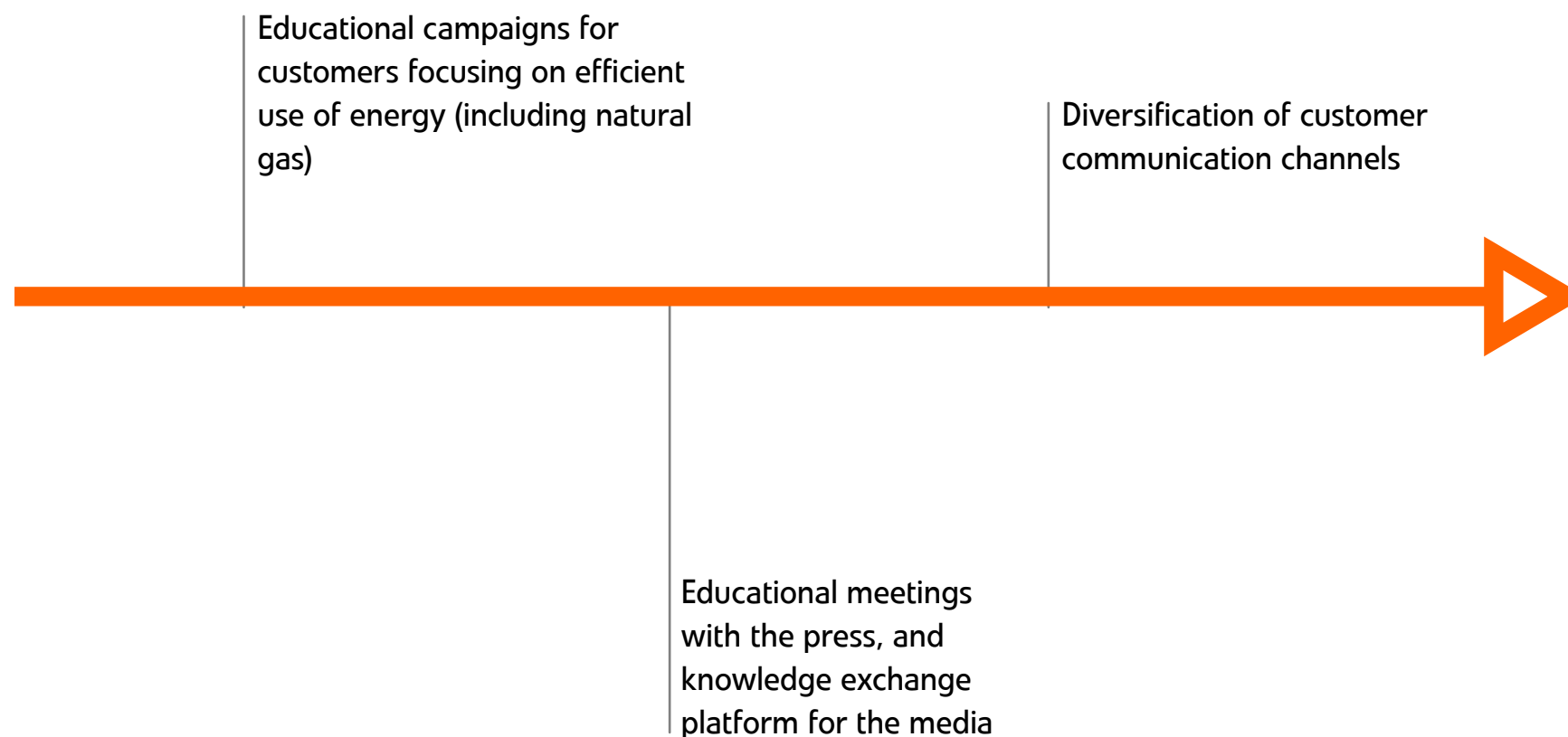


Effects

- 1,215 employees of gas trading divisions completed training in procedures for establishing a gas network connection and changing the connection conditions.
- Shortening the time of gas network connection in 4 out of 6 Gas Distribution Companies in 2010 vs. 2009.
- Adoption of the Interior Design Guidelines for PGNiG's Customer Service Offices and the Interior Design Implementation Concept for PGNiG's Customer Service Offices in 2010.

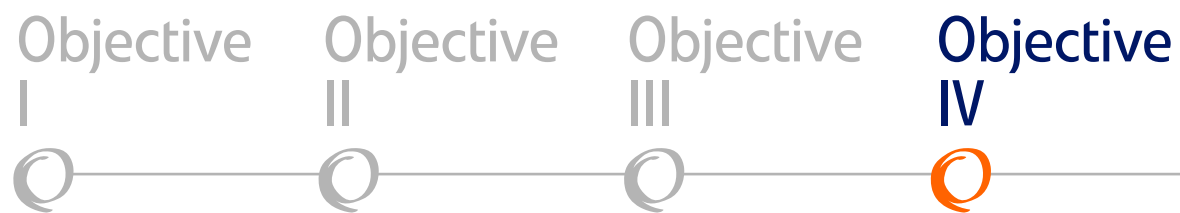


To Raise Customer Awareness and Educate Customers Regarding Use of Gas and Efficient Use of Energy



Effects

- 2,800 children and teenagers took part in Pomeranian Gas Trading Division's educational campaigns focusing on natural gas, organised with Municipal Welfare Centre in Gdańsk
- Publication of gas quality reports by CMTL at www.pgnig.pl.



Support for Socially Vulnerable Customers

Cooperation with local
social welfare centres
(MOPS)

Training for
employees of
Customer Service
Offices related to the
support programme
for socially vulnerable
customers

Effects

- Thanks to the exchange of information with MOPS centres, PGNiG's customers may obtain aid to pay their past-due gas bills.
- Special debt collection procedure for socially vulnerable customers.
- Implementation of forecast bills for the W1 and W2 tariff groups.

Objective I

To create an effective and user-friendly self-service platform

PGNiG has been introducing new tools designed to support communication with its customers. In these efforts, it takes into account the results of regularly performed surveys. In the 2010 Retail Customer Satisfaction Survey, PGNiG's services and products received good ratings: the Customer Satisfaction Index (CSI) stood at 64%, while the loyalty index, reflecting the percentage of highly satisfied customers prone to recommend PGNiG's services to their acquaintances, was at 51% (the survey covered a representative sample of $n = 1,800$ respondents). 60% of retail customers declared that they were highly satisfied with PGNiG's products and services, while a mere 1% declared that they were decidedly not satisfied. The areas rated the highest included:

- PGNiG's product – natural gas – 72% of respondents were decidedly satisfied,
- direct contact with a Customer Service Office – 75% of respondents were decidedly satisfied,
- internet communication channel (PGNiG's website) – 69% of respondents were decidedly satisfied.

Most often, customers indicated the call centre, complaint review and gas grid connection procedures as areas needing improvement.

The Customer Services Offices owed their high rating primarily to the quality of work of PGNiG's employees and the efficiency with which they solve problems/issues reported by customers.

The PGNiG employees' expertise, politeness and involvement in a customer's problem were especially highly praised (around 80% of decidedly satisfied respondents). A slightly lower rating was given to the organisation of work at the Customer Service Offices (queue management and the resulting waiting time). Similarly, the availability, number and opening hours of the Offices were not fully satisfactory.

Quite interestingly, almost the same percentage of customers prefer to communicate with the gas supplier directly, by visiting a Customer Service Office (43%) and contact the supplier via the telephone (46%). It is important because the telephone communication channel was relatively poorly assessed by customers, especially in terms of its availability – getting through on the congested line and waiting time. With respect to the call centre, customers expect the scope of matters handled by this channel to be broadened. The results of the survey lead to a conclusion that the soonest possible introduction of a self-service option for PGNiG's customers would be a major step forward in modernising and streamlining the customer service process, by increasing the availability of services and reducing waiting times. In an effort to meet those needs, PGNiG has been introducing new interactive customer contact channels. The most important efforts in this area are presented below.

Objective I

Initiatives/Best practices

Electronic Customer Service Office (e-BOK)

E-BOK is a customer self-service tool launched at the Pomeranian Gas Trading Division in 2008, as a pilot programme at two offices of the Gdańsk Gas Sales Unit. Since its launch, the platform has been continually improved. It was established in response to suggestions from customers who wanted an opportunity to contact a Customer Service Office by electronic means, but it has an additional advantage of reducing the front office staff's workload. Intensive promotion of e-BOK as a secure and innovative customer self-service tool was run in 2010: 400 thousand leaflets were prepared and distributed and a film with instructions how to use e-BOK was made. As a result, the number of registered e-BOK users increased from five thousand at the beginning of 2010 to 25 thousand in December 2010 (i.e. 4% of all customers of the Pomeranian Gas Trading Division). Owing to the new platform, customers can contact the Gas Sales Unit directly, without a visit to the Customer Service Office, they can report gas meter readings on a monthly basis and track their gas consumption.

Contact Center

As early as in 2009, the Lower Silesian Gas Trading Division launched Contact Centers at two Gas Sales Units, in cooperation with Gallup. By dialling 801-301-801, a customer can obtain information on their payment balance, bills issued for gas consumed, customer service procedures and gas prices, as well as report gas meter readings, order an overpaid amount to be returned, submit a complaint, etc. Customer service supported by this communication channel has proved efficient at two Gas Sales Units, in Wrocław and Wałbrzych, as reflected in material increases in the number of calls. In 2010, a decision was taken to launch a Contact Center at the Zgorzelec Gas Sales Unit, too. The decision was key to the standardisation of customer service at the Division. Over the first month of the Contact Center's operation at the Zgorzelec Gas Sales Unit, 620 calls were received, in June 2010 – the number rose to 1,773 and in December 2010 – to 2,912. Thus, the assumed success threshold of 1,000 calls was met after the first three months, and by the end of 2010 the total number of calls exceeded that target several times.

Comfort for Business

The Comfort for Business is a scheme implemented by the Upper Silesian Gas Trading Division for its business, key and strategic customers. Each customer of the Zabrze Gas Sales Unit consuming over eight thousand cubic metres of gas annually and holding the Unit's Customer Card is eligible to participate in the scheme. Of the total number of 3,000 customers, approximately 600 joined the scheme in 2010. Comfort for Business forms part of the MEGAZ system. It enables 24x7 online access to customers' invoices, payments made, readings history and the payment simulation calculator, which calculates payments based on input data in the form of gas meter readings.

Objective I

PGNiG's e-passage

PGNiG's e-passage is among the newest customer communication channels deployed by the Company. It is an Internet portal through which customers can arrange all matters connected with the sale of heating equipment, from selection of equipment, to placing an online order. 2010 witnessed very intensive work to prepare pilot implementation of the e-passage at two Gas Sales Units in Lublin and Zabrze. They were launched in June 2011. The modern and user-friendly IT solution serves as a source of expert advice and sales channel, intermediating in the sale of gas-fired equipment. In the e-passage, a customer can browse through the offerings of major retail vendors of heating equipment, and use the advisory services provided via the portal, related to equipment assembly and servicing. For more information on PGNiG's e-passage, see the interview with Agnieszka Chmielarz at the end of this section.

The e-passage is an innovative channel of customer communication. Customers can use it in two ways: online, or through our employees at Customer Service Offices. It is one of the modern communication channels we have recently launched.

In response to customer expectations, we have developed the e-passage, a modern website designed to help our customers get in touch with manufacturers of gas-fired appliances and take advantage of tailored-made bank products on more favourable terms than those available on the market. Additionally, the website will enable our customers to take advantage of many gas equipment support services provided by fitters, manufacturers, designers, chimney-sweepers, i.e. all partners usually associated with gas services.



Agnieszka Chmielarz
Trade Marketing Office Director
Marketing Department

E-invoice

New technological solutions and the desire to meet growing expectations of our customers prompted us to introduce E-invoice as a new self-service tool at the Gas Sales Unit in Szczecin. From September 2009 to the end of 2010, about 10,000 customers agreed to receive documents in electronic form. As a consequence, each month we issue between 5,000 and 12,000 pages of electronic invoices, and between 300 and 1,000 electronic payment reminders, instead of distributing them in paper form. Apart from being customer and environment-friendly, this innovative system offers a significant economic advantage – on average, the unit cost of document preparation and delivery is reduced by PLN 1.30. The new electronic documents have been well received by customers. Complaints are very rare and serve as a source of valuable information which helps us improve that payment system, tailoring it to customers' expectations. Information on the portal is available at www.gazownia.szczecin.pl, while the electronic invoicing system itself is available at <https://faktura.gazownia.szczecin.pl>

Surveys conducted by PGNiG have shown that E-invoice is considered an attractive settlement method by 35% of customers, in particular by city dwellers aged 20–40. By contrast, 27% of customers are not interested in the solution. 23% of respondents gave an affirmative answer to the question whether they would give up paper invoices in favour of electronic ones. However, realistic estimates indicate that only 10% of customers would likely switch over to electronic invoicing.

Training

The year 2010 posed new challenges related to the amendments which took effect on April 1st 2010. The Retail Customer Service Model defines the rules of cooperation of PGNiG and the Gas Distribution Companies in providing services to current and future customers. The major change consisted in updating the comprehensive agreements for gaseous fuel supplies. It was necessary to train employees in the new standards, which is why courses in Retail Customer Service and Professional Customer Service were organised. For instance, at the Gas Sales Unit in Koszalin 70% of Customer Service Office employees received training in Professional Customer Service.

Aggregated data from the Gas Trading Divisions related to e-learning courses coordinated by the Customer Service Standards Office:

- procedures for establishing a gas network connection and changing the connection conditions – course completed by 1,215 employees,
- procedures for execution of comprehensive agreements (also via the Internet) – course completed by 1,210 employees,
- procedure for pre-litigation collection – course completed by 1,030 employees. Other popular topics covered by training organised at GTD included: difficult customer service, overcoming stress and burnout, effective interpersonal communication and teamwork, and socially vulnerable customer service.

2010 was also a year of concentrated efforts on the Business Customer Service Model, aimed at standardising procedures across the Gas Trading Divisions, that is 23 Gas Sales Units. Clearly and coherently formulated rules will accelerate the process of signing and updating agreements, and will be essential for proper debt collection.

Objective II

Improving the quality of service at Customer Service Offices

Customer care and long-term, satisfying customer relations require the delivery of a high standard of service by each of our several hundred offices throughout Poland. To meet this objective, we undertake activities related to improving the service, its organisation, as well as communication at several hundred Customer Service Offices in Poland, where we enter into direct contact with customers.

Initiatives/Best practices

The PGNiG brand

The regular "Survey of the PGNiG brand awareness and image" shows that more than every fifth respondent (22%) spontaneously mentions PGNiG when asked to name an energy company. It needs to be emphasised that the PGNiG brand recorded a material increase in unprompted brand awareness (from 14% in 2009 to 22% in 2010). When shown a list of energy companies, as many as 58% of all respondents indicated Polskie Górnictwo Naftowe i Gazownictwo (PGNiG), which also reflects a significant growth in prompted brand awareness (compared with 46% in 2009).

Almost half of respondents (48%) regard PGNiG as a company playing a significant role in Poland. Only 2% of those surveyed believe the opposite.

43% of respondents admit that PGNiG has extensive experience and almost every third Pole (31%) considers PGNiG's employees to be well-qualified and professional. More than one in four respondents describes PGNiG as solid (28%), reliable (27%) and fast-developing (26%). Finally, every fourth survey participant (24%) perceives PGNiG as environmentally responsible. Compared with the previous survey, respondents assess the respective areas of PGNiG's operations similarly or slightly better. However, in two aspects the marks were significantly higher in 2010: development rate (4.7 in 2009 vs. 4.9 in 2010) and professionalism of staff (4.9 in 2009 vs. 5.1 in 2010).

Objective II

Availability of information materials

To serve PGNiG's customers, we have created a series of uniform and coherent information materials used at Customer Service Offices. The advertising materials support direct customer communication by the front-office personnel. Leaflets are made available to each customer visiting a Customer Service Office. We also ensure to display them in the same way at all the Group's offices. The leaflets cover the most topical issues, such as:

- 1) Natural gas – A few steps to clean energy
- 2) Natural gas – Vademecum
- 3) Natural gas – Fuel of the 21st century
- 4) Natural gas – Appliances for your home
- 5) Natural gas – Universal fuel
- 6) PGNiG – Your gas supplier
- 7) ABC book – G like gas.

PGNiG is currently working to give new, uniform visual appearance to its Customer Service Offices, taking into account the customer communication process.

Apart from traditional information materials, customers will have access to modern electronic touch screens with information on PGNiG and a connection to the www.pgnig.pl webpage.

Gas network connection

As recent research shows, the procedure for establishing a gas network connection is one of the areas of PGNiG's operations which attract the weakest ratings. While 64% of customers express general satisfaction with the whole process, only 33% do not mind the extensive documentation required. The lead time for the construction of a connecting pipeline is satisfactory for 38% of customers only, while a mere 29% are satisfied with the costs of the connection process (with 13% of respondents being definitely dissatisfied).

Shortening the time of gas network connection

Efforts made by the distribution system operators (DSO) are focused on enhancing the efficiency and timeliness of connecting new customers to the gas network, while ensuring the economic viability of the process, as well as quick and reliable customer service. Shortening the time of connection is a significant measure of efficiency. However, the process does not depend on DSOs only, which is why their activities are also focused on changing certain legal regulations (e.g. the Building Law and the Energy Law).

DSOs' efforts have already delivered noticeable benefits.

Summary information on the PGNiG Group's Gas Distribution Companies:

- Wielkopolska Spółka Gazownictwa (WSG) – the period of time necessary for establishing a gas grid connection was shortened from 243 days in 2009 to 227 days in 2010 for I group customers, from 228 to 206 days, respectively, for I group customers without extending the gas network, and from 272 to 226 days, respectively, for II group customers.
- Mazowiecka Spółka Gazownictwa (MSG) – the average time of issuing connection conditions was shortened by eight days for customers from all groups, while the average time of connection for group B, subgroup I customers was shortened by 16 days in 2010 relative to 2009.

Objective II

- Karpacka Spółka Gazownictwa – the average time of issuing connection conditions was shortened by three days (14 days in 2009 vs. 11 days in 2010), while the average time of connection was increased by four days (156 days in 2009 vs. 160 days in 2010).
- Pomorska Spółka Gazownictwa (PSG) – the time of connection did not change between 2009 and 2010.
- Górnośląska Spółka Gazownictwa – the time of connection (from signing an agreement to completing the work) was 196.21 days, as compared with 240 days in 2009.
- Dolnośląska Spółka Gazownictwa Sp. z o.o. (DSG) – is continually striving to shorten the time necessary to connect new customers to the gas grid. On average, the process takes DSG three to nine months, depending on the type of project, which may be limited to the construction of a connecting pipeline or may require extension of the gas network. As a result of an analysis carried out in 2010, measures were taken in 2011 to regulate the process of document circulation, which have shortened the time of connection by about 30 days. Comparative data for 2009 are not available.

Uniform visual appearance of Customer Service Offices, review of their locations and functionality

As PGNiG provides services to thousands of customers every day, responsible management of the Customer Service Offices is a must. PGNiG's customers expect highly efficient service, delivered in the shortest possible time. In response to these expectations, the Company decided to develop and introduce new interior design at PGNiG SA's offices. The new design and communication standards implemented at the Customer Service Offices were developed on the basis of surveys, including interviews with staff members and customers at various places throughout Poland. The new concept was tailored to the specific requirements of PGNiG's services. To ensure a comfortable environment for customers, the office space was divided into areas dedicated to specific tasks, depending on the type of information sought by a customer. In order to increase its functionality, each area was properly equipped and fitted. At the end of 2010, the Management Board of PGNiG SA adopted the

Interior Design Guidelines for PGNiG's Customer Service Offices and the Interior Design Implementation Concept for PGNiG's Customer Service Offices. The Gas Trading Divisions, which manage several hundred Customer Service Offices all over Poland, were instructed to implement the new policies by 2013. In line with those policies, all Customer Service Offices are to be standardised as described in detail in the Interior Design Guidelines, which specify all components of the customer communication process at Customer Service Offices – from interior design and fittings, to colour scheme, to arrangement of promotional and advertising materials. The main purpose of the changes introduced at several hundred Customer Service Offices is to optimise customer service, while adapting the locations to new regulations and contemporary standards. Other benefits will include better use of available space, as well as improved ergonomics and workplace arrangement.

Objective III

Development of customer awareness and customer education regarding gas use and efficient energy use

The product itself, i.e. natural gas, is one of the strongest points of PGNiG's offering. 72% of customers are highly satisfied with the product and happy to use it. Moreover, 77% of them appreciate its reliable and uninterrupted supplies and 74% perceive gas as convenient to use. 70% of customers hold a positive view on the availability of information about natural gas (only 4% point to difficulties in obtaining such information). The "Survey of awareness and image of energy sources", conducted on a representative sample of Poles, revealed that gas was a widely known source of energy (90% of respondents confirmed

that in response to a question supported by a list of energy sources, whereas 18% pointed to natural gas without any prompting). Even better results than in the satisfaction survey were obtained in the case of convenience ratings: as many as 92% of respondents agree that gas is convenient to use, while 74% perceive gas as environmentally friendly. On the other hand, opinions regarding its safe use were less favourable – although 67% of respondents think natural gas to be safe, as many as 28% do not share that opinion.

The widespread use of fossil fuels, which have a significant share in CO₂ emissions, poses specific environmental challenges before PGNiG. In this context, an appropriate education policy addressed to both existing and prospective customers is one of PGNiG's priorities. The awareness of the environmental benefits of gas, as the least emission intensive among all fossil fuels, is spread through various competitions, educational initiatives for children and teenagers, as well as campaigns targeted at adults. Moreover, PGNiG provides its customers with information on safe and efficient use of gas.

Objective III

Initiatives/Best practice

Customer education

In view of present day challenges related to the need to protect the environment (mainly from contamination caused by solid fossil fuels), the Company believes that a proper educational strategy addressed to its existing and prospective customers is of crucial importance. PGNiG pursues that strategy primarily through pro-environmental initiatives, such as art competitions and meetings with children and teenagers, or lectures for adults.

In 2010, PGNiG carried out a number of pro-environmental initiatives. One of them was a competition for children and teenagers, entitled "Quest for Natural Gas" (*Wyprawa po gaz ziemny*), organised by the Carpathian Gas Trading Division. Its participants shot films or drew cartoons to present their opinions on natural gas as a source of clean energy. At primary schools, there were meetings, discussions and games with pupils, designed to educate them on both environmental issues and safe use of gas.

The Pomeranian Gas Trading Division undertook to run a long-term educational campaign under the name "From toddler to senior citizen" (*Od przedszkola do seniora*), targeted mainly at children from kindergartens and schools within its operating area, as well as persons in the care of NGOs and their carers. In order to promote active living among senior citizens of the Gdańsk-Gdynia-Sopot agglomeration, PGNiG embarked on cooperation with the Third Age Universities. The campaign aims to educate its participants on environmental protection and safe use of gas.

Research laboratories

The Central Measurement and Testing Laboratory ("CMTL"), present within the PGNiG corporate structure for 17 years now, supervises the various natural gas billing processes, as well as the quality of natural gas. The primary responsibilities of the laboratory include maintenance of reference standards for the instruments and measures used in the natural gas industry. CMTL also oversees metering systems by conducting periodic inspections ordered by parties to the billing process, as well as in emergency cases or when a dispute needs to be resolved. It is also CMTL's mission to initiate research and implementation projects concerning in particular new techniques and technologies for the natural gas industry (e.g. identification of gas quality).

Information on gas quality is available on PGNiG's website: www.pgnig.pl/dladowu/6990 True, reliable and complete information on the quality of our products, as well as openness in customer relations, are our top priorities.

Currently, CMTL is the leading partner for CO₂ emission metering for large entities which combust natural gas, as well as Poland's only accredited laboratory authorised to test and evaluate equipment used for CO₂ emission volume estimations.

Objective III

Work is currently under way to start offering these services also to other entities which, apart from natural gas, emit greenhouse gases coming from combustion of biogas, solid or liquid fuels. CMTL represents a powerful asset in PGNiG's relations with the outside world, as it openly communicates with the public and is happy to host all events for those interested in science and research: citizens of Warsaw, as well as school and university students. In addition, CMTL organises traineeships for students and, since last year, students from the University of Warsaw, the Warsaw University of Technology, the Wrocław University of Technology and the Cardinal Stefan Wyszyński University in Warsaw have been able to conduct their MSc/ BSc research at the laboratory, and acquire hands-on experience of the natural gas industry. The research projects currently conducted at CMTL by MSc students cover mainly natural gas and biogas analytics.

For more information on CMTL, see:
www.pgnig.pl/clpb

Independent research and development activities at the PGNiG Group are also conducted by other subsidiaries, including:

- Poszukiwania Nafty i Gazu Jasło Sp. z o.o.;
- PGNiG SA of Warsaw, Zielona Góra Branch;
- Karpacka Spółka Gazownictwa Sp. z o.o. of Tarnów;
- Zakład Urządzeń Naftowych NAFTOMET Sp. z o.o.

The subsidiaries and branches conduct research in various areas, from those closely linked with our business goals, such as gas quality testing (Karpacka Spółka Gazownictwa of Tarnów), to research into reduction of environmental impacts (Poszukiwania Nafty i Gazu Jasło and the Zielona Góra Branch), to tests and analyses which contribute to the establishment of technical standards and legal regulations for the gas market (Karpacka Spółka Gazownictwa of Tarnów).

Diversification of customer communication channels

For more detailed information on various communication channels used within the PGNiG Group, see sections: Communication and marketing and New Business Areas (under CNG promotion tools).

The media play an important role in customer communication, as they are able to reach millions of people at the same time. PGNiG is engaged in media-related activities, both through the Group's press teams, which update the media on all important projects undertaken by the Group, and by means of information campaigns carried out through local and national press. For more information, see the "Communication and marketing" section.

Objective III

Education of children and youth – Pomeranian Gas Trading Division

Having socially vulnerable customers in mind, the Pomeranian Gas Trading Division, through its local units, cooperates with local welfare institutions. The cooperation includes exchange and verification of information on socially vulnerable customers (in compliance with the law), and education of children and youth from vulnerable environments in the safe and efficient use of gas.

In the autumn of 2009, the Pomeranian Gas Trading Division of Gdańsk and the Municipal Welfare Centre of that city signed a cooperation agreement whereby they would jointly run educational projects for beneficiaries of welfare centres living in Gdańsk, Gdynia or Sopot.

As part of these efforts, the Pomeranian Gas Trading Division proposed an educational campaign entitled “The Land of Blue Energy” (*Kraina Błękitnej Energii*), to be carried out as part of open air events organised by the Municipal Welfare Centre. Thanks to this campaign run through various community events, children and teenagers participating in art workshops or competitions have a chance to expand their knowledge of environmental issues, the economy of everyday life and economical use of natural resources, including gas.

The primary objective behind the project is to develop among children and youth a habit of caring for the natural environment and to show them how to use natural resources, such as gas, in a rational way.

Personal transfer of knowledge

Commercial Advisers (in the case of Business Customers) and employees of the Customer Service Offices (in the case of Retail Customers) are the most valuable customer communication channel. The primary task of Commercial Advisers is the provision of advice, related mainly to proper selection of contracted hourly capacity, which translates into a more efficient use of equipment, raising customers’ awareness regarding rational use of energy. As for employees of the Customer Service Offices, they are prepared to answer any questions concerning natural gas, its advantages and safe use, in a professional and easy to understand manner.

Objective III

“The Land of Blue Energy” campaign has featured during the following events organised by the Municipal Welfare Centre:

- 1) On November 21st 2009, during the “Planet of Dreams 2009” (Planeta Marzeń 2009) festival, at the sports and entertainment arena of the Gdańsk Academy of Physical Education and Sport. The annual event is organised for children from state and family-run children’s homes, child support centres, youth clubs, community centres, surrogate families, as well as children who live with their parents at shelters for the homeless and children with disabilities, i.e. approximately 1,000 participants (under the care of parents, guardians, and social workers). The event is held to commemorate the successive anniversaries of the adoption of the UNICEF Convention on the Rights of the Child. The Pomeranian Gas Trading Division was a Partner of the project, carried out the “Land of Blue Energy” activities and sponsored lottery prizes and the main prize, a mountain bike.
- 2) On May 25th 2010, at Nursery School No.75 in Gdańsk Morena, 230 pre-schoolers with their parents took part in the “Merrily and Safely” (*Wesoło i Bezpiecznie*) integration event for children. The Pomeranian Gas Trading Division was a Partner of the project, carried out the “Land of Blue Energy” activities and sponsored lottery prizes.
- 3) On May 30th 2010, the “12th Great Family Picnic” (*Wielki Festyn Rodzinny*) took place in Park Oruński in Gdańsk, attracting approximately 1,000 participants. Also in this case, the Pomeranian Gas Trading Division was a Partner of the project, carried out the “Land of Blue Energy” events and sponsored lottery prizes.
- 4) On June 12th 2010, at Skwer Arki Gdynia on Bulwar Nadmorski in Gdynia, the “Gdynia Creative Mangle” (*Gdyński Magiel Twórczy*) open air festival was organised by the Municipal Welfare Centre of Gdynia and the Group for Support of the Elderly and the Disabled. The aim of the event, besides community integration, was to raise social awareness among the inhabitants of Gdynia related to social involvement and employment of people with disabilities. During the event, the disabled and elderly presented their artistic, cultural, and culinary creations. The event attracted approximately 800 participants. The Pomeranian Gas Trading Division was a Partner of the project and sponsored the prizes.
- 5) On November 20th 2010, another “Planet of Dreams” festival was held at the sports and entertainment arena of the Gdańsk Academy of Physical Education and Sport, with approximately 800 participants.

Throughout the “Planet of Dreams 2010” festival, children and youth could also:

- spend their free time safely and without the use of stimulants,
- learn how to satisfy their need for acceptance and recognition otherwise than through risky behaviour (i.e. violence),
- learn how to lead a healthy lifestyle without addictions,
- participate in various activities and discover their passions, interests and talents, and present their skills in arts and sports.

Participation in various activities offered at the event was also a way to promote social involvement of the children and youth, as well as their parents and guardians, and to help them enter the job market. By taking part in the festival, its participants had a chance to experience and show off their team working skills or get a taste of fair competition. All the young participants, parents and guardians could experience activities that may transform themselves into a passion, future job, or a way of life. Gathering so many event organisers and producers at the same place and time was a chance to see them at work and a true opportunity to become acquainted with many trades, which could influence the young participants’ future way of life and career.

Objective III

Another joint project of the Pomeranian Gas Trading Division of Gdańsk and the Municipal Welfare Centre is the "Share your Home" (*Podziel się Domem*) campaign, aimed to enlist candidates for surrogate parents, carried out in association with the adoption and guardianship centres of Gdańsk. Thanks to the close cooperation, personal commitment of the Pomeranian Gas Trading Division's employees and help in distribution of leaflets promoting the campaign, the number of persons attending surrogate parenthood training has increased since autumn 2009.

The number of children and teenagers taking part in the above forms of education may serve as a measure of the effectiveness of the joint efforts undertaken by the Municipal Welfare Centre and the Pomeranian Gas Trading Division. The involvement of the Pomeranian Gas Trading Division's employees in numerous events organised by the local welfare centres, where information materials (leaflets and booklets) on natural gas were distributed, as well as the organisation of competitions and games related to natural gas, helped to educate over 2,800 persons in 2010 (mainly children and teenagers).

Besides standard activities related to the provision of services to vulnerable customers (postponement of payment deadlines, interest-free instalments), the Pomeranian Gas Trading Division joined a long-term project aimed to popularise knowledge about natural gas in the socially vulnerable environment. As part of the project, we participate in numerous events organised by the Municipal Welfare Centre, thanks to which we can easily present their beneficiaries with information and educational materials on natural gas and its efficient use. All such activities give young people an opportunity to develop pro-environmental attitudes, teach them money management skills, and show them how to use natural resources in a rational and economical way. The various forms of activity offered by the Municipal Welfare Centre are also designed to foster social involvement of the children and youth, as well as their parents and guardians, and help them enter the job market.

Objective IV

Introduction of initiatives aimed to support socially vulnerable customers

Gaseous fuel is supplied to customers connected to the transmission and distribution networks under comprehensive agreements. Among PGNiG's customers there are also persons who, due to a number of different reasons, are unable to meet their obligations following from the use of natural gas. For years, PGNiG's Gas Trading Divisions have been implementing various initiatives to support this group of customers, including execution of debt repayment agreements and instalment-based payment of debt, interest or the principal amount

with interest. However, the lack of a generally applicable definition of a socially vulnerable customer hinders PGNiG's attempts to prepare relevant standards in that area. For instance, the Company is not able to keep a register of socially vulnerable customers, not only due to financial reasons (the introduction of such a register would entail work-intensive and expensive modifications of the billing systems), but also because of the need to set up a separate personal database, in line with the provisions of the Personal Data Protection Act. Given that collection of such data is not required for the performance of agreements, each customer qualifying as socially vulnerable would have to

give his/her consent for the procedure. A decision whether to introduce such a register may be taken after the term "socially vulnerable customer" is defined in the Polish law, in accordance with the obligation imposed on EU member states by the provisions of Art 3.3 of Directive 2009/73/EC of the European Parliament and the Council of July 13th 2009.

Nevertheless, acting through its local units, PGNiG has already commenced cooperation with local welfare centres (OPS/MOPS), with a view to protecting socially vulnerable customers.

Objective IV

Initiatives/Best practice

Cooperation with municipal welfare centres (MOPS), best practice exchange workshops

As part of PGNiG's cooperation with local welfare centres, information on socially vulnerable customers is exchanged and verified, in compliance with the applicable legal regulations. If it is reported/confirmed that a debtor of PGNiG's remains under the care of a social welfare centre, the collection procedure is suspended. Moreover, PGNiG follows a special collection procedure with respect to holders of certificates issued by social welfare centres, confirming their right to benefit from social assistance. PGNiG cooperates with social welfare centres to help socially vulnerable customers obtain aid for payment of their outstanding gas bills. For this purpose, the Company and social welfare centres consult to make arrangements regarding unpaid bills to be financed with aid money. A customer in a difficult situation, unaware of the right to receive assistance, is informed about this benefit and referred to the nearest social welfare centre.

PGNiG makes efforts to ensure that the Gas Trading Divisions serving households exchange best practices in that area, and to develop uniform standards of serving socially vulnerable customers. To that end, a workshop was organized under the title "Socially vulnerable customers in the energy sector", attended by Iwona Figaszewska, Counsel of the President of the Energy Regulatory Office (URE), who explained to PGNiG's employees the EU's position on vulnerable customers for gas and electricity.

Introduction of forecast bills for the W1 and W2 tariff groups

Forecast bills were introduced chiefly because they offer measurable benefits to both customers and suppliers of gaseous fuel, thanks to:

- less frequent gas meter readings,
- an option for customers to plan for their gas payments well in advance,
- uniform and regular invoices and payments,
- reduction of PGNiG's own costs (gas meter readings, preparation and distribution of bills), which are the basis for calculating subscription fees,
- improved effectiveness of the collection procedure owing to lower amounts of single payments,
- improved financial liquidity of PGNiG thanks to more regular payments,
- lower amounts of single payments,
- (indirectly) enhanced image of PGNiG and customer satisfaction level,
- the forecast bill system covers 99% of all customers from the W-1 and W-2 tariff groups.

Objective IV

Requirements to be met by suppliers

Wielkopolska Spółka Gazownictwa (WSG) established minimum requirements of the Management System to be met by contractors providing services for and within the Company.

The aim of the document is to communicate the Company's requirements, while ensuring that contractors providing services for and within Wielkopolska Spółka Gazownictwa act in compliance with the environmental laws and the Occupational Health and Safety regulations, and that they respect human and employee rights while conducting business activities.

Wielkopolska Spółka Gazownictwa will only cooperate with those Contractors who, irrespective of the applicable legal regulations, additionally agree to comply with the Minimum Requirements of the WSG Management System.

Summary

Customers are the driving force of our Company. To them we owe our market presence, development and leading position on the gas market. In an effort to keep up to date with the needs of our customers, we carry out periodical satisfaction surveys, aimed at identifying their concerns and wishes. The surveys enable us to improve our services and products taking into account our customers' expectations. We believe that we have adopted the right approach, allowing us to continuously develop and invest in the most recent technologies.

Commitments for the future

Strategic pillar	Operational objectives	Detailed objectives for next period
Customer satisfaction	To create an effective and user-friendly self-service platform	<ul style="list-style-type: none">To fully implement the e-passage all over PolandTo launch e-BOKs at four Gas Trading DivisionsTo launch an additional Contact Center at one Gas Trading Division
	To improve comfort of customer service at Customer Service Offices	<ul style="list-style-type: none">To gradually implement the new interior design concept at Customer Service OfficesTo take further steps with a view to shortening connection timeTo review and improve procedures with view to improving customer service
	To raise awareness and educate customers in use of gas and energy efficiency	<ul style="list-style-type: none">To implement, as part of Business Customer Service, the function of a direct customer service expertTo launch an e-expert in the e-passage
	To take steps designed to support socially vulnerable customers	<ul style="list-style-type: none">To continue cooperation with social welfare centres (OPS and MOPS)To implement new products: "equal bills", "no fixed charges" and "eco"



Natural gas tank in Gdańsk – then and now

Prepared by a team composed of:
Ewelina Błachuta, Marcin Grząba, Monika Kościów, Jerzy Magas, Magdalena Mroczka, Dorota Rajczyk-Gałkowska, Krzysztof Smorczewski, Piotr Sobieraj, Wojciech Tymiak and Katarzyna Wiznerowicz.

5.1. PGNiG's e-passage – everything it takes to create a warm home

Mid-June 2011 saw the pilot launch of PGNiG's e-passage, an internet portal. The programme is currently being tested at the Lublin and Zabrze Gas Sales Units, where its pilot operation is expected to last until the end of 2011, to be extended to the other Gas Sales Units in 2012. The advantages of the new solution are presented by Agnieszka Chmielarz, Trade Marketing Office Director at PGNiG SA, Leader of the Project Team working on the e-passage portal.

What function is PGNiG's e-passage designed to serve?

It is a new channel, in the form of an internet portal, through which we hope to reach our customers. It is also the most advanced IT tool yet dedicated to comprehensive retail customer service to have been deployed by our Company.

E-passage is an expert advice and sales service through which our customers will be able to buy various gas-fired house heating equipment.

The web page of PGNiG's e-passage includes offerings of major suppliers of such equipment. We have signed agreements with Viessmann and Termet, and are negotiating new agreements with other manufacturers, which means that the offering will soon be extended.

Agnieszka Chmielarz
Trade Marketing Office Director,
Marketing Department

The equipment offered via the portal is covered by warranties extended by an additional year. The portal quotes catalogue prices, but a customer may negotiate a discount with the company installing the equipment.

What, specifically, will customers be able to do via PGNiG's e-passage?

Everything related to sale of heating equipment, from selecting a product to placing an online order. A customer at a loss what kind of equipment to choose will find expert advice and assistance by clicking on the "*Strefa Doradcza*" (Advice Zone) option, featuring key information on heating technologies. A customer can also send us a question via e-mail on any specific matter.



The optimum selection of heating equipment (boilers, heaters etc.), its proper installation and operation, requires such selection and installation to be performed by professionals, including designers and installers, whose offerings are presented in the catalogue "Usługi okołogazownicze" (Gas equipment support services).

Let me also add that banks cooperating with us on the project have developed for our customers attractive loan offerings to help them finance the purchase of heating equipment or even the construction of entire heating systems.

What functionalities does the portal offer currently?

Currently, selected functionalities of the e-passage are activated. These include:

- *Strefa doradcza* (Advice Zone) – providing key information on the heating and gas technologies. The major feature here is the Product Adviser which – based on a customer's answers to a couple of simple questions – will deliver a list of recommended equipment.
- *Katalog produktowy* (Product Catalogue) – a fully functional online catalogue of equipment with parameter descriptions, filtering searches against a customer's specific needs.

- *Usługi okołogazownicze* (Gas equipment support services) – a database (currently covering only the area of the Lublin Gas Sales Unit) including a list of firms offering services involving the design, manufacture, inspection, servicing/maintenance and installation of equipment, as well as chimney-sweep services.
- *Kontakt* (Contact) – a function supporting product-related questions or requests for advice.

In its final form, PGNiG's e-passage will automatically support all material business processes connected with purchase of heating equipment (orders processing), thanks to the functionality of the Backoffice module. After the portal is fully implemented, the role of employees of Customer

Service Offices, who will be directly involved in customer service, will increase. As a result, customers will have certainty that the selected technologies will best serve their needs.

If you are interested in the operation of the e-passage, visit:

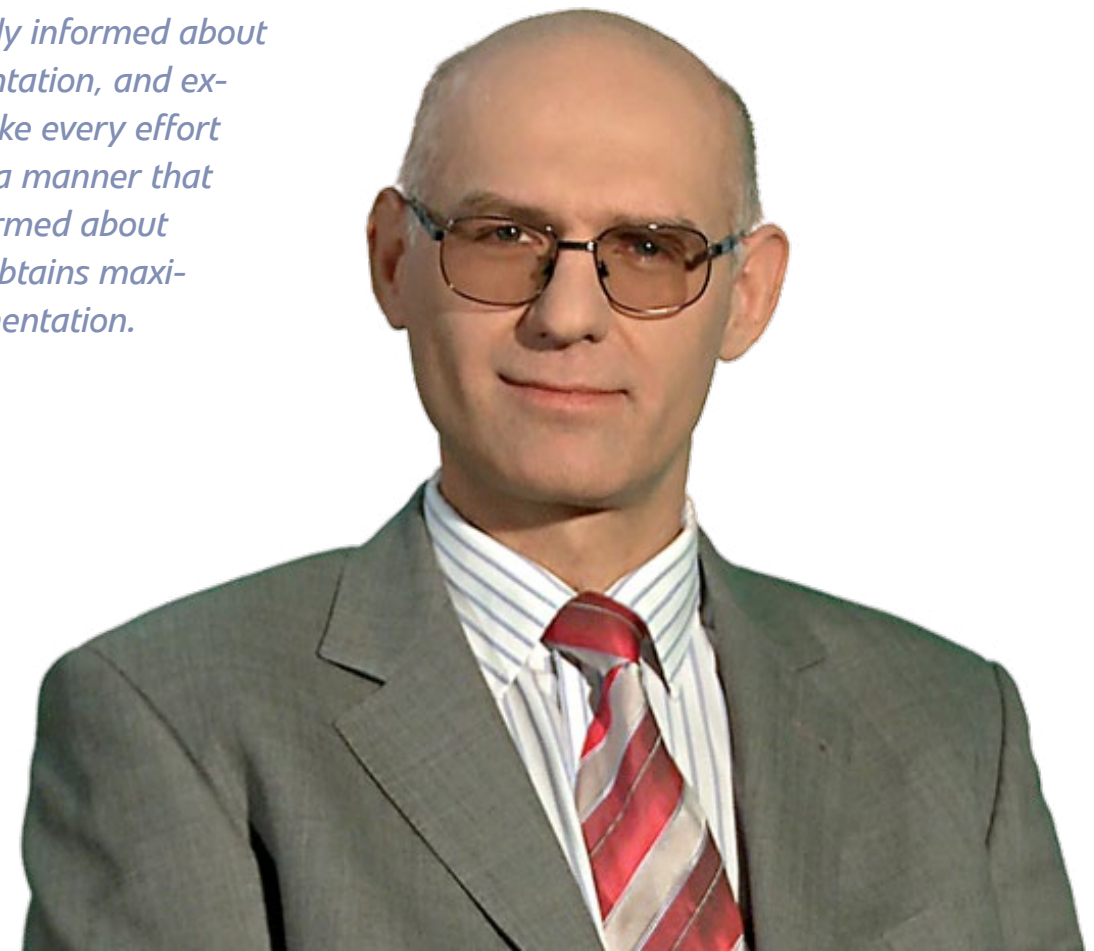
<http://e-pasaz.pgnig.pl>

6. Local communities

One of the PGNiG Group's key priorities is to achieve symbiosis with the environment in which we operate, thereby securing local communities' support for our operations, particularly investment projects. On the other hand, it is our ambition to comprehensively support local communities, thus becoming a catalyst of local development.

I believe these four investment projects may serve as a perfect example of how PGNiG, particularly its Investments Department, approaches the issues of safety and corporate responsibility towards its customers and the environment. This relates to protection of the environment and proper preparation of projects. We also attach great importance to keeping the local authorities, administrative bodies and local communities adequately informed about a project, its purposes, implementation, and expected completion dates. We make every effort to carry out our projects in such a manner that each of our partners is well-informed about their progress and results, and obtains maximum benefits from their implementation.

Grzegorz Gałek
Investment Preparation and Execution Office
Director, Investments Department



This attitude is reflected in the fact that we have made dialogue and cooperation with our social and business partners one of the pillars of the Sustainable Growth and Responsible Business Strategy for 2009 – 2015. In 2010, efforts were focused on the following three of the seven adopted objectives:

1. to develop a clear sponsorship policy;
2. to build good relationships with local communities; and
3. to share expertise and broaden cooperation with higher education institutions.

The efforts made in pursuit of the selected objectives (with the exception of the first one) are presented for individual groups of the Company's stakeholders, by showing the most interesting best practices addressed to the respective stakeholder groups.

Tasks

Completed



Under way



Delayed



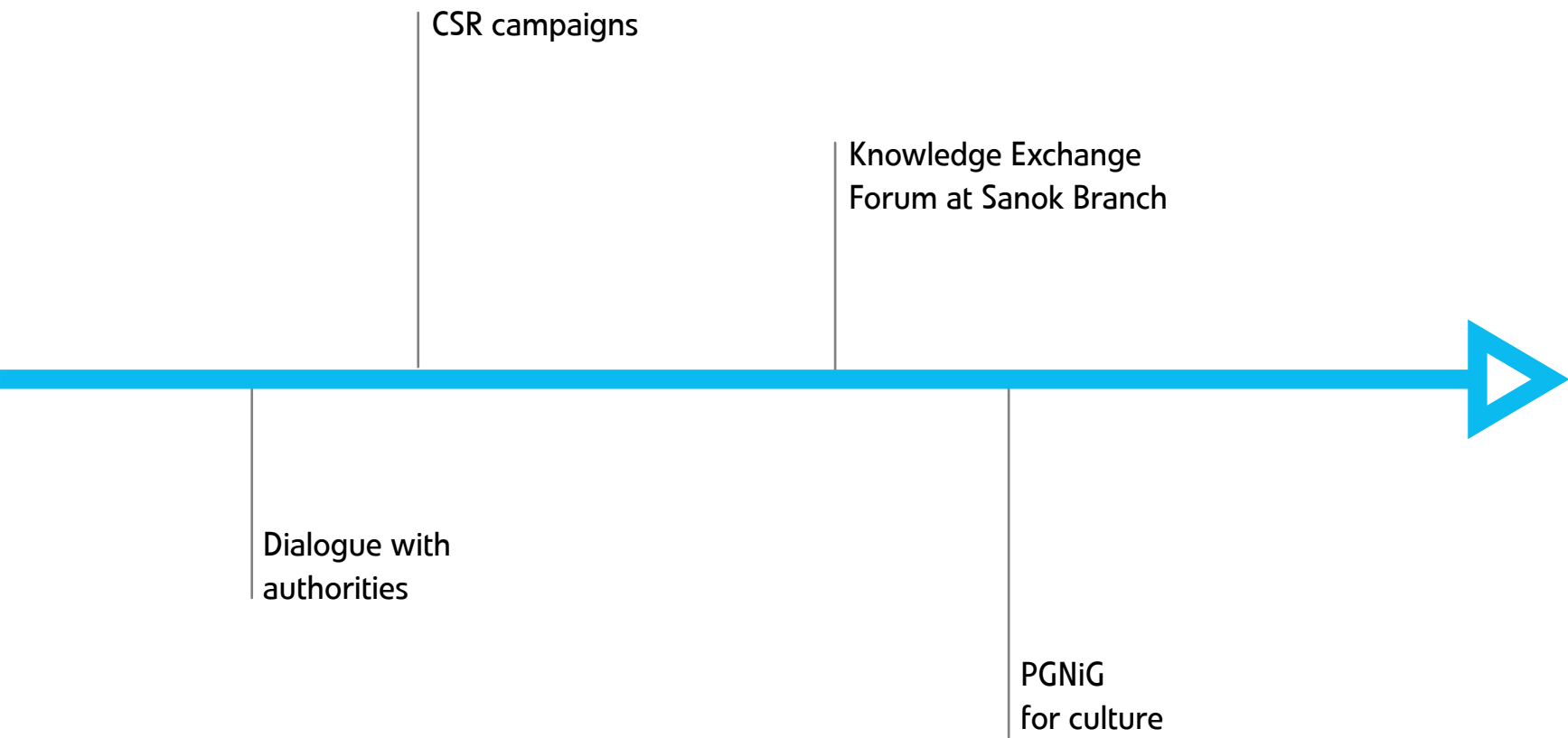


Development of a Clear Sponsorship Policy



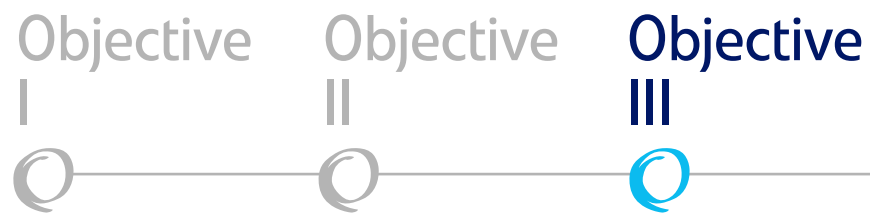


Building Good Relationships with Local Communities



Effects

- In Katowice, in 287 classes at 36 schools, Górnośląska Spółka Gazownictwa (Upper Silesian Gas Distribution Company) and Vattenfall have run the *Safe Inhabitant* campaign.
- 1.2m people were reached with the *From a Toddler to a Senior Citizen* campaign, focused on the safe use of gas and organised by the Pomeranian Gas Trading Division.
- 237 employees participated in the 5th and 6th edition of the voluntary blood donor session at Mazowiecka Spółka Gazownictwa (Mazovian Gas Distribution Company).



Sharing Expertise and Broadening Cooperation with Higher Education Institutions

Financial support for and expertise sharing with technology schools and universities

Educational projects

Effects

- 492 educational projects under the PGNiG Foundation's *Little Nobel* Programme.
- 1,500 visitors to the interactive exhibition "Protect, Save, Win", organised in cooperation with the Institute of Molecular Physics of the Polish Academy of Sciences.
- Thanks to its cooperation with Mazowiecka Spółka Gazownictwa, the Gas Industry Vocational School in Łódź received a PLN 1.2m grant.
- On the initiative of the Olsztyn Gas Sales Unit, the first "Adventures of Blue Energy" comic strip book was published.
- PGNiG Foundation's scholarships for pupils and college students.
- Scientific seminars co-organised by the AGH University of Technology in Kraków and the University of Stavanger, Norway, thanks to the cooperation with PGNiG Norway.

Objective I

To develop a clear sponsorship policy.

The consistency of our sponsorship efforts is a material element of our communication with the public, highlighting the issues especially important to our organisation. This supports more effective allocation of funds to sponsored projects, in a way which is more beneficial to both the local communities and the Company, which has better control of the effects of its initiatives.

Initiatives/Best practices

At PGNiG SA's Head Office, the Sponsorship Management Procedure was developed, including Guidelines relating to Internal Regulations, approved by the Company's governing bodies towards the end of 2009. The procedure, implemented in 2010, covers sponsorship activity at the Head Office and Company's Branches, and regulates planning, execution, reporting and communication of sponsorship projects. To ensure consistency with the corporate strategy, the procedure sets out the main areas of sponsorship initiatives, as well as recommended and prohibited initiatives.

Furthermore, a professional firm has been mandated to perform periodic surveys and analyses of the effectiveness of sponsorship initiatives undertaken at the PGNiG Group. As a result, in 2010, the Company received quarterly the results of such analyses, including media coverage of the sponsorship projects and recommendations for the future, and in the case of major projects – also the assessment of their strategic and tactical consistency, as well as SWOT analysis.

Based on such surveys and analyses, which covered over 650 sponsorship projects in 2010, it was determined that the average advertising value equivalent (AVE) amounted to 3.7 for sports-related projects (i.e., the advertising value was 3.7 times higher than the funds invested); 1.9 for environmental and social projects and 1.7 for cultural projects.

At the Wrocław Gas Sales Unit of the Lower Silesian Gas Trading Division, the Donations Procedure was developed and implemented, ensuring that each request is reviewed based on a set of transparent and well defined criteria. The list of donations granted and their beneficiaries is available in the Company's intranet, which attests to the transparency governing the Group's charitable activity.

Grants and Donations Policy for PGNiG SA's Ignacy Łukasiewicz Foundation

In 2010, a new, more transparent grants and donations policy was also developed for PGNiG SA's Ignacy Łukasiewicz Foundation. The Foundation conducts its day-to-day activities based on grant contests for educational and research projects, as well as projects relating to healthcare, culture, fine arts and sports. This method of project financing enables the Group companies to be effectively involved in the process, by recommending those submitted projects which are important from the point of view of their operations and the needs of local community. Rules were prepared for the award of grants and donations from the Foundation's funds, and application and report forms were drafted.

Objective II

Building good relationships with local communities

The dialogue which PGNiG has for a number of years been engaged in with the local communities of the Group companies allows us to meet the following two fundamental objectives:

- to successfully implement the Group's investment plans and secure their acceptance by local communities; investment projects often entail the acquisition of land, even if temporary, and interference with the landscape; they may also cause some nuisance because of noise and other environmental impacts; and
- to better identify the expectations of local communities in order to compensate the inhabitants for any adverse impacts of new investment projects.

Initiatives/Best practices

Branch Information Exchange Forum

In 2010, the Sanok Branch established the Branch Information Exchange Forum, which serves as a tool for gauging social attitudes towards the Group's investment plans. Various functions of the Branch take part in Forum meetings several times a year, to identify the necessary initiatives (especially related to communication and organisational matters) addressed to the local community and authorities and designed to eliminate difficulties, if any, and win acceptance for planned projects.

In 2010, Dolnośląska Spółka Gazownictwa supported the organisation of the XI Lower Silesian Local Government Forum, where local government officials exchange experience and establish cooperation in the form of inter-commune and inter-county unions.

In November 2010, the IV Employers Forum was held on the premises of the Odolanów Branch, which co-organised the event. The meeting was attended by more than 20 companies operating in southern regions of Greater Poland, which exchanged experience useful in ensuring legal compliance of business activities, and in improving occupational safety and eliminating risks. The Regional Chamber of Commerce and State Labour Inspection Authority were the other co-organisers.

Half a tonne of screw caps

The Wrocław Gas Sales Unit's employees participated in a plastic screw caps collection campaign, not only out of a sense of responsibility for the natural environment. The collected caps were delivered to the *Na Ratunek Dzieciom z Chorobą Nowotworową* (To the Rescue of Children with Cancer) Foundation, which in turn delivers them to a recycling company. Some of the money raised in this way is used to finance the construction of *Klinika Przylądek Nadziei* (Cape of Hope Hospital). The campaign will be continued by employees of the Wrocław, Zgorzelec and Wałbrzych Gas Sales Units, because it helps not only to reduce the greenhouse effect, but also raise funds for *Klinika Transplantacji Szpiku, Onkologii i Hematologii Dziecięcej* (Children's Marrow Transplant, Oncology and Haematology Hospital).

Objective II

The majority of CSR initiatives undertaken in 2010 were a continuation of earlier efforts. The growing number of participants and wider geographical scope confirm their effectiveness. In 2011, PGNiG intends to continue its pro-environmental and educational campaigns based around the following topics:

- safe use of natural gas;
- safe and eco-friendly behaviour (e.g. around water);
- eco-friendly habits related to waste disposal, water pollution and energy consumption;
- further promotion of blood donation among the PGNiG Group's employees.

Activities/Best practices

Educational campaigns

In July and August 2010, within the framework of the third educational campaign under the title "PGNiG – Be safe around water" (*PGNiG Bezpiecznie nad wodą*), the Company organised weekend family picnics in six holiday resorts, from Mikołajki, to Kołobrzeg, to Solina. The participants could learn about the European emergency phone number 112 and the ICE card (In Case of Emergency), take part in contests and theatrical plays promoting eco-friendly behaviours, as well as practise first aid under the supervision of volunteer water rescuers from Masuria and Sopot. The project comprised also a series of boat races and meetings with well-known sportsmen – ambassadors of the campaign.

Since 2005, Górnośląska Spółka Gazownictwa (GSG) in cooperation with energy company Vattenfall has run the campaign "Safety at home" (*Bezpieczny Mieszkaniec*), which promotes safe use of natural gas and electricity on the one hand, while counteracting illegal draw of the utilities, on the other. The event includes free-of-charge training for safety services. In October 2010, GSG and Vattenfall's conference was attended by almost 70 representatives of housing cooperatives and homeowner associations, and speeches were delivered, among others, by members of fire and police services. The campaign has also been introduced to primary schools in several Silesian cities, where specially trained teachers talk to children about alarming events which require response. In 2010 alone, such lessons were held in 287 classes of 36 schools in Katowice.

Objective II

A similar long-term educational campaign relating to safe use of gas is run by the Pomeranian Gas Trading Division under the name "From Toddler to Senior Citizen". It is targeted not only at school children, but also at students and elderly people, and it is organised at Universities of the Third Age, picnics and festive events. In 2010, the campaign reached almost 1.2m people.

On the initiative of the Sanok Branch, lectures entitled "Ask Animals about Waste Disposal" were delivered at schools, and pupils were involved in searching for illegal dumps and cleaning local forests. All children participating in the event were invited to a theatre play ("Pinocchio"), produced by the Maska Theatre in Rzeszów.

The fifth and sixth editions of the voluntary blood donor sessions "Giving Blood, Giving Life" were held in 2010. At the beginning limited to Mazowiecka Spółka Gazownictwa, the blood donor campaign has become a large-scale project accessible to everyone. It is promoted by posters put up at all the Customer Service Offices in Warsaw. This year, 237 participants of the sessions donated 68 litres of valuable blood.

PGNiG for culture

Objective:

- to preserve the heritage of the traditional gas industry and petroleum production;
- to spread historical knowledge about the petroleum industry;
- to promote artistic events.

Initiatives/Best practices

"Single Work Gallery" (*Galeria Jednego Dzieła*)

The idea behind the gallery is to present works of art in places often visited by residents of the Gdańsk-Gdynia-Sopot agglomeration, such as public offices, institutions, certain companies, banks, courts, shops, and restaurants. While these sites may lack space for large exhibitions, there is usually enough room to display a single work of art.

The key benefit of the project is that it enables residents of the agglomeration to come into direct contact with art. The "Single Work Gallery" is a new unconventional approach to the promotion of cultural and artistic activities of young local artists – students and graduates of the Academy of Fine Arts in Gdańsk. As a co-organiser of the campaign, the Pomeranian Gas Trading Division makes its Customer Service Offices available for the purpose.

Readers Plus

In 2010, the Sandomierz Gas Sales Unit, together with the Association "It's Good that You Are Here" (*Dobrze, że jesteś*), bought Readers Plus (devices allowing the blind to become familiar with museum collections and read library books), and donated them to the regional museum and public libraries. The inbuilt speech synthesizer, Ivona, reads text files, which ensures fast and easy access to scanned books, notes, exhibition catalogues and other texts. All messages provided by the device are generated by the speech synthesizer, Ivona.

Objective II

Publishing "*Maciejki niecodzienne*", a book written by a disabled boy, Maciej Maliński

Pomorska Spółka Gazownictwa has been involved in various CSR projects for years. It is particularly eager to participate in campaigns focused on children, promoting their knowledge, abilities and talent.

International Pianists' Forum "Bieszczady without Borders" (*Bieszczady bez granic*)

"Bieszczady without Borders" is a unique project among global artistic events. Within its framework, talented young people from Western Ukraine, Eastern Slovakia and the whole of Poland have a chance to acquire extensive theoretical and practical knowledge that is not taught in their schools. Topics range from medical conditions affecting musicians to finding one's own artistic place in the world permeated by business values. From the very beginning, this artistic venture has been supported by the PGNiG Sanok Branch, whose involvement was honoured by the title of the Patron of Carpathian Culture.

On May 15th 2010, the Gas Industry Museum in Paczków, established and supported by Górnośląska Spółka Gazownictwa, participated for the first time in the pan-European event – the Night of Museums. On that night, the Museum attracted more than 500 visitors willing to see an exhibition featuring examples of old industrial architecture, a historical municipal gas production line, Europe's largest collection of domestic gas metres and a host of other exhibits related to the traditional gas industry. In September 2010, the Museum was involved in the European Heritage Days held under the slogan "From Idea, to Industry". Almost 1,600 events were organised in almost 300 Polish towns, to promote Polish technological inventions, disappearing professions and traditional production techniques. Also, the Gas Industry Museum in Warsaw, under the patronage of PGNiG's Head Office, takes part in both events every year.

Poszukiwania Nafty i Gazu Kraków was involved in the preparation of a historical supplement to the Rzeczpospolita nationwide daily, entitled "The Book of Eastern Borderlands" (*"Księga Kresów Wschodnich"*). Its special edition, under the title "Galician Kerosene. Oil, champagne, and money" (*"Galiczyjska Nafta. Ropa, szampan i pieniądze"*), tells the story of Polish oil industry workers, inventors and pioneers of that branch, who were five years ahead even of their American colleagues. The publication was warmly welcomed by readers, who spontaneously offered to share their own private archives.

The Wrocław Gas Sales Unit once again sponsored the Wratislavia Cantans International Festival – a prestigious event attracting participants from all over Europe, during which the most beautiful historic buildings of Lower Silesia are filled with sounds of oratorical, symphonic, as well as vocal and instrumental music. In 2010, the Wrocław Gas Sales Unit also supported the Jazztopad Festival – one of the most important European jazz festivals for young musicians.

Objective III

Sharing expertise and broadening cooperation with higher education institutions

For many years, PGNiG has been an active participant and sponsor of campaigns aimed to popularise exact sciences and research. It is part and parcel of our everyday work. We are especially committed to the promotion of sciences and research among children and youth.

Initiatives/Best practices

PGNiG for schools

- Promotion of exact sciences;
- Ensuring equal educational opportunities for children and youth;
- Development of vocational education in fields related to the oil and gas sector.

Mazowiecka Spółka Gazownictwa (MSG), as the patron of the Gas Industry Secondary School in Secondary School Complex No. 3 in Łódź, supports the school in organising workshops and preparing teaching curricula. It was thanks to MSG's involvement that the school received PLN 1.2m of EU funds to found a library for gas engineers and mechanics, provide specialist training courses (PE welder, electric arc welder), workshops for students and student visits at gas facilities. The majority of these projects were implemented in 2010.

At the end of the year, Mazowiecka Spółka Gazownictwa and the Regional Examination Board of Łódź concluded an agreement on an exam confirming professional qualifications of gas engineers, whereby the company undertook to prepare and equip an examination centre, as well as co-organise and participate in exams.

Poszukiwania Nafty i Gazu Sp. z o.o. of Kraków is involved in professional education of drilling rig technicians, by organising traineeships for students of the Oil Industry Secondary School in Krosno and the PGNiG Vocational School Complex in Kraków on its training oil rig installations near Tarnów. Poszukiwania Nafty i Gazu Sp. z o.o. of Piła additionally prepared and published three vocational course books, which were distributed among all students of the Stanisław Staszic School Complex in Piła.

The Pomeranian Gas Trading Division, in cooperation with the Centre for Pro-Ecological Information and Education, organised the "Let an Apple Hit Your Head" (*Bęć jabłkiem w głowę*) contest addressed to primary and junior high schools. 66 groups of primary school children and 36 groups from junior high schools (each comprising three pupils on average) entered the competition. The participants performed selected experiments in physics and chemistry, illustrating them with their own multimedia presentations or posters.

The "Adventures in the Land of Blue Energy" is an educational comic book about the past, present and future of natural gas, published on the initiative of the Gas Sales Unit in Olsztyn. The book reminds readers in a light way how to use gas safely.

In 2010, the PGNiG Foundation awarded scholarships totalling PLN 26 thousand to 13 top-performing students of secondary schools offering education in fields related to the oil and gas industry.

The Lower Silesian Gas Trading Division, along with the Environmental Protection League and the National Fund for Environmental Protection and Water Management, organised the provincial stage of the 25th Ecology Schoollympics, entered by 58 schools from the entire province of Wrocław.

Objective III

In 2010, the PGNiG Foundation, in association with the Foundation for the Development of Voluntary Service, executed 3,213 projects under which student volunteers conducted classes for children living in small towns and rural areas. As part of the “Young Nobel” (Młody Nobel) programme, launched to stir up interest in exact sciences, 492 educational projects were run involving 70 schools and over 2,000 students. Simultaneously, a nation-wide film competition exploring themes from mathematics to mechatronics was held. Films, even those shot with a mobile phone camera, were posted on the Internet and evaluated by Internet users. (http://www.projektor.org.pl/0,1,27,Mlody_Nobel.html).

In yet another year of its cooperation with schools named after Ignacy Łukasiewicz, the PGNiG Foundation financed 1,411 extracurricular classes in 21 schools, which - depending on specific needs – ranged from artistic, journalistic or theatrical workshops, to sports activities, to compensatory classes in maths or physics.

“Safe and eco-friendly life with natural gas” (*Żyć bezpiecznie i ekologicznie z gazem ziemnym*)

Delivering classes for children and teenagers, Heads of the Customer Service Offices of the Zgorzelec Gas Sales Unit (Lower Silesian Gas Trading Division) needed to demonstrate both practical and theoretical knowledge, as well as teaching skills. Their task was twofold - to present the Company they work for and to describe the properties of natural gas, its origin, methods of production and transport, as well as environmental advantages. The initiative covered 19 schools and nearly 2,000 students. Every participant received puzzles prepared as part of the CSR training discussed earlier, during which employees illustrated key strategic objectives with photographs.

“Be safe in Jarosław” (*Bezpieczny Jarosław*)

The programme run by the Jarosław Gas Sales Unit (Carpathian Gas Trading Division) was meant to raise children’s awareness of dangers posed by road traffic and the Internet.

Within its framework, some preventive measures were also implemented in response to risks faced by various sections of the local community. These educational activities showed how to eliminate or mitigate dangers we encounter as members of society.

“You can be an environmental activist too” (*I Ty możesz zostać ekologiem*)

The initiative carried out by the Rzeszów Gas Sales Unit (Carpathian Gas Trading Division) was focused on the promotion of pro-environmental attitudes among young people, development of their environmental sensitivity and popularisation of environmental issues. The campaign was addressed to first-, second- and third-form primary school pupils.

Objective III

Art and literary contest promoting environmental aspects of natural gas

The project, carried out by the Koszalin Gas Sales Unit (Greater Poland Gas Trading Division) since 2009, is addressed to pupils of primary schools in the county of Koszalin. The promotion of natural gas as an environmentally-friendly energy source that should be used rationally and economically fosters pro-environmental habits from an early age. Children's works are displayed at the Customer Service Offices in Koszalin.

Summary:

Recognising that the Company's development is closely tied with technological progress, PGNiG SA tries to spark interest in exact sciences among the youngest. At the same time, it supports trade schools offering oil and gas specialisations as the source of future specialists in areas such as drilling or gas network servicing.

PGNiG, higher education and research institutions

Cooperation with higher education institutions has been high on PGNiG's agenda practically from the beginning. It is an indispensable element of our everyday activities, as we benefit from the quality of education of our future personnel. The conduct of and participation in science and research projects is another key aspect of our business and one with significant implications. In 2010, the Company started cooperation with new research institutions, hoping to attract engineering staff and initiate research and development work whose results may benefit our operations. The promotion of science through festivals held in various cities with PGNiG SA's support is also growing in scale and effect.

Objective:

- to promote science and scientific achievements among the public;
- to interest young people in pursuing higher education in sciences, including fields related to the oil and gas industry;
- to promote areas of vital importance to the oil and gas sector among researchers.

Objective III

Initiatives/Best practices

In 2010, PGNiG SA provided financial support for science festivals across the country, from the Festival of Science in Kraków (May 12th – 15th), Bydgoszcz Science Festival (May 26th – 28th) to the Baltic Science Festival (May 27th – 30th). During the festivals, the Company co-organised various activities involving the audiences, such as the “Awards for Listeners” (*Nagradzanie za słuchanie*) contest, which tested knowledge gained during the event, or “Science is Beautiful” (*Nauka jest piękna*) – an exhibition dedicated to Polish female scientists.

Gazoprojekt SA, working together with the Wrocław University of Technology, prepared and delivered a series of eight lectures on the gas industry at the Faculty of Environmental Engineering. The lectures dealt with technical problems related to gas storage and transmission, control of technological installations and co-generation.

Cooperation between the Odolanów Branch and the Institute of Molecular Physics of the Polish Academy of Sciences (IFM PAN) resulted in yet another – 26th – edition of the “Summer with Helium” (*Lato z Helem*) Scientific Workshops, held at the end of June and beginning of July 2010. As part of the project, research teams comprising young scientists, university and high school students interested in physics, carried out a series of experiments at the Department of Low Temperatures of IFM PAN, using liquid helium and nitrogen provided by the local PGNiG Branch. The experiments were preceded by an interactive exhibition entitled “Protect, Save, Win” (*Chronisz, Oszczędzasz, Wygrywasz*), aiming to explain certain physical and chemical phenomena used in our daily lives. The exhibition was prepared by students of a local junior high school, and visited by nearly 1,500 students from the region.

PGNiG Norway AS has initiated a joint project bringing together business and science, together with the University of Stavanger and the AGH University of Science and Technology in Kraków. Within the framework of that initiative, three seminars on the company’s operations on the Norwegian Shelf were held.

As part of the project’s second edition, the PGNiG Foundation awarded 10 scholarships worth PLN 50 thousand to the best students in fields related to the petroleum industry, thus earning recognition in the “Good Scholarships 2010” (*Dobre stypendia 2010*) awards.

Summary

In 2010, the PGNiG Group pursued a number of initiatives in cooperation with various groups making up its social environment, thus laying a foundation for good and lasting relationships with local communities. The Group believes that continued cooperation on educational projects, especially to promote exact sciences, is particularly important. In the coming year, we will be developing our cooperation with research centres, so as to acquire expertise necessary to explore for and produce unconventional gas, which we see as key to future development of the Group’s production business in Poland. To pursue this goal, PGNiG SA has already taken some steps, such as entering the Science and Technology Consortium *Polska Platforma Prac Rozwojowych dla Gazu Niekonwencjonalnego* (Polish Platform for Development Work in the Area of Unconventional Gas). Communication with both local and state authorities will require more attention in the coming year. It will be necessary to establish, together with state administration bodies, a reasonable regulatory framework relating to unconventional gas. On the other hand, cooperation with local governments will allow the Group to effectively manage its investment projects. Taking into account PGNiG’s wide-ranging investment programme planned for the coming years, fostering good relations with subcontractors in 2011 will also be crucial.

Commitments for the future

Strategic pillar	Operational objectives	Detailed objectives for next period
Local communities	Sharing expert knowledge, broadening cooperation with research centres	<ul style="list-style-type: none"> • To develop the Polish Platform for Development Work in the Area of Unconventional Gas www.3prgn.pl • To promote education in the field of shale gas by cooperating with Polish and international research centres • To develop scholarship and educational programmes
	More effective communication with public and local authorities	<ul style="list-style-type: none"> • To take part in important scientific conferences and seminars on shale gas • To play an active role in the nation-wide discussion of different aspects of shale gas exploration
	Creating lasting relationships of equals with local communities	<ul style="list-style-type: none"> • To conduct dialogue based on AA1000 standards with communities where shale gas exploration projects will be located • To develop standards for cooperation with local communities during exploration and subsequent production of shale gas • To promote knowledge of the established standards of cooperation with local communities on the Polish market

Prepared by a team composed of: Beata Błaziak, Katarzyna Chołast, Maja Girycka, Paweł Karaś, Patrycja Kujawa, Anna Pomarańska and Piotr Wojtasik.

7. Natural environment

Our business inevitably involves interference with natural resources and individual components of the environment. This is particularly true about the Exploration and Production segment, and it is our responsibility to minimise the environmental impacts of its operations, rationally manage resources and waste, and, if necessary, compensate for the effects of our interference with the environment.

// *The implementation of the environmental protection objectives adopted in 2009 as part of the Sustainable Development and Responsible Business Strategy was neither a surprise nor a new, unknown challenge for PGNiG's employees and its environmental protection personnel. This was due to two reasons. Firstly, the environmental protection objectives were developed jointly by the entire team. Secondly, for many years the Company has invariably treated environmental protection as an area of crucial importance, critical to its business success. In this way, the Company's CSR strategy provided merely a formal framework for the objectives and prioritised them to reflect new challenges in the area of environmental protection. Following its adoption, the Company was able to commit human resources and funds to their implementation, and gained measures to assess their progress.*

Two years after the strategy was launched, we can boast measurable environmental achievements, which often exceed the obligatory legal requirements and involve further mitigation of our negative environmental impacts. It should be added that the objectives and results of these efforts also apply to the contractors cooperating with us on our projects.

Today, we face new challenges in the area of environmental protection, one example being compliance with the energy and climate package or the much discussed shale gas. We hope that thanks to the environmental credibility which we have been building for years, the Company's shale gas exploration projects will be accepted by the public, providing an opportunity not only for the Company, but also for society at large and the local communities. Gas is more than just an environmental-friendly fuel – in fact, the most environmental-friendly of all fossil fuels. Over the course of years, we have been trying to prove that it is also a precious natural resource which can be produced at minimum cost to the environment.

Grzegorz Sojski
Environmental Protection Office Director,
Investments Department



However, when compared with other fossil fuels, natural gas, which is our main commodity, generates markedly less emissions into the atmosphere. Therefore, now that counteracting climate change is high on everyone's agenda, it is essential to promote a broader use of natural gas, both for applications which have been known for years (such as gas cookers or house heating systems) and through products we can offer by developing our new business segment – Power Generation. Power plants fuelled by gas (instead of coal), co-generation, renewable energy sources and biomass utilisation will all have a beneficial effect on the level of atmospheric emissions.

A similar environmental and economic purpose is served by the promotion of CNG fuelled vehicles, from passenger cars to buses and delivery trucks.

All entities of the PGNiG Group, whether operating in Poland or elsewhere, have always put special emphasis on environmental protection, mitigation of adverse environmental impacts, and environment-friendly projects. This priority has found its reflection in the goals and measures set down in the Sustainable Development and Responsible Business Strategy. Care for the natural environment is among the six primary objectives of our Strategy. PGNiG believes that a key challenge is to conduct its business so that its broad impact is used to benefit the environment, and turn risks into opportunities.

Tasks

Completed

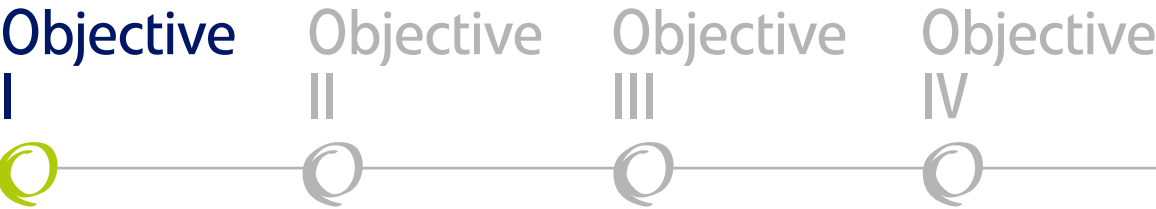


Under way

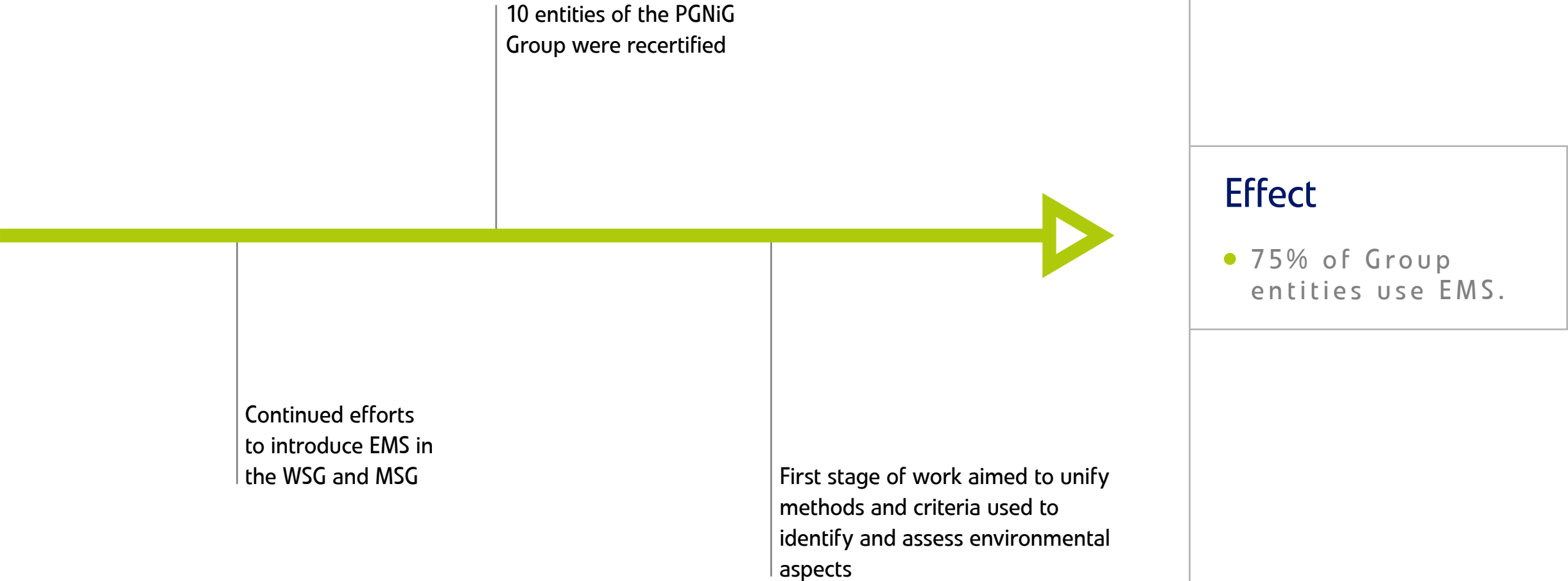


Delayed





Implementing, Maintaining and Enhancing Environment Management Systems (EMS)





To Use Elements of EMS to Meet Requirements of the HSE Management System

HSE manual at
PNiG Nafta Piła

STOP programme at
PNiG Kraków

Effect

- Integration of existing management systems and their elements.



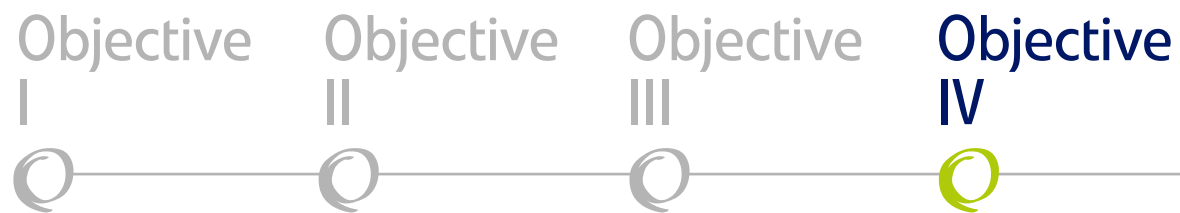
To Educate and Raise Environmental Awareness

Specialist
training

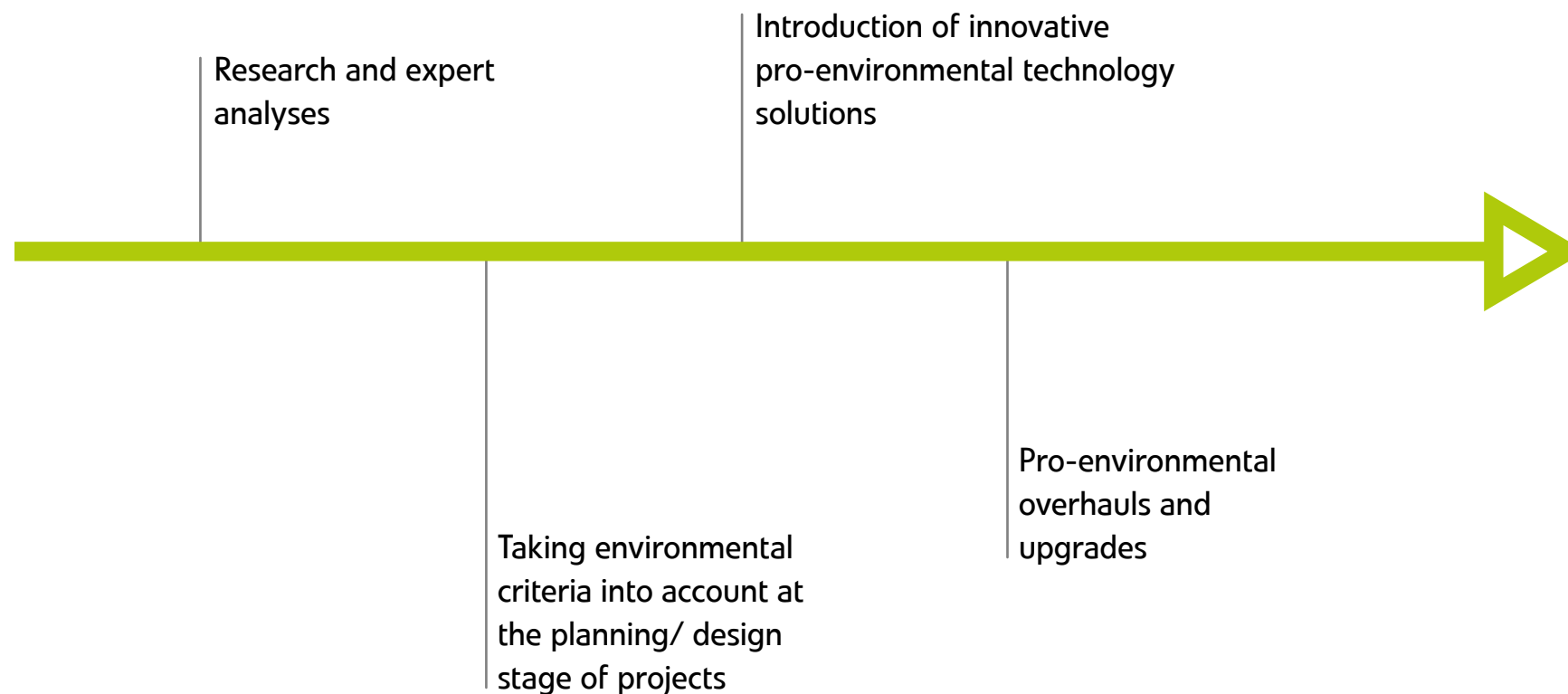
Information
campaigns

Effect

- 1,185 persons trained in 2010.



To Take into Account Environmental Criteria when Selecting New Investment Projects, Solutions and Technologies



Effects

Limiting impact on the environment, in particular:

- emissions into the air
- energy consumption
- amount of waste produced
- water consumption
- impact on flora and fauna.

Objective I

To implement, maintain and enhance the environment management systems (EMS)

The PGNiG Group voluntarily mitigates its harmful environmental impacts by means of environment management systems (EMS) in place at the Group entities, which guarantee compliance of their operations with applicable laws. A harmful environmental impact, such as flue gas emissions, water consumption or noise, identified at an entity may relate to past, present or future products and services. Any material environmental impact (chosen by applying the relevant criteria) translates into other elements of the system, such as environmental policies, objectives and tasks, process monitoring and management. EMS serve to improve the Company's image and credibility in the eyes of both state authorities and customers, while contributing to the environmental awareness of its staff. In addition to enhancing the Company's image and credibility, EMS provide a number of other, purely economic benefits.

Initiatives/Best practices

Thanks to the environmental management systems, which have already been in place for several years (the first one was implemented in 1999), entities of the PGNiG Group are – in terms of environmental protection – among the best positioned and most reliable companies not only in Poland, but also on international markets (Denmark, Norway, Egypt, Pakistan, Libya and Mongolia). The ability to properly manage its environmental impacts through efficient systems benefits the Company's image while bringing down its operating costs, thanks to rational use of raw and other materials, more efficient use of infrastructure, reduction of emissions and waste, as well as costs of waste management, lower energy and water consumption and related costs.

Compliance with legal regulations allows the Group to avoid fines for breaching environmental requirements. Entities which have implemented EMS pay less in environmental charges and benefit from lower insurance premiums. Proper identification of risks related to industrial failure may reduce the probability of its occurrence or eliminate the risk altogether, thus saving the cost of damage removal.

Objective I

To date, as many as three-fourths of the PGNiG Group's subsidiaries and branches have implemented, obtained certificates for and maintained environmental management systems (EMS) based on the PN-EN ISO 14001 standard, often integrated with other systems, such as quality assurance, occupational health and safety and information protection systems. Only the Gas Trading Divisions and ZUN Naftomet Krosno have not implemented EMS yet. In the first half of 2010, work was well advanced on the implementation of an EMS system compliant with the PN-EN ISO 14001 standard at Wielkopolska Spółka Gazownictwa (WSG). Mazowiecka Spółka Gazownictwa (MSG) has started preparations to the implementation process. In 2010, ten organisational units of the PGNiG Group required to renew the EMS certification fulfilled the relevant requirements and obtained renewals. The only exception was Pomorska Spółka Gazownictwa (PSG), which – as the year before – decided not to renew the certificate, despite having in place an operational EMS.

Environment Management System certificates held by the PGNiG Group entities (in 2010)

Organisational unit	Date of implementation/ certification	Date of certificate renewal
Head Office	July 2009	
Odolanów Branch	May 2003	December 2009
Sanok Branch	November 2004	November 2010
Zielona Góra Branch	April 2002	August 2008
Dolnośląska Spółka Gazownictwa	May 2005	July 2008
Górnośląska Spółka Gazownictwa	October 2004	October 2010
Pomorska Spółka Gazownictwa SA	December 2005	June 2008
Karpacka Spółka Gazownictwa	September 2009	
Mazowiecka Spółka Gazownictwa SA	implementation in progress	
Wielkopolska Spółka Gazownictwa SA	implementation in progress	
Geofizyka Kraków*	November 2001	May 2008
Geofizyka Toruń*	Styczeń 2004	January 2008
Poszukiwania Nafty i Gazu Kraków*	November 2009	
Poszukiwania Nafty i Gazu Jasło*	November 2001	December 2010
Poszukiwania Nafty i Gazu NAFTA-Piła*	June 2000	December 2010
Poszukiwania Naftowe „Diamant”	August 2003	January 2010
ZRG Krosno	November 2005	October 2010
BUG Gazobudowa Zabrze	September 2001	October 2010
BN Naftomontaż	December 2004	October 2010
ZRUG of Pogórska Wola	May 2006	May 2010
GAZOPROJEKT	December 1999	December 2008
INVESTGAS	December 2001	December 2010

* Units with the HSE (Health, Safety and Environment) management system in place.

A list of identified and assessed environmental impacts forms the basis for setting environmental objectives within the EMS in place. Thus, proper arrangement of this area is among the key factors supporting analyses at all the Group companies and identification of areas of special interest for oil and gas mining. Accordingly, the PGNiG Group's Sustainable Development and Responsible Business Strategy for 2009–2015 provides, in the environment area, for development of uniform criteria for identification and assessment of the Group's environmental impacts. In 2010, initiatives were undertaken supporting the pursuit of this operational objective. Given the uniform business profile of all Gas Distribution Companies, plans provide for the implementation of the first phase of work designed to establish uniform identification methods and assessment criteria for environmental impacts.

Objective II

To use elements of EMS to meet requirements of the HSE management system

To maintain their strong position and reliability on international markets, the PGNiG Group entities have to meet the requirements of the HSE (Health, Safety and Environment) management system, which combines occupational health and safety with environmental protection aspects, promoting innovative organisational and technological solutions. The PGNiG Group companies which operate abroad or cooperate with foreign partners in Poland meet the most stringent international HSE requirements, whose procedures guarantee that their operations are as safe as possible, primarily for the lives and health of those directly involved, but also for local communities, and as harmless as possible for the environment.

Initiatives/Best practices

Currently, a HSE management system is fully operational at four Group companies, and PNiG Nafta Piła has in place an HSE manual, which includes a policy and describes operating procedures in the area of health, safety and environment protection. The company uses the remaining portion of the HSE documentation for the purposes of its occupational health and safety/fire protection procedures, as well as the Environment Management System, and, whenever needed, supplements it to meet the requirements of individual contractors.

The companies place emphasis on preventing occupational and environmental accidents through development, implementation and compliance with rules and requirements in the area of occupational safety, preventive health care and environmental protection, which far exceed mandatory legal regulations.

Importantly, the companies oblige their sub-contractors to comply with the same rules and requirements. The drilling rigs of PGNiG Jasło, operating both in Poland and abroad, may serve as an example of such best practices. The HSE management system implemented by that company is based on guidelines issued by OGP International Association of Oil & Gas Producers. Another example is the best practice followed by PNiG Kraków, which – in addition to the HSE management system – has implemented the Safety Training Observation Programme (STOP), whose key features include periodic risk assessment and prediction, as well as promotion of occupational safety awareness among employees. Equally important is the staff's awareness of environmental issues, which brings fruit in the form of good relations with local communities and customers.

The PGNiG Group's Corporate Social Responsibility Strategy provides for continued use of EMS elements in meeting the requirements of the HSE management system. Moreover, in 2010, based on the experience gathered by the Group entities which have an HSE management systems in place, PGNiG's Head Office commenced work aimed to develop an HSE manual, which will serve as a set of standards to be followed by all entities of the PGNiG Group.

Objective III

To educate and raise environmental awareness

It takes vast knowledge and experience to meet environmental protection requirements, in particular because of the evolving environmental protection laws, but also the growing importance of environmental issues. But the PGNiG Group boasts excellent staff, who have relevant education and many years of experience in the field. In addition, PGNiG seeks to ensure that all the Group employees are properly educated in the field of environmental protection.

Initiatives/Best practices

In 2010, specialist environmental protection training covered over 1,185 persons, and the total cost of the training and degree programmes in environmental protection amounted to nearly PLN 174 thousand. Our CSR strategy provides for continuous efforts designed to raise environmental awareness. Knowledge about the natural environment, gathered not only by the personnel specialising in environmental protection but also by the other employees, helps to develop rational attitudes and behaviour in this area. Consistent efforts to build environmental awareness contribute to an actual improvement of the quality of the environment. Therefore, at the PGNiG Group, environmental education is an overarching objective, pursued through participation in training covering a broad range of topics and supported with modern communications tools, as well as other initiatives.

Being a mature and self-aware organisation, we do not limit ourselves to these activities. We also endeavour to improve environmental awareness among our customers, by promoting our product, natural gas, as a source of environment-friendly energy. Young people are also an important addressee of our efforts. Karpacka Spółka Gazownictwa (KSG) may serve as an example of our involvement in projects undertaken with a view to protecting animals: KSG has been co-financing a research programme concerning a species in danger of extinction, the Polish lynx (whose population in our country is currently estimated at 200) and supporting programmes designed to create proper habitats for lynxes kept at zoological gardens or rehabilitation centres.

Objective IV

To take into account environmental criteria when selecting new investment projects, solutions and technologies

Mitigating environmental impact

In most cases, industrial activity involves environmental impacts. They are usually harmful to the environment: air pollution, water contamination, depletion of drinking water resources and reduced biodiversity. For centuries, especially in the industrial era, man used the environment only to satisfy his needs. However, the emergence of the first material side effects of such irrational management of natural resources brought about a gradual change in attitudes.

Initiatives which are currently undertaken on numerous different levels have a single common purpose of eliminating or reducing the adverse effects of human activity. This is consistent with the sustainable growth principle, which provides for such growth that enables the needs of today's generation to be satisfied without depriving future generations of the ability to satisfy theirs. Such thinking drives the PGNiG Group's pro-environmental initiatives.

The PGNiG Group entities seek to continually reduce:

- emissions of pollutants generated in the course of the Company's core business operations;
- emissions of noise generated during the operation of production equipment, pressing plants and pressure reduction stations;
- amounts of generated waste, which is to a large extent recovered or – in the case of particularly hazardous waste – neutralised;
- water consumption and wastewater generation through, among other things, mud recovery and use of an effective in-house system for injecting formation water, produced together with hydrocarbons, back into the same geological formations;
- surface area of land covered by exploration and production operations, by limiting areas occupied by equipment and installations;
- adverse effect on the quality of soil and water by using seals on land surface where waste, hazardous substances and chemicals are stored; protections under crude oil and formation water tanks; treatment of drilling waste (i.e. rock cuttings) and its separation from mud; and use of equipment monitoring pollutants in waste; and
- effect on vegetation cover and animals through limited tree clearance, protecting root systems during earthwork and (thanks to state-of-the art technologies) reducing noise emissions, vibrations and contamination during breeding and mating seasons.

Objective IV

Initiatives/Best practices

We counteract climate change by controlling greenhouse gas emissions

Our Group strives to reduce emissions of greenhouse gases and other gas and dust emissions into the air by using gas as a low-emission fuel, by monitoring the consumption of fuels, by reducing energy consumption and by upgrading or replacing sources of heat used internally. For more information on measures we take to reduce emissions (insulation of buildings, modification of gas networks and boiler houses, construction of cogeneration units) see the section on investment projects, upgrades and overhauls.

The existing laws on control and reduction of greenhouse gas emissions made it necessary to introduce CO₂ emission monitoring and reporting by those PGNiG subsidiaries and branches which are covered by the European Union Emission Trading Scheme (EU ETS).

The PGNiG Group's subsidiaries and branches have implemented internal and external systems for gas quality control as part of their effort to reduce greenhouse gas emissions, but also use their ISO 17025-compliant laboratories to conduct measurements and comparative analysis, control and validate the correct operation of process chromatographs, use internal spreadsheets for CO₂ emission volume calculation, and upgrade gas consumption metering systems. With respect to

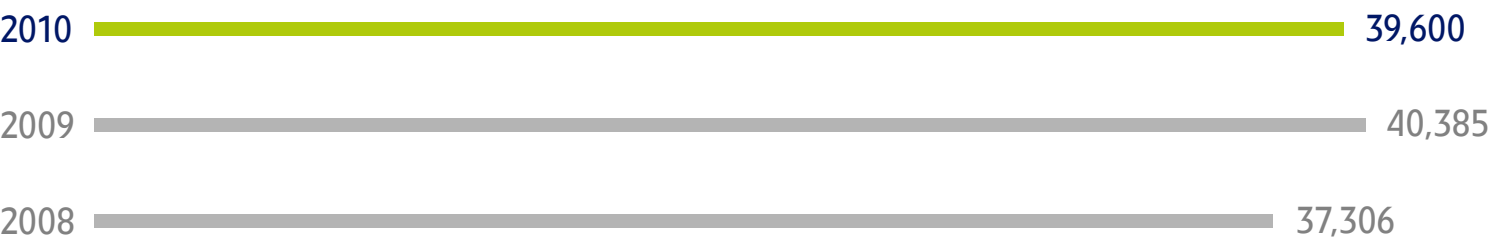
methane emissions by the mining sector, uniform emission indicators have been developed, and work is underway in the gas sector to arrive at a single settlement methodology with respect to gas emissions to be employed by all gas companies.

CO₂ emission volumes (in Mg) generated in 2010 by the PGNiG Group's installations covered by EU ETS

Installation	National Emission Allocation Plan Number	Emissions allocated (in Mg)	2010 emissions (in Mg)	Available (in Mg)
KPMG Mogilno	PL-898-08	26,642	8,962	17,680
PGNiG S.A. Odolanów Branch	PL-562-05	11,181	13,656	-2,475
PGNiG S.A. Odolanów Branch	PL-950-08	30,495	29,221	1,274
PGNiG S.A. Zielona Góra Branch				
Dębno Oil and Gas Production Facility	PL-563-05	31,664	29,865	1,799
		99,982	81,704	18,278

Objective IV

Methane emission volumes generated by the PGNiG Group’s operations in 2008-2010 (in Mg)

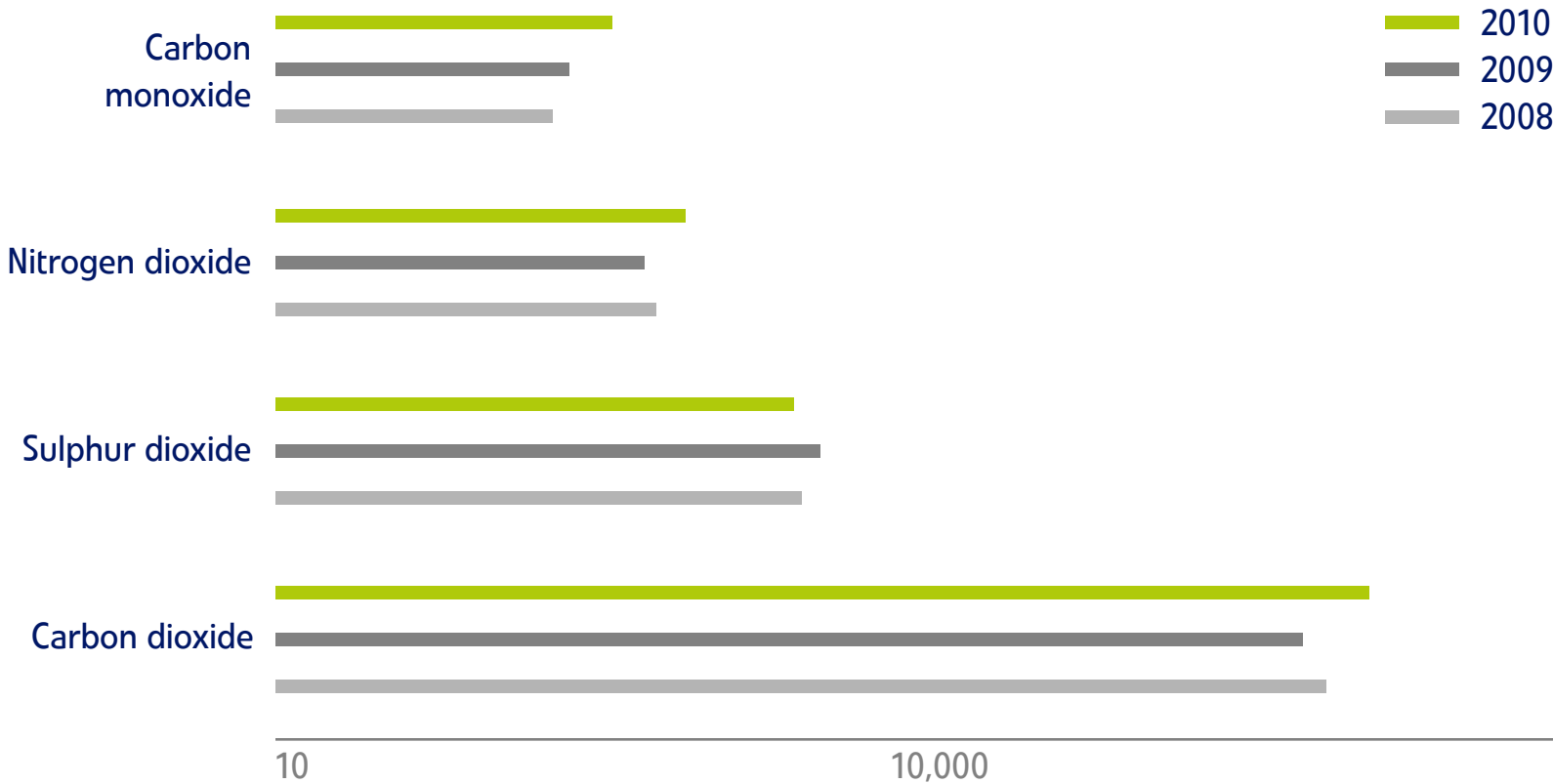


needs, remained at a steady level relative to previous years (see chart on the right – logarithmic scale). However, in 2010 the Group saw a year-on-year increase in carbon dioxide (90%) nitrogen oxides (60% – in NO₂ equivalent) and dust emissions. The change is attributable to a significant increase in gas production by PGNiG branches.

In 2010, the total volume of methane emissions generated by the PGNiG Group’s operations decreased by 2% year on year (see chart on the left) and amounted to 39,600.093 Mg. The change is mainly attributable to lower distribution losses (down by over 1 million cubic metres of gas), which translated into a 14% decrease in methane emissions.

In 2010, emissions of primary gas pollutants, such as methane, sulphur dioxide, and carbon monoxide, which are generated chiefly by combustion of fuels by sources of heat and energy for process

Total volume of main gas pollutants released into the air in 2008–2010



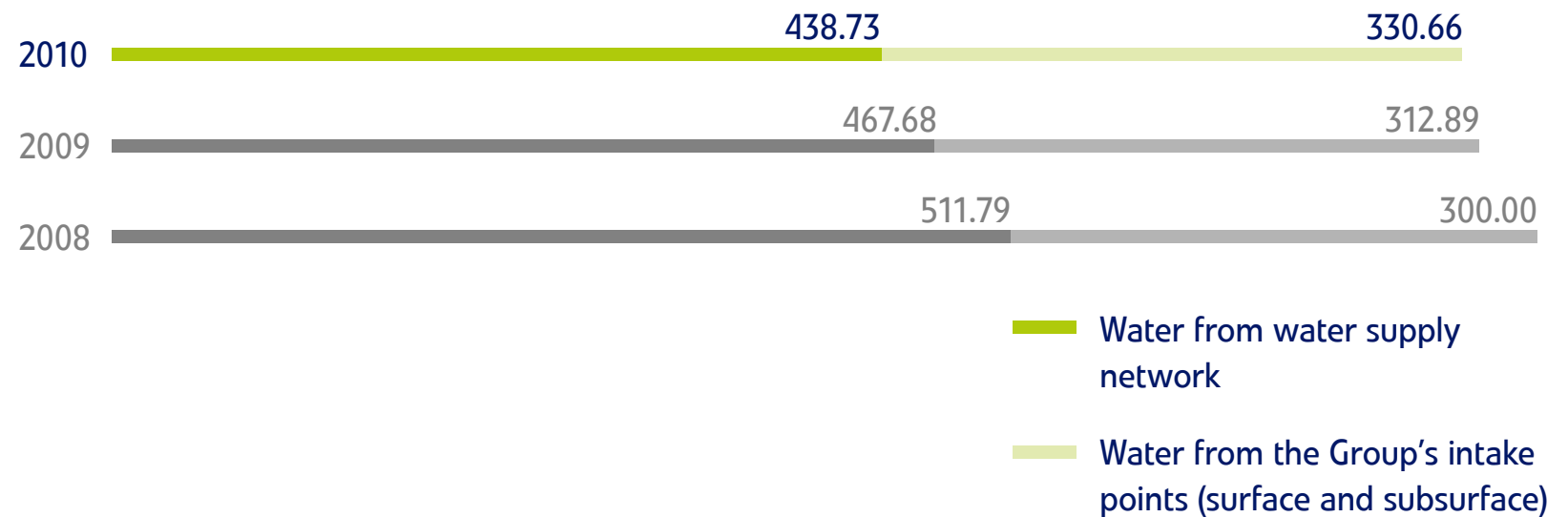
Objective IV

Water consumption and wastewater generation

The deficit and deteriorating quality of water from domestic sources represent an important problem for the PGNiG Group in terms of qualitative and economic aspects, as well as environmental protection, which is why steps aiming to protect water resources are of vital importance. The objective of the PGNiG Group is to:

- constantly limit black and grey water volumes,
- rationally manage water resources used in industrial processes,
- improve operations by reusing resources, such as formation water.

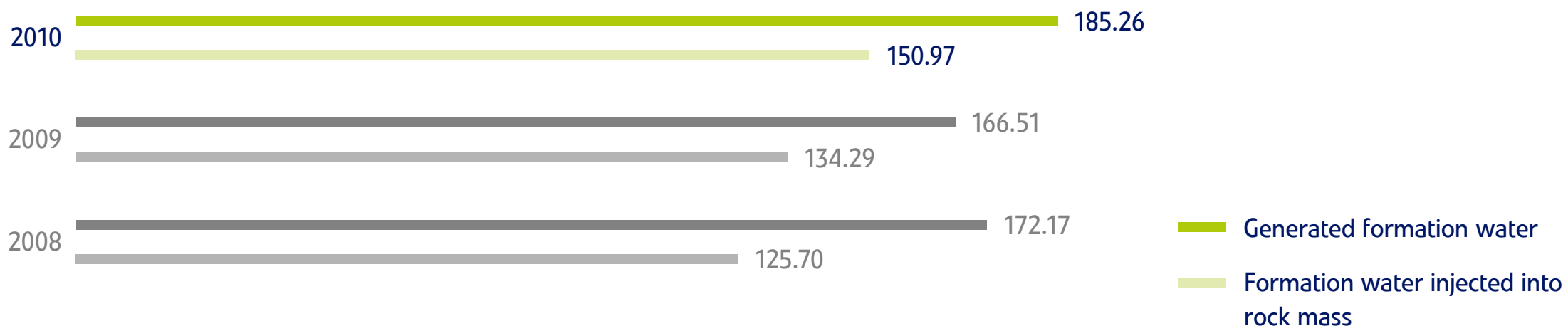
Intake of surface and subsurface water in 2008–2010, by source (in thousands of cubic metres)



The PGNiG Group branches and companies draw water from their own underground intake points or water supply systems. Water is drawn mainly to cater to social needs and, to a lesser extent, for technological processes. Changes in water

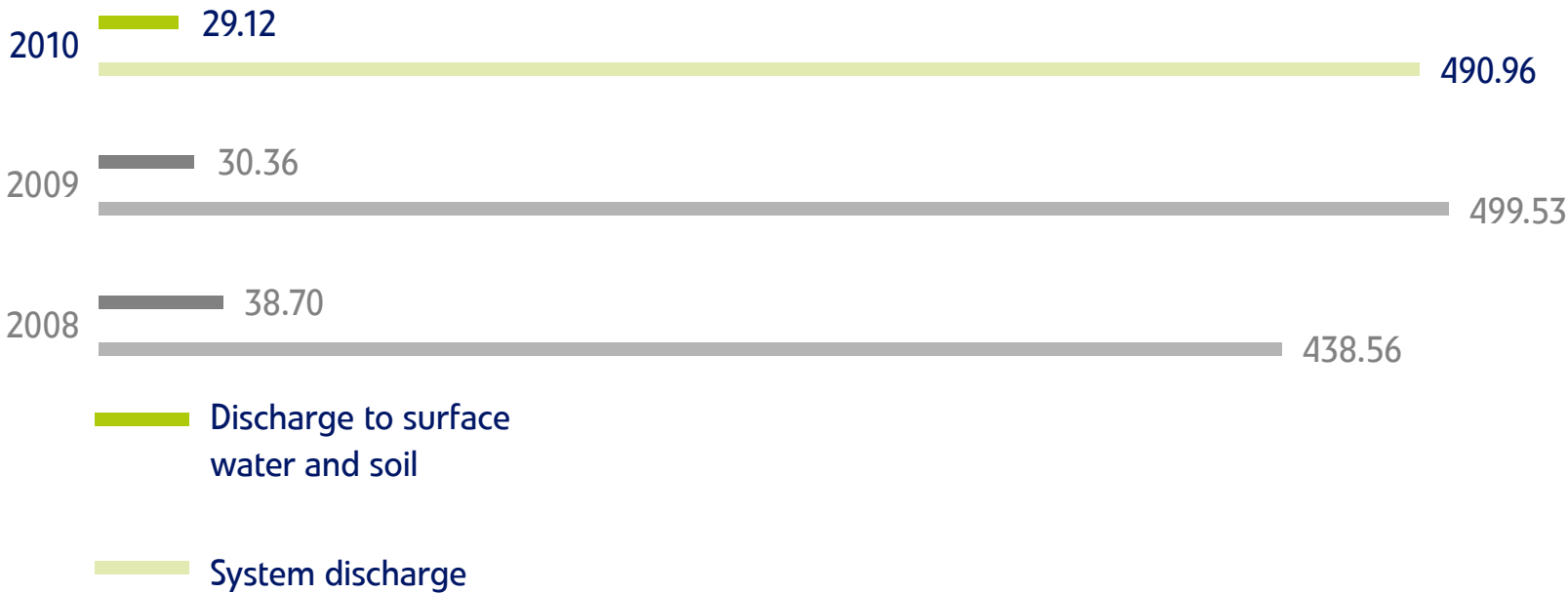
consumption observed from year to year are connected primarily with the amount of process water used, i.e. the number of exploration and investment projects executed.

Formation water generated in 2008–2010 (in thousands of cubic metres)



Objective IV

Volumes of wastewater generated in 2008–2010, by place of discharge (in thousands of cubic metres)



The chart shows the total volume of wastewater discharged into the sewage system, transported to the treatment plants from the Group’s septic tanks and discharged into surface water or soil.

In 2010, the volume of wastewater discharged into water, soil and the sewage system fell.

In 2010, consumption of water from the water supply network fell from 467.70 thousand cubic metres to 438.73 thousand cubic metres, while the intake of water from our own intake points slightly increased.

Wastewater generated by the PGNiG Group’s subsidiaries and branches is discharged to the sewage system (under contracts with water supply and sewage collection operators), or to surface waters or soil (in compliance with existing water permits) following their pre-treatment or full treatment at the Group’s site wastewater treatment plants. Grey and black water, as well as industrial wastewater, is discharged into the sewage system. Rainwater collected on the premises and access roads is either discharged into the sewage system or to surface waters and soil.

Objective IV

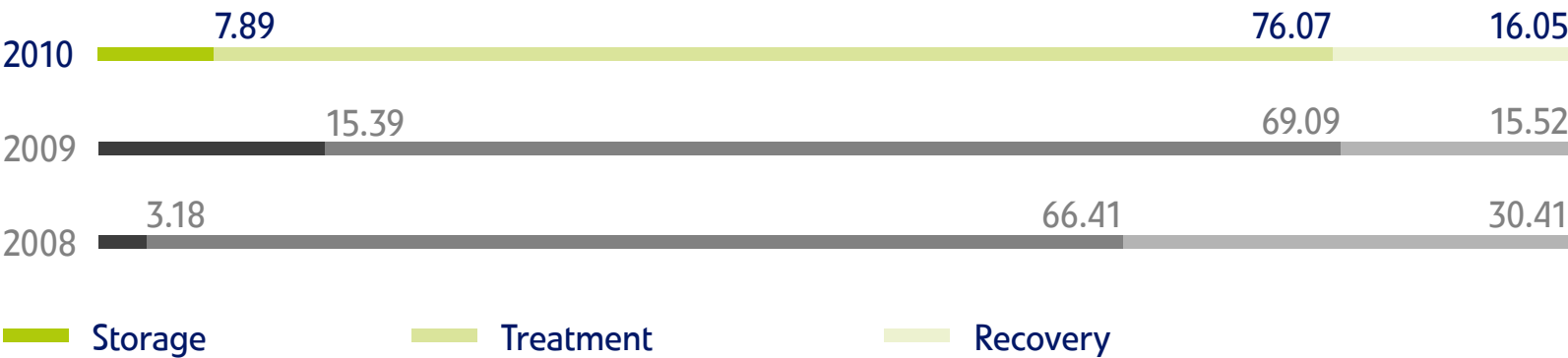
Waste

The objective of waste management at the Group’s entities is to recycle waste or minimise its volume.

All members of the Group follow their own waste management programmes, while entities having EMS in place use waste management procedures. Following the procedures, the Group has managed to:

- identify environmental impacts related to waste, i.e. determine all areas where waste is generated,
- determine a method for minimising volumes of waste, including, in the first place, waste sent to landfill sites (unsorted municipal waste only).

Waste disposal in 2008 – 2010, by method (in %)

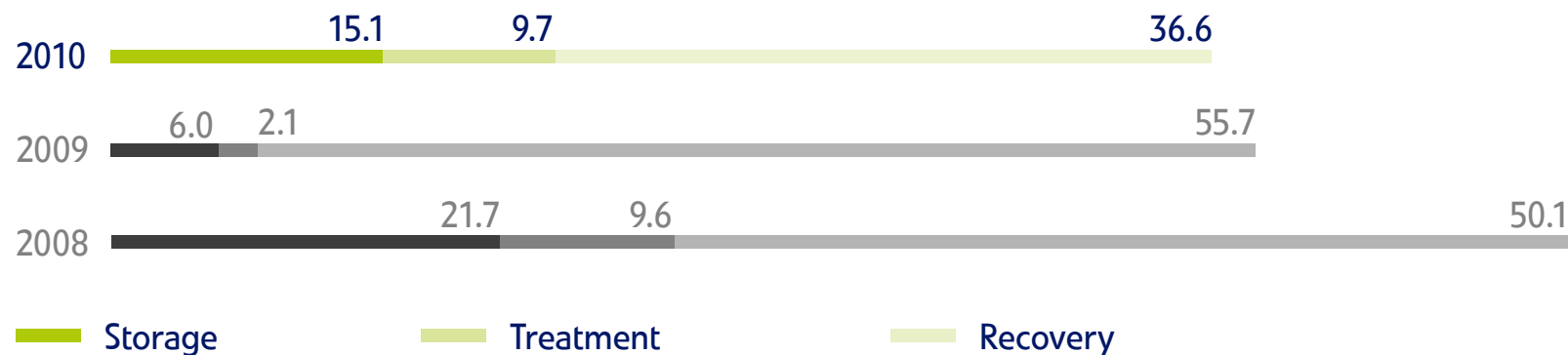


The procedures set out different methods of waste disposal. Precedence is given to waste recovery (limited only by the availability of processing technologies for particular types of waste and, sometimes, by financial constraints), followed by waste sorting, as it provides waste ready for recycling. Waste which, due to process considerations, needs to be neutralised, is handled by specialist providers holding required licences. Each entity supervises proper selection of contractors.

In 2010, a total of 97.5 thousand Mg of waste was generated by the entire PGNiG Group, excluding municipal waste sent for recovery, neutralisation or deposited at landfills.

Objective IV

Drilling waste disposal in 2008–2010 (in thousands Mg)



The total amount of waste generated annually by the PGNiG Group entities depends primarily on the amount of drilling waste generated by Exploration Companies. Drilling waste, which consists of rock cuttings and drilling mud generated during oil or gas well drilling, accounted for approx. 60% of all waste generated by the PGNiG Group in 2010 (including unsorted municipal waste), i.e. 11% less than in 2009. Bits of rock are separated from drilling mud on vibrating screens or with use of other devices, such as desanders or desilters. Waste drilling mud is generated when rotary mud is exchanged for another kind (as required by the drilling technology) or when a borehole is completed and drilling fluid is no longer necessary.

Drilling waste also includes process water mixed with drilling mud, cement slurry and other fluids from well treatments.

In 2010, 15 thousand Mg of drilling waste was landfilled. Most of it was deposited at the Group's own landfill site, which meets all legal requirements. In 2010, 60% of all drilling waste was disposed of, i.e. 19 thousand Mg less than in 2009.

Objective IV

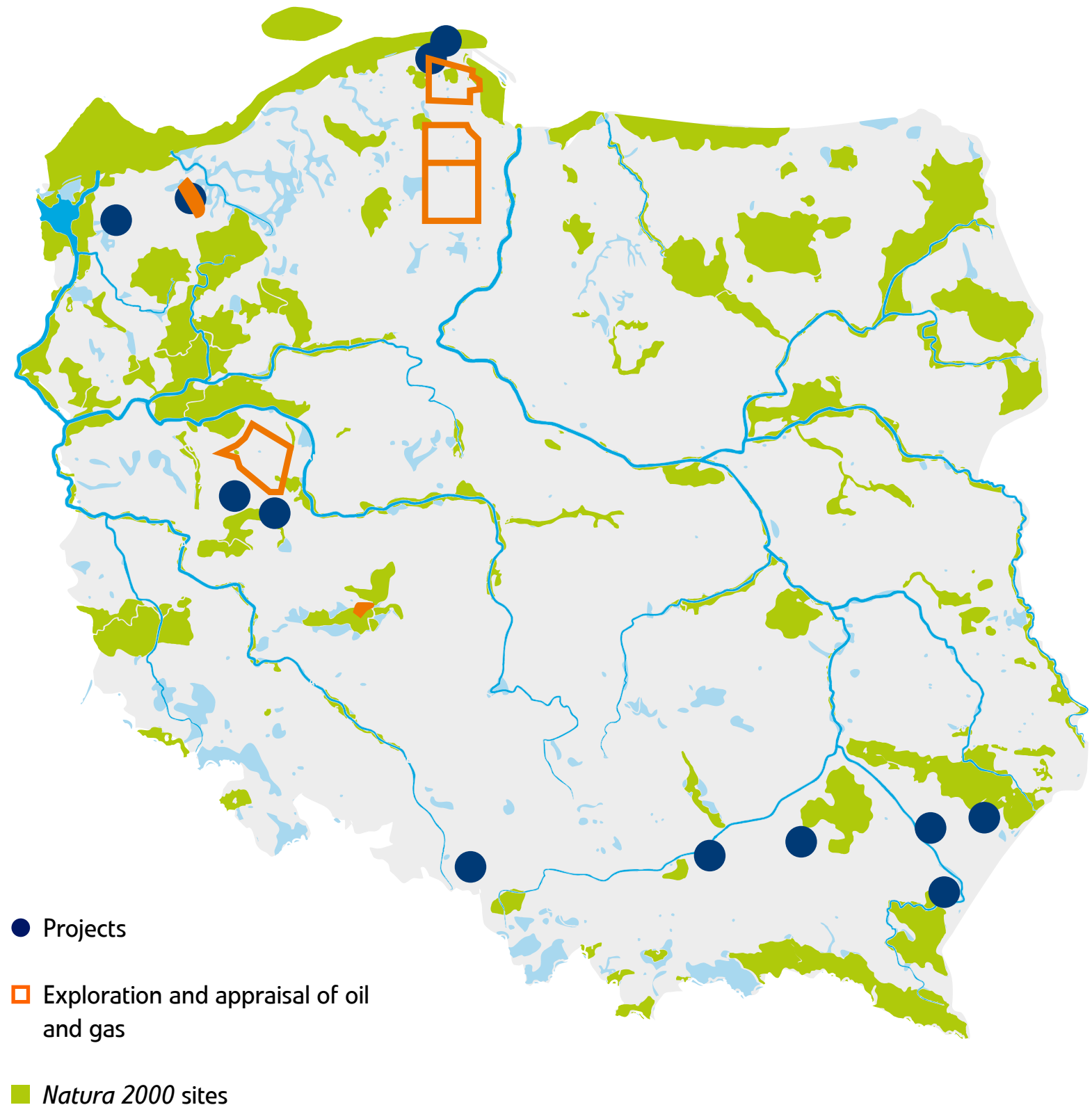
Projects which may significantly impact the environment and *Natura 2000* sites

When carrying out projects that may significantly impact the environment or *Natura 2000* sites, the PGNiG Group members follow the applicable laws and implement solutions aimed to mitigate their environmental impact, as well as impact on the species and habitats protected as part of the *Natura 2000* network. Before a project is launched, an environmental impact report or a report on its impact on *Natura 2000* sites is drawn up, whenever such requirement is imposed directly by law or by a competent authority determining conditions for project approval.

If necessary, decisions on environmental conditions for project approval or decisions regarding conditions for project approval with respect to its impact on *Natura 2000* sites impose obligations aimed at preventing, mitigating, and monitoring the project's impact on the environment.

Modern technological solutions and mitigation measures make it possible to carry out projects at *Natura 2000* sites and in their vicinity without a material negative impact on protected species and habitats. In 2010, 25 projects located at or nearby 73 *Natura 2000* sites were approved for implementation by competent authorities.

PGNiG Group's projects for which environmental conditions were determined in 2010, located at or nearby *Natura 2000* sites



Summary

We comply with environmental protection laws and have a clean environmental record

All organisational units making up the PGNiG Group hold the relevant permits and approvals to use the environment. They are renewed or replaced as soon as material changes in the subsidiaries’ operations are introduced, or if such renewals or replacements are required under any amended laws and regulations.

In 2010, and in previous years, no environmental fines were imposed on PGNiG Group members, despite numerous inspections carried out by regional inspectors for environmental protection and district mining authorities.

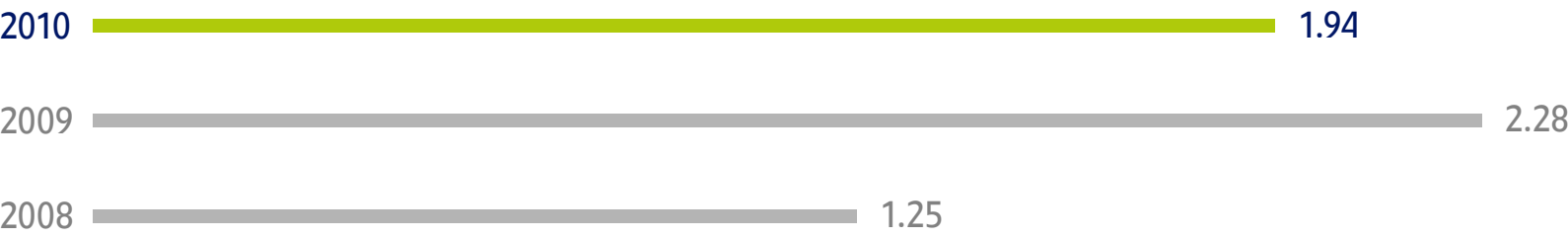
Research and monitoring

Environmental research is conducted by the PGNiG Group to meet the requirements imposed by binding laws and regulations. It is also a valuable source of information, as it enables our branches and companies to acquire data and information used to develop documentation, statements and report, as well as to plan environmental activities. Analysis and monitoring of the environment also allows us to determine its condition before, during, and after the execution of particular projects. Additionally, measures are taken to ensure compliance with environmental conditions defined in the relevant decisions and permits held by the Group, and as part of environmental monitoring or assessment.

In 2010, the research covered:

- emissions of pollutants into the air (periodical logging of emissions of process pollutants into the air);
- the quality of surface and subsurface waters (analyses of water sampled from wells with the use of piezometer);
- the quality of wastewater, rainwater and melting snow (analyses of grey and black water sampled from septic tanks, physical and chemical analyses of rainwater and melting snow that are piped to municipal storm drains, and BOD analyses of industrial wastewater);
- the state of the soil and water environment (analyses carried out as part of the pre/post drilling environment monitoring, analyses carried out as part of drilling waste landfill monitoring, soil analyses for presence of indigenous bacteria and their possible use in in situ bioremediation);
- noise levels (drilling rig and air-conditioning noise). Pro-environmental projects, new technologies, investment projects, upgrades..

Cost of environmental research at the PGNiG Group in 2008–2010 (PLNm)



Pro-environmental projects, new technologies, investment projects, upgrades

The PGNiG Group undertakes a number of pro-environmental projects. This is actually one of the directions of our business development – construction and opening of new CNG filling stations, but also other projects equally important for the environment. On the one hand, they are connected with the daily operations of the Group companies and relate for instance to buying gas-fuelled vehicles, installation of sun collectors or insulation of buildings. On the other hand, our care for the environment is manifest in how we run our business, e.g. in our purchase of equipment for vacuum feeding of natural gas into gas pipelines or working on gas pipelines in air-tight conditions. Other activities that can be classified into this category include:

- purchase and assembly of double-wall fuel tanks, shakers, vacuum degasifiers, centrifuges, washers, oil containers, water tanks, mud tanks, rock cutting and wastewater tanks, reservoir water tanks, methanol tanks, etc.,
- construction and modernisation of sanitary sewage systems, wastewater treatment plants, and washing stations where separators of oil derivatives are applied, as well as maintenance of treatment plants,
- purchase of sorbents, neutralising agents, and foil to be used under tank stations,
- purchase of power generators to work at oil rig installations and new highly efficient engines,
- redesign of installations used for desulphurisation of natural gas and crude oil and for waste injection at petroleum production sites,
- upgrade of formation water installations and well installations, and well workover to enable injection of formation water into native rock mass,
- construction and upgrades of gas-fired boiler houses and co-generation systems with a view to limiting emissions from energy-generation sources,
- replacement of cast-iron gas pipelines with PE ones.

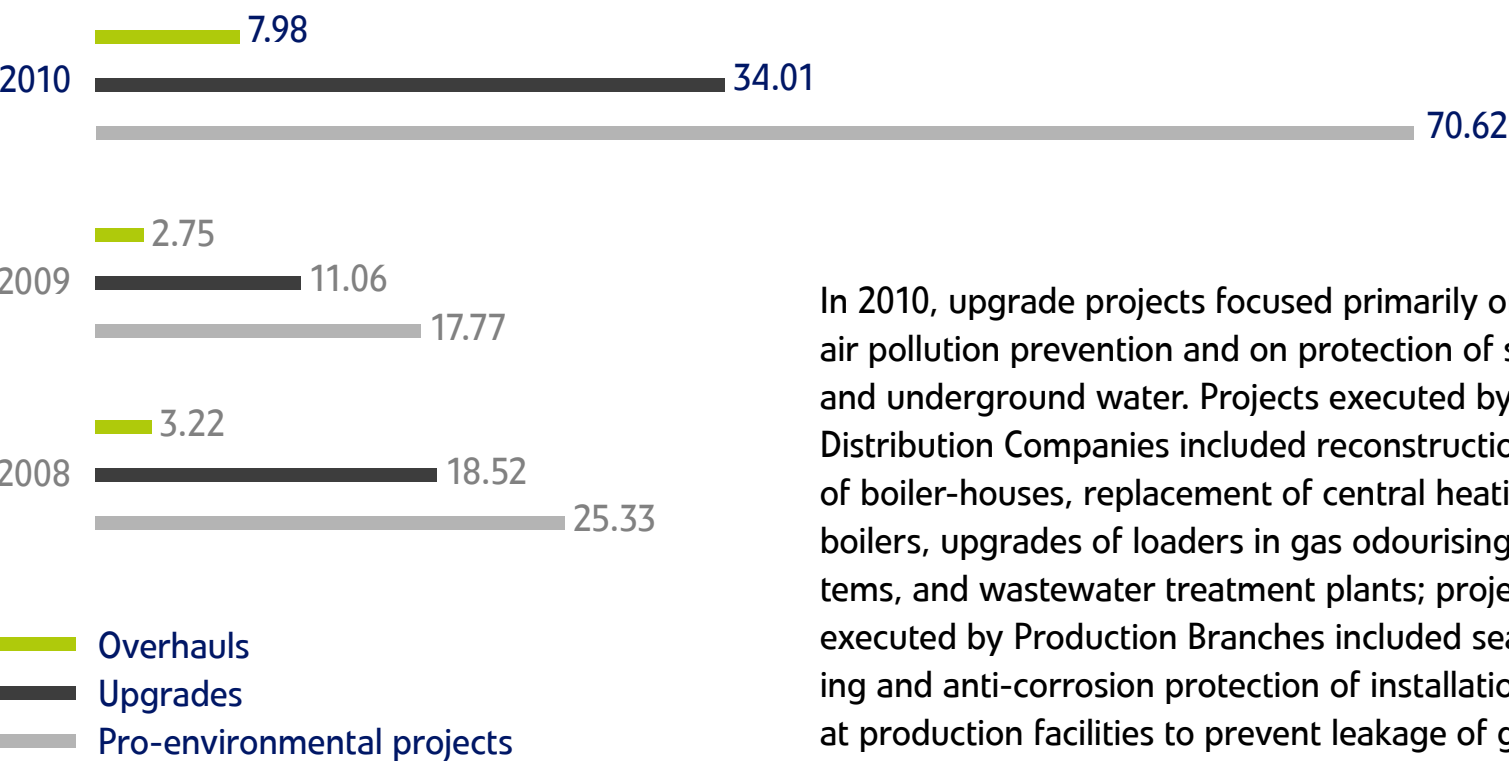
Our overhaul projects include primarily overhauls of gas-fired boilers, measurement apparatus and irrigation systems, insulation of buildings, modernisation of sewage systems, dewatering systems, control rooms, etc.

In 2010, our pro-environmental projects were focused on air pollution prevention. The highest expenditures in this area were incurred by Gas Distribution Companies, and related to the construction of new pipelines and replacement of old cast-iron pipelines with PE ones, which limit methane emissions into the air, as well as the introduction of pipelines into areas which had not yet been covered with a gas network, which will result in further lowering of emissions. Expenditures were also made on purchase of equipment enabling work on pipelines in air-tight conditions, purchase of CNG-powered vehicles, construction of storm drains, and systems for removal and pre-purification of rain water and melting snow from our facilities.

Exploration Companies posted the second largest financial outlays, which were allocated to air pollution prevention, wastewater management, water protection and waste management, and used to purchase mud pumps, insulate drilling rig sites, install liquid-tight floorings in oil and lubricant

containers, purchase linear screens, water and mud tanks, sound proofing, waste treatment and incineration plants. The aggregate amount of capital expenditure made by all the PGNiG Group entities exceeded PLN 70m..

Expenditures on investment and upgrade projects in the environmental area, and costs of overhauls in 2008–2010 (PLNm)



In 2010, upgrade projects focused primarily on air pollution prevention and on protection of soil and underground water. Projects executed by Gas Distribution Companies included reconstruction of boiler-houses, replacement of central heating boilers, upgrades of loaders in gas odourising systems, and wastewater treatment plants; projects executed by Production Branches included sealing and anti-corrosion protection of installations at production facilities to prevent leakage of gas, gasoline, formation water and methanol, as well as application of air-tight sealing to the refilling process; while projects executed by other companies included insulation of buildings and reconstruction of boiler-houses. Total expenditure on upgrade projects incurred by all the PGNiG Group entities exceeded PLN 34m.

In 2010, total expenditure on overhaul work incurred by all the PGNiG Group entities was close to PLN 8m and related primarily to overhauls and repairs of boiler-houses and networks, insulation of building and removal of asbestos-cement tiles from roofs.

7.1. Unconventional gas and environmental protection

The first drilling for shale gas (Markowola-1) was carried out in the Sanok Branch area, in the Lublin region in July 2010, where also the first two hydraulic fracturing operations in unconventional gas deposits took place.

Below are presented parts of the “Legal compliance assessment and environmental impact assessment of procedures carried out to drill the Markowola-1 well for the purpose of oil and gas exploration and appraisal, including procedures designed to examine the potential presence of natural gas in unconventional deposits” commissioned from the Polish Geological Institute by the Ministry of Environment:

“In the period October 2009–August 2010, work aimed to investigate Upper Carboniferous and Devonian formations was carried out within a licence area located in Central and Eastern Poland (the Pionki-Kazimierz licence No. 48/2001/p), with a view to identifying potential oil and gas deposits.

In an effort to accomplish the above objective, in the period October 2009–April 2010, an exploration borehole (Markowola-1) was drilled in Zwola, Commune of Gniewoszków, County of Kozienice. The total depth of the borehole was 4,500 metres (Lower Devonian formations).

In July 2010, two stimulation (hydraulic fracturing) treatments were carried out (along with pre-treatment tests) within two perforation intervals (3,486–3,491 metres and 3,462–3,467 metres), to enable observation of potential gas flow. The results were negative, as there was no evidence of gas accumulation sufficient for commercial exploitation.

Irrespective of the fact that the exploration borehole was drilled primarily to identify potential presence of conventional gas in the formation, the hydraulic fracturing procedures carried out in the borehole in search of unconventional hydrocarbon deposits were one of the first procedures of this kind to be undertaken in Poland.

As part of this assessment, all activities performed during the research and appraisal work were thoroughly analysed. The analysis covered decisions and permits secured by the contractor, as well as the available technical documentation (the geological survey plan, operation plan, drilling plan, stimulation treatment plans, geotechnical formation testing plans). The collected documents provided a basis for examination of the administrative and execution procedures. The analysis revealed that – out of concern for proper execution of work, including mitigation of its adverse environmental impact – the contractor resorted to a number of procedures in excess of standard formal requirements, such as pre- and post-drilling examination of components of the environment (November 2009 and 2010).

The contractor secured all decisions and permits for the project, as required under the legal regime applicable as at the date on which the application was submitted.

The contractor met the conditions set forth in the decisions.

The drilling, fracturing and formation testing work was carried out within an area of approximately 1.1ha, temporarily excluded from agricultural use. The contractor took steps to eliminate or minimise the impact of the drilling work on the environment (in particular, soil, subsoil, surface and underground water), as well as to control gas and flue gas emissions, noise levels and amounts of waste, in accordance with the applicable legal regulations.

In order to assess the effectiveness of those measures, the investor ordered two series of measurements to assess the condition of the abiotic environment on and around the drilling rig site, before and after the drilling and stimulation treatments. Geophysical analyses were performed to determine methane concentration in soil, subsoil, ground water and soil air.

In order to assess a possible adverse impact of the drilling work and stimulation treatments on the ground and water environment, physico-chemical examination and granulometric analysis of soil and subsoil were carried out in the vicinity of the drilling rig and liquid fuel storage tanks. Collected samples were tested to determine the content of heavy metals (Er, Ni, Pb), mineral oils and chlorides. Both series of measurements revealed that the levels of all tested substances did not exceed levels permissible for agricultural land (in line with the Minister of Environment's Regulation of September 9th 2002, concerning soil and land quality standards (Dz. U. No. 165, item 1359)). Moreover, the pre- and post-drilling results were not significantly different. The area around the drilling rig was examined for methane content in the soil air at the depth of 1.2–1.5 metres. None of the 30 probes revealed methane content large enough to be detected by means of the applied measurement method (GA 2000 Plus biogas meter) before the work commenced or after it ended. The condition of water in the locally used water-bearing horizons was examined on the basis of samples taken from three nearby wells.

The following parameters of water were examined: pH, electrical conductivity, taste, smell, concentration of chlorides, nitrates, nitrites, ammonium, mineral oils, chromium, barium, lead, potassium, iron and manganese. The results were compared to class limits specified in the Minister of Environment's Regulation concerning the criteria and methods of underground water assessment (Dz. U. No. 143, item 896). In both measurement series, the majority of tested parameters fell within the limits corresponding to class I and II of underground water quality (very good and good quality). The results obtained before and after drilling do not indicate any hydro-chemical anomalies in tested water samples.

Conclusions

Based on a review of the documentation submitted by the contractor for the work carried out in the period October 2009–November 2010 within the area covered by the Pionki-Kazimierz licence (Markowola-1 borehole), aimed to assess legal compliance and environmental impact of the procedures performed, the following key conclusions can be drawn:

- 1) The procedures applied in the decision-making process were compliant with then applicable legal regime.
- 2) The analyses performed show that the drilling work and stimulation (hydraulic fracturing) treatments did not have any adverse effect on the examined components of the environment, as no significant changes were observed in such components after the work was completed, as compared to their original condition.

Prepared by a team composed of: Magdalena Krawczyk, Bogusław Kurowski, Sebastian Latanowicz, Magdalena Legawiec and Employees of the Environmental Protection Office at the PGNiG Head Office.

Commitments for the future

Strategic pillar	Operational objectives	Detailed objectives for next period
Conducting business responsibly, with due regard to the natural environment	Objective 1: to implement, maintain and enhance the environment management systems (EMS)	<ul style="list-style-type: none"> • Implementation of EMS at further PGNiG Group entities • Further work to develop uniform criteria for identification and assessment of environmental impacts
	Objective 2: To use elements of EMS to meet HSE requirements	<ul style="list-style-type: none"> • Incorporation of elements of EMS into HSE systems
	Objective 3: To educate and raise environmental awareness	<ul style="list-style-type: none"> • Training • Educational initiatives and campaigns • Promotion of pro-environmental solutions
	Objective 4: To take into account environmental criteria when selecting new investment projects, solutions and technologies	<ul style="list-style-type: none"> • Introduction of modern, environmentally-friendly technologies • Overhauls and upgrades designed to deliver environmental benefits • Further development of procedures for planning, preparation and execution of investment projects, upgrades and overhauls to account for environmental aspects
	Objective 5: To improve EIA procedures at each stage of operations	<ul style="list-style-type: none"> • Development of uniform assessment methods and analysis of environmental risks in all areas of the Company's value chain
	Objective 6: To reduce atmospheric emissions through wide use of natural gas	<ul style="list-style-type: none"> • Expansion of the CNG station network and promotion of CNG as vehicle fuel • Promotion of new applications of gas as a low-emission fuel (power sector)
	Objective 7: To establish uniform environmental protection reporting standards with reference to the Group's internal reporting systems	<ul style="list-style-type: none"> • Adaptation of Group-wide reporting methods used to report environmental components and the impact of the Group's operations on the environment to market requirements and commonly applied standards

8. Workplace

Employees are treated as the Group's most valuable asset – both in business and social terms. The Company cares about their needs, while trying to foster team spirit, motivation and commitment.

It is our goal to make every PGNiG employee realise that they can count on the Company, that they can develop here, and know that it is the best workplace they could wish for.

Marta Cydejko
Human Resources and Training Office Director
Corporate Services Department



The intention to make PGNiG a safe and friendly workplace underpins all the objectives and activities defined in the Group’s Sustainable Development and Responsible Business Strategy.

Our activities are governed by two priorities: safety of employees (a vital thing in our industry) and ambitious development plans relating to new innovative projects, which require the Group’s employees to constantly improve their skills and qualifications. We make systemic efforts to enhance PGNiG’s organisational culture, bearing in mind that the values of responsible business should form the basis of all our undertakings.

Tasks

completed

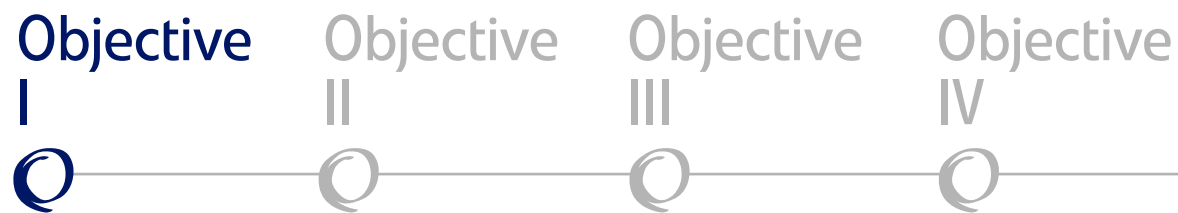


under way

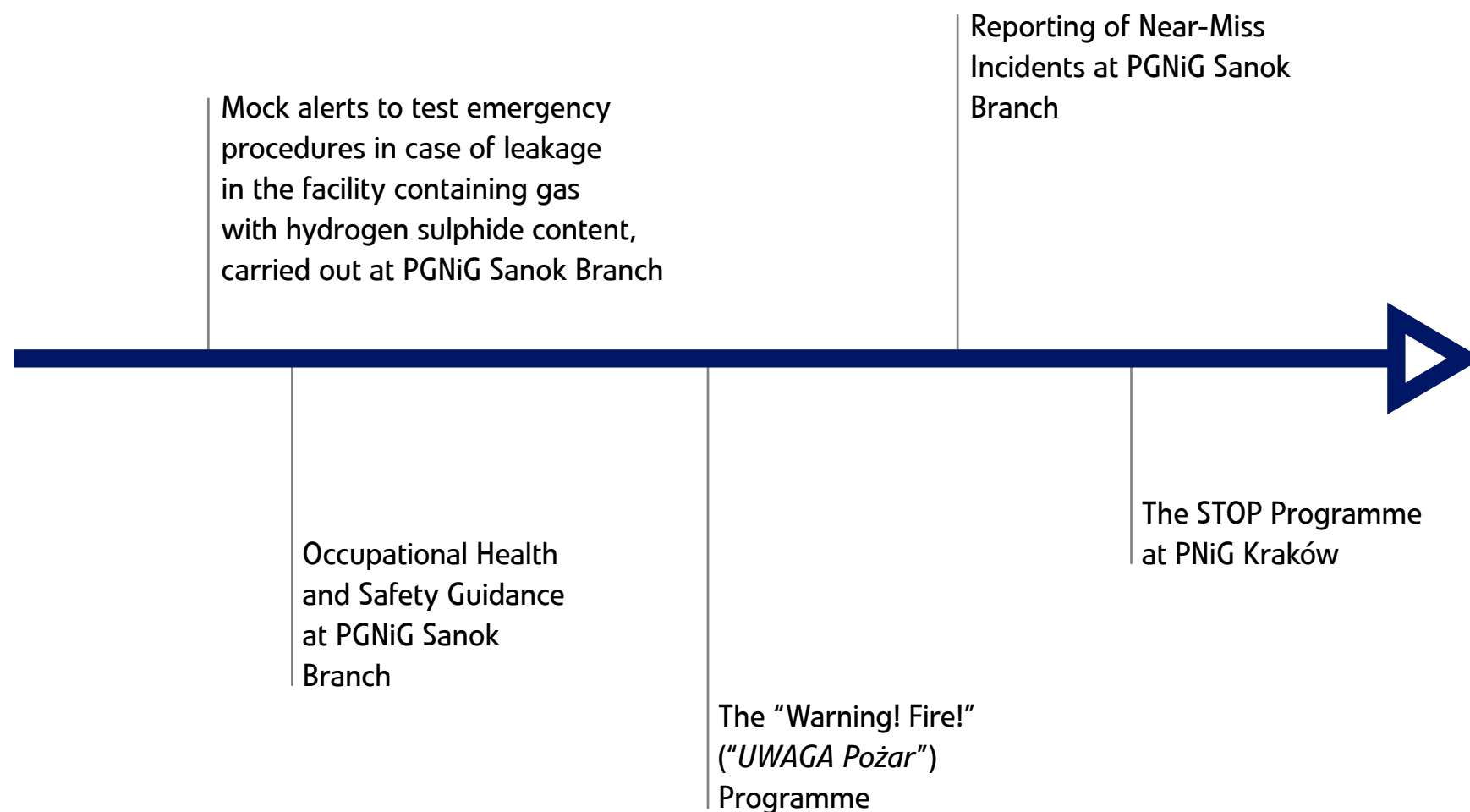


delayed





Improvement of HSE Statistics by Enhancing the System's Effectiveness



Effects

- 80% of PNiG Kraków's drilling crews took part in the STOP programme. As a result, the employees' awareness of responsible behaviour was raised by 88%.
- In 2010, 18 incident reports were submitted under the Near-Miss Incident Programme at PGNiG Sanok Branch.
- 100 employees of ZRG Krosno took part in fire protection seminars.



Focus on the Development of Employees' Competencies/ Learning Organisation

Specialist occupational training, grants to co-finance higher education and foreign language courses

Development of "soft" skills of management staff

The IN-OUT Programme

Effects

- 15 students completed their first year of study for gas engineering qualifications in Zespół Szkół Ponadgimnazjalnych (Secondary School Complex) in Kościan.
- Improvement in "soft" skills of management staff.
- Increased awareness of the importance of sustainable development among PGNiG employees.



Employer Branding (Employer of Choice)

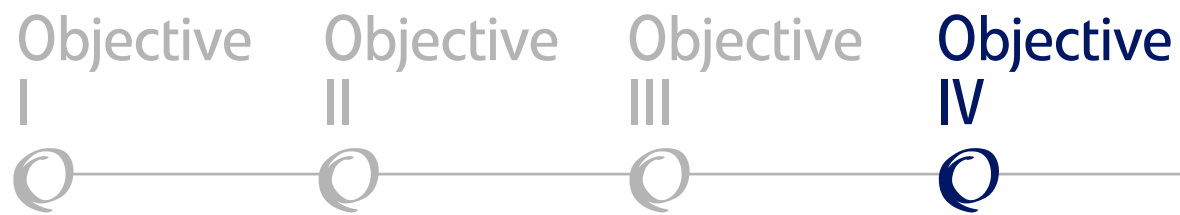
The "I want to help"
("Chcę pomóc") initiative

Employee satisfaction
survey

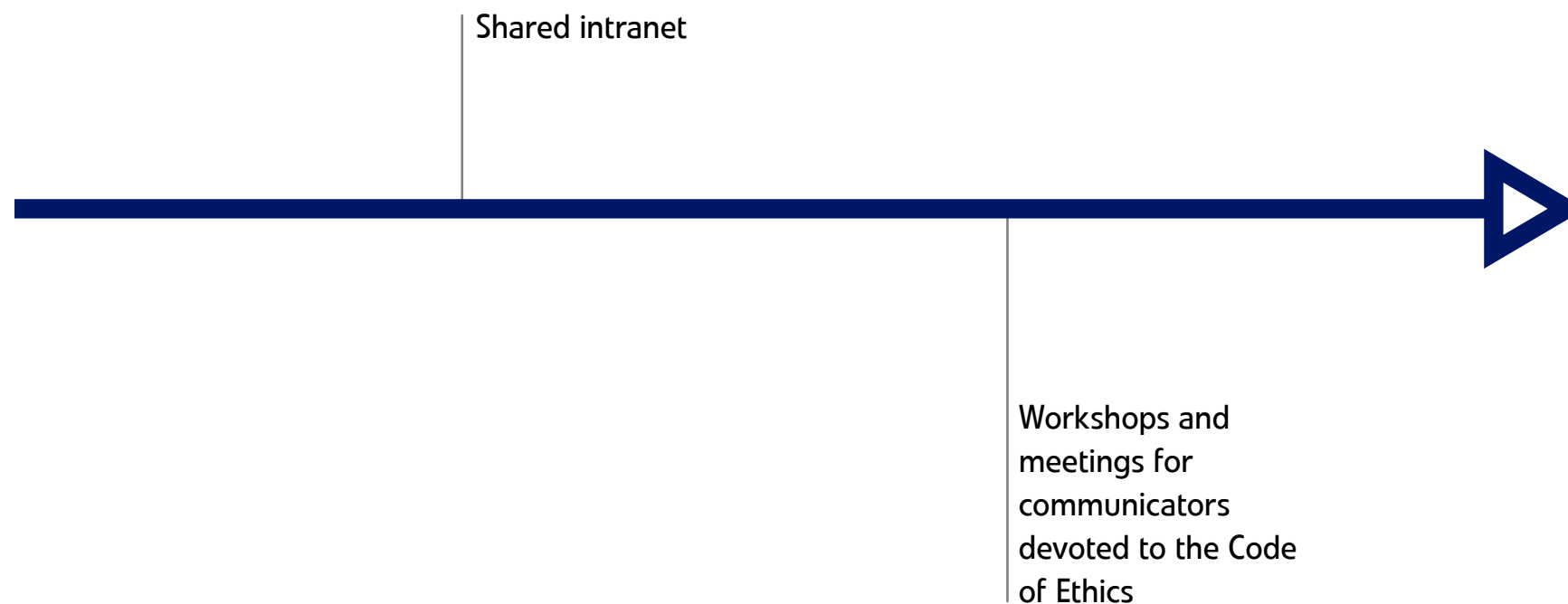
Benefits package and
focus on employees'
health

Effects

- 60% of employees of Karpacka Spółka Gazownictwa took part in an initiative designed to support colleagues affected by the flood.
- PLN 262,825.3 was the amount of financial support given to employees affected by the flood.
- 915 persons were examined under the "For Starters, Do a Check-up" ("*Badanie na Śniadanie*") initiative, carried out by Pomorska Spółka Gazownictwa.
- Over 50% of PGNiG employees participated in the first Satisfaction Survey.



Introduction of Uniform Internal Communication Standards, Development of a Shared Corporate Culture



Effects

- Development of the Code of Values for PGNiG Group employees.
- CSR Report for 2010 prepared jointly by all CSR coordinators of the PGNiG Group.

Objective I

Improvement of HSE statistics by enhancing the system's effectiveness

Ensuring a safe workplace, which involves the provision of safety training to employees, is one of the PGNiG Group's major objectives. As fieldwork at drilling rigs and production sites entails significant risks, PGNiG uses its best efforts to counteract potential hazards. By analysing the number and causes of accidents, we can improve prevention methods. The Group's biggest success in that area is a very low number of industry-related accidents (a trend observed for many years) and rare occurrence of the most severe accidents.

The circumstances and causes of most accidents indicate that industry specific work (geological work, gas and oil exploitation and operation of gas networks) is not the major source of accidents (or the place where most accidents occur). Thanks to considerable capital expenditures, innovative technologies/equipment and organisational efforts, the basic risk of industry related accidents has been significantly reduced, and the work's negative impact on the environment (noise, vibrations, dust) has in many cases been minimised, or even eliminated.

Total headcount by employment type, employment contract and region

Type	Total	Percent
Full time	31115	95.94
Part time	150	0.46
Temporary employment contract, piecework contract, traineeship	1166	3.60
Total	32431	

Category	Type	Total	Percent
Type of contract	Employment contract	31562	96.44
	Temporary employment contract	1093	3.34
	Piecework contract	53	0.16
	Graduate traineeship	20	0.06
	Total	32728	100.00

	Province	Total workforce
Province (or country – if work is performed abroad) of temporary employment contracts and piecework contracts	Province of Wrocław	26
	Province of Bydgoszcz	40
	Province of Lublin	35
	Province of Zielona Góra	55
	Province of Łódź	22
	Province of Kraków	75
	Province of Warsaw	248
	Province of Opole	1
	Province of Rzeszów	320
	Province of Białystok	2
	Province of Gdańsk	33
	Province of Katowice	106
	Province of Kielce	1
	Province of Olsztyn, Province of Białystok	12
	Province of Poznań	27
	Province of Szczecin	21

Objective I

In 2010, most accidents happened to employees performing simple, uncomplicated tasks, walking about the Company's premises, or during manual or road transport of materials. A worrying trend is the growth in the number of collective accidents, mainly in road traffic. Over the recent years, including 2010, accidents have most often occurred in workshops, during construction and assembly work, administration and office work, and in road traffic. Of the total number of 232 accidents in 2010, 74 (31.9%) happened during the performance of such activities.

A significant group of accidents (20 in 2010, which equals 8.6%) were accidents to collection staff and installers (of gas distribution divisions only), performing their professional duties on customers' private premises. Unfortunately, in this case it is hard to take preventive measures.

Category	Province/Country	Total workforce
Province (or country – if work is performed abroad) of employment contracts	Province of Wrocław	2,234
	Province of Bydgoszcz	1,558
	Province of Lublin	998
	Province of Zielona Góra	1,801
	Province of Łódź	882
	Province of Kraków	5,116
	Province of Warsaw	2,236
	Province of Opole	434
	Province of Rzeszów	5,036
	Province of Gdańsk	1,299
	Province of Katowice	3,285
	Province of Kielce	601
	Province of Olsztyn, Province of Białystok	825
	Province of Poznań	3,147
	Province of Szczecin	1,253
	Belgium	2
	Belarus, Vysokoye, Tietierovka	2
	Czech Republic	54
	Drozdovitse, Ustilug	2
	Egypt	17
	Egypt	4
	India	34
	Kazakhstan	389
	Libya	10
	Mozambique	11
	Germany	40
	Pakistan	86
	Russia	2
	Slovenia	90
	Uganda	80
	Ukraine	33

Objective I

2010 saw one fatal accident, in which an employee of Poszukiwania Nafty i Gazu Nafta Piła Sp. z o.o. lost his life. The accident took place at the Markowola-1 drilling rig installation and was directly caused by the employee being unexpectedly hit with the metal end of a drilling mud hose. The employee fell with the force of the blow and suffered serious occipital injuries. The cause of death was multiple internal injuries. Having analysed all circumstances surrounding that tragic accident, we took the following steps:

- the method of drilling mud injection during the casing procedure was modified so as to minimise involvement of pressure equipment operators;
- the instructions for well casing and cementing were revised to include provisions on safe drilling mud injection during the casing procedure;
- the floor surfaces at oil rigs and around rotary tables were fitted with anti-slip mats.

In 2010, the PGNiG Group registered a total of 232 accidents, in which 242 employees got injured, of whom:

- one employee died,
- one employee was seriously injured,
- 240 employees were slightly injured.

Number of accidents at the PGNiG Group’s branches and companies

Year	Number of accidents at the PGNiG Group	Number of accidents at PGNiG	Number of accidents at the PGNiG Group’s companies
2006	213	16	197
2007	228	27	201
2008	213	21	192
2009	215	26	189
2010	232	30	202

The accident frequency ratio equalled 7.9 per 1,000 employees, while the accident severity ratio amounted to 51 days of absence per one accident. In comparison with 2009, the frequency ratio was unfortunately higher, while the severity ratio improved.

The PGNiG Odolanów Branch, the Branch of Central Measurement and Testing Laboratory, and BUD-GAZ of Warsaw did particularly well

compared with other Group entities, since they registered no accidents in the last few years.

The Group’s branches and companies take systematic measures to prevent accidents and improve safety. Many entities have introduced Integrated Management Systems, which confirm that the management process conforms to the highest standards of occupational safety and health.

Accident frequency rate at the PGNiG Group’s branches and companies in 2009 – 2010



Objective I

Initiatives/Best practices

STOP Program, PNiG Kraków

An important safety-improving project at PNiG Kraków is the STOP Program (Safety Training Observation Program) by DuPont. The Program is used for observation and analysis of unsafe incidents and conditions occurring during work. It helps to stimulate appropriate employee behaviour. STOP is designed to improve compliance with the rules of safety at work and prevent injuries and accidents. PNiG's long-term experience and research have shown that STOP participants are more aware about work safety and environmental issues, and quicker at identifying potential or real threats. As a result, it is possible to more effectively eliminate risky behaviours or situations leading to accidents at work.

In 2010, safety training courses were attended by 80% of PNiG Kraków's drilling crews. Approximately 1,500 STOP cards were issued at the drilling rigs, which immediately helped to eliminate numerous potentially unsafe situations, as a result of which only four minor accidents at work occurred.

The implementation of the STOP Program brought about the following benefits:

- A lower number of accidents resulting in absence from work and a lower number of registered unsafe incidents;
- A lower number or elimination of unsafe acts;
- An 88% increase in the awareness of importance of safety and responsible behaviour at work;
- 90% of the workforce exhibit a positive attitude to safety-at-work issues.

Mock alerts to test emergency procedures in case of leakage in the facility containing gas with hydrogen sulphide content, carried out at PGNiG Sanok Branch

At the Tarnów I and Wierchosławice Gas Production Facilities, Lublin Oil and Gas Production Facility, as well as Swarzędz Underground Gas Storage Facility, where there is a risk related to the presence of hydrogen sulphide, a mock alert and staff drills in case of the gas system unsealing were carried out. The drills were performed in line with the "Hydrogen Sulphide Incident Management Procedure".

Objective I

Reporting of near-miss incidents, occupational health and safety guidance, PGNiG Sanok Branch

Preventive measures yield the best results if employees themselves are engaged. The Sanok Branch encourages reporting of near-miss incidents by employees involved. An electronic box for registration of near misses has been set up for this purpose. Moreover, near-miss incidents are discussed at regular health-and-safety-at-work meetings, attended by staff working at the production facilities and other organisational units. By encouraging our employees to report near misses, we are able to take preventive and corrective measures. In 2010, 18 reports were submitted, and all issues raised by employees were solved. All employees reporting near-miss incidents are rewarded by the Company.

For temporary visitors to the production site, the Sanok Branch prepared a special leaflet providing guidance on potential hazards at particular organisational units. Thanks to its instructional character, the leaflet may prove helpful to employees if a risky or unsafe situation occurs.

The "Warning! Fire!" (*UWAGA Pożar*) Programme, Zakład Robót Górniczych Krosno

In cooperation with the Field Office of the Association of Voluntary Fire Brigades of the Republic of Poland in Krosno, Zakład Robót Górniczych Krosno organised educational seminars on fire protection, entitled "Warning, Fire!". The seminars were devoted to legal aspects related to fire protection, causes and spreading of fire (including events occurring after the consumption of alcohol or similar substances), operation of fire-fighting equipment, procedures to be followed in the event of fire, organisation of fire protection at the place of work, and technical and medical rescue service.

The seminars were attended by 100 employees of Zakład Robót Górniczych Krosno.

Objective II

Focus on the development of employees' competencies/
Learning organisation

Each member company of the PGNiG Group seeks to enhance professional development of its staff by preparing training programmes which take into account company-specific needs and the needs of its employees. Given the scale of the PGNiG Group's operations, the need to constantly take up new challenges, and the importance of staff training and development for a socially responsible business, ongoing professional enhancement has become one of the priorities of PGNiG's Sustainable Development Strategy. The PGNiG Group's employees can take advantage of a wide range of post-graduate courses, participate in industry conferences, seminars, and domestic and foreign symposiums, take part in traineeships, are offered paid placement opportunities abroad, and use modern training methods (e-learning), now being introduced on a wider scale. They can enhance their foreign language skills by participating in group and individual courses. The PGNiG Group strives to be a learning organisation, developing in a sustainable manner and bringing satisfaction to its employees, while meeting the market's expectations. The workforce is what drives PGNiG's business. The knowledge, competencies and skills of employees are fundamental for the Company's success. The PGNiG Group keeps exploring new opportunities for professional improvement of its staff by identifying their training needs.

Initiatives/Best practices

Development of soft skills of management staff

For a majority of the Group companies, one of the training goals in 2010 was to enhance soft skills of their management staff. The relevant training was devoted to management of subordinated personnel, constructive conflict solving methods, effective team working methods, ability to self-motivate and motivate others, creating a self-image. Such training courses were carried out, for instance, at the Lower Silesian Gas Trading Division (Wrocław Gas Sales Unit), Pomeranian Gas Trading Division and Carpathian Gas Trading Division. The management staff of Pomorska Spółka Gazownictwa (PSG), as part of the Manager Academy, developed skills related to relationship building, interpersonal communication, teamwork, conflict solving, and management by objectives (motivational). The latter project was implemented throughout PGNiG S.A.

Specialist occupational training, grants to co-finance higher education and foreign language courses

Average number of training hours in the year (from January to December 2010) per employee, by employment structure

Employee category	Average
A. Executive/management staff, including office directors, officers, proxies, managers	103.90
B. Specialists	70.08
C. Blue-collar workers (including casual labour)	11.71
D. White-collar workers, including administrative staff	39.82

Objective II

Each Group company offers its employees specific professional training, allowing them to obtain specialist knowledge or develop specific skills and abilities. The most important courses involved gas and electric arc welding, energy (supervision and operation) licences, as well as geological and mining supervision licences. An example at hand is the Sanok Branch, which refunds the cost of the mining law examination to its employees, as well as Geofizyka Toruń, which supports its engineering staff in obtaining the licences as a matter of priority.

Depending on the scope of duties, employees (both white- and blue-collar workers) have a chance to participate in professional enhancement courses required for specific positions. Training courses are selected in response to the ongoing changes on the Polish energy market and constant development of the organisation. Professional development training is also related to the need to keep abreast of changes and trends in other industries, such as IT, accounting, finance, marketing and management. Such training is arranged mainly for administrative staff.

The PGNiG Group's employees can take advantage of various forms of supplementary education, such as foreign language courses (including individual classes), post-graduate studies, MBA courses, participation in industry meetings. At some of the Group companies, employees receive grants to finance their higher education courses, as well as travel and accommodation fares paid in connection with their studies.

Owing to the nature and specialist profile of PGNiG's subsidiaries, some training schemes are tailor made. This applies in particular to training for employees of Geofizyka Kraków, Geofizyka Toruń, PNIG Nafta Piła and PNIG Kraków, who, under contracts executed by their companies, go for 6 to 8 weeks to Kazakhstan, Pakistan, Libya, Uganda or Ukraine. The subsidiaries carry out regular training programmes for such employees on cultural differences, as this will help them not only to develop good relations in the new environment, but also avoid risky behaviours. Training in human rights procedures and policies is also provided at the PGNiG Group.

Typically, HSE Officers are permanently present at foreign contract sites, and they are responsible for ensuring strict adherence to all procedures related to health, safety and the environment.

As an example, two training courses of such type were held at Poszukiwania Nafty i Gazu Jasło:

- 1) a QHSE (Quality, Health, Safety & Environment) training course, attended by more than 70% of the workforce, i.e. almost each field worker;
- 2) training preparing employees to perform contracts abroad (23 hours, 45 participants). The course covered such issues as cultural differences, QHSE, and preparation to IWCF (International Well Control Forum) examination. Those who pass the examination obtain a certificate accepted by virtually all foreign operators. Holding such certificates is a necessary requirement for key drilling rig staff working under foreign contracts.

Objective II

PNiG NAFTA organised a training course in cultural differences, addressed to employees working under the contract in Egypt. The first stage of the training took place at the operator's offices, with the participation of service companies. The issues covered by the training included respect for local customs. All the companies were instructed on how to avoid conflicts with local people or how to behave in various situations. Cultural and religious issues characteristic of the region were discussed. Another training was held at the drilling rig and was addressed to the entire crew. The training was attended by PNiG NAFTA Piła employees working on the project, as well as by representatives of the operator and local authorities.

IN-OUT programme IN-...

Considering the need to educate future staff, more and more frequently the Group companies enter into cooperation with secondary schools. A perfect example here is Mazowiecka Spółka Gazownictwa (MSG), which, in 2009, together with Secondary School Complex No. 3 in Łódź started a pilot gas engineering education scheme for youth and adults. The school offers daily and extra-mural courses.

A similar agreement was signed by PNiG Nafta Piła with Stanisław Staszic School Complex in Piła, whereby both parties undertook to cooperate to ensure top-level education to drilling rig

technicians, with a view to their later employment by the Company or higher education at the AGH University of Science and Technology of Kraków.

In 2010, Wielkopolska Spółka Gazownictwa (WSG) followed suit when it took under its patronage the education of gas engineers at the Secondary School Complex in Kościan. This year the first grade was completed by 15 students, but the new recruitment showed strong interest in the gas engineering profile, having attracted 31 new first-year students. WSG offers gas engineering students a practical occupational course. In the future, the students will be able to undertake traineeships at the Company's Gas Distribution Regions, which will give them an opportunity to familiarise themselves with the operation of the company's technical divisions. After graduation, the students will be able to take up employment at the Company's branches.

...-OUT

We seek to maintain relations and bonds with our employees also after they retire. Retired experts in the trade are frequently engaged as consultants to the management or individual units. Their knowledge of the organisation and professional expertise represent valuable assets. Retired employees are frequently involved in the work of industry associations, which keeps them up to date in the field. They are also invited to traditional celebrations of Saint Barbara's Day on December 4th and to New Year's meetings. Thanks to the industry gazette, our retired staff are kept informed about the most recent developments at their former workplace.

Objective III

Employer branding (employer of choice)

The Group aspires to build its value in accordance with the principles of sustainable growth. To this end, the Group places particular focus on fostering an organisational culture that supports such values. While the corporate identity and organisational culture of the firm are created by all its employees, the role of the management staff and direct superiors cannot be underestimated. Systemic measures must be put in place to eliminate undesired behaviour, while helping implement solutions benefiting the Company and its employees. Such measures include various internal corporate codes, as well as employee sentiment surveys. The PGNiG Group is also implementing induction programmes for new hires.

To be an employer of choice, we must focus on creating optimal conditions for development and work. If we show that we care about our people, they will reciprocate by taking care of the corporation.

Initiatives/ Best Practices

PGNiG's Employee Satisfaction Survey

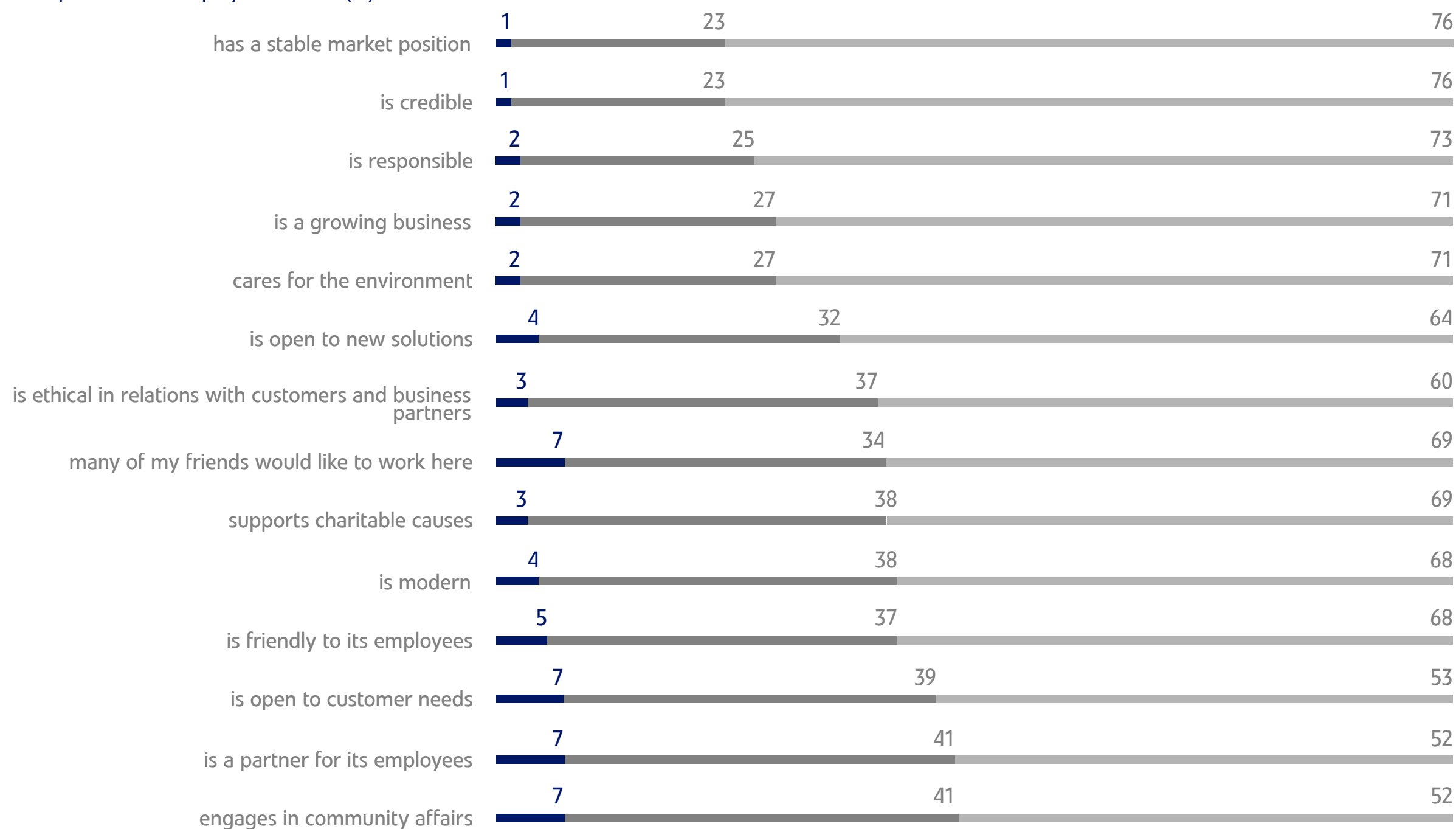
In 2010, an employee satisfaction survey was carried out at PGNiG for the first time. The purpose of the survey was to find out how PGNiG's employees view the Company as an employer, identify areas with the strongest impact on work satisfaction, and indicate areas where steps must be taken to increase employee satisfaction. 53% of the total workforce decided to take part in the survey. Considering that it was the first project of this type at PGNiG, this participation level can be considered satisfactory, while participation levels at the individual Gas Trading Divisions (Upper Silesian Gas Trading Division – 71%, Carpathian Gas Trading Division – 70%, Pomeranian Gas Trading Division – 69%) can be considered as highly satisfactory.

The survey has shown that 60% of our employees consider working for PGNiG as highly satisfactory, and only 2% were decidedly dissatisfied. Most of our staff (64%) would definitely recommend working for PGNiG to their friends.

The areas most appreciated by the employees included social benefits and working conditions, as well as the atmosphere in their respective teams and at the whole Company.

Objective III

In the opinion of its employees, PGNiG (%):



Bottom 3 boxes
 Neutral
 Top 3 boxes

Objective III

“Employer of Choice” programme, Dolnośląska Spółka Gazownictwa

“Employer of Choice”, a project initiated by Dolnośląska Spółka Gazownictwa (DSG), is an example of systemic measures aimed at fostering the brand’s recognition as a stable and reliable employer, offering growth opportunities and meeting the needs of its various internal and external stakeholders. The full implementation of the programme is spread over five years. Its purpose is to provide full information on the HR policies and recruitment principles, as well as facilitate on-line contact by persons interested in working for the company. The “Career with DSG” tab on the company’s website features an on-line recruitment questionnaire for graduates as potential work candidates. Information obtained in this way is collected in an internal database of the HR departments at the Branches, which facilitates recruitment of specialists from the labour market and shortens the selection process. The tab also provides guidance on how to prepare to a job interview and what to include in the application documents. Once completed, the tab will include information on the company’s values and organisational culture, as well as its business profile. The tab will also contain information on job openings,

key objectives of and values underlying the company’s HR policy, social and other employee benefits, development programmes for employees, opportunities for women, priorities in ensuring a safe working environment, and scope of cooperation with higher learning institutions in Lower Silesia. A separate part will feature overviews of accomplishments of the company’s employees, as well as functionalities for submitting inquiries and comments.

Additional benefits

The Group employees can take advantage of a range of additional benefits serving as incentives. These include a wide array of social benefits, such as private medical cover offered by the majority of Group companies, an Employee Pension Plan, gift cards, financial assistance towards the cost of commuting fares, as well as participation in sports events.

Below we present a detailed specification of benefits available at PGNiG, but it must be remembered that the scope of benefits varies considerably across the Group.

A unique example of our care for employees was the establishment of a separate financial assistance scheme within the PGNiG Group to benefit those employees who suffered most severe losses during the 2010 flooding. They received assistance from the Social Fund which, by separate decisions of PGNiG’s Management Board, was significantly increased.

PGNiG also cares about more distant future of its employees by covering them with the Pension Plan and paying basic contributions amounting to 7% of an employee’s salary. Extra days off work is another benefit favoured by many of our employees. One of them falls on December 4th, that is Saint Barbara’s Day (the patron saint of miners). The other day off falls on the birthday or name day of an employee and can be taken at any time convenient for the employee. The third day off is offered to employees whose length of service at PGNiG is at least 15 years.

Objective III

The benefits mentioned above, as well as other benefits and the employer's obligations towards employees, are provided for in the Company's Collective Bargaining Agreement, which was adopted after many months of negotiations with the trade unions. The Agreement came into force in July 2009. It contains such obligations as a guarantee of employment for the deceased employee's family member if the employee died or suffered injuries resulting in a permanent inability to work as a result of an accident at work or on his/her way /from work, higher retirement severance payments, calculated as length-of-service awards, or extension of the occasional leave period by one day, as well as many other provisions which reward those with a long track record at PGNiG.

A special benefit is the entitlement to acquire PGNiG shares free of charge (part of the workforce was granted shares in 2009). The benefit does not cover all employees – pursuant to statutory provisions, the so-called entitlement to shares was established at the time of PGNiG's transformation from a state-owned enterprise into a joint-stock company, which took place in 1996. Persons employed after that process was completed are not entitled to the benefit. Nevertheless, a few dozen thousand employees of PGNiG S.A. and the Group's subsidiaries/branches, as well as eligible retirees, did acquire PGNiG shares free of charge.

The number of shares allotted to individual employees varied based on their length of service at the Company. Holding shares in PGNiG S.A. clearly forms a stronger bond between the Company and its personnel.

Finally, the Group also cares about employees who have already retired. They are entitled to the following benefits offered by the Group:

- holiday subsidies;
- financial and in-kind assistance for persons experiencing financial hardships or health problems;
- housing assistance;
- co-funding of sports, recreation, cultural and educational activities;
- the eldest and those suffering from the most severe diseases also receive Christmas gift baskets.

In response to the needs of our employees, retirees and disability pensioners, the staff of the Social Welfare Office organises annual meetings of PGNiG's Management Board with retirees and disability pensioners of the Head Office, which represent an opportunity to brief them on our current operations and social welfare activities targeted at former employees. With our retirees and disability pensioners in mind, we also organise trips as well as rehabilitation holidays. Every year, on Saint Barbara's Day, that is the industry's holiday, we organise official celebration events as well as get-togethers for all employees. Additionally, it has become the company's tradition to organise educational family picnics. In Warsaw alone, the 2010 picnic was attended by over 1,500 people.

"For Starters, Do a Check-up" – use of social funds, Pomorska Spółka Gazownictwa

An excellent example of an initiative financed with social funds is the project "For Starters, Do a Check-up" (*Badanie na śniadanie*), developed and implemented by Pomorska Spółka Gazownictwa (PSG) to demonstrate its corporate social responsibility. Remembering that preventive healthcare plays a key role in counteracting dangerous diseases, PSG invited its employees covered by the healthcare package to participate in a programme designed to prevent lifestyle diseases, including cancer. Since early cancer detection significantly increases the chance of successful treatment, and visiting a doctor is often postponed due to lack of time or fear, a medical test laboratory was invited to the company's premises. For a couple of days in June 2010, the employees had an opportunity (at 14 places within the company's premises) to take blood tests detecting ovarian or prostate cancer.

Objective III

It was not easy to overcome the psychological barrier caused by a somewhat embarrassing situation of having a blood test taken at the workplace and facing the thought of a disease, which after all can happen to anyone. To alleviate employees' concerns, the rules of the planned tests were broadly communicated, with special emphasis on the importance of early disease detection, and appropriate conditions for the tests were ensured. The company also took care to ensure that the test results remained anonymous. The project attracted 915 participants (70% of the staff).

"I want to help" (Chcę pomóc), Karpacka Spółka Gazownictwa
Voluntary initiatives, especially blood donor sessions, are very popular among the Group's employees. However, the sense of identification with the company and with fellow workers is also reinforced through other projects, such as the initiative organised by Karpacka Spółka Gazownictwa (KSG) in connection with the flood that in 2010 affected the region in which the company operates. The initiative drew immediate response and support from the gas industry and the entire Group. Initially, the project involved voluntary contributions by KSG employees, deducted from their base pay and donated to those affected by the flood in 2010. KSG employees alone contributed as much as PLN 107,630. The project was supported by 1,912 KSG employees (approximately 60% of all employed). An additional PLN 4,500 was raised during a few-hour lottery held at KSG's family picnic.

The funds were used to purchase two professional dehumidifiers and to lease a third one for a month. All the dehumidifiers were sent to Sandomierz.

The above amount was increased by PLN 155,195.37, raised outside KSG. PLN 110,776.45 was contributed by the PGNiG Head Office, PLN 25,260 by Wielkopolska Spółka Gazownictwa, PLN 10,462.5 by ZKK ZOK NSZZ Solidarność (a trade union) at KSG, and PLN 7,000 by the Trade Union Council at KSG. Financial assistance was also offered by the Alpejczyk sports and recreation association and a number of external gas sector companies. The aggregate amount of PLN 262,825.37 was distributed proportionally among all employees affected by the flood at the individual branches of the Gas Distribution Divisions. The employees of the PGNiG Head Office and Gas Distribution Divisions in Kielce and Sandomierz organised a collection of cleaning products and blankets.

An account dedicated to flood victims was opened at the PGNiG Foundation. The flood victims were also supported by the Carpathian Gas Trading Division: in the first days after the disaster struck, it provided drinking water and made a donation for the primary school where flood victims were sheltered and given food. The employees of the Carpathian Gas Trading Division also made voluntary contributions. Physical help with cleaning up and repairs also proved invaluable. The employees helped those in need, by arriving after hours and on free weekends to help them repair damaged houses. In addition to financial support, flood victims were offered words of comfort and psychological support – the sense of community created at the time of hardship has helped forge strong and lasting relations between people.



PLN 262,825.3

was the amount we managed to raise to help our colleagues whose property was damaged during the flood

Objective IV

Introduction of uniform internal communication standards, development of a shared corporate culture

For several years, PGNiG has been making efforts designed to develop uniform standards of both internal and external communications, and improve their quality. For more detailed information, see the “Communication and marketing” section. PGNiG’s Management Board gives priority to this matter because – especially in the context of the implementation of the Sustainable Development and Responsible Business Strategy started in 2009 – good internal communication procedures are crucial, as is the employees’ sense of accountability for the results of their work. The implementation of the Company-wide intranet marks a major step forward. In its final form, the tool will cover all PGNiG branches; in mid-2011, the first implementation phase was completed at the Head Office and the Pomeranian Gas Trading Division.

It has also taken several years to develop the Code of Ethics, which is to become an additional tool for building the PGNiG Group’s corporate culture, based on a set of certain common values. In 2010, another round of meetings and workshops with Group employees were held to discuss the Code. PGNiG’s Employee Satisfaction Survey also included ethics-related questions. As a result, in the first half of 2011, an Ethics Officer was appointed

at PGNiG, and the Company’s Management Board formally approved the Code of Ethics together with the Ethics Programme Management System.

Code of Ethics and Ethics Programme Management System

As part of the work to build the ethical foundations of our organisational culture, we completed the preparation of a comprehensive ethics programme for PGNiG. The objective of the programme is to introduce uniform rules and standards to be followed by all employees, which in turn is expected to bring fruit in the form of consistent improvement of the work environment quality, PGNiG’s credibility and reputation, while instilling trust in customers, suppliers and business partners. The ethics programme is an expression of our deeply ingrained belief that business activity should be conducted to the highest standards. PGNiG’s Ethics Programme Management System was adopted by the Management Board’s resolution in July 2011.

PGNiG’s Code of Ethics is the centrepiece of the ethics programme. It comprises the Declaration of Values (an overview of fundamental values on which our day-to-day operations are based) and the Code of Ethical Standards (laying down specific rules of conduct to be followed by all employees, based on the professed values and aligned with the industry’s best practices).

The Code of Ethics was developed through broad-based dialogue with various groups of employees and external stakeholders, representing higher education institutions, NGOs and public administration. We would like it to be, at least to some extent, a “living” document, supplemented in the course of PGNiG’s future growth, especially where it refers to standards of ethical conduct. We have also assumed that, in circumstances which are not covered by the document, our employees should be guided primarily by PGNiG’s values and use common sense, and – when in doubt – contact their superiors or the Ethics Officer. The Code of Ethics identifies examples of both desirable and unacceptable conduct. In order to ensure full consistency between employees’ conduct and our ethical ideals, we have been implementing specific instruments and procedures.

First of all, a detailed programme of business ethics training was prepared, encouraging employees at all levels of our organisation to reflect on their conduct and helping them to better understand our professed values and standards in the context of day-to-day behaviour. We do believe that ethics training is indispensable as the foundation of moral choices in the complex business environment.

Objective IV

The Management Board resolved to establish ethics programme management structures, from decision-making powers of the Management Board itself, to the Ethics Committee, to the Ethics Officer. The Committee's primary responsibility is to monitor compliance with the Code of Ethics and undertake corrective steps whenever its principles are breached.

In justified cases, the Ethics Committee requests the Management Board to take disciplinary action with respect to persons who have violated ethical standards.

The Ethics Officer was appointed by the Management Board, based on suggestions obtained during an employee survey, as an independent and impartial expert in business ethics. The Ethics Officer, who started work in April 2011, is responsible for promoting ethical attitudes at PGNiG S.A., by answering employees' questions and doubts, accepting reports of breaches of ethical standards and recommending changes of procedures applicable at PGNiG.

The formal procedure for reporting ethical breaches includes rules to be followed whenever any doubts arise with respect to planned or adopted decisions concerning co-workers, the Company or the Company's environment. We have decided that the Code of Ethics should be the benchmark against which individual decisions should be assessed, and that it should be consulted while assessing decisions adopted by co-workers, subordinates or superiors. We have also arranged for adequate protection of "whistleblowers", so that no employee who, acting in good faith, reports a breach of ethical standards to the Ethics Officer faces any unpleasant consequences of that commendable behaviour. A reporting person is protected and if they wish to remain anonymous, it is the Company's duty to ensure that.

The above initiative is excellently harmonised with other two projects currently implemented at the Company: launch of the Integrated Enterprise Risk Management System and a comprehensive programme for abuse risk management at PGNiG, prepared by the audit function, and focused primarily on abuse prevention and enhancement of the internal control environment. Under the programme, detailed projects will be developed, such as responsible leadership based on the "example-from-the-top" principle, inclusion of additional ethics-related criteria into recruitment and promotion procedures, and a policy of zero tolerance on abuse. As early as in 2009, the Rules of Best Practice for the PGNiG Group's Managers were adopted as part of the programme.

Developing a well-regulated system ensuring optimum security and abuse risk mitigation is a time-consuming process, which requires involvement of both the management staff and each employee. We understand that promotion of ethical attitudes should also be supported by relevant internal control procedures, to effectively minimise both internal and external risks. This is the only way of bringing the responsible business concept into practice.

Objective IV

It is important to cooperate on an ongoing basis with the ethics officers of other PGNiG Group companies, with a view to integrating the Group's ethics programme, implementing an ethics programme management system at all entities of the Group and monitoring all reports of breaches.

The full implementation of the ethics programme at the PGNiG Group will take sustained efforts and ongoing cooperation with all employees within a long-term ethics education programme. We believe that the more attention is given to promotion of ethical conduct, monitoring of compliance with ethical standards and active involvement of employees in educational initiatives, the better results the programme will deliver. Only then will we be able to ensure that the Code of Ethics is not yet another internal regulation and that its principles are reflected in employees' attitudes and conduct within our organisation and society at large.

Dialogue with employees

Social dialogue in the energy industry is a well-established tradition. It is no different at the PGNiG Group, where over 120 trade union organisations operate. One member of PGNiG's Management Board is elected for a three-year term by employees of the Company, and the Supervisory Board includes three members who are representatives of employees. Each subsidiary has an officer for employee affairs and cooperation with trade unions.

The subsidiaries consult every material decision with employee organisations. This framework of cooperation is of seminal importance for us, yet it does protract decision making processes concerning a number of issues, including employee affairs. The problem came to the attention of trade unions at PGNiG and the Group.

Attempts were made to establish a single method of cooperation among all the trade unions to enable coordination of the trade unions' activities towards employers in the gas and oil industry. The initiative was not entirely successful at that stage, but the process continues. With respect to many fundamental issues, certain overlapping in the social dialogue process is observed. Due to legal considerations, the Management Board's partners in the dialogue are separately trade unions active at PGNiG and separately trade unions active at PGNiG's subsidiaries.

Employee communication and consultations regarding important decisions are also present within the framework of cooperation with trade unions and employee councils, operating at PGNiG S.A. and many of the subsidiaries. If consultations with trade unions are conducted, e.g. in the case of the Memorandum of Understanding with the National Trade Unions (which also represent trade unions within the Group), the process provides for a 30-day period for responding to a motion in writing, 30 days for exchanging documents if the negotiation-and-approval procedure is applicable, and 14 days if an opinion is to be issued. The duration of the process under the Memorandum of Understanding with the PGNiG Trade Union is 30, 30 and 10 days, respectively. The employer is required to provide the Employee Council with the information requested by the Council within 14 days.

The Council issues opinions within 14 days of receiving the information from the employer. Also, as provided for in the relevant laws, the employer is required to submit the information within the deadlines and scope enabling the Council to familiarise itself with the facts of specific case and prepare for the consultation process.

Objective IV

In 2010, in accordance with the applicable laws, PGNiG's Management Board and Employee Council decided to increase the number of members of the Council from seven to 14, to include representatives of those PGNiG's business segments which had not been represented in the previous seven-member Council. In accordance with the law, members of the Council were elected in general, direct and secret elections. Each PGNiG employee was entitled to vote in the elections, which enjoyed high turnout.

Since January 2009, a new discussion platform has operated at the Group, namely a special annual PGNiG Group Social Dialogue Conference, attended by PGNiG's Management Board and key directors, with a total of 150–200 persons participating in the event, including representatives of social partners from across the Group. For more details, see Best Practices. In 2010, another such conference was held.

Collective Bargaining Agreement

Efforts of the trade unions and the employer led to the registration of the Collective Bargaining Agreement for Employees of Polskie Górnictwo Naftowe i Gazownictwo on July 15th 2009. It was the crowning of the parties' work on a document which would compile and elaborate on the employee rights and privileges stipulated by the national labour laws and other regulations.

The Collective Bargaining Agreement also follows up on the generally applicable laws and regulations by taking into account the specifics of our organisation, and in many cases includes requirements exceeding those imposed by law.

For more details on the specific solutions adopted in the Collective Bargaining Agreement, see the "Additional benefits" section.

To note, most of the solutions described in this CSR Report come from the Group's parent undertaking, and other entities of the Group may apply different and often divergent rules in this respect.

Summary

PGNiG strives to create a safe and friendly workplace (one of the pillars of our strategy) by pursuing a series of initiatives launched over the years by the Group. Our efforts focus on the wellbeing of the employees and on supporting them through appropriate social solutions and training opportunities. The survey conducted in 2010 among the Group's employees revealed that our Company was perceived as a very good employer. This is confirmed by a low employee turnover rate at PGNiG's Head Office, which in 2010 remained at the level of 6%.

This section presents the most important initiatives carried out in 2010 as part of the Workplace strategic pillar. They constitute key elements of PGNiG's philosophy, which is based on the twin values of sustainable development and responsible business. The electronic version of this Report will include descriptions of initiatives we regard as the most interesting. However, we are aware that this area needs to be developed further.

In order to face market challenges, the Group needs to enhance its structure to make it even more efficient, while improving the qualifications of its employees. Better systemic solutions are required in the HR and staff development areas. Also, the Group needs to formulate precise responses to new, specific demands in the area of employee training and skills required to pursue the Group's strategic initiatives.

Did you know?

"Risked his life to save two"

Read the headlines of most local and national newspapers that wrote about the heroic deed of Mr Celestyn Żeliszewski, an employee of KSG – Gas Distribution Region of Nowy Sącz. On May 3rd 2010, Mr Żeliszewski rushed without hesitation to help two young people trapped in a burning car, overturned in a ditch nearby his house. Thanks to the immediate rescue, both teenagers came out of the accident practically unharmed, but unfortunately our colleague was seriously injured. He suffered extensive internal and external burns of the second and third degree, which posed a threat to his life. The burns covered 20% of his body and airways. Unconscious and in critical condition, he was transported to the Burn Injury Treatment

Centre in Siemianowice Śląskie. We kept in touch with Mr Żeliszewski's family during his recovery, and contributed financially towards his treatment and rehabilitation.

In December, we were proud to have the hero with us at the corporate Christmas Eve at Karpacka Spółka Gazownictwa. His heroic and selfless act moved us all, and the modesty with which he took words of praise made us all reflect on our own behaviour. For saving two lives and a display of courage, the president of Poland, Mr Bronisław Komorowski, awarded him a medal "For Bravery and Courage" (*Za Dzielność i Odwagę*). He was also chosen by the *Gazeta Krakowska* daily as the Man of the Year (*Człowiek Roku Gazety Krakowskiej*), the Nowy Sącz Citizen of the Year (*Sądeczanin Roku*) and presented with the Golden Coat of Arms of Nowy Sącz (*Złota Tarcza Herbowa Nowego Sącza*), the highest distinction awarded by this town, and the Noble Deed (*Zacny Uczynek*) award.



Celestyn
Żeliszewski

Commitments for the future

Strategic pillar	Operational objectives	Detailed objectives for next period
Workplace	To be a learning organisation	Improving the In-Out Programme
	To develop and implement HR strategies	Creating an incentive scheme for members of task teams, facilitating management of large investment projects, mergers and acquisitions, and developing research capabilities
	To expand cooperation and knowledge sharing between the Group's HR teams	Developing and launching new initiatives in this area
	To build a shared organisational culture based on the Group's values	Ethics training for employees and management staff

Prepared by team composed of: Katarzyna Cybulska-Jura, Beata Dreger, Anna Folcik, Agnieszka Kuras-Atamańczuk, Dorota Omylska-Bielat, Jan Sęp, Sebastian Słodownik, Katarzyna Wróblewicz.

8.1. Employee Satisfaction Survey – our portrait and guidance for the future

Surveys among employees, also known as employee satisfaction or employee sentiment surveys, are becoming increasingly common at Polish companies. Good internal relations are considered at least as important as the public image a company projects. Companies that understand the relationship between work satisfaction and employee commitment and their own market performance, treat employees as their key internal stakeholder group.

The introduction of regular Employee Satisfaction Surveys at PGNiG S.A., which in the following years are to be extended to other entities of the Group, was a planned element of the Sustainable Development and Responsible Business Strategy. In July 2010, the Management Board for the first time confirmed the intention to implement this project, setting the deadline at the end of 2010. The survey was conducted between November 22nd and December 16th 2010.

Ten areas were covered by the survey, including: general issues, remuneration, bonuses, awards, social benefits, working conditions, communication, management, work atmosphere, personal development and career paths, the Company's image and new solutions.

All employees have the right to express their opinions in the survey, although not the obligation. However, as is the case with other civic engagement opportunities, the good participation rate was proof of the employees' involvement in the life of the Company. Over 50% of all employees – 4,754 people – took part in the survey. This figure may not be particularly high, but considering the relatively short survey period, decentralised structure of the Group, large number of employees who could only fill out a printed questionnaire (2,668 employees do not use computers at work), as well as the fact that this was the first survey of this kind conducted at PGNiG and the staff may have viewed it with mistrust or reserve, we believe that surpassing the 50% threshold was a satisfactory result.

The survey results provided us with valuable insight into the employees' perception of the Company, thus offering a unique portrait of our organisation, showing PGNiG's employees, our attitude to work, our values and things we object to.

The initiative will be repeated in the following years. We hope that the actions inspired by the first survey will convince PGNiG's employees that it may be worthwhile to exercise their right to express opinions. Obviously, it is impossible to introduce anticipated changes quickly in all areas, but even today there are several areas where our staff's perspective does matter. For instance, their opinions were fully taken into account while formulating PGNiG's Code of Ethics. In one part of the survey, we asked employees to indicate values which they considered the most important. Thus, we have certainty that responsibility, reliability, quality and partnership – the four corporate values adopted by PGNiG – are fully shared by our staff. During the development of the ethical programme management system, the Management Board also consulted employees, who decided that the position of Ethics Officer should be filled by an impartial person, unrelated to PGNiG and working professionally in the field of ethics. In line with this suggestion, Bolesław Rok, PhD, was appointed to the position in April 2011.

8.2. POGC Libya – waiting for a chance to return

In December 2007, PGNiG S.A. was awarded a tender for Exploration Licence 113 in Libya. On February 25th 2008, an Exploration and Production Sharing Agreement (EPSA) on the exploration for and production of hydrocarbons was signed with Libya's National Oil Corporation. Under the agreement, we committed to invest USD 108m in gas exploration and production in Libya within the next six years, in exchange for the right to share in future production. According to estimates, the resources of Licence 113, lying within the Murzuq Basin 1,300 kilometres north of Tripoli, near the Algerian border, may amount to over 100 billion cubic metres of natural gas. In favourable conditions, commercial production could be launched as early as in 2015. For the purpose of our operations in Libya, POGC Libya B.V. of Amsterdam was established, along with its branch in Tripoli.

The POGC office on the outskirts of Tripoli employed a permanent staff of about 10 Poles and 20 Libyans. Under a cooperation agreement concluded between PGNiG and POGC, they received support from their colleagues in the Head Office in Warsaw, and in the last three years did their best to ensure that drilling work could start on schedule, that is in April 2011. In January 2011, it seemed that the schedule was feasible: tenders to select suppliers and providers of services necessary to support the drilling operations were about to be completed, final service agreements were to be concluded within days, preparatory work in the licence area was underway, and on January 13th 2011 we received the long-awaited A1-113/01 Drilling Permission.

Unfortunately, something different happened. On February 17th 2011, Benghazi, riding the wave of the Arab Spring, saw a wave of riots against Muammar Gaddafi's regime, which quickly spread throughout Libya. On February 22nd, the Polish staff of POGC were evacuated by a Dutch military aircraft, on board of which they could only take hand luggage. The Libyan employees stayed behind. On March 17th, UN Security Council Resolution 1970 and 1973 marked the beginning of international military intervention in Libya. According to diverse estimates, from 10 to 15 thousand people have died since the conflict broke out.

We have left much more in Libya than just office equipment and company cars. The Poles who worked at POGC were living in Libya, some of them for a few months, others – for a year or two. In the meantime, despite certain inconveniences of living in an Arab state, they grew attached to the country and began to treat it as their second (and in some cases, as their first) home. Since February, they keep thinking not only of the possessions they have left behind, but first and foremost their thoughts are with the people they met, both Poles and Libyans, who for various reasons had to stay in Tripoli.

Most Libyan employees took leave from work, some managed to escape to Tunisia with their families, two of them even visited Poland. The three young Libyan men who were sent by the Company to study at the AGH University of Science and Technology were staying in Kraków when the revolution broke out. We are taking steps to provide them with internship or training opportunities that would allow them to live on in Poland until the conflict ends. Our employees who stayed in Libya come to the office for even a few hours a week, if circumstances allow, and report the current situation over the phone. Thanks to them, we know that so far everyone is safe. To date, they have also successfully protected the Company's and private possessions left behind in Libya. Many other firms failed to secure their property – their cars and office equipment were destroyed, stolen or confiscated by the regime. POGC, like many other companies, not only maintains contact with its employees, but continues to pay them salaries.

After the Polish staff arrived in Warsaw, they accepted the Head Office's hospitality, setting up a makeshift office in a conference room in the C5 building. Although the future remains uncertain, everyone resumed their duties. In the last few months, the team have finished to interpret data and plan further activities. Preparatory work is underway and numerous meetings and training courses are being held at the office, but first and foremost the entire team are following the news from Libya and looking forward for a chance to return.

9. Communication and marketing

Consistent, credible and effective communication and marketing constitute a pillar of the PGNiG Group's sustainable development strategy. It is unique in that it concerns all Stakeholder groups and overlaps with many other areas of the sustainable development strategy.

The activities I am responsible for at PGNiG are inextricably linked with all pillars of our sustainable development strategy. It is one of the reasons why we organise, as part of our CSR efforts, the Responsible Energy conference, which was held for the third time this year. The conference is hugely popular and attracts all leading energy sector players. Besides, we are included in the exclusive group of 16 companies listed as part of the Warsaw Stock Exchange's Respect Index of industry CSR leaders. This year, we are also publishing our third CSR report. I hope this issue will be as well received as the previous ones. We strive to make our CSR activities uniform across the Group, including those related to the issue which has been all the rage recently, namely shale gas.

The whole Group will be working to deliver the right message, especially to the local communities where we conduct our exploration and drilling projects. We will try to convince the public that these operations are not harmful to the environment, quite the opposite – that they can benefit us all.

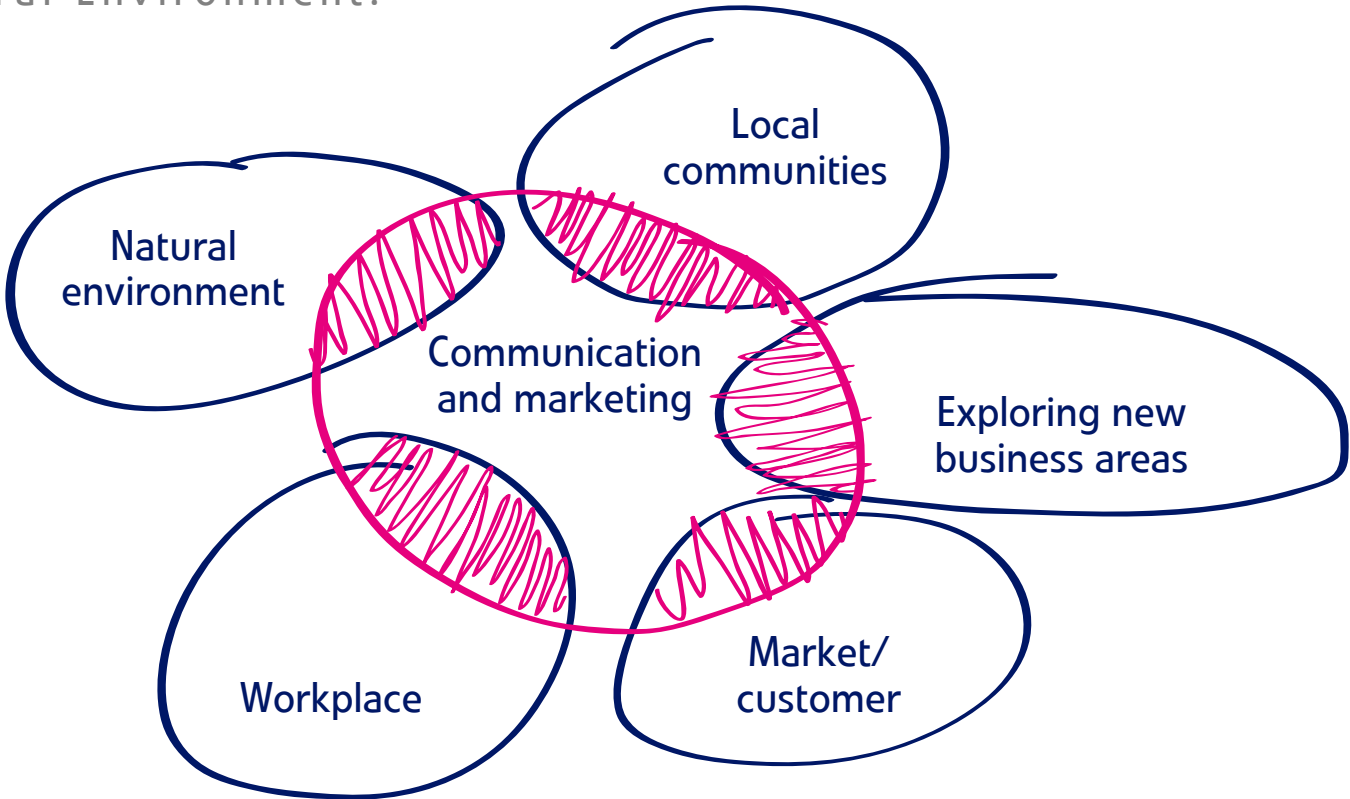
Włodzimierz Kleniewski
Director, Marketing Department



Whether we think of socially responsible activities in the area of environmental protection or in the area of relations with local communities or customers, communication and marketing always form an inherent part of good management practices. Each initiative described in this Report may be considered in its communication aspect. What is more, many communication and marketing activities, being particularly important to the successful implementation of the strategy, have been incorporated into such strategy pillars as Workplace, Market/ Customer, New Business Areas and Natural Environment.

In this section we discuss the role of communication and marketing in supporting CSR efforts. We will describe it in a slightly different way than the remaining pillars – instead of providing a list of accomplished objectives, we will present them in the context of areas of activities and groups of stakeholders which they concern, as part of the four areas of responsible business.

We hope that this will show a comprehensive approach to responsible communication at the PGNiG Group.



Tasks

Completed



Under way



Delayed



9.1. Communication in the Sustainable Development and Responsible Business Strategy of the PGNiG Group

Challenges related to the communication and marketing area are chiefly determined by the specific nature of the PGNiG Group. Due to its size, extensive value chain, different customer groups and, finally, different markets of operation, one of the fundamental challenges faced by the Group is to ensure consistency of its communication standards, while maintaining the specific character of the individual branches and companies, especially considering different needs and expectations of its stakeholders. The PGNiG Group comprises 34 entities, employing over 30 thousand staff throughout Poland and in other countries, on different continents. Among its customers, there are millions of households, but also large international customers of its exploration and service companies. The Group cooperates with a vast network of subcontractors, research institutions and business partners, as well as local communities everywhere it is present: in Warsaw, the Carpathian Foothills or a small village in Pakistan or India. Moreover, the parent undertaking of the Group, i.e. PGNiG S.A., is a market leader listed on the Warsaw Stock Exchange, playing a key role in ensuring Poland's energy security. All those factors determine the specific challenges for our communication and marketing activities.

The CSR strategy developed for the entire PGNiG Group includes communication and marketing challenges within seven operational objectives. The key objectives for the years to come are:

- to ensure uniform communication standards across the Group,
- to strengthen the PGNiG Group's image as a knowledge-based company, focused on the needs of its customers and employees, and friendly to the environment,
- to popularise the Company's activities in the CSR area among the general public.

Many activities furthering those objectives have already been undertaken. The principles of responsible business and sustainable development are being consistently implemented into our marketing activities. The series of *Responsible Energy* conferences, devoted to challenges of sustained development in the energy sector, held for the third time

in June 2011 with a large audience of more than two hundred participants, comprising not only the sector's representatives but also other interested parties, has already proven a huge success of the last two years.

A total of twenty companies have signed up to the Declaration on Sustainable Development in the Energy Sector in Poland, including: Dalkia Polska, EDF Polska, Enea, Energa, Fortum Power & Heat Polska, GAZ-System, GDF SUEZ Energia Polska, Grupa Lotos, PKP Energetyka, PKN Orlen, PSE Operator, Tauron, Vattenfall Poland, as well as PGNiG S.A. and six strategic companies of the PGNiG Group: Dolnośląska Spółka Gazownictwa, Górnośląska Spółka Gazownictwa, Karpacka Spółka Gazownictwa, Mazowiecka Spółka Gazownictwa, Pomorska Spółka Gazownictwa, Wielkopolska Spółka Gazownictwa.

The PGNiG Group has managed to systematise the rules governing its sponsorship activities, which is a major internal achievement. As a first stage, in 2009, the Sponsorship Strategy of the PGNiG Group was developed. It was used as the basis for defining detailed guidelines and rules for the execution of sponsorship agreements and sponsorship reporting. In 2010, all members of the Group incorporated the guidelines into their internal procedures, as a result of which their current activities comply with the recommendations of the Ministry of State Treasury on sponsorship activities of companies owned or co-owned by the state. The sponsorship plan was developed in line with the sustainable development strategy. Currently, all sponsorship projects are subject to comprehensive supervision at the planning and execution stage. They are also monitored and their effects are evaluated on an on-going basis.

The report you are now reading – the third CSR Report of the PGNiG Group, which summarises our to-date achievements in the implementation of the CSR strategy at all the Group members – is an effect of another operational objective.

Communication in local strategies

2010 marked a new stage in the implementation of the PGNiG Group's CSR Strategy. In January 2010, all branches and subsidiaries adopted their own local strategies, based on the strategic objectives of the Group. In this way, CSR management was delegated to the local level. This resulted in more specific activities and initiatives, tailored to meet the needs of the individual units and their stakeholders.

Each of the local strategies incorporates the strategic goal related to communication and marketing. In this way, 94 operational objectives were declared, comprising hundreds of activities and initiatives, of which 46 of were successfully completed in 2010. The remaining objectives are scheduled to be achieved in the years to come.

The main directions of activities emerging from the local strategies include:

- consistent communication: regulating and streamlining processes, implementing sponsorship procedures, communication plans,
- effective internal communications, both within the individual entities and between them within the PGNiG Group,
- open and candid external communications, strengthening the image of individual brands,
- conducting marketing activities in line with CRS principles,
- communication and promotion of, and education in, sustainable development and corporate social responsibility.

Strategy execution

The implementation of objectives falling within the communication area will be presented in the context of the other key pillars of the Sustainable Development Strategy and, most of all, in relation to the major stakeholder groups. In this way, we want to show how communication activities support the individual areas and our stakeholder relations.

9.2. Communication with customers and the market

Our communication with the Group's customers is determined primarily by the type of products and services offered at the respective sections of the value chain, and thus by different customer groups. The scope and means of communication with millions of retail customers differ from those employed to communicate with institutional customers or with foreign customers of the service companies. In each and every case, however, communication is an element which should complement professional customer service.

For more information on customer service, see the ["Customer satisfaction \(page 36\)"](#) section. At this point, it is worth noting that communication, be it direct communication with employees of Customer Service Offices or via electronic means, such as e-mail, chat dialogues or helplines, constitutes an integral part of customer service. It may be facilitated by printed materials, such as folders, leaflets or bulletins, which provide information on the availability of gas, its safe use, tariff rates, fuel quality and other matters of importance.

Relations with the media, as the key intermediary relaying information to wide audiences, play an important role in the process of communication with customers and the whole market. The policy of PGNiG and all the Group companies focuses on the openness, reliability and speed of information flow. Being the major gas supplier, we consider it a priority to provide access to information to our customers and the public at large.

One cannot overestimate the importance of communications in the context of PGNiG's new business ventures. At present, given the enormous interest and no less controversy surrounding unconventional gas, it seems more crucial than ever. The debate about shale gas concentrates on two basic issues: economic opportunities and struggle between the interests of different countries, companies, energy lobbies, etc. on the one hand, and the environmental threats – on the other. Unfortunately, unsubstantiated theories and rumours abound. Holding approximately 20% of all shale gas licenses in Poland (more than any other company), PGNiG feels responsible for reaching Polish society with reliable information – all the more so as the first drilling for shale gas (Markowola-1) and the first two hydraulic fracturing operations in unconventional deposits took place in the Sanok Branch's area, in the Lublin region, in July 2010.

Recognising the importance of open communication and the role of media in this dialogue, in July 2010 PGNiG organised a special meeting with journalists in Markowola. A year later, in the same place, another meeting took place with the participation of the media, but also representatives of the local self-government, as well as local and central authorities. It was a working session, which included presentations followed by a discussion during which guests had a chance to address questions to PGNiG's representatives. We wanted to dispel all doubts and respond to questions of ordinary residents of the areas where we will be exploring for shale gas. One of the items on the agenda was a presentation prepared by an independent research centre (the Polish Geological Institute), devoted to the report commissioned by Minister Jezierski to assess the legal compliance and environmental impact of PGNiG's operations connected with drilling of the first exploration well Markowola-1. For more information, including excerpts from the report, see the "Natural environment" section.

In addition to approval from scientific and research institutions and competent authorities, we would also like to receive the "green light" from local communities, the general public and environmental activists, by making them understand our business objectives. For more information on communication in the context of gas shale exploration, see the "Natural environment" and "New business areas" sections.

Investor relations managed by PGNiG S.A., the parent undertaking, are another aspect of our communication with the market. They are governed by regulations applicable to listed companies and the "Best Practices of WSE Listed Companies". The Investor Relations Department and the Press Team are responsible for ensuring the accuracy and completeness of information, as well as its prompt delivery to the market; we take care to ensure quality and openness in our communication with shareholders, investors and other capital market participants.

Areas of activity in 2010

The main challenges identified by the analysis of objectives set by the Sustainable Development Strategy and the local strategies are:

- to improve the effectiveness of communication with customers,
- to enhance the two-way communication process, e.g. through satisfaction surveys,
- to educate customers about safe use of natural gas.

Efforts aimed to enhance communication with customers are made on an on-going basis and focus on the communication channels directly supporting customer service, such as websites, helplines and printed materials. We would increasingly like to make communication a two-way process, thanks to surveys designed to probe customers' satisfaction and expectations. In 2010, many Group companies and branches introduced customer satisfaction surveys in various forms. Among the service companies, Geofizyka Kraków adopted a procedure for gauging customer satisfaction after the completion of a project. Having carrying out a contract, the company requests its customers to complete a questionnaire, evaluating the quality of services provided and equipment offered, the qualifications of personnel and customer-contractor communication. During the first year, five out of seven customers agreed to take part in the survey. The collected feedback was compiled and submitted in the form of an annual summary to the Management Board and Proxy for the Integrated Management System, to serve as the basis for reviewing and formulating improvement objectives and adjusting the customer service procedures already in place.

Future challenges

Communication with customers, especially retail ones, is set to undergo a profound transformation in the coming years. Given the changing means of communication and social preferences, a considerable part of stakeholder relations will be developed through electronic channels. With time, they are likely to replace traditional Customers Service Offices and direct communication. This trend reflects the expectations of the majority of today's customers, who would like to pay their bills and do many other things without leaving home. On the other hand, elderly people tend to feel less comfortable in the virtual environment. The question then remains how to modernise communication channels without excluding people who do not have the appropriate skills, such as computer literacy?

Another important issue with a bearing on PGNiG's future communication efforts is the exploration for and production of unconventional gas. Reliable information and dialogue with local communities living in exploration areas will be a necessity. Given the emotions already stirred up by the issue, reaching a wider public with information is no less crucial. It is essential to take into account the current level of public knowledge, so as to present this highly specialist field in the clearest and most accessible manner. For more information on PGNiG's plans in this respect, see the "Natural environment" and "Local communities" sections.

Initiatives/Best practices

Gas Distribution Companies: User-Friendly Websites

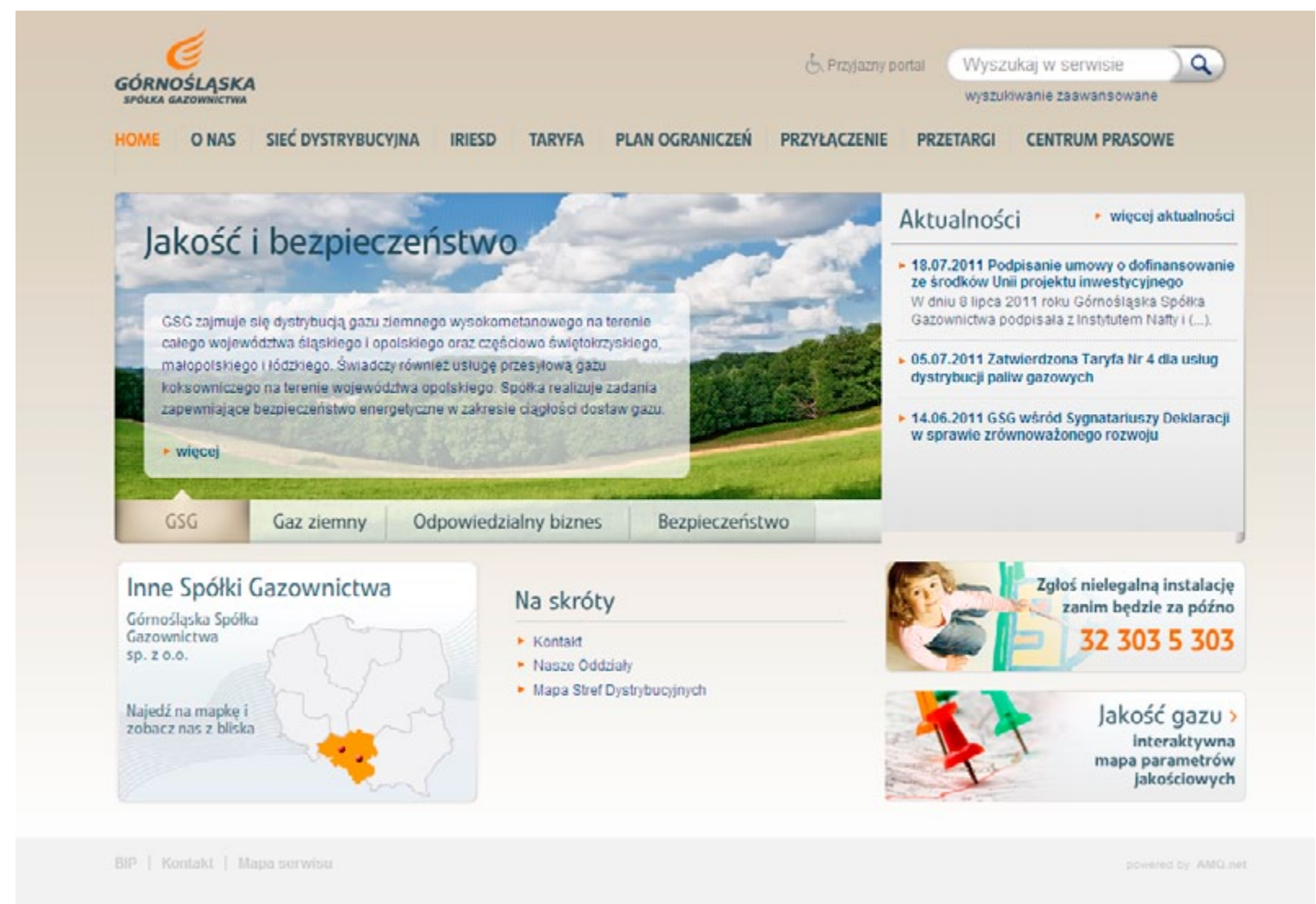
The implementation of User-Friendly Websites by all the Group's Gas Distribution Companies, i.e. six entities whose operations cover the entire country, is an example of best practice in the area of responsible communication and responsiveness to stakeholders' needs. Retail customers represent one of the key stakeholder groups of the Gas Distribution Companies. Their need for an easy access to clearly presented information prompted the companies to modify their websites, particularly by adapting them to the needs of disabled users, in line with the Web Content Accessibility Guidelines (WCAG). The WCAG standards were laid down to make the Internet accessible to all and prevent social exclusion due to the lack of access to information available on the Internet.

Thanks to WCAG, the websites of the Gas Distribution Companies have become more user-friendly for customers with disabilities, due to embedded text-to-speech software, which enables users to listen to the audio version of the website content, an option to adjust font sizes, clear separation of the content and background, and distinct page sections (links, content, input fields and buttons). The functionality of these websites also includes:

- keyboard access to a site's functions,
- hierarchical menu structure,
- path breadcrumbs,
- „client-side” and „server-side” site maps, which intuitively adjust to the browser's custom settings (e.g. Javascript and Flash components support);
- easy to use and functional internal search engine.

In addition, the layout of the websites was redesigned. For example, the website of Górnośląska Spółka Gazownictwa was modified based on clickstream statistics, to contain larger and more accessible links to the most popular information and to matters related to the sustainable development strategy.

Such a large-scale project of user-friendly websites for the disabled is unique on the Polish market. Unfortunately, based on the accessibility rankings published by the Visibles Foundation (*Fundacja Widzialni*), awareness and practical initiatives aiming to ensure e-accessibility are still in the development phase.



User-Friendly Website of Górnośląska Spółka Gazownictwa

9.3. Communication and workplace

With a workforce of over 30 thousand at several dozen entities, the PGNiG Group is one of the largest employers in Poland. It is not only a large organisation, but also a widely dispersed one. Our employees work in locations around Poland and abroad. Yet, the PGNiG Group's employees are a group of people sharing common values derived from the petroleum mining ethos, which defines our tradition and remains a key element of our present-day operations. We attach great importance to certain rules, but also to customs, such as the Miner's Day (*Barbórka*). At the same time, PGNiG's workforce comprises a number of sub-groups with slightly different organisational cultures, built by different branches and companies. Ensuring an effective and consistent communication process within such a large and diverse group is a considerable challenge.

Communication needs to take place both at the Group level, so that the most important information reaches everyone, and – which is perhaps more important – at the local level, where it answers the needs of employees of individual PGNiG entities. The objectives at the corporate level are to set high common standards and ensure consistency and reliability of information relating to the entire Group. They play an important role in promoting a shared model of corporate values and desirable attitudes among employees.

Areas of activity in 2010

In line with the Group's strategy of sustainable development, and with the individual local strategies, the activities planned for 2010 focused on the following tasks:

- to provide equal access to information to all employees,
- to include employees in the decision-making process,
- to increase employees' commitment and affiliation with the organisation,
- to educate and promote involvement in CSR activities,
- to ensure a two-way communication process.

The Employee Satisfaction Survey carried out at PGNiG in 2010 is a perfect example of the Company's focus on communication with its employees. The survey has taken the employee-employer relations to a new level, and its findings may drive many significant changes in the HR policy. For more information, see the "Workplace" section.

For over two years, we have also systematically educated employees in sustainable development and corporate social responsibility. We strive to increase their involvement in CSR initiatives. Blood donor sessions are a regular event organised at the PGNiG Group as part of its volunteer involvement policy.

"A Miner at the Nursery School" (*Górnik w przedszkolu*) employee volunteering programme, carried out by the Zielona Góra and Sanok Branches, may serve as another example. Around the Miner's Day, employees of the Branches visited local nursery schools to discuss the realities of a miner's job with children.

Future challenges

A separate, albeit increasingly important, area of workplace-related communications and marketing is the so-called employer branding of the PGNiG Group. Previously, the issue was a priority only to PGNiG's subsidiaries operating on foreign markets, where they had to compete for staff with large international corporations. Today, in the face of the dynamically growing exploration market in Poland (the boom for unconventional gas exploration), the business success of many Group members may depend on their ability to project an image of a competitive employer. For more detailed information, see the "Workplace" section.

Initiatives/Best practices

CSR training, Lower Silesian Gas Trading Division, Zgorzelec Gas Sales Unit

The implementation of the CSR strategy was supported by a dedicated employee training scheme. Following a theoretical part devoted to the six key priorities of the Strategy, the participants were divided into six groups, and lots were drawn to determine on which strategic objective each of them would focus. The task of the practical part consisted in taking photographs to illustrate the subject. Jigsaw puzzles were then made of the photographs taken during the training, which were later distributed as corporate gifts.

Familiarising CSR (*Oswajamy CSR*) employee conference, Lower Silesian Gas Trading Division, Wrocław Gas Sales Unit

The conference was divided into two parts – a theoretical part, during which papers on corporate social responsibility were delivered, and a practical part, focused on teamwork. The employees were tasked with building bird nesting boxes for the Śnieżynka Forest District in the Karkonosze Mountains. They also made nesting boxes, which they put on trees in the Wrocław Gas Sales Unit's operating area.

“Present Yourself Responsibly” (*Zaprezentuj się odpowiedzialnie*), Pomeranian Gas Distribution Company

The “Present Yourself Responsibly” practice comprised the drafting and implementation of rules for procurement of corporate gifts. In line with PGNiG’s mission statement and CSR strategy, corporate gifts should be eco-friendly, i.e. manufactured using environmentally friendly technologies with the use of natural recyclable materials. They should be made in Poland, in the area where the company operates, and should be certified as safe to human health.

“Work with passion, work with us!” (*Pracuj z pasją, pracuj z nami!*) – Employer branding at Geofizyka Kraków

Geofizyka Kraków is a subsidiary of the PGNiG Group which for more than a dozen years has provided services not only in Poland, but also on many foreign markets. In recent years, the boom for exploration services has intensified competition for labour among exploration companies. Both geophysical and drilling companies have been faced with a situation where foreign corporations go to great lengths to win away Polish specialists, who often combine excellent qualifications with a wealth of experience.

In response to those unwelcome trends on the professional labour market, Geofizyka Kraków has taken a series of steps aimed firstly at increasing the brand’s recognition as an employer, and secondly at promoting its image as an attractive and preferred employer among students and graduates of geophysics and related studies, as well as among young engineers at the outset of their careers. In 2010, the company took part in career fairs for engineers and economists, organised by higher education institutions and student associations. Each event attracted several thousand

participants, who thus came into contact with the Geofizyka Kraków brand. The career fairs for engineers (*Inżynierskie Targi Pracy*) held in Kraków last year attracted over 8,000 visitors. Each time, the company’s booth was visited by hundreds of persons interested in the company and the job opportunities it offered. At each fair, dozens of resumes are submitted there and then, and the number of submissions rises considerably following the event.

Besides taking part in career fairs, Geofizyka Kraków is a partner of the GEOSFERA workshops for geophysics students throughout Poland. In 2010, the venue of the workshops were the Świętokrzyskie Mountains, and their programme covered not only inside knowledge in geophysics and geology, but also the practical aspects of work in this area, presented by Geofizyka Kraków. Meetings with students are also organised on different occasions, both at higher education institutions, and on the company’s premises. At least once a year, practical workshops for students of the last year of geophysics are offered, during which they have a chance to learn about the job and state-of-the-art technologies, meet with experienced specialists, and learn about the fieldwork of a seismic survey team.

A Facebook fanpage of Geofizyka Kraków, which was launched last year, complements the company's communication efforts targeted at young people and potential employees. It is the only Facebook profile yet of a PGNiG Group company. The specific nature of Facebook makes it completely useless for communication with customers, yet a perfect tool for getting in touch with students and other young people interested in working for the company. Thanks to information campaigns, i.e. during the career fairs, the fanpage soon gained a group of devoted fans (their number in the first couple of weeks exceeded 100 – a fairly good result for such a narrowly targeted fanpage). The Facebook page is used to inform about job openings and work conditions at Geofizyka Kraków, while actively involving fans in the creation of the employer branding strategy.

Thanks to this communication strategy, the brand awareness of Geofizyka Kraków on the labour market has increased significantly, ongoing close relations with the student community have been established, while jobs advertised by the company have attracted growing interest. It is evident in the number of job applications or views of the "Careers" section of the corporate website. The first month of the company's Facebook presence brought a nearly 60% increase in the traffic to the corporate website.



Geofizyka Kraków at a career fair

9.4. Communication and the natural environment

Conducting business with due regard to the natural environment is one of the major pillars of PGNiG's strategy. As an industry which derives benefits from natural resources while having to interfere with nature, we are fully aware of the responsibility that entails. Our basic communication duty in this area consists in reliable reporting of our environmental impact, as well as compliance with the environmental laws. For detailed information, see the "Natural environment" section.

Communication is also a means for us to get involved in pro-environmental initiatives. We put considerable emphasis on environmental education and promotion of healthy lifestyle among our employees, customers and local communities. We support various pro-environmental projects undertaken by NGOs.

We are well aware that our care for the environment is also reflected in the manner in which we communicate. Therefore, we have been reducing the amount of printed materials in favour of electronic communication and eco-friendly promotional gadgets. Moreover, our sponsorship guidelines

encourage us to support pro-environmental initiatives and avoid activities which may pose a threat to the natural environment.

Areas of activity in 2010

Looking at the PGNiG Group's objectives and activities pursued in 2010, we can identify two distinct trends in its communication efforts related to environment protection:

- education on environment protection and environmentally-friendly fuel, i.e. natural gas;
- environmentally responsible methods of marketing communication.

Environmental education is targeted both at the Group's employees and its external environment. Since 2010, Geofizyka Kraków has regularly published a series of articles entitled *Zielony Kącik* ("The Green Column") in its corporate newsletter, promoting environmentally responsible behaviour at and outside work. In addition, a special leaflet called *Myśl EKOlogicznie* ("Think ECOlogically") was published. It is distributed to all employees at induction training courses and serves as a set of guidelines for environmentally responsible behaviour at the office, during fieldwork, or in a company car.

The Upper Silesian Gas Trading Division and the Opole Gas Sales Unit are involved in environmental education of the youngest. At a series of meetings in primary schools, PGNiG employees have talked about the production and safe use of natural gas, and the related environmental issues.

From time to time, a number of PGNiG's Customer Service Offices distribute eco-friendly shopping bags, which serve as a promotional gadget and encourage a green lifestyle.

We promote the use of promotional gifts and advertising materials produced in accordance with the principles of sustainability. For instance, in 2010, Pomorska Spółka Gazownictwa developed and implemented rules for procurement of corporate gifts. In choosing a gift, it is important to consider whether it is eco-friendly (manufactured in an environmentally-friendly way, with the use of natural recyclable materials), and whether it promotes healthy and active lifestyle.

In our marketing communication efforts, we have always stressed that the product we offer, i.e. natural gas, is one of the most eco-friendly fuels. Hence numerous, also in 2010, information campaigns designed to encourage the use of gas.

Future challenges

The market demonstrates that sustainable development and corporate social responsibility are not only a source of competitive advantage, but also one of the basic standards for running a business. It is particularly evident in the area of environment protection. A significant communicative challenge for the whole PGNiG Group is to preserve its image as a company which derives benefits from nature, while attaching utmost importance to its protection. There are even more extensive environmental campaigns ahead of us, organised at the Group's level, with the aim to educate Poles and put an equation mark between natural gas and the term "eco-friendly fuel".

Initiatives/Best practices

The Eleventh Commandment: Thou shalt not litter! PGNiG Zielona Góra Branch

PGNiG Zielona Góra Branch has been involved in environmental education of both its staff and the local communities for a long time. Its support for a programme in the local radio station *Radio Plus* may serve as a case in point.

In December 2010, *Radio Plus* aired a series of eight programmes under the title: "The Eleventh Commandment: Thou shalt not litter!" The programme was also available via the Radio's website. It promoted environmentally responsible habits, which can easily be implemented in everyday life, discussing such issues as rubbish sorting, the harmful impact of batteries, eco-friendly energy, electricity saving, packaging materials and environmentally responsible behaviour in forests.

The originality of the programme (which consisted of scenes, each a few minutes long, presenting various environmental issues) was well received by, and attracted wide feedback from, the audience. The programme was granted the first award in the "Radio" category of a contest organised by the Ministry of Environment within the framework of the Polish awareness campaign aimed at preventing waste production and teaching proper ways to handle waste.



By supporting such initiatives, PGNiG is able to participate in environmental education of the public – in this case, the local community of the Zielona Góra Branch; while strengthening its image of a company committed to "green" issues. The initiative was carried out in accordance with the principles of socially responsible sponsorship.

9.5. Communication and local communities

Our day-to-day activities influence the lives of many people who live in the vicinity of our companies or in areas where we conduct research or exploration. We always have it in mind that our success depends largely on good relations with those people. Therefore, everywhere we work we use our best efforts to ensure that our presence, whether permanent or temporary, causes the least possible nuisance and brings the most benefits to the neighbouring community.

The PGNiG Group's investment and research projects are located throughout Poland and abroad. We consider local communities as one of our largest and most important stakeholder groups. In our activities, we use private property of individual owners, including forests, land and roads. This requires us to maintain partnership relations with local authorities and governmental institutions, as well as individual farmers and residents of particular areas. We base those relations on reliable

communication of our activities and the purpose of our work or projects, which allows us to establish a common cooperation framework. If our projects raise concerns among the local community, we increase our communicative efforts in order to resolve all doubts. In such a case, we arrange meetings with the local authorities and residents, prepare special informational materials and enter into active dialogue with the local media.

A significant part of our relations with local communities consists in supporting their development. Certainly, our major contribution here is the employment we offer to their representatives, but we try to do much more. By sponsoring local initiatives, partnering with schools and higher education institutions and contributing to charity, we try to show that the PGNiG Group is a good neighbour.

The PGNiG Group's branches and companies are also active abroad, even outside of Europe. This requires from our employees to be open to other cultures and respect their values. No matter where we work, whether in Europe, Kazakhstan, or Libya, we treat other cultures and religions with respect, and their representatives are part of our teams. Especially in poor and less developed countries, we try to support the local communities through CSR initiatives.

Areas of activity in 2010

Communication efforts targeted at local communities constitute an important element of the objectives set by virtually all the Group's entities. In 2010, they were focused on:

- spreading knowledge about the PGNiG Group's initiatives and projects;
- ensuring good relations with local communities and authorities in places where the Group operates;
- supporting education and cultural activities of local communities;
- supporting local charity campaigns.

Like in previous years, both the PGNiG Head Office and numerous branches and subsidiaries were actively involved in Science Festivals organised across Poland. The aim of the already regular initiative is to promote science and scientific achievements among children and young people.

For many years, the PGNiG Group has supported institutions of higher education, in particular those teaching sciences related to our industry. In addition to financing various initiatives undertaken by schools, we ourselves organise special events for students, to provide both education and entertainment. In 2010, such events were held by the Odolanów Branch, Geofizyka Kraków and Naftomet.

An interesting example of unconventional approach to the promotion of local art and culture is the "Single Work Gallery" initiative (*Galeria Jednego Dzieła*) of the Pomeranian Gas Trading Division. For several months in 2010, the Customer Service Office in Gdańsk regularly presented local works of art, which served as a beautiful decoration while promoting local artists. The campaign was well received by customers, who evaluated it very positively in a special survey. 79% of the respondents thought the initiative was a great idea. 78% of those surveyed expressed the belief that supporting young artists benefited the company's image. In this way, without significant expenditures, we gave young artists a chance to reach a wider audience.

Initiatives/Best practices

Communication with local communities during seismic surveys, Geofizyka Toruń

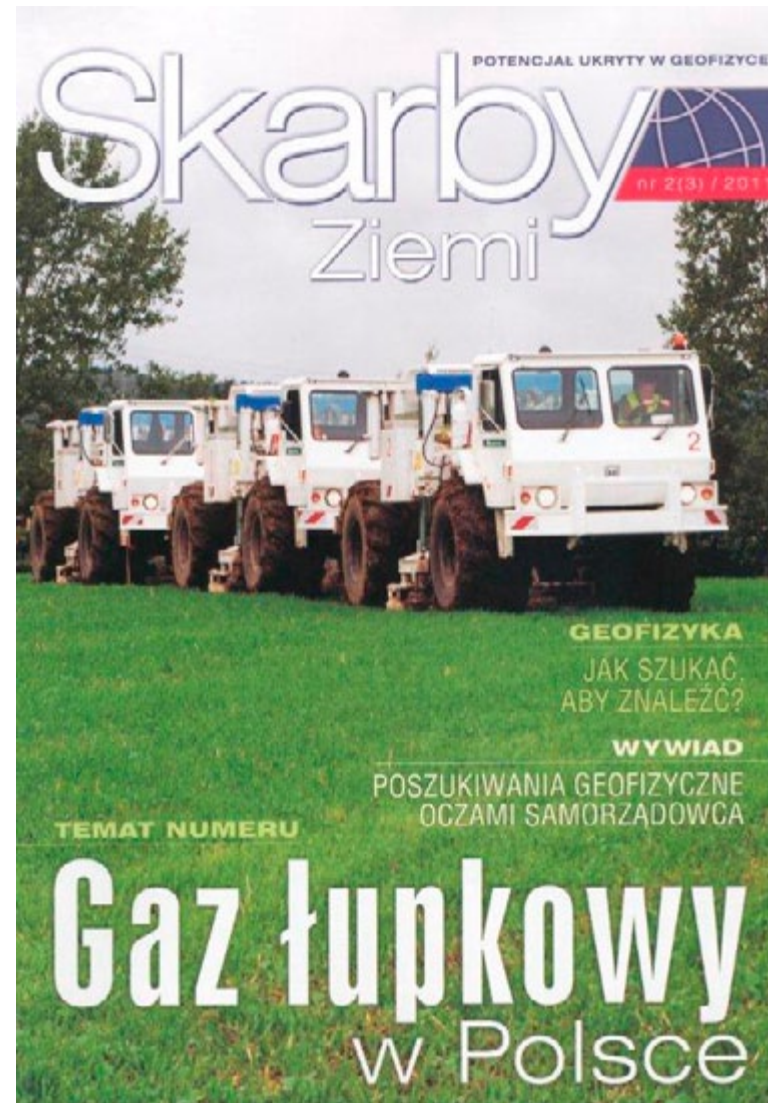
Good relations with local communities, based on cooperation of equals and dialogue, are among the PGNiG Group's strategic objectives. Reliable communication with local residents is necessary to fulfil that objective.

Geofizyka Toruń is an example of how best practice is applied in communication. Its efforts focus on providing full information about planned work to the communities living in areas where the Company is to conduct seismic surveys.

The Company continues to develop comprehensive communication procedures, intended to further enhance cooperation with local communities. Apart from formal written notifications and agreements, communication at the site of ongoing or planned operations involves additional elements, such as meetings between survey team members and local residents, or preparation and distribution of materials explaining the purposes and methods of seismic data acquisition.

In response to the stakeholders' need for reliable information on the exploration work carried out in Poland, in 2010 the Company started to publish a magazine entitled *Skarby Ziemi* („Treasures of the Earth”), addressed to local authorities and residents and aiming to educate them about the nature of geophysical work and the Company's operations. Additionally, it answers questions related to current trends in the industry, such as exploration for shale gas. In order to facilitate and support experience sharing, the magazine features interviews with representatives of local communities, for example the heads of communes, where the Company operated before.

Because of the great value attached to harmonious cooperation with local communities, the Company strives to ensure that members of its seismic teams possess knowledge and skills related to the formal and communication procedures in place. PGNiG's CSR Strategy defines measurable goals in relation to the staff's communication skills. Last year, we launched an e-learning project aimed at improving communication skills of the management staff in charge of seismic teams.



Bulletin for local communities
published by Geofizyka Toruń

Summary

Economies of scale: communication tools

Without a proper communication system for internal and external purposes, it would have been impossible to undertake the initiatives described in this section. The system relies on the efforts of a several dozen persons at the whole PGNiG Group, who use diverse tools and communication channels. The Marketing Department of PGNiG's Head Office, which is responsible for both marketing and corporate communications, is supported by several dozen facilitators working at all entities of the Group.

With more than 30 thousand employees all over Poland and abroad, our internal communications require the concurrent use of several different channels. *MaGAZyn*, a magazine with a circulation of 5 thousand distributed among the Group's employees, is one of the traditional means of communication. Additionally, some subsidiaries and branches publish their own internal magazines (mostly monthlies), with a total circulation of over 7 thousand.

Electronic communication involves the Newsletter, distributed several times a week by the Head Office, as well as local newsletters of individual entities. Information published in newsletters is also posted on the Newsletter Portal, accessible to most of our employees. Another channel of communication is PGNiG's Intranet and many local portals implemented at the Group's companies. Employees also receive a number of other materials supporting different projects (e.g. the employee satisfaction survey), fill in questionnaires and participate in special meetings. Chats with the President of PGNiG's Management Board are organised at least twice a year, giving employees a chance to ask him a question directly.

At the PGNiG Group, media relations are the responsibility of the Spokesperson and Press Office at PGNiG's Head Office, as well as several dozen press officers working for other entities of the Group. In 2010 alone, we issued more than 400 press releases, organised 30 conferences (including press conferences, briefings and study tours) and replied to hundreds of phone calls and e-mails.

Taking active part in the life of our industry, in 2010 we organised, co-organised or acted as a supporting partner for about 30 industry conferences. Our branches and subsidiaries took part in 150 events, such as trade fairs, exhibitions and scientific conferences.

These figures illustrate the scale of the PGNiG Group's communication activities but say little about their nature. Our main objective is to reach all key stakeholder groups, ensure that communication is a two-way process and adjust its form to the recipients' needs, which can be a real challenge given the complexity of and specialist knowledge involved in exploration and production operations.

Future challenges

Because we believe that open, reliable and effective communication is one of the basic standards to be adhered to by a socially responsible business, our objective is to constantly improve in this area. To date, we have developed a number of solutions that have proved their merit and could be considered exemplary. We also know which solutions require adjustments, and which are ineffective. We want to improve the existing standards and promote best practices at the entire Group.

When asked about future challenges and areas in need of improvement, most regional Communication and CSR Facilitators point to internal communications, both within the individual entities and between them, within the Group. Therefore, in the coming years we will certainly concentrate on good relations with employees and effective cooperation at the Group level.

A systemic approach to defining and monitoring the implementation of communication objectives as part of the sustainable development strategy is an area which still requires work. We would like to transform the initiatives in the area, which are frequent but unconnected and often undertaken on an *ad hoc* basis, into long-term activities, which would become part of the PGNiG Group's established practices.

In the context of the dynamically developing exploration market in Poland, we see a clear need for placing greater stress on dialogue with local communities living in the areas where we work and invest. Such a dialogue is a condition for PGNiG to gain social acceptance for its projects and conduct its operations efficiently. It is especially important in the case of shale gas exploration – for more information, see the “New business areas” section. An improvement of systemic communication with local communities is a priority to be set when revising our current strategy and defining new objectives for the Sustainable Development and Responsible Business Strategy.

In line with our current Sustainable Development and Responsible Business Strategy, we treat communication as an element playing a vital role in supporting the fulfilment of objectives of the other strategic pillars. Hence, the development of high standards of communication with all our stakeholder groups is our primary goal for the future.

Prepared by a team composed of: Ewa Białowas, Bogumiła Koman, Iwona Matusiak, Jacek Miluński, Katarzyna Mróz and Magdalena Pachocka.

9.6. Energy sector on its way to sustainable development

The evolving business and social environment requires companies to know and understand the expectations of their stakeholders, so as to be able to develop in a sustainable manner. The energy sector also recognizes the need to implement sustainable development initiatives. Therefore, it is crucial to actively support education of companies, raise awareness of the issue among employees and customers, and develop other CSR practices in the energy sector.

The second Responsible Energy Conference, organised by PGNiG in cooperation with PwC, was a pioneering initiative in Poland. It provided an opportunity to discuss corporate social responsibility in the energy sector, on a broad, nationwide scale. The second conference was held under the slogan: "The energy sector's responsibility in the context of social and economic challenges facing Poland and the world." The discussion focused

on challenges, both social and economic, faced by Poland and the global economy. Among the special guests invited to the last year's conference was Mr Matthew Bateson – Energy and Climate Managing Director at World Business Council for Sustainable Development, who presented the WBCSD's views on challenges to sustainable development until 2050.

The main success of the conference was the signing, during the first meeting in 2009, of the Declaration on Sustainable Development in the Energy Sector by representatives of Poland's seven major energy companies: Polskie Górnictwo Naftowe i Gazownictwo S.A., EDF Polska, Gaz-System S.A., GDF Suez Energia Polska, Tauron S.A., ENEA S.A. and Vattenfall Poland Sp. z o.o. In 2010, the group was joined by another three companies: Fortum Power and Heat Polska, Grupa LOTOS and Polskie Sieci Elektroenergetyczne Operator, followed several months later by Dalkia Polska, and recently by PKN Orlen S.A. The Declaration is a set of obligations that its signatories agree to assume in order to operate in a sustainable way. The obligations cover eight operational areas, from environmental protection, to stakeholder involvement and customer care, to broad-based cooperation in promoting sustainable development (see: www.odpowiedzialna-energia.pl/oenergia/konferencja/9530).

The support of the Energy Regulatory Office (URE) is also crucial. Every year during the conference, a representative of URE presents the results of its research on corporate social responsibility in the energy sector. The conference is held under the honorary patronage of Prime Minister Waldemar Pawlak.

The conferences regularly attract over 200 participants, including representatives of both private and public sector companies and non-government organisations, as well as students interested in the topic. While providing an opportunity to debate CSR issues relevant for the industry, the meetings create a platform for education and for sharing knowledge and best practices.

Thus, the Responsible Energy conferences bring tangible benefits both to PGNiG and other market participants, particularly by increasing awareness of the significance of responsible business across the industry and promoting inter-sector dialogue.

The 2010 conference was closed by a meeting of energy sector representatives, held on October 3rd 2010 in the Płońsk Forest District. The participants, together with the Aeris Futuro Foundation, planted 1,500 pine seedlings thus neutralising CO₂ emissions generated during the Responsible Energy Conference. The meeting was followed by a workshop where new ideas for joint initiatives were discussed by members of the energy companies and a representative of the Ministry of Economy. This was yet another step on the way towards implementing the principles and objectives of the Declaration through industry-wide cooperation. Since then, the Declaration's signatories have already met twice with a view to developing a joint project that would put the provisions of the Declaration into practice.

Discussions and team work during the workshops held in October, and during all subsequent meetings, gave rise to many ideas for joint initiatives. The most crucial and prospective issues and areas of potential cooperation were identified to be as follows:

- CSR as a source of innovation, or a field for research and development, including cooperation with academic centres,
- education to raise perception of sustainable development as a driver of business performance,
- the need for more effective communication of activities, including the necessity to develop a common communication platform,
- the need to establish a platform for sharing best practices, benchmarking and deriving inspiration.

The Responsible Energy Conference provides a new forum for dialogue to find a common way towards achieving greater sustainability of the Polish energy market. Although the challenge is immense, the fact that an increasing number of companies decide to face it offers an optimistic outlook on the future.

Further details on the conference are available at: www.odpowiedzialna-energia.pl

9.7. Coalition for Responsible Business

In 2009, the Employers of Poland and its member companies: Telekomunikacja Polska S.A., GlaxoSmithKline and Polskie Górnictwo Naftowe i Gazownictwo S.A., came up with the idea to promote responsible business practices among Polish entrepreneurs. Eventually, the idea gave rise to the Coalition for Responsible Business, joined by another three companies: Danone, HOCHTIEF Polska and Powszechny Zakład Ubezpieczeń S.A. The project is supported by PWC, which acts as its expert partner.

The project is financed through the European Social Fund. Its aim is not only to promote the principles of responsible business, but also to support their practical implementation.

This objective is to be achieved through various dedicated tools, and in particular the Responsible Business Code setting out nine principles of Responsible Business, accompanied by a Guideline for implementing the Responsible Business Code. The Guideline provides a detailed description and explanation of each principle, indicating the issues of key importance to particular industries, and discusses actions that may be taken along with methods for assessing their impact. The sectoral

perspective on responsible business, adopted by the Coalition in its project, is definitely a pioneering approach in Poland and one that offers a unique and valuable contribution to the Coalition's initiative.

At the next stage of the project, the Responsible Business Leaders contest is to be held to select in each of the six industry sectors companies that will be awarded the title of Responsible Business Leaders during the prestigious gala ceremony to be held in October 2011. At present, the project may be joined by every company which agrees to comply with the rules set out in the Code.

The rules of the Responsible Business Code are as follows:

- 1) set the standards and popularise knowledge on CSR;
- 2) support social and economic development;
- 3) respect employees by offering them decent working conditions;
- 4) develop organisational culture based on the values and individual needs of employees;
- 5) care for the health and safety of employees and customers;
- 6) build your business on trust and partnership;
- 7) ensure proper communications and responsible marketing;
- 8) create and develop your products and services in response to new social and environmental challenges,
- 9) care for the environment.

For further details see: www.koalicjacr.pl

10. New Business Areas

The search for new business areas as well as innovativeness combined with efforts made to ensure environmental protection add up to form one of the pillars of PGNiG's business strategy. The Group is able to rise up to new challenges, owing to solid foundations built primarily on the knowledge and experience of its employees, as well as the Company's financial potential. Our operations in this respect are compliant with the "Declaration on Sustainable Development in the Energy Sector in Poland".

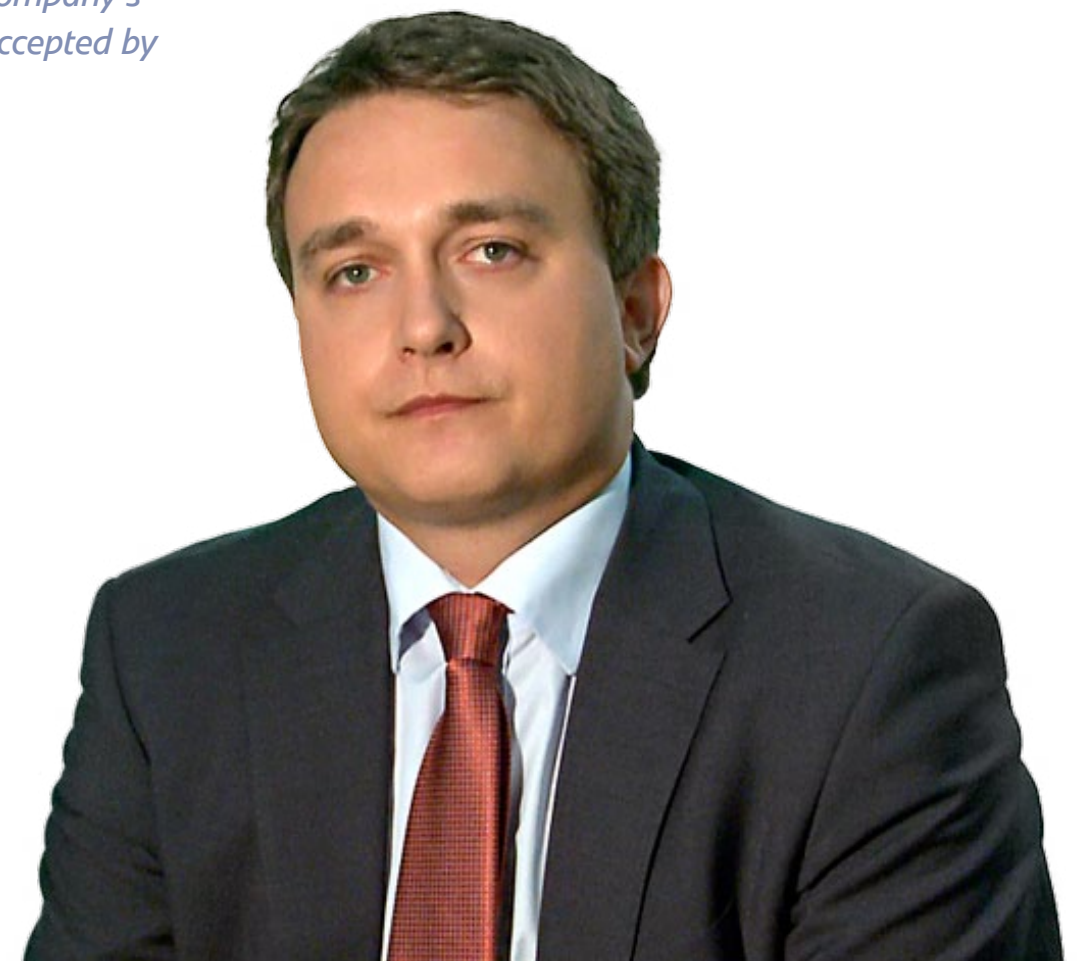
// *The implementation of the environmental protection objectives adopted in 2009 as part of the Sustainable Development and Responsible Business Strategy was neither a surprise nor a new, unknown challenge for PGNiG's employees and its environmental protection personnel. This was due to two reasons. Firstly, the environmental protection objectives were developed jointly by the entire team. Secondly, for many years the Company has invariably treated environmental protection as an area of crucial importance, critical to its business success. In this way, the Company's CSR strategy provided merely a formal framework for the objectives and prioritised them to reflect new challenges in the area of environmental protection. Following its adoption, the Company was able to commit human resources and funds to their implementation, and gained measures to assess their progress.*

Two years after the strategy was launched, we can boast measurable environmental achievements, which often exceed the obligatory legal requirements and involve further mitigation of our negative environmental impacts. It should be added that the objectives and results of these efforts also apply to the contractors cooperating with us on our projects.

Today, we face new challenges in the area of environmental protection, one example being compliance with the energy and climate package or the much discussed shale gas. We hope that thanks to the environmental credibility which we have been building for years, the Company's shale gas exploration projects will be accepted by

the public, providing an opportunity not only for the Company, but also for society at large and the local communities. Gas is more than just an environmental-friendly fuel – in fact, the most environmental-friendly of all fossil fuels. Over the course of years, we have been trying to prove that it is also a precious natural resource which can be produced at minimum cost to the environment.

Marcin Lewenstein
Head of Strategic Planning Office
Strategy Department



In July 2009, the Sustainable Development and Corporate Responsibility Strategy set forth two goals which are key for the successful implementation of objectives under the sixth strategic pillar. The first objective provides for expanding the Company's business to include power generation, whereas the second assumes the growth of competence in the area of pro-environmental solutions.

In both cases, PGNiG's operations are driven by, on the one hand, Poland's significant energy requirement, which creates development opportunities for the Group, and on the other – limitations the contemporary world has to face, such as shrinking energy sources and the necessity to significantly cut down CO₂ emissions.

Tasks

Completed



Under way



Delayed



Objective I



Objective II



Expanding the Company's Business to Include Power Generation and Trading

Launch of co-generation projects

Replacement of large heat sources with small biogas plants

Effects

- Estimated value of the project in Stalowa Wola: PLN 1,900m; design output: 3,100 GWh.
- MPEC Olsztyn (heat utility) to reduce annual CO₂ emissions by approximately 2,160 tonnes.

Objective I



Objective II



Growing Competence in the Area of Pro-Environmental Solutions (CCS, Geothermal Energy, CNG and LNG)

Support of the
development geothermal
technologies in Poland
and abroad

CNG technology of
development and
promotion in Poland

Research into CO₂ storage
(CCS)

Connecting cities to natural gas
supply networks based on LNG

Effects

- 34 CNG service stations in Poland in 2010.
- As many as 270 city buses in Poland run on CNG.
- The residents of Ińsko consume 30 thousand cubic metres of LNG.

Objective I

Expanding the Company's business to include electricity generation and trading, in compliance with sustainable development principles

As a Company whose operations involve production of natural gas, an ecological product with a large development potential, PGNiG is committing significant resources to new projects in the power generation sector. Their implementation frequently entails considerable risks, requires large expenditure, and is affected by numerous political and economic constraints. On the other hand, power generation based on gaseous fuel combustion in CHP plants, where electricity and heat are simultaneously produced, brings together all most valuable aspects: eco-friendly properties of the fuel and high efficiency of the process. Currently, projects involving gas-fired facilities are the most dynamically developing direction in the application of natural gas as fuel in power generation. Such projects entail a range of benefits, not only for the PGNiG Group itself but also for our immediate environment. The growth of Poland's economy will further stimulate demand for electricity.

Accordingly, gas-fired plants may become a valuable addition to the Polish electricity sector, dominated by coal fuel. They correspond well with the development of renewable energy sources and represent an operating reserve, easily accessible in times of peak demand. Further implementation of the policy adopted by the European Union to fight emissions of environmentally harmful gases (in order to achieve lower emission levels) may also significantly support cogeneration. Importantly, the advantages of gas-fired cogeneration projects include lower levels of required expenditure than in the case of coal-fired CHP plants, shorter times to completion, and possibility to use external financing.

The implementation of large power generation projects will enable the Company to create a solid base for the power segment in the PGNiG Group and it will also facilitate the ultimate transformation of the Group into a modern energy conglomerate. To this end, the Company needs primarily to expand its offering to include new products which match the customers' requirements for various energy carriers, and in particular develop sales of electricity. When looking for new, CSR-compliant business solutions, PGNiG focuses not only on cogeneration, but also on the possibility of replacing large heat sources with smaller ones, in order to improve the energy efficiency of processes and reduce pollutant emissions.

The contemplated areas of PGNiG's business development include also biogas projects. The use of biogas, apart from its environmental benefits such as reduced CO₂ emissions and lower volumes of biological waste, has a social dimension, as it contributes to the creation of new jobs and occupational development of people in agricultural regions (in particular the areas which were the site of former state agricultural farms), i.e. where unemployment levels are the highest. Moreover, it prevents the loss of agricultural production capacities thanks to the continued cultivation of fields otherwise threatened with gradual transformation into wasteland, and supports local diversification of gas supplies.

In November 2009, the General Shareholders Meeting of PGNiG resolved to establish PGNiG Energia. The new company will perform projects related to the transformation of the PGNiG Group into a modern energy conglomerate. PGNiG Energia will be engaged in projects involving construction of power generating units and investments in gas-fired cogeneration units, as well as in pilot biogas projects.

Objective I

Initiatives/Best practices

Cogeneration – simultaneous generation of electricity and heat

Conversion of energy, in particular generation of electricity and heat, should be carried out efficiently and with the lowest possible impact on the environment. Power generation based on gaseous fuels combustion in CHP plants is to a large extent able to meet these requirements. The PGNiG Group's strategy provides for the construction of Poland's largest CHP plant in Stalowa Wola. To date, this joint venture of Tauron Polska Energia and PGNiG is the key investment project carried out by PGNiG Energia. The execution agreement was signed on May 7th 2010, while the agreements on the operation of the Elektrociepłownia Stalowa Wola CHP plant, sale of electricity, and supply of fuel gas were executed on March 11th 2011. A modern CCTG plant will contribute substantially to lower CO₂ emissions and increased security of energy supplies. The CCTG plant is expected to commence operations in 2014.

Elektrociepłownia Stalowa Wola CHP plant in numbers:

- Estimated investment value: PLN 1,900 million
- Generation of electricity: 3,100 GWh
- Generation of heat: 1,800 TJ
- Annual gas consumption: 540 million Nm³

Low-power cogeneration systems and the biogas market

Low-power cogeneration systems are financed with the project owner's own funds, and supported by European funds. A project implemented by MPEC Olsztyn (heat supply utility) may serve as an example. The cogeneration unit of MPEC Olsztyn is based on two gas-fired piston engines, with a total capacity of almost 3MW (1.5 MWEI), and it is the first gas-fired cogeneration unit in Olsztyn. It is expected to produce approximately 9,500MWh of electricity and 39,000GJ of heat annually, to be supplied to the customers through heat distribution networks, and to reduce the amount of generated CO₂ by approximately 2,160 tonnes. The connection to the gas system was provided by Pomorska Spółka Gazownictwa – Olsztyn Gas Distribution Division, through the construction of the DN 125 medium-pressure gas pipeline and gas metering station with the capacity of 500 cubic metres per hour.



CHP system in MPEC Olsztyn]

An increased interest in low-power cogeneration systems is reflected in the EU and national regulations which promote such type of systems by enabling trading in red (commercial energy) and yellow (CHP systems with the capacity lower than 1MW) certificates. Thanks to the implementation of such solutions on a larger scale, the PGNiG Group may be able to expand its gas sales volumes through the introduction of a new product in the form of small gas-fired cogeneration systems, along with the accompanying legal and financial structure. Full identification of the technical viability of gas combustion in micro-CHP systems is a challenge PGNiG has to take on. For this purpose, PGNiG's Central Measurement and Testing Laboratory has launched dedicated projects pertaining to generation of electricity and heat in micro-CHP systems. The Laboratory is also involved in research on the use of biogas.

Objective II

Development of competences and execution of pro-environmental projects

The contemporary world is becoming increasingly aware of the fact that its further development should be governed by the principles of sustainable growth, with particular importance attached to the fundamental limitations such as shrinking energy sources and the need to significantly reduce CO₂ emissions. The PGNiG Group has committed its human and financial resources to support pro-environmental initiatives, which reflect the current and future needs of the Polish society. These initiatives include investment projects which have already brought or are soon to bring tangible results, as well as expert and scientific projects with longer implementation horizons.

Initiatives/Best practices

Carbon Capture and Storage (CCS) technology

The European Union commenced work aimed at reducing CO₂ emissions from fossil fuels by means of the Carbon Capture and Storage (CCS) technology. CCS makes it possible to capture as much as 90% of CO₂ emitted by conventional power plants. Currently, pilot and demonstration projects are being carried out in Europe and worldwide. PGNiG's experience in acid gas injection, combined with our experts' knowledge on the appraisal of geological formations, construction and operation of underground gas storage facilities, as well as waste storage in rock masses, represents a valuable source of information, used, among other things, in the implementation of the EU laws in Poland.

PGNiG is the co-author of a European research project entitled "Characterisation of European CO₂ storage – SiteChar" (www.sitechar.eu). The Project, supported by the European Commission, is implemented by a consortium led by IFP Energies Nouvelles – a global organisation of world leaders in the area of new energy technologies. The consortium comprises European research institutions (Poland – AGH University of Science and Technology of Kraków), industrial partners (including PGNiG, Statoil, Vattenfall, Veolia), and the government of Scotland. PGNiG manages a working group involved in research work on the almost depleted natural gas deposits in Załęcze and Żuchłów.

SiteChar is designed to examine the whole CO₂ storage site process, starting from preliminary feasibility study on CO₂ storage to the adoption of a decision on storage licence in line with EU regulations and precisely specified criteria. The work involves research at a range of onshore and offshore locations across Europe. For this purpose, the following five potential European storage facilities were chosen, representative of various geological conditions: the North Sea (at the British coast), the aquifer in Denmark, natural gas deposits in Poland, the aquifer at the North Sea (at the Norwegian coast) and the aquifer at the South Adriatic Sea.

The project will result in the compilation of a methodological guide, accompanied by detailed guidelines, to be used by storage facility operators and supervisory authorities. Public approval of the new CO₂ storage technologies represents an important part of the project. Actions taken in this respect will reflect the knowledge of local communities and their opinion on CCS.

Objective II

In Poland, PGNiG cooperates with the consortium implementing a national programme under the name “Appraisal of formations and structures for safe CO₂ storage and a programme for their monitoring” managed by the Polish Geological Institute. The programme is designed to provide the data and knowledge required to launch safe CCS demonstration projects in Poland.

Moreover, PGNiG participates in the activities of a working group for public communication related to CCS technology, appointed by Waldemar Pawlak, Deputy Prime Minister and Minister of Economy. The main task of the group is to prepare the objectives of the national information campaign on the CSS technology and coordinate the related actions.

GEOTHERMAL ENERGY

One of the Group’s areas of operation covers services provided in relation to geothermal projects. The renewable nature of geothermal energy makes it a solution conducive to the protection of natural environment, which is in line with the CSR idea. In 2010, the PGNiG Group companies participated in numerous geothermal projects, both at home and abroad. Geophysical services relating to exploration for geothermal resources were performed by Geofizyka Kraków and Geofizyka Toruń, which carried out a project for GeoEnergy Bayern in 2010. Very positive assessment of the work led to other contracts. Currently, Geofizyka Toruń is acquiring 3D data for the purposes of geothermal projects in Bavaria. Drilling work in Germany was also performed by Poszukiwania Nafty i Gazu Jasło. The same company has started a geothermal project in Poland, in the Commune of Kleszczów near Bełchatów.

PGNiG companies also take part in scientific and promotional initiatives in the field of geothermal energy. For many years, Geofizyka Kraków and Poszukiwania Nafty i Gazu Jasło have been institutional members of the Polish Geothermal Society. They arrange conferences and scientific symposia which promote geothermal energy as a source of clean energy and serve as a platform to share knowledge and experiences, both in Poland and abroad. Poszukiwania Nafty i Gazu Jasło has

recently held a technical conference on geothermal drilling, attended by representatives of science and investors from Poland, Germany and Slovakia. The company also hosted a symposium on the use of geothermal energy in cities, with the participation of city mayors. The Group companies are key strategic sponsors of the biennial Polish Geothermal Congress.



Geothermal drilling by PNiG Jasło – Landau project, as part of which a geothermal power plant was built in less than two years.

Objective II

COMPRESSED NATURAL GAS (CNG)

PGNiG has been involved in the promotion of compressed natural gas. In February 2010, the PGNiG's Management Board approved the PGNiG Group's strategy with regard to the development of the CNG market. A team for the implementation of the CNG strategy was established at the PGNiG Head Office to handle relevant legal matters, as well as technical and marketing issues. In order to enhance effectiveness of its actions, PGNiG entered into cooperation with the Chamber of Natural Gas Industry, the Ministry of Economy, the Ministry of Finance, the Ministry of Environment, the Motor Transport Institute, as well as universities of technology (the Wrocław University of Technology, the Warsaw University of Technology, the AGH University of Science and Technology in Kraków).

The Ministry of Economy and the Ministry of Environment are interested in the CNG market development, however this is yet to translate into tangible action. In 2010, PGNiG joined the Inter-ministerial Team for Growth of Competitiveness in the Automotive Industry, which comprises Secretaries and Subsecretaries of State in the Ministries of Finance, Economy, Infrastructure, Education and Higher Learning, Internal Affairs and Administration, Foreign Affairs, and the Environment. PGNiG's activity has made the government authorities

realise the need for CNG infrastructure development. Another step aimed at improving the conditions and transparency of the CNG sector was a request for maintaining excise duty exemption after October 31st 2013, lodged by the Chamber of Natural Gas Industry and PGNiG with the Ministry of Finance. Unfortunately, the request has been turned down.

Initiatives/Best practices

Participation in fairs, conferences, and publications in industry-related magazines are used by PGNiG to popularise and promote CNG's potential. While these activities have not triggered a sales volume growth yet, they are undertaken for the sake of the market's future development.

One of the Company's most spectacular actions promoting CNG was participation in the 7th Economy Supertest, which came to be dominated by CNG fuelled vehicles. The Economy Supertest is an event initiated and organised annually by the Polish Journalists' Autoclub, promoting safe and environmentally-friendly driving. The results of the Supertest were widely commented on in the public media.

Moreover, PGNiG arranges meetings with potential customers, organises seminars and university lectures, undertakes initiatives aimed at acquiring knowledge and sharing experience in order to implement best practices concerning CNG. The Pomeranian Gas Trading Division alone hosted almost 60 meetings in 2010, which included:

- meetings with the public and spreading knowledge on CNG (8)
- participation in fairs and conferences (7)
- meetings with car dealers and expanding co-operation (29)
- university lectures and educational programmes for children (11)

CNG was named the best environmentally-friendly product of the 2010 Auto-Moto Show fair in Bydgoszcz, and PGNiG was awarded by the President of the City of Bydgoszcz for support in the preparation of the Truck and Bus Show Poland 2010 event, as well as promotion of eco-friendly fuel for delivery vehicles and trucks.

Objective II

PGNiG also takes part in the implementation of large European projects and ideas for CNG use in road transport, such as Blue Corridor and GasHigh-Way, and undertakes smaller-scale initiatives, including the *Zielona Linia* (Green Line) project, designed to create conditions for environmentally-friendly travel on the route from Wrocław to Prague.

The idea of the project originators, the Gas Sales Unit in Wałbrzych, was to create a coach route served only with CNG fuelled coaches. Apart from

PGNiG S.A., the other project participants are the Chamber of Natural Gas Industry and Cesky Plynarensky Svaz. The first Green Line bus will set out already in 2011.

As a continuation of this initiative, PGNiG took part in the Congress of the Regions: Local Government – Investment – Development, held in Świdnica in May 2010. In addition, it took part in a panel discussion on the blue fuel and participated in an international conference Gas Engines 2010. Local initiatives, undertaken within the

footprint of individual Gas Sales Unit's operations, are also noteworthy, with the Carpathian and Lower Silesian Gas Trading Divisions being particularly active in this respect.

It needs to be emphasised that in Poland there are approximately 270 CNG-fuelled buses in operation and the advantages of the blue fuel have already been appreciated by city transport companies in Gdynia, Zamość, Rzeszów, Radom, Tarnów and Wałbrzych. The City Transport Company of Gdynia has been implementing the programme of eco-friendly buses since 2007. At present, the company already owns 14 buses fuelled with compressed natural gas, and the purchase of additional vehicles is provided for in the Strategy for the City of Gdynia. The investment in the innovative vehicle fleet will be financed from the EU Regional Operational Programme funds. Ultimately Gdynia is expected to operate 40 articulated low-floor CNG buses. Additional funds will be earmarked for the infrastructure expansion, for example building slow-fill stations for refuelling buses with gas, which will reduce the costs.

Using CNG vehicles in Gdynia is a source of tangible benefits to all interested parties. The bus company saves money on fuel, the gas distribution company benefits from additional demand for its product, and the citizens of Gdynia can travel by quiet and comfortable means of transport and breathe much cleaner air.



Green Line route – a CNG coach will travel between Wrocław and Prague

Objective II

LNG

One of the key tasks of the PGNiG Group distribution companies consists in expanding the gas distribution systems within the licence areas. Where pipeline-based distribution systems prove economically ineffective, an alternative solution is the temporary use of liquefied natural gas (LNG) pending extension of the gas transmission network. The dynamically developing technology and the planned launch of new LNG production and storage facilities, such as the sea terminal in Świnoujście, confirm that this is the right development direction. The best practices presented in this section constitute only a germ of the idea to apply LNG distribution systems in the areas not yet connected to any gas networks.



LNG tanks in Ińsko

Initiatives/Best practices

For distribution companies, the possibility of LNG distribution is both a great challenge and a development opportunity. In 2010, a number of measures were taken in several regions of Poland with the intention to introduce new services involving LNG distribution and regasification. Wielkopolska Spółka Gazownictwa (WSG) launched a gas supply system based on the LNG technology in Ińsko. The gas network and regasification plant enabling the project implementation were acquired from a third-party company.

LNG supplies have been provided in Ińsko since 2010. Implementing the project with the traditional method could be significantly hindered or delayed due to the large distance from the gas distribution network. In the area there are a number of industrial customers who have expressed their interest in natural gas supplies. The process of developing a gas supply system in the town is still at its initial stage. Gas consumption since the supply start date has amounted to approximately 30,000 cubic metres.

Objective II

To make the project possible, Wielkopolska Spółka Gazownictwa WSG), in line with applicable provisions of the Polish Energy Law, obtained a licence for liquefaction of natural gas and regasification of LNG in LNG units, valid until December 30th 2030. The company treats the project as a temporary solution pending extension of the gas distribution network's coverage and therefore, when the gas distribution network reaches Ińsko, the regasification unit will be transferred to other location within the WSG's operating area.

Another Group company, Mazowiecka Spółka Gazownictwa (MSG), also engages in projects involving the use of LNG technology. In 2010, an LNG Department was established at MSG's Białystok Gas Distribution Division, to operate as a competence centre for such projects. The projects will be primarily implemented in the Province of Białystok, which has the least developed distribution network within the MSG's operating area.

In the Great Mazurian Lakes area, in the towns of Pisz, Ełk, Suwałki, and Olecko, Mazowiecka Spółka Gazownictwa operates independent local hydraulic gas pipeline units fed with propane-butane gas from local facilities. This area has no connection to the gas transmission network and distribution grid. Since 2009, MSG has been implementing an investment project to provide high-methane gas based on LNG technology to customers in Pisz, which at present is supplied with propane-butane-air gas only. PGNiG finances the project, while a unit of the Białystok Gas Distribution Division acts as substitute investor. In April 2010, the company received a promise for a five-year licence for the Pisz unit to carry out operations consisting in liquefaction of natural gas and regasification of LNG.

In 2010, Mazowiecka Spółka Gazownictwa commenced preparations to erect LNG regasification units in Białystok, Suwałki, Mińsk Mazowiecki, and Ostrołęka. Four other projects, scheduled for 2011-2014, were submitted for EU subsidy competition under Measure 10.2 of the Operational Programme Infrastructure and Environment.

The Carpathian Gas Trading Division in Tarnów and Karpacka Spółka Gazownictwa not only collaborate in LNG market development in their operating areas, but also started cooperation with the PGNiG Odolanów Branch, which prepared a comprehensive offer for the supply of LNG and its regasification. Karpacka Spółka Gazownictwa also prepared its own offer for transport and regasification of LNG. The Carpathian Gas Trading Division and Karpacka Spółka Gazownictwa will use LNG as an alternative solution to provide gas to new areas before they are connected to the gas distribution network.

Objective II

Summary

PGNiG's activities carried out as part of the sixth strategic pillar: "Seeking new business expansion opportunities in line with the principle of sustainable development" include projects involving significant financial outlays, such as the one in Stalowa Wola, but also a range of activities seen as investments, the company's input in shaping the energy market in agreement with the principles of sustainable development. A case in point is our involvement in the promotion of CNG, which is starting to bring results. CNG is coming to be seen as the best solution for transport by users and legislators alike. PGNiG's activities resulted in our participation in the E-Mobil Cluster established by the Warsaw University of Technology and the Municipal Office of Warsaw. As part of this structure, a team is being established to support environmentally friendly transport in the Capital City of Warsaw.

There are also other projects expected to bear fruit in the future, in which PGNiG is involved through its knowledge, experience, and intellectual capital of its employees. These include international ventures such as the high-profile SiteChar initiative, participation in the Ministry of Economy's working groups, as well as research activities of PGNiG's Central Measurement and Testing Laboratory in Warsaw. Concurrently, thanks to innovative solutions such as the use of LNG, PGNiG is already able to improve everyday life of people living in various regions. Also, involvement in the developing biogas market, besides being a contribution to the promotion of alternative energy sources, may help to solve social difficulties in rural areas, especially in poorer regions of Poland. All of those initiatives follow from the operating philosophy adopted at PGNiG, based on the ideas of sustainable development and responsible business.

In this section, two objectives have been presented, which are regarded as crucial for achieving the strategic goal of "Seeking new business expansion opportunities in line with the principle of sustainable development", as it was adopted in the July 2009 Strategy.

An important theme that came to the fore in 2010 is unconventional gas exploration. It is an entirely new kind of operation in Poland. PGNiG holds the largest number of licences for unconventional gas production, and was the first company in Poland to perform exploratory drillings in July 2010. Accordingly, we have also included information on shale gas in this section.

Commitments for the future

Strategic pillar	Operational objectives	Detailed objectives for next period
Seeking new business expansion opportunities in line with the principle of sustainable development	Expanding the Company's business to include power generation and trading	<p>Development of a new products, entering the electricity market with the dual-fuel offering (gas plus electricity) for small and medium-sized enterprises as well as business customers</p> <p>Development and implementation of initiatives aimed at the gas market deregulation, preparing PGNiG for market entry of new competitors in Poland</p> <p>Development of gas-fired projects in cooperation with Polish and foreign partners, using off-system gas to generate electricity in the modular technology, offering power outsourcing services for the corporate sector</p> <p>Preparation of an incentive scheme for members of project teams, improvement of the management of large investment and M&A projects, and enhancement of research capabilities</p>
	Development of competences in environmentally friendly solutions (storage of carbon dioxide, geothermal energy, CNG, LNG)	<p>Complete assessment of the technical viability of natural gas combustion in micro-CHP systems by the Central Measurement and Testing Laboratory</p> <p>Further efforts aimed at promoting CNG among fleet customers (transport, sewage disposal companies, etc), preparation of a comprehensive offer that will increase CNG competitiveness, including development of a CNG-based product which would be an all-inclusive solution for bus depots</p> <p>Continued collaboration with the Chamber of Natural Gas Industry to keep/ introduce systemic solutions supporting the development of the CNG market in Poland (maintaining excise duty exemption or making excise duty introduction conditional on reaching a predefined CNG sales volume threshold), lobbying activities, and fostering of social awareness</p>

Prepared by: Przemysław Baciak, Małgorzata Błaszczewska, Radosław Galbarczyk, Marek Hoffmann, Grażyna Janicka, Monika Mielcarek, Marta Malinowska, Dariusz Pastuszka, Emilia Tomalska.

10.1. Unconventional gas

Shale gas and tight gas are the latest sources of unconventional gas.

Formations containing natural gas are present all over the world, but only in the United States are they used to extract gas on an industrial scale, with shale gas production growing rapidly from 8.5 billion cubic metres in 1996 to 25 billion cubic metres in 2006. In recent years, up to 4 thousand new wells have been drilled, which, despite the costs (the estimated cost of an unconventional gas well is approximately three times higher than in the case of a conventional gas well), will provide steady flow of gas for the next 30 years. At present, approximately 10% of gas produced in the United States is unconventional gas.

A growing interest in shale gas has been also observed in Poland. It is assumed that shale gas can be found at depths ranging from 500 metres to 4 kilometres, within a sidelong belt stretching from central Pomerania to the Lublin region, and within the foreland of the Sudety Mountains. In recent years the Ministry of Environment issued over 70 unconventional gas exploration licences to more than 40 entities, of which PGNiG holds 20%, the largest number in Poland. Moreover, PGNiG Group companies perform seismic and drilling work contracted by foreign companies, which increases the Group's revenues. The drilling companies – PNiG Jasło, PNiG Kraków and PNiG Nafta Piła – made substantial investments in modern drilling equipment that meets all requirements of the investors and is environmentally friendly (may be electric powered, produces less noise).

At present, companies interested in unconventional gas are completing their analyses of archival materials sourced from earlier geological drillings carried out in Poland. Some of them have also performed additional seismic work and geochemical surveys. At the end of 2010 and at the beginning of 2011, a few companies carried out first drillings for shale gas – the early data is promising. However, it will take two to three years to appraise the size of shale gas resources in Poland and to assess the physical possibilities of its production.

In 2010, PGNiG finished drilling the Markowola-1 borehole in the Province of Lublin. As analysis of the geophysical data revealed possible tight gas deposits, hydraulic fracturing procedure followed in the borehole.

Shale is a low permeability formation and thus requires fracturing to release the gas. Fracturing creates secondary channels in the rock, which enables commercial gas production. Increasing shale gas production to an industrial scale in the recent years was made possible thanks to new technologies which result in intensive fracturing around the borehole. Gas boreholes in shale are often drilled horizontally, with horizontal sections as long as 3 km. It makes it possible to maximise the surface

of drilled rock. Shale gas may be contained in the rock's micropores or may be adsorbed in particles of organic substances. In the first case, it is released directly into created fractures, while in the second case the adsorbed gas is released as a result of lowering of the reservoir pressure that follows the borehole drilling.

The first borehole, Markowola-1, was classified as dry and scheduled for abandonment, as the flow of gas was found to be insufficient to commence industrial-scale production. In March 2011, PGNiG drilled the Lubocino-1 borehole in the vicinity of Wejherowo in the north of Poland. Preliminary data indicate the gas flow level is satisfactory. PGNiG intends to spend PLN 100-200m on shale gas exploration in Poland in 2011.

For a dozen or so months shale gas has been an issue widely covered in the media. Interestingly, opinions have polarised and articles on shale gas oscillate between extremities. There are enthusiastic reports of gigantic shale gas deposits in Poland, but also articles which may raise concern among Poles. For instance, photographs depicting oil production from oil sands and the resulting degradation of the environment were published in the press as an example of areas where shale gas is produced, which is not the true picture. Good communication is therefore necessary, primarily with the local communities in the areas of exploration. PGNiG has already taken steps to address this problem, focussing on the inhabitants of those areas where we are already carrying out shale gas exploration activities or where such activities are planned. A year after the first borehole was drilled in Markowola, PGNiG held a special workshop that was primarily aimed at educating the representatives of local governments and authorities of the communes where shale gas exploration and production will be carried out. For more information on this subject, please refer to the section devoted to the environment.

Building good relations with local communities and care for the natural environment are the foundations of PGNiG's Sustainable Development and Corporate Responsibility Strategy, but also principles by which the company has always been acting in its operations. Whatever the final result of shale gas exploration may be, it is worth to invest in good communication and open dialogue. This is the approach we will adopt this time as well.

10.2. Energy efficiency – a whim or necessity?

In August 2011, the Energy Efficiency Act, adopted by the Sejm (lower chamber of Polish Parliament) in April 2011¹, came into force. Zofia Grajwoda, an advisor to PGNiG's Management Board, speaks about how the Act may affect energy consumers and PGNiG and how the Company is preparing for this process.

What is the Energy Efficiency Act about and why was it adopted?

Energy efficiency improvement is one of the three objectives set out by the European Union to protect the climate. The Energy Efficiency Act, passed on April 15th 2011, implements Directive 2006/32/EC of the European Parliament and of the Council on energy end-use efficiency and energy services. The purpose of the Directive is to oblige the EU member states to optimise energy use and promote innovative technologies, which minimise the adverse environmental impact of the energy sector. It also lays down the rules for preparing

energy efficiency audits and the procedures for granting an energy efficiency auditor licence. Under the Energy Efficiency Act, by 2016 the annual average final energy consumption in Poland, i.e. energy used by end users for own purposes, should fall by 9% relative to the annual average consumption in 2001–2005.

Zofia Grajwoda,
Management Board's advisor



How can this be accomplished?

Primarily through more rational and economical energy use at every level, starting with energy producers and sellers and finishing with end users. Investment projects and schemes based on energy-efficient solutions will be promoted. Although the Act itself is aimed at reducing energy consumption by end users (approximately 80% of efficiency improvement projects), it also provides for modernisation projects to reduce energy requirements of electricity and heat producers as well as projects to minimise transmission and distribution losses of network companies (transmitting or distributing electricity, heat and natural gas).

In connection with the entry into force of the Energy Efficiency Act, there has been some talk about the obligation imposed on companies to buy the so-called “white certificates”. Can you explain that term?

“White certificate” is a popular term for energy efficiency certificates. As the Act takes effect, every company that sells natural gas, electricity or heat to end users will have to obtain such certificates. While the target set out by the Act – i.e. energy savings of 9% – applies to every form of energy used by end users, i.e. solid fuels, diesel fuels, fuel oils, gasoline, electricity, heat and gas, the obligation to purchase the certificates and submit them to the President of URE for redemption is placed only on the companies referred to above that sell energy carriers via networks (electricity, heat and natural gas).

These companies will be required to obtain a specific number of certificates depending on their energy sales volumes. White certificates may be obtained for the implementation of projects that will yield energy savings for end users or reduce own energy requirements of the companies, thus indirectly enhancing the efficiency of electricity and heat generation and reducing losses associated with the transmission and distribution of electricity, heat and gas.

A detailed list of energy-saving measures is to be published, and a procedure for determining the number of white certificates to be obtained by the above companies every year will be established by way of a regulation of the Minister of Economy.

Companies holding white certificates will submit them to the President of URE, who will then redeem them in accordance with the applicable procedure. A company that fails to obtain the required number of certificates will have to pay a substitute fee, and should it default on its obligations – a fine. These payments will be made to the National Fund for Environmental Protection and Water Management and allocated for financing of efficiency improvement initiatives, as well as development of cogeneration or renewable energy sources.

If a company does not obtain white certificates from its customers, it may purchase them on a power exchange.

This process is analogous with the procedure already in place for the green certificates issued for energy generated using renewable energy sources, and the red ones for cogeneration, i.e. production of heat and electricity in the most efficient way.

What does the new legislation mean for PGNiG?

We will certainly have to address two issues.

Firstly, the consumption of gas by end users will decline, driven by energy efficiency measures. I estimate that it might decrease by approximately 0.84 billion cubic metres by 2016, which will in turn bring down our revenues. It should be noted, however, that gas consumption is already highly efficient nowadays, so potential energy savings for end users are slim. The Act provides for the execution of energy efficiency projects where energy savings are measured relative to primary energy with a view to generating biggest savings (more than 10 tonnes per year) at the lowest cost. This involves some risk that energy savings will be achieved using energy carriers other than gas, which are used and converted from primary energy with a lower efficiency.

Secondly, we will have to bear the costs of purchasing white certificates. It is estimated that they will not exceed 3% of a company's annual revenue, which in our case amounts to PLN 330m a year.

In one of the publications in *Przegląd Gazowniczy*, a magazine of the Chamber of Natural Gas Industry, it has been said straight out that the Energy Efficiency Act is detrimental to the gas sector ("Problematic Energy Efficiency Act", *Przegląd Gazowniczy* No. 2, June 2011)

It is true that the Act imposes unequal obligations on sellers of various energy carriers to the disadvantage of the gas industry.

This is a subject for another discussion, but I will briefly present some reasons supporting this statement, such as, for example, the already mentioned white certificates. The requirement to hold such certificates applies exclusively on the operators selling electricity, natural gas and heat. It does not apply to other energy carriers, such as solid fuels (coal, coke) or petroleum-derived liquid fuels (gasoline, diesel oil and fuel oil), while the energy saving target of 9% has been set for all energy carriers.

Another argument for the unequal treatment of different energy producers is that under the Act large and energy-intensive customers of electricity producers may account for the effects of energy-saving modernisation projects in their settlements relating to the white certificates. Unfortunately, this benefit is not available to large, energy-intensive consumers of natural gas. As you can see, the electricity generation sector is clearly at an advantage.

Still, we have to prepare ourselves for the implementation of the Act. How is PGNiG doing that?

Implementation of the Energy Efficiency Act is part of the Sustainable Development and Responsible Business Strategy, adopted by the PGNiG Group in July 2009. In response to the measures introduced under the Act, the Management Board adopted certain objectives. Each of the six strategic pillars of our CSR strategy provides for tasks and operational goals to implement the national energy efficiency plan.

The implementation of the Energy Efficiency Act in the PGNiG Group will be a “dual-track” process:

- We will introduce measures to enhance energy efficiency at our Company, primarily through fuel and energy savings and lower gas distribution losses.
- Similar steps will be taken for our customers, mainly in the form of co-financing of energy efficiency projects aimed at reducing energy consumption by end users.

How will it work in practice?

Energy efficiency schemes within the Group will involve mainly:

- planning renovations and modernisations of buildings so that they include measures to reduce energy requirement, for instance through limiting emissions or recovering energy from gas decompression,
- reducing losses and fuel consumption in distribution and storage,
- thermal efficiency improvement projects at gas facilities and replacement of equipment with more efficient machinery.

Another important issue is the adoption of energy efficiency as a criterion in public tenders for the execution of investment projects and procurement. A genuine innovation is the planned introduction of the job of a certified energy efficiency auditor at our Company.

PGNiG is also involved in the promotion of gas pressure energy and energy contained in the reservoir fluid as energy recoverable during industrial processes, support for the construction of biogas plants, research into energy-efficient technologies, etc., all aiming to reduce the demand for primary energy.

What about the measures for customers?

Our role will primarily involve encouraging customers to employ energy-saving solutions using gaseous fuel. On the other hand, we will have to search for new business opportunities for our Group, that is develop new services related to energy efficiency improvement.

We are faced then with the task of preparing an attractive energy efficiency offer, sale and related advisory services. To that end, PGNiG has prepared a range of trainings for our key customers’ consultants, to educate them on how to present the advantages of energy-saving gas-fired solutions and then encourage the customer to use them. In light of the on-going liberalisation of the gas market, such initiatives are indispensable for the Group not only to keep its leading market position, but also to prevent the loss of its market share to Polish and foreign competitors, offering products based on natural gas or other energy carriers. We should bear in mind that in a few years’ time it will be a completely different market. The sooner we proactively prepare for such changes, the better.

As far as exploring new business areas is concerned, in my opinion it will be crucial that PGNiG takes part in co-financing of energy-efficiency modernisation projects for major customers not only from the industrial but also the public administration sector, since, in accordance with the Energy Efficiency Act, the public sector is equally obliged to ensure energy efficiency. That is why we should, as soon as possible, start cooperating with local authorities on projects designed to improve energy efficiency in particular municipalities and communes. In the case of this group of customers, it will be important to co-finance investment projects related to energy efficiency improvement and offer consultancy on environmental protection, especially in the areas which are planned to be connected to the gas transmission network. To that end, we may leverage the potential of the Group's construction companies and extend the range of their services to include upgrade of gas customers' installations, as well as construction of modern buildings based on energy-efficient technologies and facilities for combined heat, cold and power production, including those relying on natural energy contained in underground reservoirs.

And the last, but certainly not least important of our tasks, is PGNiG's involvement in legal matters. I believe that as one of the largest actors on the Polish energy market, we should actively participate in legislative work on the Energy Efficiency Act, including the secondary regulations, and also engage in the process of issuing opinions on the new EU directive on the subject, taking into account the specificity of the Polish energy market, and on projects designed to bring the national legislation in line with the changing EU regulations. We should also work towards establishing mechanisms of cooperation with customers that implement modernisation projects as well as the methods of measuring energy savings produced by projects already carried out by the customers.

As you can see, PGNiG is getting ready to fulfil the obligations imposed by the Energy Efficiency Act by taking efforts that address the issue comprehensively and go beyond the scope of the requirements.

Thank you

Interviewer: Anna Jarosz, PGNiG

¹⁾ Bill – April 15th 2011. (Dz. U. 94 poz.551)

11. Awards and distinctions

Awards and distinctions received by PGNiG's entities in the reporting period (from January 2010 to December 2010).

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
PGNiG Odolanów Branch	Employer – Safe Workplace Provider – Main Award	General Labour Inspector	The Branch was nominated for the Main Award by the Board of the Contest, appointed by the General Labour Inspector and composed of experts of the State Labour Inspection Authority, as well as representatives of employers organisations: Business Centre Club, Employers of Poland, Polish Confederation of Private Employers Lewiatan (PKPP Lewiatan) and the Polish Craft Association.
PGNiG Sanok Branch	Investor in Human Capital	Management Observatory Foundation	Award presented to companies which are actively involved in their employees' development and in the proper operation of their human resources management systems.
PGNiG Sanok Branch	Certificate of Distinction	The Board of Students of the University of Agriculture in Kraków	Certificate of Distinction for active involvement and support of screw cap collection. A pro-environmental action.
PGNiG Sanok Branch	Patron Parnas Statuette	Culture Development Foundation of the Province of Rzeszów	Award presented for the support of musical education of the youth and equal-opportunity action targeted at young people from small towns of the Carpathian Euroregion.
PGNiG Zielona Góra Branch	2010 Business Award of the Mayor of Zielona Góra	Mayor of Zielona Góra	The Branch ranked first in the Community Friendly Company category. The award is granted to companies whose efforts significantly contribute to the development of the city.
PGNiG Upper Silesian Gas Trading Division in Zabrze	Media Diamond Leaf	Study and Programme Centre for the Press, Radio and Television Warsaw-Katowice-Kraków	The 2010 Media Diamond Leaf was awarded to the Division by the Board of the „Poland in Europe – Europe in Poland Programme for the successful implementation of sustainable development and corporate social responsibility strategy, which combines the objectives of a business with social and environmental objectives. The award also reflects the Division's exemplary cooperation with nationwide and local media.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
PGNiG Carpathian Gas Trading Division – Jasło Gas Sales Unit	Acknowledgments, certificates, statuettes	Schools, kindergartens, Youth Culture Centre, Culture Centre of Jasło, foundations, organisations supported by the Jasło Gas Sales Unit etc.	Acknowledgements for assistance, generosity, and involvement in various cultural, sports and social events.
PGNiG Carpathian Gas Trading Division – Jasło Gas Sales Unit	Medal, cup and certificate	Jasielski Klub Sportowy Czarni 1910 Jasło (a sports club)	For the support of the Club's day-to-day activities, and involvement in the celebration of the Club's 100 th Anniversary. The awards were presented at the Gala held at the Culture Centre of Jasło with the participation of the local government representatives, invited members of the Sejm and Senate (the lower and the upper chamber of Polish Parliament), as well as representatives of the governing bodies of the Polish Football Association (including its President).
PGNiG Carpathian Gas Trading Division – Kraków Gas Sales Unit	Chopin Year Sponsor	The Karol Szymanowski Philharmonic of Kraków	For the support of all activities conducted by the Karol Szymanowski Philharmonic of Kraków in 2010. PGNiG is one of the few long-term patrons of the institution. The statuettes awarded by the Philharmonic's Management are tokens of gratitude, emphasising the importance of cooperation with the Kraków Gas Sales Unit.
PGNiG Carpathian Gas Trading Division – Kraków Gas Sales Unit	Friend of the Enchanted Birdie	Against the Odds Foundation	The Statuette presented by the Against the Odds Foundation is to express the Foundation's gratitude for the Kraków Gas Sales Units' cooperation in 2010, including in particular the support of the Enchanted Song Festival, and the planned broadening of the cooperation in 2011. The award was presented by the Board of the Anna Dymna Against the Odds Foundation and the Programme Board of the Enchanted Song Festival.
PGNiG Carpathian Gas Trading Division – Rzeszów Gas Sales Unit	Medal on the occasion of the 20 th Anniversary of the Chamber of Industry and Commerce in Rzeszów	The Chamber of Industry and Commerce in Rzeszów	The Medal was awarded for many years' cooperation with the Chamber and support of its operations.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
PGNiG Carpathian Gas Trading Division – Sandomierz Gas Sales Unit	Special acknowledgements	Professor Marian Zembala, MD, Chairman of the Scientific Committee at the Ministry of Health, Director of the Silesian Centre for Heart Diseases of Zabrze	Acknowledgements for the support of a campaign promoting the idea of transplants, carried out by the Silesian Centre for Heart Diseases of Zabrze, and for the assistance to the Zabrze Section of the Heart Transplant Association.
PGNiG Carpathian Gas Trading Division – Sandomierz Gas Sales Unit	Special acknowledgements	Józef Kotarski, President of the It's Good that You Are Here (<i>Dobrze, że jesteś</i>) Association	Acknowledgements for the financial assistance to the Castle without Barriers project, under which PGNiG co-financed the purchase of equipment supporting the blind in moving around facilities and familiarising themselves with the exhibitions of Sandomierz museums and collections of the town's libraries.
PGNiG Carpathian Gas Trading Division – Sandomierz Gas Sales Unit	Distinction in the Patron of Culture category	The Award Board appointed by the Mayor of Zamość	Acknowledgements for the support of cultural events in 2010. In 2008, the PGNiG Sandomierz Gas Sales Unit was awarded a statuette in the Patron of Culture category. Despite being again nominated in 2009 and 2010, the Unit received a distinction only, in accordance with the Rules of the Award.
PGNiG Pomeranian Gas Trading Division – Bydgoszcz Gas Sales Unit	Certificate of Distinction	The Contest Committee of the Track&Bus Show Poland 2010 Fair and the Mayor of Bydgoszcz	Certificate of Distinction for professionally prepared Fair exhibition and promotion of compressed natural gas in the Bydgoszcz region, as well as for the support in the event preparation.
PGNiG Pomeranian Gas Trading Division – Bydgoszcz Gas Sales Unit	Special Award	The Contest Committee of the 8 th AUTOSHOW 2010 Automotive Fair	Special Award for the innovative product offering and promotion of new technological solutions.
PGNiG Pomeranian Gas Trading Division – Bydgoszcz Gas Sales Unit	Congratulatory letter	Environmental Education Centre of the Province of Bydgoszcz	Congratulations and acknowledgements for the cooperation on and involvement in the promotion of environmental education.
PGNiG Pomeranian Gas Trading Division – Bydgoszcz Gas Sales Unit	Certificate	The SUE RYDER Association of Bydgoszcz	Certificate for many years' cooperation in the support of the annual charitable concert promoting the idea of palliative and hospice care.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
PGNiG Pomeranian Gas Trading Division – Gdańsk Gas Sales Unit	The Pomeranian Eagle Statuette	Edytor Press Publishing House	Participation in the 7 th Pomeranian Eagle Poll organised by the publisher of the <i>Tygodnik Wieczór</i> weekly. The poll is organised under the auspices of the Gdańsk Provincial Governor and the Speaker of the Gdańsk Provincial Assembly. It is designed to award individuals and companies with outstanding achievements in the field of business, culture, social initiatives, scientific research or sports.
PGNiG Pomeranian Gas Trading Division – Olsztyn Gas Sales Unit	Environment-Friendly Angel Statuette	Province Fund for Environmental Protection	Being a seller of environment-friendly energy carrier, the company is actively involved in environmental protection. The Eco-Team Programme (<i>Program Ekozespołów</i>) responds to the expectations of children who would like to actively express their care for the environment. This campaign promoting environment-friendly lifestyles among school pupils enjoys enormous interest and encourages a growing number of people to get involved. Thus the project has become a fixed feature in the calendar of events of companies, educational institutions and local governments of the Province of Olsztyn. Since 2000, the number of participants in the Eco-Team Programme has increased tenfold. In 2010, over 10,000 children and teenagers participated.
PGNiG Pomeranian Gas Trading Division – Olsztyn Gas Sales Unit	Distinction granted by the Mayor of Olsztyn	Municipal Office of Olsztyn	Distinction granted for the support of the Safe Olsztyn Programme. The initiative comprises year-round actions of the Municipal Office in the field of broadly-meant safety of inhabitants of Olsztyn. The Olsztyn Gas Sales Unit joined the Programme several years ago, promoting natural gas as a safe source of energy.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
PGNiG Pomeranian Gas Trading Division – Olsztyn Gas Sales Unit	Acknowledgements	The Partnership for the Environment Foundation	Acknowledgements for the support of the 9 th Countrywide Schools for Environment-Friendly Development Conference. The conference, held on an annual basis, serves as the venue for summarising the international Green Flag Programme promoting environmental protection. The Green Flag is a title awarded to schools all over the world under the Eco-Schools Programme (www.eco-schools.org), organised since 1994 and joined by around 15,000 schools from 43 countries of Europe, as well as Africa, South America, Asia and Pacific. To date, nearly 4,500 schools have been awarded Green Flags. The Eco-Schools Programme is based on the Environmental Management Systems (EMAS, ISO 14001) designed to improve the environmental awareness among school pupils through actions promoting effective use of energy and commodities and sustainable waste management (including recycling) at schools and around them.
Górnośląska Spółka Gazownictwa (GSG)	Golden Laurels for Skill and Competence in the Socially Responsible Company category	The Regional Chamber of Commerce in Katowice	GSG was awarded for embracing both business objectives and social needs in its operations, sharing its resources with its environment and the local and regional communities, guaranteeing fair work conditions for its employees, promoting employees' development and education, enabling the employees to reach a balance between work and private life, promoting equal opportunities, as well as including environmental aspects in its operations, for instance through environmental protection investment projects, education, renewable natural resources, etc. The award is all the more valuable as it was granted in a public poll held among inhabitants of the region and members of the Regional Chamber of Commerce in Katowice, who gave the top grade to the company's CSR initiatives.
Górnośląska Spółka Gazownictwa (GSG)	Pearl of the Polish Economy	Institute of Economic Sciences of the Polish Academy of Sciences and the publishing house Oficyna Wydawnicza Rynek Polski Sp. z o.o.	GSG was distinguished in the ranking of Polish companies and granted the Pearl of the Polish Economy title in the Large Pearls category. The ranking comprises companies reporting total annual revenues of at least PLN 100 million (Large Pearls) or PLN 1 billion (Great Pearls). The assessed companies must also meet a predefined minimum value on a number of criteria set by the Institute of Economic Sciences of the Polish Academy of Sciences, such as: revenue growth dynamics, sales profitability, debt servicing, gross ROA, net ROE, work efficiency, and total factor productivity.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
Górnośląska Spółka Gazownictwa (GSG)	Fair Play 2010 Company Certificate	Institute for Private Enterprise and Democracy and National Chamber of Commerce	GSG ranked among top companies and, in addition to being awarded the Certificate, was nominated for the Fair Play 2010 Company Statuette. The Certificate confirms that in its operations GSG successfully combines ethical and environmental aspects of business with efficiency, while maintaining openness and transparency of operations and reliability with respect to its stakeholders, that is customers, business partners and employees, in line with the sustainable development principles.
Karpacka Spółka Gazownictwa – Jasło Gas Distribution Division – Nowy Sącz Gas Distribution Region	Man of the Year title for Celestyn Żeliszewski	<i>Gazeta Krakowska</i> daily	The title was awarded by readers of <i>Gazeta Krakowska</i> for Mr Celestyn Żeliszewski's selfless help: in May 2010 Mr Żeliszewski risked his own life to save two young people from car fire.
Karpacka Spółka Gazownictwa	Man of the Year title for Bogdan Pastuszko	<i>Gazeta Krakowska</i> daily	The title was awarded by readers of <i>Gazeta Krakowska</i> for financial support of cultural, sports and educational projects in the region.
Karpacka Spółka Gazownictwa	Golden Engineer 2010	Editorial team of the <i>Przegląd Techniczny</i> weekly and Polish Federation of Engineering Associations NOT	The title in the Management category was awarded by readers of <i>Przegląd Techniczny</i> to Mr Bogdan Pastuszko, President of the Management Board.
Karpacka Spółka Gazownictwa	Amicus Minorum title	The Assistance to the Disabled Foundation of Stróże	The Amicus Minorum title was awarded for assistance to disabled children.
Karpacka Spółka Gazownictwa – Sandomierz Gas Distribution Division	Amber Bow of the Amazons	The Federation of the Amazons Associations	Award for regular support of the foundation taking care of post-mastectomy patients.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
Karpacka Spółka Gazownictwa – Tarnów Gas Distribution Division	Rose of the Polish Red Cross	The Polish Red Cross – Tarnów Branch	Distinction for active involvement in humanitarian help to others.
Karpacka Spółka Gazownictwa (KSG)	Pearl of the Polish Economy	Institute of Economic Sciences of the Polish Academy of Sciences and the publishing house Oficyna Wydawnicza Rynek Polski Sp. z o.o.	Certificate confirming KSG's position among the largest and most effective Polish companies.
Karpacka Spółka Gazownictwa (KSG)	Golden Idea	The Science and Health Foundation	The title of Company Financing Polish Science.
Karpacka Spółka Gazownictwa (KSG)	Quality of the Year	Polskie Centrum Badań i Certyfikacji S.A. (Polish Centre for Testing and Certification) and the editorial team of Biznes Raport	Quality of the Year is a countrywide project designed to support, develop and promote quality-oriented approach to business among companies; KSG was awarded the title for the implementation of ISO certificates in 2009.
Karpacka Spółka Gazownictwa – Rzeszów Gas Distribution Division	Museum Friend	Regional Museum of Rzeszów	The Museum Friend title was awarded for regular support of the Museum's operations.
Karpacka Spółka Gazownictwa – Lublin Gas Distribution Division	Golden Chestnut	Mayor of Lublin	Award for a long-standing support to Save the Chestnut Trees in Lublin initiative.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
Karpacka Spółka Gazownictwa – Tarnów Gas Distribution Division	Better Tomorrow	Their Better Tomorrow Association	Award for many years' involvement in assistance to the disabled. The Division has offered help to the Association for a long time, helping it organise trips and picnics for the disabled, and supporting day-to-day operations of the day care centre and occupational therapy workshops.
Karpacka Spółka Gazownictwa (KSG)	Mother at Work Distinction	<i>Rzeczpospolita</i> daily, Santa Claus Foundation	In the 3 rd edition of this contest, KSG competed against 117 large and small companies for the title of an Exceptionally Mother-Friendly Company. KSG was awarded a distinction for being well above the average, exceptional.
Karpacka Spółka Gazownictwa – Jarosław Gas Distribution Division	Patron of the Cultural Centre	Cultural Centre of Przemysł	Title awarded in recognition of a long-standing support for the Centre's art initiatives.
Mazowiecka Spółka Gazownictwa	Workplace Safety Leader's Golden Card	Central Institute for Labour Protection – National Research Institute	Workplace Safety Leader's Golden Card is awarded to employers who apply modern science and technology to promote knowledge about occupational health and safety and strive to adjust workplace conditions to the standards of the European Union.
Mazowiecka Spółka Gazownictwa	Staff-Friendly Employer	NFZZ Solidarność	NSZZ Solidarność awards certificates for the observance of labour law, in particular the employees' right to form trade unions. Employers who entered the competition had to prove that their actions are in line with the values endorsed by NFZZ Solidarność, such as: permanent employment, observance of labour laws and standards, and the obligation to protect employees' right to represent their interests. The certificate is valid for three years.
Mazowiecka Spółka Gazownictwa	Education-Friendly Partner	Łódź Centre for the Development of Vocational Teachers	Award presented in recognition of the company's involvement in the life of the Gas Industry Vocational School forming part of Vocational School Complex No. 3 of Łódź.
Mazowiecka Spółka Gazownictwa	CSR PARTNER of the Satoris Foundation	Satoris Foundation for Active Philanthropy	Award for supporting projects contributing to the resolution of crucial social issues in Poland.
Pomorska Spółka Gazownictwa	2010 Patron of Sports in Gdańsk	Mayor of Gdańsk	The company received this award for supporting local sporting activities in 2010.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
Pomorska Spółka Gazownictwa (PSG)	2010 Best Employer in the Province of Gdańsk	Employers of the Province of Gdańsk	The company was awarded the title of 2010 Best Employer in the Province of Gdańsk in the Large Employer category as part of a contest organised by Employers of the Province of Gdańsk. Adam Kielak, CEO of PSG, received the award from Roman Zaborowski, Governor of the Province of Gdańsk, during an official gala at the Artus Court in Gdańsk.
Wielkopolska Spółka Gazownictwa (WSG)	Hipolit Statuette and the right to use a registered logo "The Best in Poland"	Hipolit Cegielski Society, Poznań Province Association of Trade and Services, Radio Merkury, <i>Merkuriusz Polska</i> monthly, TVP S.A. of Poznań, EuroPartner	The Best in Poland Consumer Contest of Service Quality is one of the oldest contests aimed at the promotion of companies, institutions and services. It has been held since 2000. In 2010, WSG was listed among the best European companies that offer their services in Poland. The company was awarded a certificate which grants it the right to use the Best in Poland logo until 2013.
Geofizyka Toruń	Quality of the Year 2010 in the Services category	Polskie Centrum Badań i Certyfikacji S.A. (Polish Centre for Testing and Certification), <i>Biznes Raport</i> monthly, Agencja Kreatywna Public PR	The distinction is awarded every year by Polskie Centrum Badań i Certyfikacji S.A., editorial team of <i>Biznes Raport</i> monthly, and Agencja Kreatywna Public PR. Geofizyka Toruń was recognised for its care for the top quality of service in acquiring, processing and interpreting seismic data, which is reflected in the management procedures adopted by the company, including operational planning, management and supervision, as well as incentivising employees. The management elements applied by the company are also confirmed by the quality policy and ISO Certificates.
PNiG Jasło	2010 Forbes' Diamond	<i>Forbes</i> magazine	The Forbes' Diamonds is a ranking of Polish companies whose value is growing at the fastest pace. The ranking, prepared by the <i>Forbes</i> monthly in cooperation with Dun & Bradstreet, is published based on a Swiss business valuation methodology, which takes into account both financial performance and value of the companies' assets, and enables corporate potential measurement considering the value of capital expenditure and potential for sales revenue and profit growth. PNiG was listed among large companies (revenue exceeding PLN 250m), where it took a respectable second place in the Province of Rzeszów and ranked 49 th nationwide.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
PNiG Jasło	2010 Reliable Employer of the Year (Nominated)	<i>Rzecz o Biznesie</i> – supplement to <i>Rzeczpospolita</i> daily	The purpose of this competition is to select best employers in Poland, especially from among companies that apply new and interesting HR solutions. The programme was created to identify, award and promote companies with exemplary HR policies, which translate into superior quality of products and services on the demanding domestic market. With the general notion of employment reliability at its centre, the selection criteria also included work conditions, salaries paid in a timely manner, social conditions, career paths, internal and external opinions about the company, and employment growth rate in recent years. <i>Rzeczpospolita</i> , Employers of Poland, and the Polish Agency for Enterprise Development are partners of this competition.
Poszukiwania Nafty i Gazu	Forbes' Diamond	<i>Forbes</i> magazine	The title was awarded to PNiG in the category of companies of the Province of Kraków with revenues exceeding PLN 250m.
Poszukiwania Nafty i Gazu Kraków	Pearl of the Polish Economy (Large Pearl)	Editorial team of the <i>Polish Market</i> monthly and Institute of Economic Sciences of the Polish Academy of Sciences	For consistent implementation of the company's policy and strategy, and leading position among the most dynamic and effective enterprises in Poland.
Poszukiwania Nafty i Gazu Kraków Sp. z o.o.	Oil & Gas Industry Awards 2010	World Finance	For the best drilling and contractor company.
PNiG NAFTA	European Crown	Board of the Poland in Europe – Europe in Poland Media Programme (related with the <i>Rzeczpospolita</i> daily)	Award presented for the consistent technological development and preserving the sound business and financial condition of the company in the dynamically changing environment (including maintenance of own technical facilities). The company was also appreciated for its support and cooperation programme for training of upper- and mid-level technical staff, which is as a paradigm example of combining business and CSR, and promotion of Poland and Piła among various cultural and business communities on three continents. European Crown is a token of recognition for fostering the learning organisation culture at the company, whose operations are founded on knowledge and safe work conditions and which is environmentally friendly.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
PNiG NAFTA	HIT 2010	The Board composed of county governors of the Province of Poznań and other professionals related to the economy and local government of the region	Award for performing drilling work, granted to operators carrying out unconventional gas exploration projects in Poland.
PNiG NAFTA	Achievers	The <i>Tygodnik Pilski</i> weekly	The Company's President has been included in the group of Achievers by <i>Tygodnik Pilski</i> . It was yet another time the journalists of <i>Tygodnik Pilski</i> , <i>Chodzieżanin</i> , and <i>Głos Wielkopolski</i> , belonging to the Polskapress publishing group, identified and distinguished individuals, companies, and projects contributing to the development of local communities.
PNiG NAFTA	Siriuses 2011	Piotr Głowski, Mayor of Piła	Award in recognition of PNiG NAFTA Sp. z o.o.'s consistent establishing of the company's brand in the Polish and global drilling market. The message of the award: <i>per aspera ad astra</i> (to the stars through difficulties), perfectly reflects the entire 55-year-old history of the company's operations.
PNiG NAFTA	Quality of the Year 2010	Polskie Centrum Badań i Certyfikacji S.A. (Polish Centre for Testing and Certification) and the editorial team of <i>Biznes Raport</i>	The company won the 5th edition of the largest quality-promoting contest in Poland, and received the Quality of the Year 2010 award in the Services category. The main selection criterion was the company's approach to quality management, which included the quality systems in place at the company, high standards assumed in the company's mission, as well as the company employees' involvement in systematic quality improvement.
Poszukiwania Naftowe Diament	Community-Friendly Company, Business Award of the Mayor of Zielona Góra	Mayor of Zielona Góra	Award presented to the company for its contribution to the life and development of Zielona Góra.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
ZRG Krosno	First place in the regional contest: Employer – Safe Workplace Provider, in the category of Large Companies (in excess of 251 employees)	State Labour Inspection Authority, Regional Labour Inspectorate in Rzeszów	For meeting the contest criteria set by the State Labour Inspection Authority.
ZRG Krosno	Distinction in the nationwide contest: Employer – Safe Workplace Provider	State Labour Inspection Authority, Main Labour Inspectorate	as above
BUG GAZOBUDOWA	Golden honorary medal "For the Merits for the Province of Katowice	Chairman of the Katowice Provincial Assembly	Celebrations of the company's 60 th anniversary. Appreciation of the company's contribution to the development of the region.
BSiPG GAZOPROJEKT	Inwestor w Kapitał Luda Investor in Human Capital	Management Observatory Foundation	Joint initiative of the Institute of Labour and Social Affairs and the Management Observatory Foundation. Investor in Human Capital is a nationwide certification scheme intended for companies which actively support their employees' development and proper operation of the human resources management system. Participation in the scheme enables an analysis and comparison of the company's results against market standards of broadly understood HR policy. Distinctions are awarded to the companies whose care for employees' development exceeds the standards. The award process was supervised by the Board of the Scheme, composed of representatives of academic communities, research companies, training and consulting companies, as well as independent experts dealing with HR management issues in practice.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
BSiPG GAZOPROJEKT	Best Designing Company in Poland in 1990–2010	The Chamber of Construction Designing	The evaluation criteria included a wide range of aspects, such as the company's achievements and reputation (credentials, recommendations, and distinctions), its organisation and management systems, HR policy achievements, active participation in professional and commercial organisations, range and quality of insurance used, and financial results. Based on those criteria, the Board of the contest selected companies to be awarded the title of the Best Designing Company in Poland in 1990–2010.
BSiPG GAZOPROJEKT	Best Design Manager of 1990–2010	The Chamber of Construction Designing	Award granted to Adam Matkowski, CEO's Proxy – Adviser to the Management Board
BSiPG GAZOPROJEKT	2010 Best Engineering Design	The Chamber of Construction Designing	Title awarded to two designs prepared by GAZOPROJEKT: 1) Upgrade of the GT10B+50P4 Compressor at the Hołowczyce Gas Compressor Station 2) Education, Tourism and Sports Centre, along with a Youth Hostel in Krośnice The criteria were innovativeness, originality and optimised design solutions.
BSiPG GAZOPROJEKT	Lower Silesia Business Certificate	The "Krzyżowa" Foundation for Mutual Understanding in Europe and the Board of the Province of Wrocław	The purpose of the programme is to award those companies from Lower Silesia which meet ethics and fair competition requirements and boast sound financial performance and stable employment. The Board of the Programme, led by the Speaker of the Wrocław Provincial Assembly and acting under the auspices of the Governor of the Province of Wrocław, pays particular attention to the companies' financial position, steady improvement of work efficiency, and innovation investments. According to the Programme organisers, the company awarded the certificate must contribute significantly to the development of the region and the labour market, and stand out in terms of quality, innovation and modern approach to business.

Company name	Awards and distinctions received	Awarding organisation	Reasons for the award/criteria/grounds
BSiPG GAZOPROJEKT	White List – Silver Certificate	Wrocław Chamber of Commerce	The programme promotes reliable companies. The certificate is granted upon the completion of a review process, which is to demonstrate the company's excellent conduct in its relations with customers, business partners and other institutions it deals with in its operations. The review results are available for inspection and the company is listed at www.bialalista.pl
BSiPG GAZOPROJEKT	2010 Business Gazelle	The <i>Puls Biznesu</i> daily	The listing of the most robust and reliable small and medium-sized enterprises is prepared under the patronage of the <i>Puls Biznesu</i> daily and the honorary patronage of the Ministry of Economy. Material advantages of the ranking are its transparency and clear rules, based directly on the companies' financial results. In the nationwide listing, GAZOPROJEKT was ranked 256 th (3,500 titles were awarded in total). An equally good position was secured by the company in the provincial ranking, in which it came 20th out of 285 distinguished companies.
BN Naftomontaż	Reliable Company	Business and Consumer Programme "Reliable Company"	From its launch in 2002, the programme has been supporting and promoting reliable companies by making their evaluation and creating a database of trustworthy enterprises. The programme refers to HR management and has been developed to identify, award and promote businesses characterised by exemplary HR policies, reflected in the high quality of products and services in the demanding Polish market.
ZUN Naftomet	2009 Business Gazelle	The <i>Puls Biznesu</i> daily	Naftomet was included among the most dynamically developing companies awarded with the title. The company's position in the ranking was determined based on the percentage growth of its turnover achieved over three consecutive years.

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13. Glossary of key CSR terms

Cause-related marketing – an intermediate form of marketing between commercial and social marketing. It involves supporting a social cause while strengthening the image of the company. The implementation of cause-related marketing very often involves three parties: the company, civil society organisations and consumers.

Community action – short-term social initiative carried out on a one-off or regular basis to help a given group or a person. An example of a one-off community action is the *Krewniacy* initiative promoting donation of blood for patients in need of transfusion.

Company's Code of Values/Ethics – a code of values adopted by a company, defining its organisational culture. A common code of values promotes higher awareness of the unwritten principles and company rules among employees, allowing them to build closer relationship with the company and other employees.

CSR (Corporate Social Responsibility) – a strategy based on an assumption that a company should voluntarily take public interest into consideration in its pursuit to achieve economic objectives. CSR promotes observance of ethical principles, employees' rights, human rights, as well as respect for social and natural environment in a company's operations and its decision-making process. It is generally accepted that a company's policy should provide not only for achievement of economic objectives but also the implementation of corporate social responsibility principles.

CSR report – a company's comprehensive report on its implementation of sustainable development and corporate social responsibility strategy. It focuses on economic, social and environmental aspects of the company's operations.

Declaration on Sustainable Development in the Energy Sector – the declaration signed for the first time on June 17th 2009, containing statements by the signatories that they understand and are willing to implement in their policies the principles of sustainable development. The declaration was signed by the largest companies in the Polish energy sector: EDF Polska, Enea, GAZ-SYSTEM, GDF SUEZ Energia Polska, Tauron, Vattenfall Poland and PGNiG, the initiator of the project. On June 17th 2010, the declaration was signed by three more companies – Fortum Power and Heat Polska, Grupa Lotos and Polskie Sieci Elektroenergetyczne Operator. Later on, the initiative was also joined by Dalkia Polska and PKN Orlen. During the last conference held on June 14th 2011, the Declaration was signed by Dolnośląska Spółka Gazownictwa, Górnośląska Spółka Gazownictwa, Karpacka Spółka Gazownictwa, Mazowiecka Spółka Gazownictwa, Pomorska Spółka Gazownictwa, Wielkopolska Spółka Gazownictwa, PKP Energetyka and Energa S.A.

Dialogue with stakeholders in accordance with AccountAbility AA1000 standards – international AccountAbility AA1000 standards are a very useful tool in developing and managing stakeholder relations. The standards help companies to build their relations with stakeholders on trust and open dialogue, thus contributing to the creation of social capital. They focus on stakeholders and provide support in the area of stakeholder management. The series comprises the following standards::

- AccountAbility Principles Standard – AA1000APS,
- AccountAbility Assurance Standard – AA1000AS,
- AccountAbility Stakeholder Engagement Standard – AA1000SES.

Employee opinion survey (also called employee satisfaction survey) – a tool for investigating the level of job satisfaction among the employees of a given company. It provides information on the most satisfying aspects of particular jobs, at the same time revealing the potential problems and areas of conflict that may negatively affect the attitude and commitment of the company's employees. The outcomes of the survey should enable the company to better adjust its offer to the needs and expectations of its employees.

Global Compact – an initiative launched by UN Secretary General Kofi Annan aimed at introducing a new framework for businesses by supporting, among other things, respect of human rights, application of labour standards and business activities conducted in harmony with the environment. The Global Compact is supported by non-governmental organisations and more than 1,000 companies from different parts of the world, including Pomorska Spółka Gazownictwa and PGNiG.

Grasz o staż initiative – an internship competition with the longest tradition in Poland (launched in 1996) organised by the *Gazeta Wyborcza* daily and PricewaterhouseCoopers. Each year, the winners are awarded paid internships and other prizes (an opportunity to take up post-graduate studies or training programmes, books) funded by the companies and non-governmental organisations cooperating with the organisers.

HSE (Health, Safety, Environment) – rules of conduct related to health and safety at work and environmental protection defined by international regulations.

Local community – a group of people living in a specified area, bound by social relationships, common tradition and culture. A local community can be formed by the inhabitants of a locality, commune, housing estate, city district or city.

Organisational structure – a relationship system within a company, also applicable to its subordinate organisations and associations. The purpose of organisational structure is to define a clear division of duties and hierarchy of powers. A strong organisational structure facilitates efficient company management.

Philanthropy – charitable activities which are a demonstration of care for common good, carried out by persons, organisations or companies for people in need. Such activities mainly involve providing financial or material support and in modern societies they are chiefly carried out through foundations and associations.

Responsible Business Forum (FOB) – a non-governmental organisation whose mission is to promote the principles of responsible business as a standard applicable in Poland, aimed at increasing the competitiveness of companies, enhancing social satisfaction and improving the condition of natural environment. FOB gathers a number of Polish companies, including PGNiG.

Social campaign – activities aimed at changing or preventing a certain attitude or behaviour of a given group of people. Social campaigns are carried out through means of mass communication (traditional media, unconventional methods) and supported by numerous entities, including companies, civil society organisations and public authorities, whose assistance for the initiators of the campaign may have different forms, be it financial, material or in the form of services. A company's involvement in a social campaign strengthens its image of an entity with active interest in its environment and is an opportunity to build stronger relationship between the employees as well as between the company and particular groups.

Social dialogue – exchange of information between the parties concerned, most frequently related to common problems and social affairs. The parties participating in a social dialogue may include both public and private entities, entrepreneurs and non-governmental organisations. The success of such dialogue is chiefly determined by cooperation and reliability of information.

Social programme – planned activities aimed at providing a solution to or preventing a specific social problem. It may be implemented independently or as a joint effort by public institutions, businesses and civil society organisations.

Sponsorship – mutual agreement between two parties, a sponsor and a sponsoree, whereunder the sponsor provides the sponsoree with financial or material resources or services in exchange for its promotion. Sponsorship involves planned and intended activities aimed at creating a positive image of a company.

SRI (Socially Responsible Investing) – approach to company's operations which treats company's benefit and social well-being on equal terms. Socially responsible investors favour those companies which comply with or promote the principles of sustainable development, environmental protection, human rights protection and consumer protection.

Stakeholder – any entity with an interest in a company's operations. These may include third parties, such as persons, communities, institutions, organisations or public authorities, and related entities, such as company employees or shareholders.

Sustainable development – strategy of social and economic development where political, economic and social activities are carried out with a view not to have an adverse impact on the environment. The aim of sustainable development is to ensure such utilisation of natural resources which would not compromise the ability of future generations to benefit from them. The concept of sustainable development is included in the Environmental Protection Law – Dz.U. of 2001, No. 62, item 627, Art. 3.50.

Value chain – clearly defined activities performed by specific companies which form a common value system. A value chain clearly demonstrates mutual dependence between a number of companies as well as the process of adding value to a product.

Voluntary work – involvement of company employees in voluntary work for the benefit of civil society organisations. Employees acting as voluntary workers carry out various types of activities for the people in need, using their expertise as well as improving their skills in other areas. Depending on the adopted policy, the company supports voluntary work of its employees by allowing them to conduct such work during working hours, or by providing material, logistics or financial assistance.

13.1. Glossary of industry-specific terms

Biogas plant – a plant which can process (through fermentation) such substrates as biofuel feedstock, livestock waste, distillery waste, or methane from dumping sites, into biogas. The produced fuel is consumed at small cogeneration units (0.5-2 MW).

CCS (Carbon Capture and Storage) – a process of capturing carbon dioxide from flue gasses to reduce its emissions to the atmosphere, which has a negative impact on the environment. Due to limited capacity to utilise captured carbon dioxide, an important issue related to the process is CO₂ storage by its compression and deposition in worked out caverns which used to hold hydrocarbon deposits.

CNG (Compressed Natural Gas) – fuel, compressed natural gas at a pressure of 20–25 MPa, used as vehicle fuel for spark ignition and compression ignition engines.

Direct gas pipeline – the gas pipeline used for transmission of gaseous fuel directly to the customer's installation, omitting the gas system.

Distribution – transport of gaseous fuels to customers via distribution networks.

Distribution network – a gas network of low, medium and high pressure, other than a mine pipeline or a direct pipeline. The responsibility for network traffic rests with gas distribution companies

Environmental management systems – systems defined in the ISO 14001 standard, based on the principles of comprehensive quality management. The main assumption of environmental management is to reduce the environmental impact of human activities. This can be achieved by application of uniform management principles with regard to access to environmental resources, elimination of negative environmental impact of business activities and rational consumption of natural resources.

Exploration and Production or E&P – one of PGNiG's operating segments. The companies operating in this segment are engaged in exploration, geophysical and geological work, as well as production of natural gas and crude oil.

Gas distribution company – an energy company involved in the distribution of gaseous fuels, responsible for network traffic in the gas distribution system, ongoing and long-term security of the system's operation, as well as operation, maintenance, repair and necessary extension of the distribution network, including interconnections with other gas systems in the relevant geographical area.

LNG (Liquefied Natural Gas) – natural gas in a liquid state with the temperature of -163°C . During the liquefaction process, natural gas is cooled down to -163°C , thus reducing its volume by 630 times.

LLDP – local land and development plan.

Natural gas – natural mixture of paraffin hydrocarbons, primarily consisting of methane (up to 98% in high-methane gas). In the earth's crust natural gas is found in the form of deposits.

OGP GAZ-SYSTEM – abbreviated name of Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. The company was established on April 16th 2004 under the name PGNiG Przesył Sp. z o.o. as a wholly-owned subsidiary of PGNiG. On April 28th 2005, 100% of the company shares were acquired by the State Treasury. Currently, OGP GAZ-SYSTEM operates as a gas transmission system operator under a licence issued by the Polish Energy Regulatory Office.

PGNiG Group – the group of companies with Polskie Górnictwo Naftowe i Gazownictwo S.A. as the parent.

SGT EuRoPol GAZ – abbreviated name of System Gazociągów Tranzytowych EuRoPol GAZ S.A. The company is responsible for natural gas transmission along the Polish section of the Yamal transit pipeline, connecting the Russian Federation with Western Europe.

Shale gas – unconventional gas contained in shale formations. The United States is the largest shale gas producer in the world. In Poland, too, there has been surging interest in shale gas, which – according to estimates – is buried at depths ranging from 500 metres to 4 kilometres, within a sidelong belt stretching from central Pomerania to the Lublin region, and within the foreland of the Sudety Mountains.

Transmission – transport of gaseous fuels through transmission networks to distribution networks or end customers connected to the transmission network.

Transmission network – a gas network of low, medium and high pressure, other than a mine pipeline or a direct pipeline. The responsibility for network traffic rests with the transmission system operator.

Transmission System Operator (TSO) – an energy company involved in the transmission of gaseous fuels, responsible for network traffic in the gas transmission system, ongoing and long-term security of the system's operation, as well as operation, maintenance, repair and necessary extension of the transmission network, including interconnections with other gas systems.

Underground Gas Storage Facility – the PGNiG Group is the exclusive owner of underground gas storage facilities in Poland. There are six high-methane gas storage facilities in Poland – five of them located in worked out natural gas caverns, and the sixth one in salt caverns in Mogilno.

URE (Urząd Regulacji Energetyki) – the Polish Energy Regulatory Office. Under the relevant regulations, the President of URE is responsible for approving the tariffs submitted by holders of licences which authorise them to conduct business involving trade in and storage of gaseous fuels.

14. Questionnaire

Dear Reader,
We would like to thank you for reading this third “Responsible energy” report. We hope that it has contributed to your knowledge and understanding of the PGNiG Group’s activities.

With the natural environment in mind, we decided to print only a part of this CSR Report of the PGNiG Group – the Introduction, which presents selected information about the Company’s activities. This year, full text of the “Responsible energy” CSR report of the PGNiG Group and the list of GRI indicators will be published exclusively in electronic form. You are invited to browse it, and we will appreciate if you share your opinions and comments with us.

A dialogue with stakeholders is one of our priorities. We would like our activities to satisfy your needs and expectations to the widest possible extent, and we would like our future reports to better present matters that are of interest to you. This is way we ask you to fill out the questionnaire below. Please save it and return to the following address: informacje@odpowiedzialna-energia.pl

The questionnaire may also be downloaded from our websites: www.pgnig.pl and www.odpowiedzialna-energia.pl

Thank you.
Yours faithfully,

Marzena Strzelczak
Management Board’s Proxy for Sustainable
Development and Corporate Social Responsibility
Strategy
Communications Office

15. Table of indicators

GRI indicators

The PGNiG Group's 2010 CSR report entitled "Responsible energy" was prepared primarily based on the reporting indicators developed by the Global Reporting Initiative (GRI). GRI is an independent network of stakeholders, who embarked on the mission of developing and disseminating common guidelines to be followed in reporting on companies' economic, environmental and social performance all over the world. The use of GRI indicators enables objective comparison of CSR-related activities of different companies. In addition to principles and recommendations, the GRI guidelines include a system of indicators from which companies may voluntarily select.

In this edition of the CSR Report, 66 indicators have been discussed, that is 3 more than in the previous year's CSR Report (level B). The indicators relating to estimates and calculations, as presented in this Report, have been prepared and compiled in accordance with the International Financial Reporting Standards endorsed by the EU.

This Report also contains indicators and guidelines following from the Global Compact and ISO 26000, which are also incorporated into the Code of Responsible Business signed by PGNiG and drawn up under the Coalition for Responsible Business (for more information on the Coalition, see the ["Coalition for Responsible Business"](#) (page 151) section).

Strategy and Profile	GRI Indicators																	ISO
Strategy and Analysis	1.1	1.2																6.2
	p.4-5	p. 15 - arrow																
Organisational Profile	2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.9	2.10								
	cover	p. 6-8; 17	p. 10-11	cover	p. 9	p. 12	p. 7-9	p. 6-9	p. 10- arrow	p. 158- 173								
Report Parameters	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9	3.10	3.11	3.12	3.13					7.5.3 (3.13 of GRI)
	p. 31	p. 31	p. 31	p. 31	p. 31	p. 31	p. 31	p. 31	p. 31	p. 31	p. 31	p. 182	p. 31					
Governance, Commitment and Engagement	4.1	4.2	4.3	4.4	4.5	4.6	4.7	4.8	4.9	4.10	4.11	4.12	4.13	4.14	4.15	4.16	4.17	6.2
	p. 13-15	p. 13-15	p. 13-15	p. 13-15	p. 13-15	p. 13-15	p. 13-15	p. 13-15	p. 13-15	p. 13-15	p. 29-30	p. 31	p. 31	p. 24- 28	p. 24- 28	p. 24- 28	p. 24- 28	

Economic Performance Indicators	Global Compact	GRI Indicators	IPIECA	ISO 26000	Page
Aspect: Economic Performance	P9, P10	EC1	SE13	6.8; 6.8.3	9
		EC2		6.5.5	141-144
Aspect: Indirect Economic Impacts		EC8		6.8; 6.8.4	60

Social Performance Indicators	Global Compact	GRI Indicators	IPIECA	ISO 26000	Page
Aspect: Local Community	P5	S01		6.8; 6.8.5; 6.8.7	59-69
Aspect: Community Engagement		S05			26-27
Environment Performance Indicators	Global Compact	GRI Indicators	IPIECA	ISO 26000	Page
Aspect: Water	P7, P8, P9	EN8	E6	6.5; 6.5.4	80
		EN10		6.5; 6.5.4	80
Aspect: Biodiversity		EN14	E5	6.5; 6.5.6.	84
Aspect: Emissions, Effluents, and Waste		EN16	E1	6.5; 6.5.5.	78-79
		EN18		6.5; 6.5.5.	77
		EN21	E9	6.5; 6.5.3.	80-81
		EN22	E10	6.5; 6.5.3.	82-83
Aspect: Compliance		EN28		6.5	85
Aspect: Overall		EN30		6.5	86-87

Labour Practices & Decent Work Performance Indicators	Global Compact	GRI Indicators	IPECA	ISO 26000	Page
Aspect: Employment	P1, P2, P3, P4, P5, P6	LA1		6.4; 6.4.3.	95-96
		LA3		6.4.4.	105-106
Aspect: Labour/ Management Relations		LA5		6.4; 6.4.3.	110
Aspect: Occupational Health and Safety		LA7	HS3	6.4; 6.4.6.	96-97
		LA8	HS2	6.4; 6.4.6.	107
Aspect: Training and Education		LA10	SE17	6.4 6.4.7.	100
		LA11	SE17	6.4; 6.4.7.	100

Human Rights Performance Indicators	Global Compact	GRI Indicators	IPIECA	ISO 26000	Page
Aspect: Investment and Procurement Practices	P1, P2	HR3		6.3 6.3.5	101-102
Product Responsibility Performance Indicators	Global Compact	GRI Indicators	IPIECA	ISO 26000	Page
Aspect: Product and Service Labelling		PR3		6.7; 6.7.4; 6.7.9	46
		PR5		6.7: 6.7.6	38

	GRI Indicators	Page
GRI Sector Supplement Indicators	EU3	7
	EU8	46
	EU14	65
	EU23	51-52
	EU24	46-48

16. Acknowledgements

We would like to thank all who have contributed to the third CSR Report of the PGNiG Group, and in particular:

- the employees of all Head Office departments, Gas Sales Units, Branches, Divisions and Gas Distribution Companies of the PGNiG Group, who contributed to the preparation of the information contained in this Report, as well as sustainable development coordinators for their effort and commitment,
- PwC Polska for its high professionalism as well as huge amounts of kindness and a lot of good advice during the preparation of the this Report.

Organisational units of the PGNiG Group at which the following systems have been implemented:

- Head Office and Branches of PGNiG S.A., including Gas Trading Divisions (GTD)
- ▲ Companies of the PGNiG Group, including Gas Distribution Companies (GDC)
- Gas Distribution Divisions (GDD) of the Gas Distribution Companies



Organisational units of the PGNiG Group at which the following systems have been implemented:

- Head Office and Branches of PGNiG S.A., including Gas Trading Divisions (GTD)
- ▲ Companies of the PGNiG Group, including Gas Distribution Companies (GDC)
- Gas Distribution Divisions (GDD) of the Gas Distribution Companies





Changes in the PGNiG Group's Structure

- In January 2010, PGNiG Energia S.A. was registered.
- In January 2010, Geofizyka Kraków Libya JSC w likwidacji (in liquidation) was deleted from the Libyan commercial register.
- In May 2010, Biogazownia Ostrowiec Sp. z o.o. was incorporated. Its entire share capital was acquired for cash by PGNiG Energia S.A. The company was registered in May 2010.
- In November 2010, Operator Systemu Magazynowania Sp. z o.o. was incorporated. All its shares were acquired for cash by PGNiG, which is the company's sole shareholder. Operator Systemu Magazynowania Sp. z o.o. was registered in December 2010. The company was established to ensure compliance with the requirements of Directive 2009/73/EC with respect to legal separation of the gaseous fuel storage from other types of business conducted by a vertically integrated gas undertaking.
- In December 2010, POGC Trading GmbH was incorporated. The company's business profile comprises purchase and sale of, as well as trading in, gas, fuels, other forms of energy and their derivatives in physical form, as well as trading in gas-, fuel- and energy-linked derivative instruments and other financial products, on the European and other markets.

Shareholder structure in 2009 – 2010

Shareholder	Number of shares/votes attached to the shares as at Dec 31 2009	Percentage of share capital/total vote at the GM as at Dec 31 2009	Number of shares/votes attached to the shares as at Dec 31 2010	Percentage of share capital/total vote at the GM as at Dec 31 2010
State Treasury	4 303 686 368	72,94%	4 273 650 532	72,44%
Other	1 596 313 632	27,06%	1 626 349 468	27,56%
Total	5 900 000 000	100,00%	5 900 000 000	100,00%

Shareholders

As at December 31st 2010, the share capital of PGNiG amounted to PLN 5,900,000,000, and was divided into 5,900,000,000 shares with a par value of PLN 1 per share. Shares of all series, that is Series A, Series A1 and Series B, are ordinary bearer shares, and each share carries the right to one vote each at the General Shareholders Meeting. PGNiG's Articles of Association do not provide for any limitations as to the exercise of the voting rights attached to the shares.

The Polish State Treasury remains PGNiG's majority shareholder. On June 26th 2008, the Minister of the State Treasury disposed of one PGNiG share on general terms, which, pursuant to the Commercialisation and Privatisation Act of 1996, gave eligible employees the right to acquire, free of charge, up to 750,000,000 PGNiG shares. The process of free-of-charge distribution of the shares started

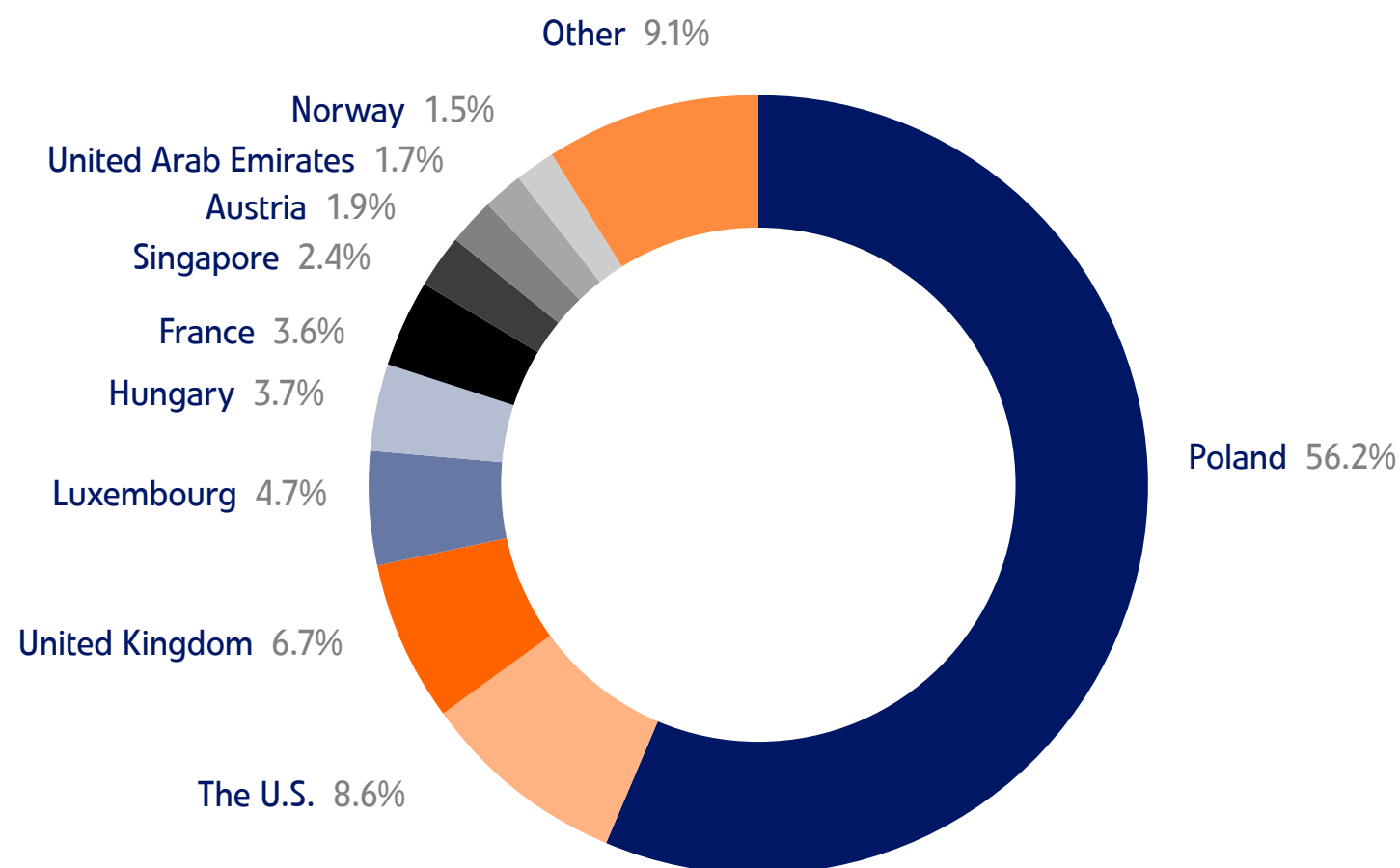
on April 6th 2009. On October 1st 2010, the eligible employees' rights to acquire PGNiG shares free of charge expired. Heirs of the eligible employees who were entitled to acquire PGNiG shares free of charge may exercise their rights also after that date, provided that on or before October 1st 2010 they applied to the court to declare that they had acquired the deceased employees' estate by way of inheritance.

As at December 31st 2010, 59,134 eligible employees acquired 726,349,467 shares, which confer the right to 12.31% of the total vote. Consequently, the State Treasury's share fell to 72.43%. The Company shares acquired free of charge by eligible employees or their heirs were subject to a lock-up until July 1st 2010, while the Company shares acquired free of charge by members of the Management Board are subject to a lock-up until July 1st 2011.

Investor Relations

As an issuer of securities listed on the Warsaw Stock Exchange, PGNiG is required to disclose complete and reliable information on its operations, as well as any material corporate developments at its Group, in regular reports made available on equal terms to both its existing and potential shareholders. The Investor Relations function is, however, not limited to obligatory activities, expressly required by law. It also encompasses a number of other activities which the Company undertakes to meet the high expectations of all market participants. These include: participation in road shows and foreign investor conferences (in 2010, we visited Austria, the Czech Republic, France, the US, Sweden, Hungary and Great Britain), meetings with managers of equity portfolios and ongoing contact with market analysts. In addition, the Company's website features a dedicated Investor Relations section, where every capital market participant may find the most important updates on the Company, consensus forecasts of the Group's performance and the most recent target price recommendations, sourced from research reports covering PGNiG S.A. The Investor Relations Department offers all those interested in receiving news on the PGNiG Group a dedicated newsletter distributed via electronic channels; to subscribe for the newsletter, one only needs to send an email to ri@pgnig.pl, requesting to be added to the distribution list.

Structure of the free float and institutional shareholding, by country, as at July 27th 2010



Risk factors

Tariff calculation

PGNiG's ability to cover the costs of its core operations depends on the prices approved by the President of the Energy Regulatory Office. When approving tariffs for a given period, the President of the Energy Regulatory Office takes into consideration external factors which are beyond PGNiG's control. In an attempt to protect vulnerable customers, while verifying the operating costs, the President of the Energy Regulatory Office may consider certain costs as unjustified. Moreover, the President of the Energy Regulatory Office does not always accept the assumptions adopted by PGNiG with respect to the main drivers of cost changes and profit level, allowing for business risk. Consequently, the Energy Regulatory Office frequently refuses to accept the tariff prices and charge rates applied for by PGNiG. Lower tariff prices and charges might adversely affect PGNiG's profitability.

Purchase price of imported gas

Prices of imported gas are determined in USD or EUR and are based on the prices of petroleum products. Changes in foreign exchange rates and prices of petroleum products materially affect acquisition cost of imported gas. Preparing an accurate forecast of changes of natural gas prices involves a high risk of error. Despite the legal possibility of adjusting prices approved for a tariff term, the Company may not be able to pass an increase in the price of imported gas on to customers, or the relevant adjustment of selling prices may be considerably deferred in relation to the change in import prices.

Licences for exploration and appraisal of deposits

In recent years, the increase in prices of fuels on global markets has led to growing interest in exploration activities. There is a risk of competition from other companies active on the Polish market, which also seek licences for exploration for and appraisal of deposits or implement a strategy of acquiring access to own hydrocarbon reserves. At present, competition on the domestic market is limited.

Competition in the area of exploration

Both on the Polish market and abroad there is a risk of competition from other companies with respect to acquisition of licences for exploration for and appraisal of deposits, that is implementation of a strategy of securing access to own hydrocarbon reserves. Certain competitors of the PGNiG Group, especially those active globally, enjoy strong market positions and have financial resources larger than those available to the Group. Thus it is probable that such companies may submit their bids in tender procedures and may be able to acquire promising licences.

Competition in the area of trade in natural gas

At present, PGNiG is the largest supplier of natural gas in Poland, with a share in the gas market estimated at approximately 98%. The remaining 2% is represented by suppliers from outside the PGNiG Group which usually purchase gas from PGNiG. These include local gas distributors that own transmission infrastructure and offer – in addition to traditional network gas supply – innovative solutions of the natural gas supply involving the use of LNG. An intensified commercial activity of the competitors designed to attract current and potential customers of PGNiG may pose a tangible threat of customer churn.

Competition in the area of distribution

The liberalisation of the gas market boosts the activity of gas suppliers competing with the PGNiG Group Gas Distribution Companies. Over the last few years, those suppliers showed regular and steady activity, gradually developing their gas networks and acquiring new customers, both among households and businesses. Another issue which affects the Gas Distribution Companies' competitive position is the tariff policy of the Energy Regulatory Office, as it prevents the Gas Distribution Companies from operating a flexible pricing policy for their key customers. With the lack of flexible pricing, customers may find the offering of the competition attractive.

Delayed exploration work

Under the currently binding Polish regulations, obtaining a licence for exploration for and appraisal of crude oil and natural gas deposits lasts from one to one and a half year. As regards foreign operations, it may take even two years from the time when a licence tender is awarded until the relevant contract is ratified. Moreover, prior to the commencement of field work, a company is obliged to make numerous arrangements, including obtaining formal and legal permits and approvals for entering the area, meeting environmental protection-related requirements and in some cases requirements related to protection of archaeological sites, and abiding by the regulations governing tenders to select a contractor. Under the currently binding regulations, another several months pass before an agreement with the contractor is signed. In addition, companies must frequently wait for a very long time before their imported equipment receives customs clearance. These factors create the risk of delayed exploration work.

Cost of exploration work

Exploration projects are capital consuming, given the prices of energy carriers and materials. The cost of exploration work is particularly sensitive to movements in steel prices, which affect the prices of casing pipes and lifting casing used in drilling. An increase in the prices of energy and materials translates into an increase in the cost of exploration work. Moreover, profitability of foreign exploratory projects will to a significant extent depend on the movements in prices of petroleum products and fluctuations of exchange rates.

Political and economic situation

Some countries where the PGNiG Group carries out exploratory activity face the risk of armed conflicts or social and political destabilisation, which may result in a limitation, suspension or discontinuation of PGNiG's exploration and production operations. In certain countries, the operations of exploration companies may be hindered by lack of adequate infrastructure, which may be an obstacle in transporting equipment, staff and materials to the sites. There may also arise problems in providing supplies and ensuring appropriate health care. These risks may lead to limitation or suspension of PGNiG's exploratory activity.