

# RESPONSIBLE ENER- GY

CSR Report 2008





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## *Ladies and Gentlemen,*

*In the autumn of 2008 we announced a new business strategy for the PGNiG Group until 2015. At the same time, we embarked upon work to develop and implement the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group, designed to coherently articulate our mission and guarantee the consistency between goals related to economic, social and environmental performance in all areas of PGNiG's activity. From now on, we will be able to better monitor the long-term impact of our business on the world around us and influence it in line with the principles of sustainability.*

*Although that spirit has permeated our activities and thoughts about business development for many years, until now it has not been incorporated into any formal framework. This CSR report entitled "Responsible Energy" summarises our best practices in that area. In choosing that title, we wanted to make reference to the essential aspects of PGNiG's business – accountability (a core value of a business, defining its relations with the outside world) and energy (our business domain, as well as an apt metaphor of our potential, efficiency and attitude to new challenges). We are going to tackle any newly emerging challenges, keeping in mind the expectations and needs of our various stakeholder groups. This report recites the targets and commitments set out in the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group.*

*Its release, just like the publication of financial information and Annual Reports, will help cement our business credibility as a leading Polish enterprise and a participant of the Polish capital market, which observes the standards of corporate governance and continually enhances its integrated management system and regulatory reporting tools. We want CSR reports to permanently complement our external communications, also with the capital market. This report has been based on the globally-recognised CSR reporting guidelines recommended by the Global Reporting Initiative. It is the first sustainability report of the PGNiG Group, and the first such report to be released by an organisation of its size. In the years to come, we will be striving to enhance it. We are counting on our stakeholders' support, as we realise that the only way to verify a CSR concept, as well as a social report, is through feedback.*



*Let me conclude by expressing my heartfelt thanks to all employees of the PGNiG Group who have been involved in the preparation of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group and who have contributed to this report. Thank you for the enormous amount of what has often been very hard work, but most of all thank you for your enthusiasm and commitment. They give me reason to believe that working together we can achieve the goals set out in the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group. Its implementation will be a valuable investment in the future of the community in which we are based, the natural environment, as well as PGNiG's business. I believe it may also be a source of deep satisfaction to all employees of the PGNiG Group.*

*Wishing you an interesting time reading this report, I invite you to share with us any comments, opinions or ideas.*

*Michał Szubski*  
*President of the Management Board*  
*PGNiG SA*

*Michał Szubski*



1.2

# VALUES

The way we conduct business



Our mission is to provide reliable and safe supplies of clean and environment-friendly energy drawing on competitive and innovative solutions designed for the industry. We remain loyal to our tradition and the trust of our customers, while looking ahead to new challenges and changes with an open-minded attitude. Setting the interest of our shareholders, customers and employees as our main priority, we wish to focus on our reliability and transparency as a partner and to develop the Group's values in accordance with the principles of sustainable development.

### Our Vision

The PGNiG Group strives to become an increasingly more modern organisation operating as a logically streamlined and optimised capital group, managed by objectives and project-oriented.



### Our Strategy

Our primary strategic objective is to realize shareholder value increase. To this end, we will make the developing of domestic gas market the basic area of our activities, while at the same time expanding into selected foreign markets. This strategy will be based on the following six principal pillars:

- Develop trading activities;
- Secure natural gas supplies;
- Develop exploration and production activities;
- Increase the existing storage capacity;
- Enhance profitability of distribution business;
- Expand the scope and scale of our activities (longer value chain).

Particular tasks within the six pillars of our strategy will be carried out with balanced attention and focus.

### PGNiG Group's Strategy of Sustainable Development and Responsible Business

The PGNiG Group's mission as regards sustainable development is to shape the Polish energy market responsibly, i.e. showing due consideration and respect towards expectations and needs of the key groups of stakeholders and towards the natural environment, and by promoting innovative and environmentally-friendly solutions and technologies.

The PGNiG Group will support sustainable development of the Polish energy market and play the leading role in promoting innovative and green solutions. The long-term objective of such activities is to establish positive relations with the present and future stakeholders and develop an environmentally-friendly mode of functioning.

The social, environmental and business dimensions of our sustainable development and social responsibility have their source and grounds in the system of key values we uphold:

ACCOUNTABILITY  
CREDIBILITY  
QUALITY  
PARTNERSHIP

**ACCOUNTABILITY** – pertains to the entire scope of the Group’s activities, including social relations, environmental protection and our participation in the process of ensuring Poland’s energy security. Accountability also comprises the attitude towards employees, who are provided with stable employment and secure working environment, as well as towards the Group’s stakeholders as regards conformity with the principles of fair competition and striving towards the highest ethical and business standards. We show respect for the cultural values of the communities we work with and achieve our objectives in the spirit of respect for human rights. Accountability is the fundamental value for each and every employee of PGNiG – they are accountable for their individual decisions, well as team work and its outcome.

**CREDIBILITY** - rests on integrity and transparency of the Group’s activities, predictability as well as the status of a trustworthy company.

**QUALITY** - means continuous emphasis on development, improvement and high standard of products and services as well as the enhancement of employee skills and qualifications. In our drive for quality, we employ and develop cutting-edge, innovative solutions and technologies, adopting a flexible approach that welcomes changes and transformations. Quality is the natural corollary of the expertise



and professionalism of our employees who take full responsibility for the results of their work towards themselves, their colleagues, superiors and the customers of the PGNiG Group.

**PARTNERSHIP** - pertains to relations with the personnel and trade unions, customers, including socially vulnerable customers, local communities and other market participants such as the Energy Regulatory Office (URE), trade organizations, suppliers, business partners and other business entities. As a partner, the PGNiG Group makes every effort to understand the expectations and needs of others, and to respect their customs, culture and religion.

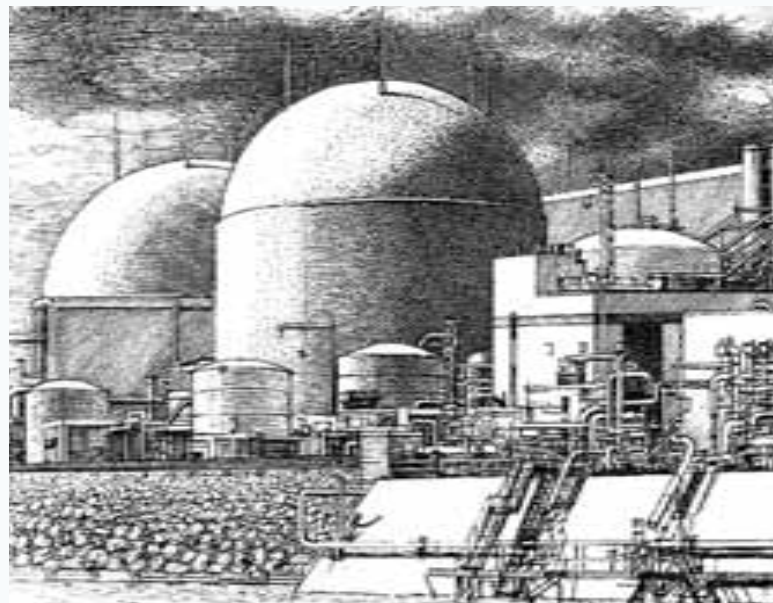
The Strategy of Sustainable Development and Responsible Business adopted by the PGNiG Group is based on six strategic objectives which will constitute the main focus for the Group’s activities in the coming years. Each these objectives relates to a different theme. The highest priorities are the following:

- Customer care;
- Business expansion in line with the principles of sustainable development;
- Creating safe and friendly working environment;
- Dialogue and cooperation with local communities and business partners;
- Protection of the natural environment;
- Credible and consistent communication and marketing.



## PGNiG Branches and Companies covered by the Sustainable Development and Responsible Business Strategy

- PGNiG Head Office;
- PGNiG Zielona Góra Branch;
- PGNiG Sanok Branch;
- PGNiG Odolanów Branch;
- Centralne Laboratorium Pomiarowo-Badawcze (Central - Research and Testing Laboratory) of Warsaw;
- Six Gas Trading Companies, including 23 gas works;
- Storage System Operator;
- PGNiG Norway AS;
- POGC Libya BV;
- PGNiG Branch in Egypt;
- PGNiG Branch in Denmark;
- Dolnośląska Spółka Gazownictwa;
- Górnośląska Spółka Gazownictwa;
- Karpacka Spółka Gazownictwa;
- Mazowiecka Spółka Gazownictwa;
- Pomorska Spółka Gazownictwa;
- Wielkopolska Spółka Gazownictwa;
- Poszukiwania Nafty i Gazu Kraków;
- Poszukiwania Nafty i Gazu Jasło;
- Poszukiwania Nafty i Gazu NAFTA;
- Poszukiwania Naftowe „Diament”;
- Geofizyka Kraków;
- Geofizyka Toruń;
- Zakład Robót Górniczych Krosno;
- ZRUG in Pogórska Wola;
- BSiPG GAZOPROJEKT;
- ZUN Naftomet;
- Geovita;
- Bud-Gaz;
- BUG GAZOBUDOWA;
- Budownictwo Naftowe Naftomontaż;
- INVESTGAS.



# INTRODUCTION



Responsible Energy is PGNiG Group's first CSR report. It was prepared on the basis of the Global Reporting Initiative guidelines and the IPIECA indicators.

Last year the Environmental Report of the PGNiG Group was published alongside the 2007 Annual Report for the first time. This year the data on the environmental impact of our activities comes as an integral part of this report.

Responsible Energy presents the Strategy of Sustainable Development and Responsible Business of the PGNiG Group for 2009–2015 as well as our CSR activities carried out to date. The strategy is adopted by PGNiG SA, the parent undertaking, and all its domestic and foreign branches as well as subsidiaries (see PGNiG Group). Particular areas of our business and the activities themselves are presented by means of quantitative data and/or descriptions of the implemented practices, rules or procedures. All quantitative data presented in this Report pertains to 2008, while descriptive information also covers the first half of 2009. In some cases it was necessary to refer to earlier events for the purpose of adequate presentation of the conditions and processes within the PGNiG Group.

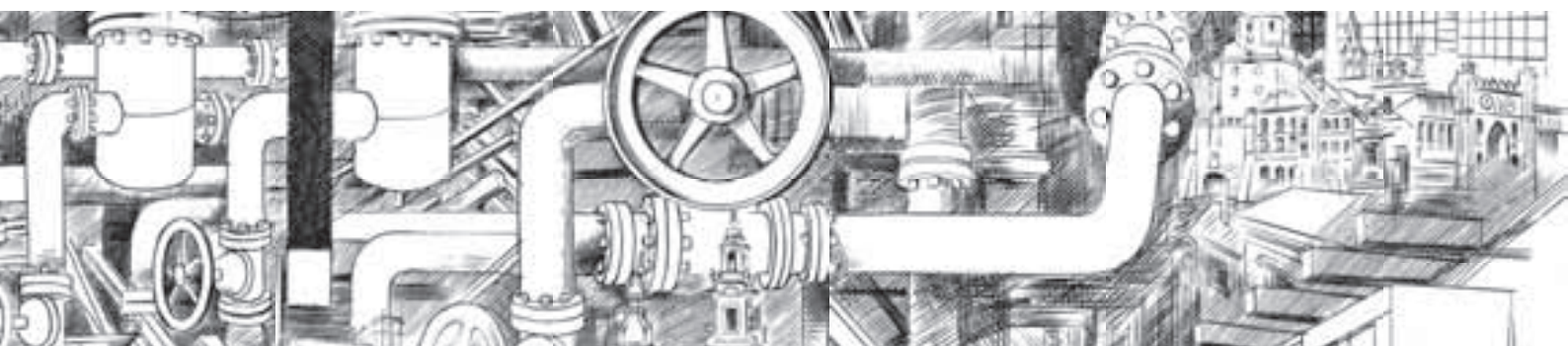
The presented financial data is based on the information contained in the Group's 2008 Annual Report and as such they were reviewed by the Annual Report auditors. Independent audits were simultaneously conducted at the Group's subsidiaries regarding such matters as environmental protection systems. For further details, see Environmental Protection and Environmental Management Systems.

The quantitative indicators and data cover the following entities: PGNiG SA, (the parent undertaking), twenty-three gas works in Poland, as well as PGNiG's all domestic branches and wholly-owned subsidiaries as specified in PGNiG Group. Data on small-size members of the PGNiG Group with headcount below 100 staff, i.e. INVESTGAS SA and several foreign branches and subsidiaries, was omitted. We intend to present the performance and achievements of all our entities in future CSR reports.

The present Report was not subject to an external review. However, all data contained herein was gathered in a reliable manner directly from the entities presented in this document and from persons supervising the relevant areas of the Group's activity.

We will appreciate any opinions and suggestions from the readers of this Report, since we believe that only two-way communication will allow us to improve our future CSR reports with a view to ensuring the most adequate response to the needs of our stakeholders. Please contact us at [informacje@odpowiedzialna-energia.pl](mailto:informacje@odpowiedzialna-energia.pl).

At [www.odpowiedzialna-energia.pl](http://www.odpowiedzialna-energia.pl) and [www.pgnig.pl](http://www.pgnig.pl) we have published a questionnaire to learn about your expectations as to PGNiG Group's CSR reporting and activities. The questionnaire is also attached to this report. Please fill out and send the questionnaire to the PGNiG address (Biuro Komunikacji Korporacyjnej – Corporate Communications Office).



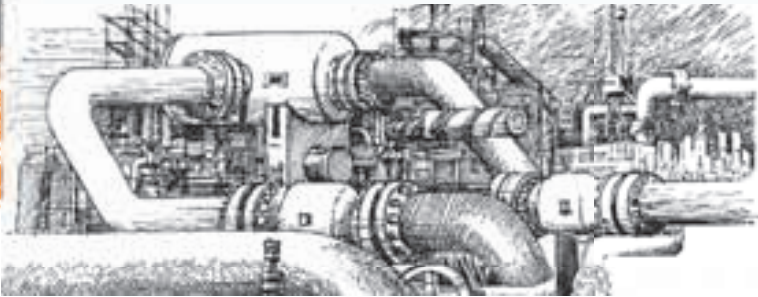
# BUSINESS SEGMENTS

PGNiG Group



### Activities of the PGNiG Group

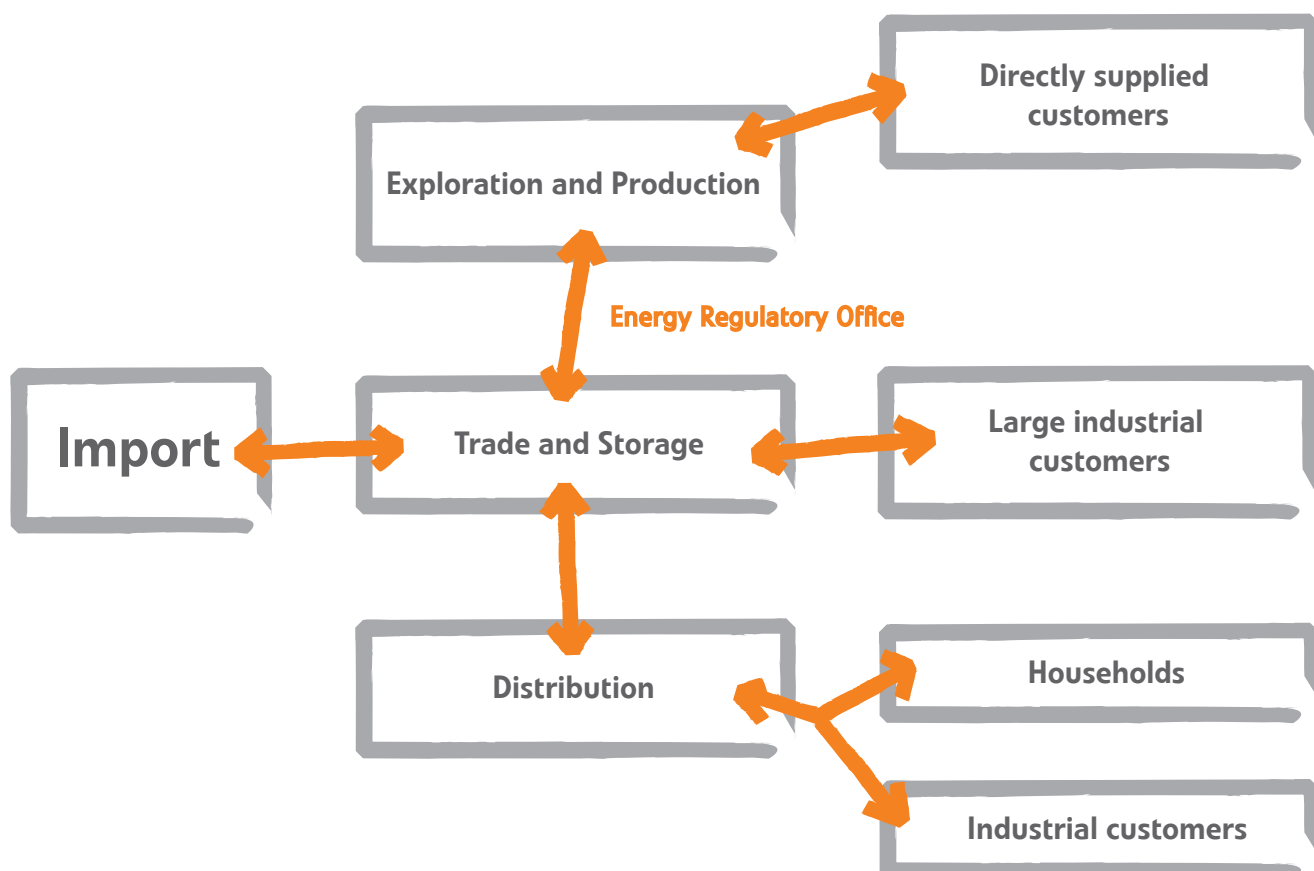
PGNiG SA is the parent undertaking of the PGNiG Group which includes 26 direct subsidiaries and eight indirect subsidiaries of PGNiG SA. Our core business is field exploration and production of natural gas and crude oil as well as import, storage, trade in and distribution of gaseous and liquid fuels.



Our Head Office supports all segments of our activities. Two segments constitute the main focus of our business: exploration and production (branches in Zielona Góra, Sanok and Odolanów) and trade (sales) and storage segment (six Trading Companies and the Storage System Operator).

The distribution functions are performed by six Gas distribution companies which are of strategic importance to the PGNiG Group. Nine of our subsidiaries specialize in exploration and production, one company is involved in the storage business, and the remaining ten subsidiaries specialise in the provision of services, including construction and assembly services for the mining industry.

### Organisation of the PGNiG Group's Business





#### EXPLORATION AND PRODUCTION

<b>PNiG Jasło sp. z o.o.</b>	<b>100%</b>
<b>PNiG Kraków Group*</b>	<b>100%</b>
<b>PNiG NAFTA sp. z o.o.</b>	<b>100%</b>
<b>GEOFIZYKA Kraków Group**</b>	<b>100%</b>
<b>GEOFIZYKA Toruń sp. z o.o.</b>	<b>100%</b>
<b>PN 'Diament' sp. z o.o.</b>	<b>100%</b>
<b>ZRG Krosno sp. z o.o.</b>	<b>100%</b>
<b>PGNiG Norway AS</b>	<b>100%</b>
<b>POGC - Libya B.V.</b>	<b>100%</b>

\* PNiG Kraków Group is composed of Poszukiwania Nafty i Gazu Kraków sp. z o.o. and its subsidiary Oil Tech International – F.Z.E.

\*\* GEOFIZYKA Kraków Group is composed of Geofizyka Kraków sp. z o.o. and its subsidiary GEOFIZYKA Kraków Libya JSC.

## PGNiG's CONSOLIDATED SUBSIDIARIES

# PGNiG SA

### DISTRIBUTION

Dolnośląska Spółka Gazownictwa sp. z o.o. 100%

Górnośląska Spółka Gazownictwa sp. z o.o. 100%

Karpacka Spółka Gazownictwa sp. z o.o. 100%

Mazowiecka Spółka Gazownictwa sp. z o.o. 100%

Pomorska Spółka Gazownictwa sp. z o.o. 100%

Wielkopolska Spółka Gazownictwa sp. z o.o. 100%

### OTHER ACTIVITIES

BSiPG GAZOPROJEKT SA 75%

BUG GAZOBUDOWA sp. z o.o. 100%

ZUN Naftomet sp. z o.o. 100%

Geovita sp. z o.o. 100%

BN Naftomontaż sp. z o.o. 88,83%

NAFT-STAL sp. z o.o. 67,40%

### TRADE AND STORAGE

INVESTGAS SA 100%



Operations of the companies comprising the PGNiG Group affect all areas of responsible business: Working Environment, Natural Environment, Market and Local Community. The extent of the impact and related challenges depend on the scope of the Group's activities, the number of employees and the geographical reach on the one hand, and on the specific nature of the given element in the value chain on the other hand.



<i>PGNiG SA</i>		2008
<b>Sales revenue</b>	<i>PLNm</i>	<i>18,039</i>
<b>Net profit/loss</b>	<i>PLNm</i>	<i>546</i>
<b>Equity</b>	<i>PLNm</i>	<i>17,181</i>
<b>Total assets</b>	<i>PLNm</i>	<i>23,440</i>
<b>Headcount as at December 31st</b>	<i>persons</i>	<i>8,799</i>

<i>PGNiG Group</i>		2008
<b>Sales revenue</b>	<i>PLNm</i>	<i>18,432</i>
<b>Net profit</b>	<i>PLNm</i>	<i>866</i>
<b>Equity</b>	<i>PLNm</i>	<i>20,716</i>
<b>Total assets</b>	<i>PLNm</i>	<i>29,745</i>
<b>Headcount as at December 31st</b>	<i>persons</i>	<i>31,440</i>



## Headcount by Segments

Headcount	Dec 31 2008	Dec 31 2007
Exploration and Production	10,725	10,151
Trade and Storage	4,088	4,104
including companies consolidated with the equity method*	295	294
Distribution	13,746	13,538
Other**	2,881	2,532
<b>Total</b>	<b>31,440</b>	<b>30,325</b>

\* Headcount numbers for the companies consolidated with the equity method are included in Trade and Storage.

\*\* The PGNiG Head Office supports all segments, therefore it was not included in any of the particular segments but it was recognized as "Other".

## Exploration and Production

In the Exploration and Production segment, the PGNiG Group conducts geophysical and geological surveys and analysis, exploration for and production of natural gas and crude oil, direct sales of natural gas as well as purchase of licenses in Poland and abroad.

### Exploration and geophysical works

Exploration and geophysical works are conducted both in Poland and other countries. They consist in exploration of geological structures in search for hydrocarbon accumulations in the form of natural gas and crude oil. The companies process historical data, geological analyses as well as geophysical studies and drilling data.

Our exploration and production activities in Poland concentrate in three regions: the Carpathians, Carpathian Foreland and Polish Lowlands. The largest number of licenses are located in the Lesser Poland and Greater Poland oil provinces.

### Production

Two of PGNiG SA branches, the Zielona Góra Branch and Sanok Branch, carry out production of natural gas and crude oil in Poland.

The **Zielona Góra Branch produces** crude oil and nitrogen-rich natural gas at 20 mines (including 12 gas mines and 8 oil and gas mines), while the **Sanok Branch produces** high-methane natural gas and crude oil at 46 mines (including 26 gas mines, and 20 oil and gas mines).

In 2008, the PGNiG Group produced a total of 4.1bn m<sup>3</sup> of natural gas – 2.3 bn was produced by the Zielona Góra Branch, and 1.8 bn m by the Sanok Branch.

The PGNiG **Branch in Odolanów** performs treatment of low-methane natural gas using cryogenic technologies.

By removing nitrogen, we produce high-methane gas (0.88bn m<sup>3</sup> in 2008), gaseous and liquid helium and liquid nitrogen, and, since 2002, liquefied natural gas (LNG).

### Investments – field development

The Group executes an investment program aimed at a long-term increase of the natural gas production capacity. As part of the program, we plan develop new fields and boreholes, upgrade and expand the existing gas mines, as well as to build new and expand the existing underground gas storage facilities. The most significant projects include development of the Lubiatów-Międzychód-Grotów reserves of crude oil and expansion of the largest underground gas storage facility in Wierchowice.

## PGNiG Worldwide

### PGNiG Exploration and Geophysical Activities Outside Poland

#### Norwegian Continental Shelf (NCS)

We have been active on the Norwegian Continental Shelf since 2006. The strategic objective of our presence on the NCS is to increase the volume of oil and gas reserves held outside Poland. In 2007, we acquired interest in the licenses covering the Skarv, Snadd and Idun fields, comprising documented reserves of crude oil, natural gas and condensate. The production is to start in 2011. Furthermore, at the beginning of 2009, PGNiG acquired several exploration licenses in this region, where we plan to conduct prospecting research and seismic shots, and to drill first boreholes. Our subsidiary in charge of the NCS projects is PGNiG Norway.

### Pakistan, Libya and Egypt

Our activities in Pakistan are focused on the Kirthar block. The works are conducted in cooperation with Pakistan Petroleum Ltd. (interests in the license: PGNiG SA – 70%; PPL – 30%). In Libya, Block No. 113 with a surface area of 5,494 km<sup>2</sup>, situated at the borderline between the Murzuq and Gadamesh Basins, close to the Algerian border, was prepared for the commencement of works.

Also, an exploration programme in Denmark on the 1/05 license area was launched. The interest held by PGNiG in the license is 80%. We also wait for the ratification of the Production Sharing Agreement upon which work will start on the Bahariya block in Egypt (Western Desert) covering an area of 4,414.4 km<sup>2</sup>.

Our exploration companies continue to engage in activities aiming at acquisition of new exploration and license areas. We are, for instance, to commence negotiations relating to the acquisition of interests in exploration licenses in Tunisia.

### Other countries

Our subsidiaries have long been recognized and valued partners on many foreign markets. **Geofizyka Kraków** is active in the Czech Republic, Denmark, Libya and Pakistan, and conducts geophysical drilling works in Latvia, Slovakia, Hungary and Yemen. **Geofizyka Toruń** has an active presence in India, Syria and Germany, **PNiG Jasło** in Libya, Germany, Lithuania, Latvia and Ukraine, **PNiG Kraków** in Kazakhstan, Pakistan, Mozambique, Uganda, Latvia and Ukraine, **PNiG NAFTA** in Egypt, India and Hungary, and ZRG Krosno in Kazakhstan and Mozambique (PNiG Kraków projects) as well as in Ukraine, Slovakia and Latvia.



## Geographical Reach of the PGNiG SA Subsidiaries



### Exploration and Production Segment's CSR Impact

In the area of responsible business and sustainable development, the Exploration and Production segment has a significant impact upon:

- **Local community** – developing partnerships and taking into consideration the cultural differences in the case of companies operating outside Poland;
- **Market** – the Group's activities contribute to more vigorous economy in particular regions;
- **Natural environment** – rational management of natural resources.

### Challenges

Thus defined impact of the E&R segment helps us identify challenges in the area of sustainable development. These include, first and foremost, developing uniform principles of cooperation with local authorities, forestry authorities and landowners, as well as finding effective solutions to environmental issues and ensuring effective exchange of experience between our branches and subsidiaries with regard to the existing solutions and choice of best practices.

# Trade and Storage Segment

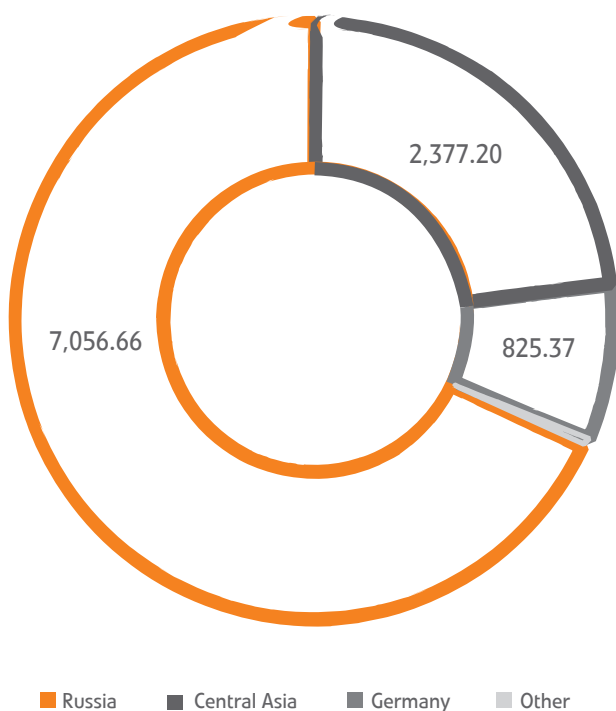
Our activities in the Trade and Storage segment comprise sales of imported natural gas and natural gas produced from the domestic reserves, as well as storage of gas in the underground storage facilities.

## Imports

We are the largest natural gas importer in Poland. Our gas imports are sourced mainly from Russia, but also from Turkmenistan and Uzbekistan, Germany, Ukraine and the Czech Republic. We import natural gas under mid- and long-term contracts.

In 2008, total natural gas imports to Poland amounted to 10.3bn m<sup>3</sup>.

## Sources of natural gas imports in 2008 (millions m<sup>3</sup>)



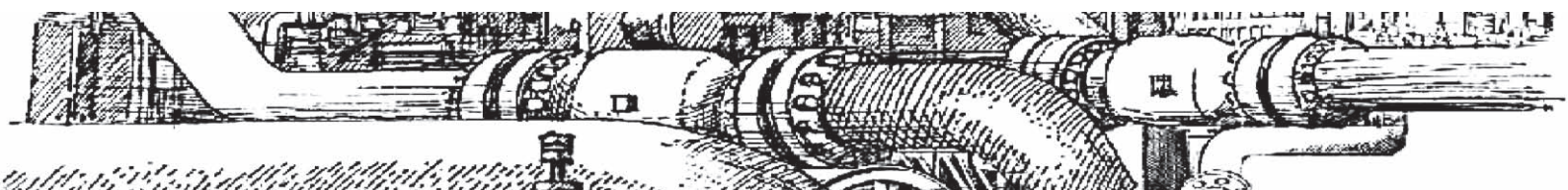
PGNiG is also involved in many projects aimed at diversification of the supplies of natural gas to Poland. The main project is the LNG terminal in Świnoujście, where PGNiG is responsible for gas supplies, while OGP GAZ-SYSTEM SA is to build and operate the terminal. Furthermore, PGNiG considers increasing the throughput of the gas pipeline on the Polish-German border, constructing a gas pipeline connecting Szczecin with the Berlin gas ring and reserving the transmission capacities in the planned Nabucco gas pipeline.

## Sales

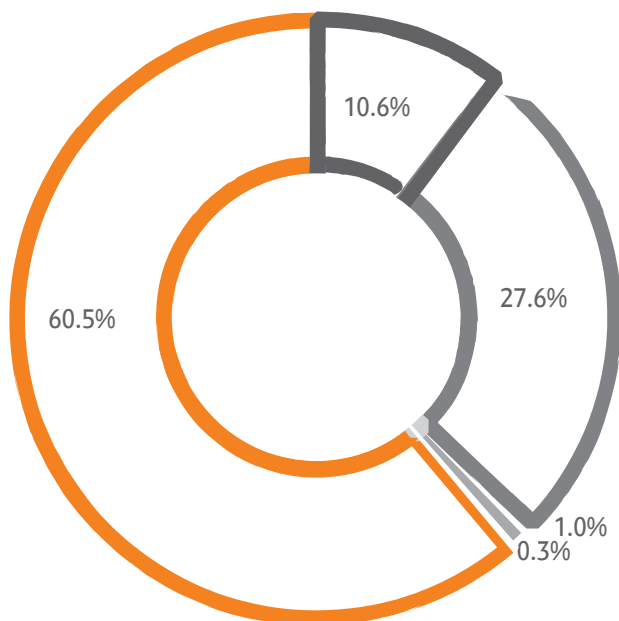
PGNiG is Poland's largest seller of natural high-methane and nitrogen-rich gas fed into the transmission and distribution networks.

Gas trading is regulated by the Polish Energy Law, with prices established by way of tariffs approved by the President of URE. Only direct sales of gas by means of dedicated pipelines (connecting customers directly to gas fields) and sales of crude oil are effected on market terms, whereby prices are individually negotiated with customers on a case-by-case basis.

In 2008, the total sales volume of natural gas was 13.9bn m<sup>3</sup>. Our main customers receiving natural gas were the chemicals sector, the steel industry and the power sector, as well as households. The latter were identified as the largest customer group (approximately 6.4m), accounting for 97% of our entire customer base. The most prominent share in the natural gas sales was claimed by industrial customers, who received 8bn m<sup>3</sup> of natural gas.



### PGNiG's Customers in 2008 (millions m<sup>3</sup>)



- Industrial customers
- Trade, services
- Households
- Wholesale customers
- Export

In 2008, PGNiG SA signed approximately 92 thousand new comprehensive contracts for supply of gaseous fuel, from both transmission and distribution systems, including 90.2 thousand contracts with households.

Growth of natural gas sales is driven mainly by capital expenditure projects sponsored by our strategic customers in the petrochemical, construction, steel and power sectors and designed to replace hard coal fired generating units with gas fired ones. We have initiated discussions with certain electricity suppliers concerning joint electricity and natural gas sales. For more information see New Segment: Power Generation (page 26), and Development of New Business Areas.

Poland is an important section in an over-four-thousand-kilometre gas pipeline used for transmission of natural gas from the Yamal Peninsula to Germany and other countries of Western Europe. The length of the Polish section is 682 km, and the section is owned by SGT EuRoPol GAZ, in which PGNiG holds a 48% interest.



## LNG

The interest in liquefied natural gas (LNG) has been growing on the global fuel markets. Imports of LNG to Poland will be an important source of supply necessary to meet the growing demand for gas. Importing LNG to Poland is also one of the elements of the strategy to diversify sources of natural gas supplies. In June 2009, the PGNiG SA Management Board and Qatargas Operating Company Ltd. entered into an agreement for LNG sales and deliveries from Qatar to Poland. The agreement provides for annual deliveries of 1m tons of LNG (approximately 1.5bn m<sup>3</sup> of natural gas) over a period of 20 years. LNG will be delivered to the new terminal in Świnoujście, starting in from 2014. The terminal will be able to receive shipments by new Q-Flex ships. We plan to use LNG to supply gas for the manufacturing, chemical plants, commercial power projects and retail customers.

The Odolanów Branch has been producing LNG since 2002, though the production volume is not significant yet.

## CNG

Compressed natural gas (CNG) may be used as engine fuel in vehicles. Such application of CNG is both environmentally-friendly and cost-effective. Currently, there are around 7.3m CNG fuelled vehicles all over the world, with the number growing extremely fast. Numerous countries have developed various mechanisms supporting the use of natural gas as engine fuel. The number of CNG fuelled vehicles in Poland at the end of 2008 is estimated at 1.5 thousand, mostly owned by public transport companies and private road carriers. PGNiG is the sole owner of CNG stations in Poland and at the end of 2008 it operated 29 generally-accessible CNG filling stations.

## Storage

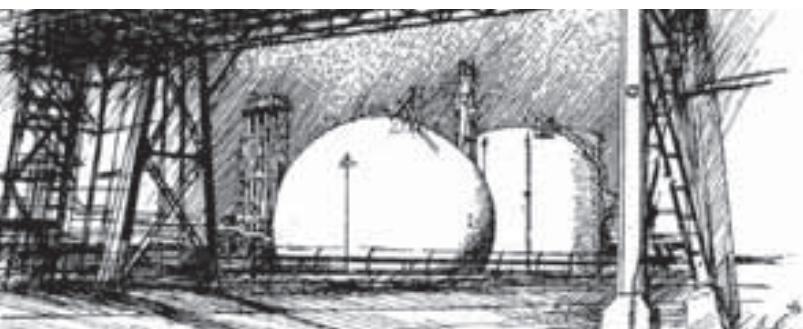
We operate six underground gas storage (UGS) facilities with a working capacity of 1.6bn m<sup>3</sup>, which represents 11.5% of the annual gas consumption by Polish customers. These facilities allow us to maintain an appropriate level of reserves for periods of short-term disruptions in gas supplies caused by system failures or limited gas availability and also reduce our susceptibility to seasonal fluctuations (as they support optimisation of the natural gas supply chain) and sudden short-term changes in demand for natural gas. These facilities help us meet our obligations to create and maintain mandatory reserves imposed under the Act on Mandatory Reserves. Moreover, as the operator of these facilities, we are able to maintain steady production levels throughout the year: in periods of reduced demand, gas is injected to the storage facilities, while in times of peak demand (not coverable with the current production), it is retrieved from the facilities.

The company which represents the Storage segment within the PGNiG Group is INVESTGAS, specializing in hydrocarbon storage and transport projects and providing services throughout the entire investment process.

The facilities operated by PGNiG are located in various geological structures (in salt caverns or worked out natural gas deposits), which results in different gas injection and reception capacities at particular sites.

In the decision of December 31st 2008, the President of URE appointed PGNiG SA as the Gas Fuels Storage System Operator for the period January 1st 2009 – December 31st 2025. For this purpose, the PGNiG Group established a dedicated entity: the Storage System Operator.

We employ an active policy of increasing our storage capacities. In 2008, our capital expenditure on underground gas storage facilities reached PLN 109m.



## Existing and Planned Underground Gas Storage Facilities



### Trade and Storage Segment's CSR Impact

In the area of responsible business and sustainable development, the Trade and Storage segment has a significant impact upon local communities and the market – our Trading Branches and Gas Distribution Companies have established multiple links within their respective environments and communities. They support important local sporting, investment, cultural and educational initiatives. We also seek opportunities to support solving financial problems of socially vulnerable customers and such important organisations as hospitals (e.g. by offering them various composition arrangements or instalment-based payments). The growing number of customers service centres and the process of developing new communication channels are extremely important from the customers' perspective. Another important matter is our impact on the natural environment. Our product, i.e. natural gas, replaces other primary fuels (e.g. coal), whereby it improves the condition of the natural environment (reduction in emissions of noxious substances). A separate but equally important aspect of the Trade and Storage segment's operations pertains to the regulatory framework designed to secure competitiveness of gas supplies.

## Challenges

We believe that the key challenges and opportunities in the context of sustainable development include: maintaining the competitive advantage of gas as a fuel (by promoting new products and solutions, e.g. air handling units and CNG); developing standardized rules for assisting socially vulnerable customers; creating new products and services; ensuring exchange of experience between PGNiG branches with respect to the existing solutions to select the best ones; as well as upgrading customer service centres to the highest standard with a view to improving the working conditions and customer service.



## Distribution Segment

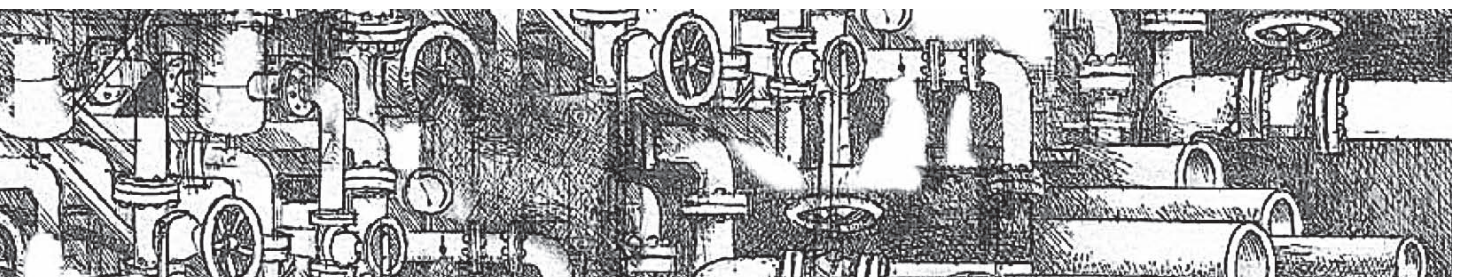


The segment's core business consists in the transmission of high-methane and nitrogen-rich gas, as well as small amounts of propane/butane and coke-oven gas, via the distribution network. The distribution business is subject to licensing. Distribution of natural gas is handled by six Gas distribution companies established within the PGNiG Group. Based on a decision of the President of the Energy Regulatory Office, the Gas distribution companies have been granted the status of Distribution System Operators; their settlements with customers are based on tariffs approved by the URE.

The gas distribution companies are our strategic subsidiaries. The profile of each individual company depends on the location, historical factors, urban and industrial development of the location, or even economic standing of local communities. The companies deliver gas to 6.6m households and industrial customers (where the former account for over 97% of the total number of customers).

The Gas distribution companies are responsible for management and operation of the distribution network by way of transmitting natural gas to end customers, connecting new customers to the transmission network, managing transmission network assets as well as operating, maintaining and expanding the network.

Until June 30th 2007, the distribution companies of the PGNiG Group were involved in both trade in and distribution of gas. Then we unbundled the distribution and trade businesses. Consequently, the Distribution System Operators were spun off (they currently operate as Gas distribution companies with their sole owner being PGNiG SA), while the entire trade business, including retail sales and wholesale, was integrated into PGNiG SA.

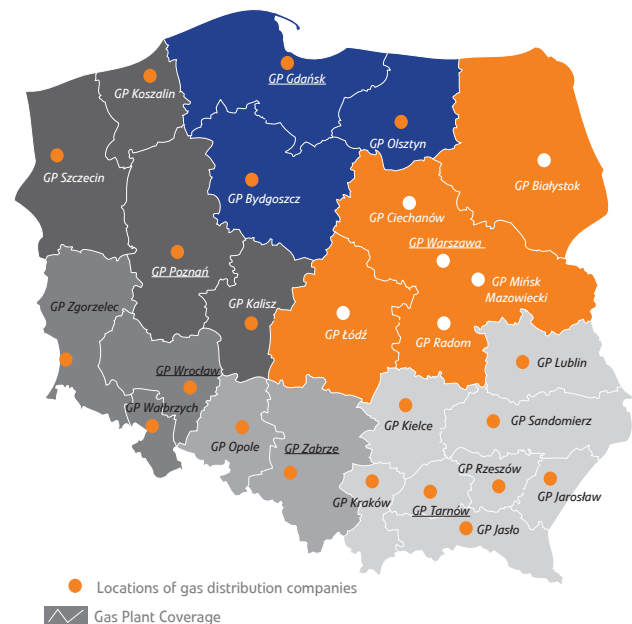




## Gas distribution companies

- Dolnośląska Spółka Gazownictwa sp. z o.o. (DSG), with its head office in Wrocław, operating gas plants in Wrocław, Wałbrzych and Zgorzelec.
- Górnośląska Spółka Gazownictwa sp. z o.o. (GSG), with its head office in Zabrze, operating gas plants in Opole and Zabrze;
- Karpacka Spółka Gazownictwa sp. z o.o. (KSG), with its head office in Tarnów, operating gas plants in Jarosław, Jasło, Kielce, Kraków, Lublin, Rzeszów, Sandomierz and Tarnów;
- Mazowiecka Spółka Gazownictwa sp. z o.o. (MSG) with its head office in Warszawie operating gas plants in Białymstoku, Łodzi, Mińsku Mazowieckim, Radomiu, Ciechanowie and Warszawie;
- Pomorska Spółka Gazownictwa sp. z o.o. (PSG), with its head office in Gdańsk, operating gas plants in Bydgoszcz, Gdańsk, and Olsztyn;
- Wielkopolska Spółka Gazownictwa sp. z o.o. (WSG), with its head office in Poznań, operating gas plants in Kalisz, Koszalin, Poznań, and Szczecin.

## PGNiG SA Distribution Companies



Name of the Company	Pipeline length, excluding connections* [km]	Headcount, as at December 31st
Dolnośląska Spółka Gazownictwa sp. z o.o.	7,636.8	1,390
Górnośląska Spółka Gazownictwa sp. z o.o.	20,488.7	2,589
Karpacka Spółka Gazownictwa sp. z o.o.	43,927.7	3,306
Mazowiecka Spółka Gazownictwa sp. z o.o.	18,361.0	2,895
Pomorska Spółka Gazownictwa sp. z o.o.	9,014.2	1,760
Wielkopolska Spółka Gazownictwa sp. z o.o.	14,572.1	1,806
<b>Total</b>	<b>114,000.5</b>	<b>13,746</b>

\* Own and third-party networks.

## Distribution Segment's CSR Impact

The Gas distribution companies remain in either directly or indirectly connected to other elements of the our value chain. For example, the indirect links to the Exploration and Production segment are related to demand for natural gas and new reserves, while the direct links are related to adjusting the volume of supplies to the market demand and to generating needs related to ensuring security of supplies. Close connections also exist between Distribution and Trade (direct provision of distribution services, balancing and settlement gas fuel supplies). For historical reasons, our companies have close relations with the local communities where they have been successful corporate citizens for years and where they have had significant impact on the natural environment.

## Challenges

Bearing in mind the specific areas of the segment's impact, the most significant challenges and opportunities in the context of sustainable development include expanding and maintaining the distribution network in conformity with legal regulations and the principles of environmental protection, as well as maintaining the competitive advantage of gas as a fuel and implementing solutions adapted to changes in the legal and business environment (assets unbundling and market competition).

# New Segment: Power Generation

The Group is working on expanding its business through creating the Power Generation segment. This is provided for in our Business Strategy until 2015 as well as in the Strategy of Sustainable Development and Responsible Business. Our plan for the near future is to launch new business activities in the field of generating and trading in electricity produced with the use of natural gas and renewable energy sources.

## Power Generation Segment's CSR Impact

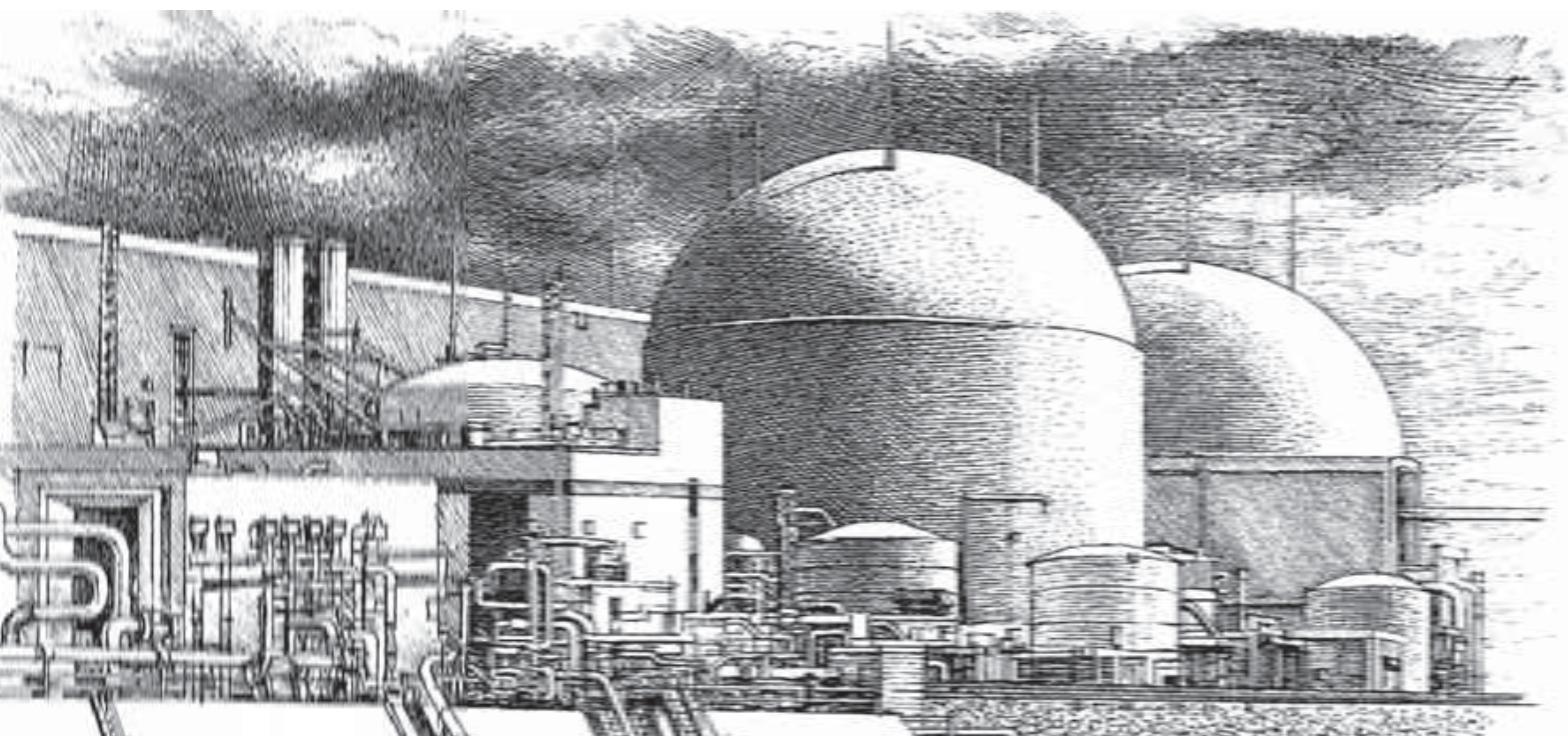
The activities within the Power Generation segment will be either directly or indirectly connected to Exploration and Production (greater demand for natural gas and new reserves), as well as to Trade and Distribution (sales and delivery

of natural gas, expanded product and service offering). The new segment will also have a bearing upon the market at large. New players and local communities will emerge, since the construction of biogas plants and utilization of the biomass require cooperation with farmers and other suppliers of green fuel, and involve joint efforts to ensure meeting the quality standards and contractual objectives of such power projects. Development of the Power Generation segment will have a positive effect on the natural environment as it will result in reduction of noxious emissions, improved use of primary fuels as well as reduced losses in the process of energy transmission and lower water consumption.

## Challenges

Considering the specific areas of the segment's impact, the most significant challenges in the context of sustainable development include, first and foremost, establishing the reputation of a reliable, credible, modern, environmentally-friendly and cost-effective provider of electricity and launching the first dual fuel offering in Poland. The success of the enterprise will largely depend on the quality of cooperation within the Group both at level of employees and the entire subsidiaries. This comes as another significant challenge. Unfortunately, the process of taking over the existing heating systems and energy generators and switching them to natural gas involves considerable reduction of headcount at the existing companies. Another challenge, therefore, will be to streamline the employment structure and find an effective way of utilising the workforce.





# PGNiG value chain

## Exploration



Exploration activities conducted by the PGNiG Group include geophysical and geological research, field exploration and purchase of licenses in Poland and abroad. The works consist mainly in exploration of geological structures in search of hydrocarbon accumulations in the form of natural gas and crude oil as well as processing historical data, geological analyses, geophysical studies and drilling data.

## Production

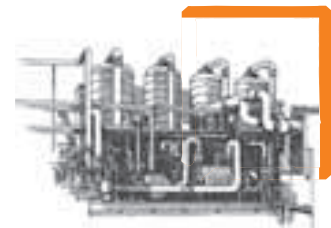


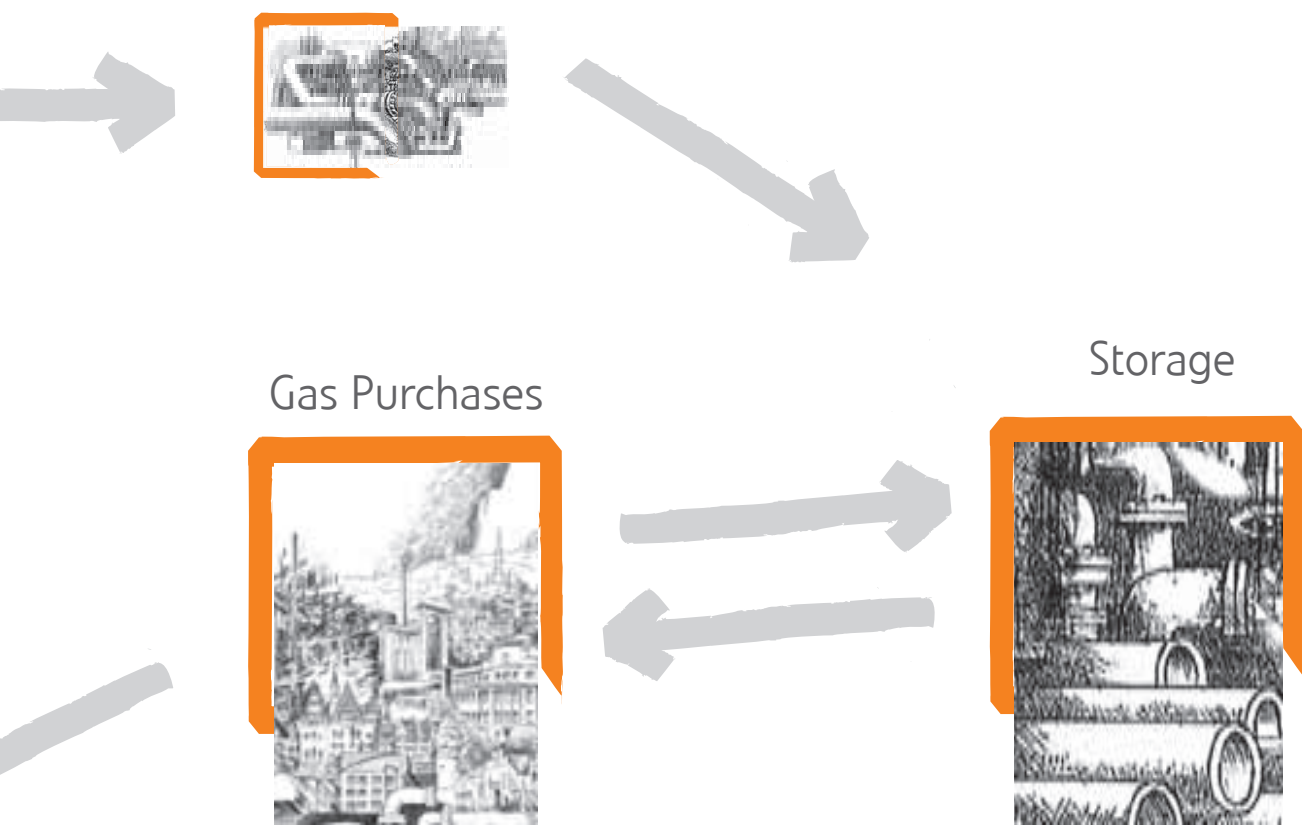
Our subsidiaries produce natural gas and crude oil from selected fields. The production activities also comprise direct sales of natural gas.

## Distribution



The segment's core business consists in the transmission of high-methane and nitrogen-rich gas, as well as small amounts of propane/butane and coke-oven gas, via the distribution network. The distribution business is subject to licensing. Distribution of natural gas is handled by six Gas distribution companies established within the PGNiG Group. Based on a decision of the President of the Energy Regulatory Office, the Gas distribution companies have been granted the status of Distribution System Operators; their settlements with customers are based on tariffs approved by the regulator.





### Gas Purchases



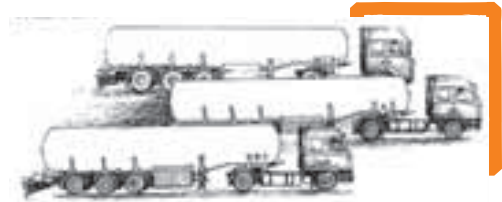
We are the largest importer of high-methane natural gas fed into the transmission and distribution networks. Our gas imports are sourced mainly from Russia, but also from Turkmenistan, Uzbekistan, Germany, Ukraine and the Czech Republic.

### Storage



We are the only operator and owner of underground gas storage facilities in Poland. We operate six UGS facilities with a working capacity of 1.6bn m<sup>3</sup>, which represents 11.5% of the annual gas consumption by domestic customers. Our UGS facilities allow us to maintain an appropriate level of reserves for periods of short-term disruptions in gas supplies caused by system failures or limited gas availability.

### External Suppliers



# Management Structure



# Corporate Governance

The Management Board of PGNiG SA makes every effort to ensure compliance with the corporate governance principles and to conduct our operations in a manner transparent to investors.

The compliance with the principles of proper supervision and management, that is the principles of corporate governance, as well as a well thought-out business strategy, complemented by the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group, are the key factors determining the efficiency of operations and our business success.

## PGNiG SA's Supervisory Structure

### General Shareholders Meeting

The General Shareholders Meeting of PGNiG SA is our supreme governing body functioning based on the rules defined in the Commercial Companies Code and the Rules of Procedure for the General Shareholders Meeting. Through the General Shareholders Meeting, the shareholders exercise their corporate rights, including the examination and approval of the Directors' Report, and adopting decisions concerning dividend amount, payment manner and payment dates. The State Treasury is the majority shareholder in PGNiG SA, holding 73.50% of the total vote at the General Shareholders Meeting.

### Supervisory Board

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations, pursuant to the rules stipulated in the Rules of Procedure for the Supervisory Board. The Supervisory Board is composed of between five to nine members, including one independent member, appointed by the General Shareholders Meeting of PGNiG SA for a joint three-year term. The State Treasury is entitled to appoint and remove one member of the Supervisory Board. Currently, that is as at June 28th 2009, the Supervisory Board is composed of eight members: Stanisław Rychlicki, Marcin Moryń, Grzegorz Banaszek, Agnieszka Chmielarz, Marek Karabuła, Mieczysław Kawecki, Mieczysław Puławski and Jolanta Siergiej.

Stanisław Rychlicki, Chairman of the Supervisory Board, is a non-executive director and does not hold any other management function in the Company.

### Management Board

The Management Board manages the affairs of the Company and represents the Company in all actions before court and out of court. The Management Board is composed of between two to seven members, with the precise number defined by the Supervisory Board. The members of the Management Board are appointed for a joint three-year term. The powers of the Management Board include all matters connected with the management of the affairs of PGNiG SA and not reserved for and delegated to other governing bodies of the Company under the provisions of the applicable laws or the Company's Articles of Association. The Management Board operates in accordance with legal regulations, including in particular the provisions of the Commercial Companies Code, as well as the provisions of the Company's Articles of Association and the Rules of Procedure for the Management Board. Currently, that is as at June 28th 2009, the Management Board is composed of six members: Michał Szubski, President of the Management Board, Mirosław Dobrut, Vice-President and Gas and Trade Director, Radosław Dudziński, Vice-President and Director of Strategic Projects, Sławomir Hinc, Vice-President and Financial and Economic Director, Mirosław Szałuba, Vice-President and Social Dialogue and Estate Director, Waldemar Wójcik, Vice-President and Oil Mining Director.

### Audit Committee

The Audit Committee acts within the structure of the Supervisory Board as its standing body assisting the Supervisory Board in the performance of its tasks. The Audit Committee is composed of at least three members of the Supervisory Board, including at least one member independent from the Company and any entity with significant connections with the Company, appointed by the General Shareholders Meeting under Par. 36.1 of PGNiG SA's Articles of Association. Such a person has to be competent in accounting and finance matters. The members of the Audit Committee are appointed by the Supervisory Board.

The Management Board of PGNiG SA puts enormous emphasis on meeting the requirements of corporate governance. Since its stock-exchange debut in 2005, the Company has been following the recommendations of the Warsaw Stock Exchange. In 2008, PGNiG SA followed the principles of corporate governance stipulated in the Best Practices for WSE Listed Companies, published as the Appendix to Resolution No. 12/1170/2007 of the WSE Board, dated July 4th 2007.

In order to minimise the risk involved in the financial reporting process, PGNiG SA continuously improves individual modules of its integrated management system and ensures that the employees who operate the system enhance their professional skills. A specialist system for managing general financial security has also been implemented. The system supports the following areas: liquidity, foreign exchange risk, as well as budget development and control.

PGNiG SA meets the disclosure requirements through publishing current reports and financial reports, as well as organising press conferences. The conferences on the PGNiG Group's financial performance are transmitted on

the Internet, which allows all interested parties to access the information provided at such events. PGNiG SA's Web portal has also been enhanced to enable anyone interested in the Company's business to quickly access ample important operating and financial data on the PGNiG Group. It is worth adding here that the Company's employees attend congresses devoted to the best practices for listed companies on an ongoing basis, which increases the quality of PGNiG SA's dialogue with the capital market.

In March 2008, the [www.pgnig.pl](http://www.pgnig.pl) portal was distinguished as highly functional and intuitive. Our Web page ranked fifth among corporate websites of the 16 largest Polish companies. The ranking was based on a research conducted by the Swedish consulting company Hallvarsson & Halvarsson.

In April 2008, PGNiG SA ranked first among fuel sector companies in the ranking assessing the quality of investor relations, conducted by Stowarzyszenie Inwestorów Indywidualnych. The ranking was designed to provide investors with information on companies implementing disclosure policies of the highest standards.







4

# ACHIEVEMENTS

Calendar of events



# 2008

## January

On January 10th 2008, Polskie LNG entered into an agreement with SNC Lavalin Services Ltd., the winner of a tender for design of the LNG terminal in Świnoujście. The terminal will be the first project of that type in the Baltic Sea basin.

## February

On February 25th 2008 Polish Oil&Gas Company – Libya B.V., a subsidiary of PGNiG SA, signed an Exploration and Production Sparing Agreement (EPSA) with the Libyan state-owned National Oil Corporation (NOC). The EPSA covers the area of Licence 113 within the Murzuq Basin. PGNiG SA acquired this licence in December 2007, in the 4th Round of the Public Tender for exploration and production of natural gas. Block No. 113, with a surface area of 5,494 km<sup>2</sup>, is situated at the borderline between the Murzuq and Gadamash Basins, close to the Algerian border. POGC-Libya B.V. undertook to implement a minimum work programme for the total amount of USD 108m.

## March

On March 12th 2008, the Supervisory Board of PGNiG SA completed the recruitment procedure for positions of Management Board members. Mr Michał Szubski was President of PGNiG SA, Mr Mirosław Dobrut was appointed Vice-President and Director of Investments and Technology, Mr Sławomir Hinc was appointed Vice-President and Financial and Economic Director, and Mr Radosław Dudziński was appointed Vice-President and Director of Strategic Projects. The employees' representative on the Board is Mr Mirosław Szałuba, who was appointed Vice-President and Labour Issues and Restructuring Director.

## April

On April 10th 2008, the President of the Energy Regulatory Office issued a decision approving the new PGNiG SA Tariff No. 1/2008 for gaseous fuels, effective as of March 31st 2009. The charge rates increased on average by 14%, while the wholesale price for gaseous fuel grew by 15%.

On April 28th 2008, the Extraordinary General Shareholders Meeting of PGNiG SA appointed the Supervisory Board for the new term of office, commencing on April 30th 2008 and ending on April 30th 2011. The following persons were elected to the Supervisory Board: Mr Grzegorz Banaszek, Mr Hubert Konarski, Ms Joanna Stuglik, Mr Marcin Moryń, Mr Mieczysław Puławski, Mr Stanisław Rychlicki and the members elected by the employees of the PGNiG Group: Ms Agnieszka Chmielarz, Mr Mieczysław Kawecki and Ms Jolanta Siergieja.

## May

On May 21st 2008, PGNiG SA opened its representative office in Kiev, Ukraine. This attests to the great importance that PGNiG SA's management attaches to the cooperation with Ukrainian oil and gas distribution companies. The representative office's key task is to act as an intermediary between PGNiG SA and its Ukrainian partners.

## June

On June 18th 2008, PGNiG SA acquired in a public offering four million and one share in Zakłady Azotowe Tarnów-Mościce (ZAT). Following the transaction, PGNiG SA came to hold a 10% interest in the share capital of ZAT. The total value of the investment was PLN 78m. For PGNiG SA the acquisition represents a long-term investment – the first step on the path to building a multi-energy company. Extending the value chain will allow PGNiG SA to increase gas sales and consolidate its market leadership.

On June 25th 2008, the Ministry of State Treasury sold one PGNiG SA share owned by the State Treasury. Following the transaction, a block of 12.71% of the Company shares could be delivered free of charge to the eligible employees. The shares acquired by the employees may be sold after July 1st 2010. The members of the Company's Management Board will be able to sell their shares after July 1st 2011.

# 2008

## July

A deposit of natural gas was discovered in the Kromolice-1 well, located near Środa Wielkopolska. The work on the well is carried out by PGNiG SA in cooperation with FX Energy Poland. As a result of drilling, the well flowed gas from red sandstone. PGNiG SA holds a 51% interest in the project, while the interest of FX Energy Poland is 49%.

## August

On August 11th 2008, PGNiG SA and a consortium composed of PBG SA of Poland, Technip KTI S.P.A. of Italy and Thermo Design Engineering Ltd. of Canada concluded an agreement for development of crude oil and natural gas reserves located near Lubiatów, Międzychód and Grotów. The project is a major step towards increasing PGNiG SA's crude oil and natural gas output and strengthening Poland's energy security. The deposits in the Lubiatów, Międzychód and Grotów area contain documented producible reserves of 7.25m tonnes of crude oil and approximately 5.5bn m<sup>3</sup> of natural gas.

On August 14th 2008, the Sanok Branch opened a new Natural Gas Mine in Tarnogród. The project will allow the Company to commence production from the Tarnogród-Wola Różaniecka natural gas deposit, with reserves estimated at 450m m<sup>3</sup>. In the first year of operations, the Company plans to produce approximately 40m m<sup>3</sup> of high-methane gas (with the methane content of over 98%). The deposit's reserves will be sufficient for 20 years of production.

## September

On September 29th, PGNiG SA and Germany's Verbundnetz Gas Aktiengesellschaft (VNG) of Leipzig concluded an agreement for supply of natural gas to the Lasów delivery point. The agreement provides for the purchase of approximately 500m m<sup>3</sup> of natural gas annually in the period from October 1st 2008 to September 30th 2011.

## October

On October 3rd 2008, PGNiG SA concluded with a consortium of companies, comprising PBG SA of Poland, Tecnimont S.P.A. of Italy, Société Française d'Etudes et de Réalisations d'Equipements Gaziers "SOFREGAZ" of France and Plynostav Pardubice Holding A.S. – Plynostav Regulace Plynu A.S. of the Czech Republic, a general contractor agreement for the execution of projects involving the extension of the Wierzchowice underground gas storage facility from 0.575bn m<sup>3</sup> to 1.2bn m<sup>3</sup> by 2012.

On October 17th 2008, PGNiG SA received the decision of the President of the Energy Regulatory Office approving changes to Tariff No. 1/2008 for gaseous fuels. Following the changes in the Tariff, gas charges increased on average by 8%. The wholesale price for natural gas grew by 11%. The new PGNiG SA gas prices came into effect as of November 1st 2008.

On October 22nd 2008, PGNiG SA, Grupa Lotos SA and Energa SA signed a letter of intent concerning implementation of a joint energy project. The project will involve construction of a modern gas-fired combined heat and power plant in Gdańsk. It will help to partially meet the growing demand for electricity in the Pomeranian region, and will also provide electricity and process steam for the Grupa Lotos SA's refinery, which is currently being extended. According to the signed letter of intent, the Energa Group will be responsible for construction of the CHP plant, PGNiG SA will supply gas, and Grupa Lotos SA will be the major customer of the project.

## November

The Company announced the Strategy for the PGNiG Group until 2015, which will be based on six strategic pillars: development of the trading business, securing of natural gas supplies, development of the exploration and production business, expansion of the existing and construction of new storage capacity, improvement of the profitability of the distribution operations, as well as expansion of the scope and scale of operations (extension of the value chain). The PGNiG Group plans to spend from PLN 25bn to PLN 30bn to achieve these objectives.

## December

The sale of 100% of shares in Polskie LNG Sp. z o.o. to OGP GAZ-SYSTEM SA, under an agreement of November 28th 2008, was finalised. The selling price of PLN 52m was determined based on a valuation by an independent appraiser. As a result, OGP GAZ-SYSTEM SA will supervise construction of the LNG terminal in Świnoujście, while PGNiG SA remains responsible for the supplies of liquefied natural gas to the terminal.

PGNiG SA launched, in cooperation with PricewaterhouseCoopers, a project to devise the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group, which is intended to complement the business objectives defined in our Business Strategy until 2015. The project's management bodies were officially appointed and work on the project was launched, covering in total nearly 50 of the Group companies, including gas distribution companies as well as branches and subsidiaries of the PGNiG Group.



# 2009

## January

On January 6th 2009, PGNiG Norway A/S, our subsidiary, acquired a 30% interest in licence PL350 on the Norwegian Continental Shelf under an agreement with StatoilHydro Petroleum A/S. The deposits covered by licence PL350 are located approximately 7-8 km to the east of the Skarv field, in which PGNiG Norway had previously held an 11.9% interest. The deposits covered by the licence have a large production potential with respect to both crude oil and natural gas.

On January 7th 2009, PGNiG SA was notified by Lvivtransgaz that natural gas would not be supplied through the Drozdowicze delivery point on the Polish-Ukrainian border. As a result, at 9.00 am on January 7th 2009, gas supplies through the Drozdowicze delivery point were discontinued. However, more natural gas was delivered through the Wysokoye delivery point on the Polish-Belarus border. The volumes of natural gas imported from the countries east of Poland represented 84% of the volumes originally planned. In order to meet the total demand for gas, more gas was drawn from the storage facilities.

On January 12th 2009, PGNiG SA and Zakłady Azotowe Puławy SA entered into an agreement on joint execution of projects involving the use of natural gas, in particular domestically sourced gas. To implement the agreement, the parties will set up special Working Teams on an as-needed basis, whose tasks will include preparation of detailed concepts and terms of project implementation and their presentation to the management boards of the companies.

In the morning hours on January 21st 2009, gas supplies to Poland from the countries east of Poland were resumed on the Polish-Ukrainian border.

On January 28th 2009, the Supervisory Board of PGNiG SA appointed Mr Waldemar Wójcik to the position of Vice-President of the Management Board and Oil Mining Director of PGNiG SA. Mr Wójcik was appointed unanimously, in a secret ballot, for a term of office expiring on March 12th 2011.

## February

On February 16th 2009, PGNiG Norway, a subsidiary of PGNiG SA, acquired a 25% interest in licence PL419 on the Norwegian Continental Shelf under an agreement with Nexen Exploration Norge A/S. The deposits covered by the licence have a large production potential. Discoveries of new crude oil and natural gas deposits are also likely.

On February 19th 2009, PGNiG SA and Wien Energie GmbH signed a letter of intent regarding their cooperation in the area of energy projects. The parties decided to appoint a coordination group and a group of experts as a platform for regular meetings of their representatives. At the initial stage of the project cooperation opportunities in the area of natural gas-based energy will be analysed and environmental protection solutions, including solutions for waste utilisation, will be searched for.

## March

On March 11th 2009, the project involving extension of the underground gas storage facility in Wierchowice was launched. It is the largest project of this type in Poland. Upon completion of the first stage, the facility's storage capacity will increase from 575m m<sup>3</sup> in 2009 to 1.2bn m<sup>3</sup> in 2012, and upon completion of the second stage in 2015 the storage capacity should reach approximately 2bn m<sup>3</sup>. Ultimately, depending on demand for gas in Poland, the capacity of the Wierchowice underground storage facility may reach approximately 3.6bn m<sup>3</sup>.

## April

On April 3rd 2009, a ceremony was organised to mark the beginning of the process of delivery of agreements on free-of-charge acquisition of PGNiG SA shares to eligible employees. The right to acquire, free of charge, 750,000,000 shares with a par value of PLN 1 per share was granted to 61,516 employees of the PGNiG Group.

On April 15th 2009, Qatargas and PGNiG SA signed the Head of Agreement for the supply of liquefied natural gas (LNG) from Qatar to Poland. Under the Head of Agreement, Qatargas agreed to deliver to PGNiG SA 1m tonnes of LNG annually for a period of 20 years, based on a 20-year long-term

contract. The deliveries of gas to the terminal in Poland will commence in 2014. LNG will be used mainly to supply gas to energy companies and other customers.

On April 30th 2009, Polskie Górnictwo Naftowe i Gazownictwo SA, Zakłady Azotowe w Tarnowie-Mościcach SA, Polimex-Mostostal SA and Tauron Polska Energia SA signed a letter of intent regarding joint execution of a project involving construction of a new 200 MWe gas-fired combined heat and power (CHP) plant, and upgrade of the existing 65 MW CHP plant, located at the premises of Zakłady Azotowe w Tarnowie-Mościcach SA. As part of the project, PGNiG SA agreed to analyse the available options of gas supplies to the new CHP plant.

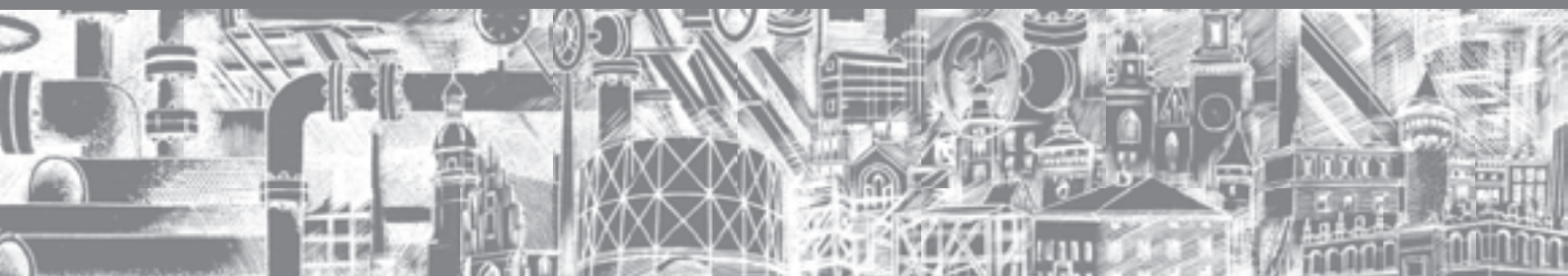
## May

On May 4th 2009, PGNiG Norway, a subsidiary of PGNiG SA, acquired a 35% interest in exploration and production licence PL521 on the Norwegian Continental Shelf. Licence PL521 was granted by the Norwegian Ministry of Hydrocarbons and Energy following conclusion of the 20th Licensing Round. Exploration and production licence PL521 covers an area in the central Norwegian Sea (off Brønnøysund), located several dozen kilometres from the Skarv field.

CHP plant will also contribute to the balancing of the energy needs of the Pomeranian region and the improvement of Poland's energy security. It will be the second largest gas-fired CHP plant in Poland in terms of its nameplate capacity. The amount of heat generated annually will exceed 5m GJ, with the amount of electricity exceeding 1.5m MWh. The energy generated by the plant will be sufficient to supply as many as 330 thousand households.

On May 18th 2009, the deed of foundation for construction of the Underground Storage Facility in the Kosakowo commune was ceremonially embedded on the construction site. The Kosakowo underground storage facility is located in the Mosty village, Kosakowo commune, Gdańsk province. Gas will be stored in worked-out salt caverns in the Mechelinki salt deposit. The project involves construction of ten storage caverns, which will store in total 250m<sup>3</sup> of natural gas at the depth of 1,000 to 1,200 meters, and the construction of the necessary above-ground infrastructure. The project is scheduled to be completed in 2020, with the facility's storage capacity expected to reach 100m<sup>3</sup> by 2014.

On May 20th 2009, Polskie Górnictwo Naftowe i Gazownictwo SA and the Egyptian Oil Ministry signed an agreement for exploration and operation of crude oil deposits on the Bahariya block in Western Sahara. The agreement was si-



On May 6th 2009, the LOTOS Group, the ENERGA Group and PGNiG SA, partners in a consortium, signed an agreement on construction and operation of a technologically advanced 200 MWe gas-fired CHP plant. The estimated capital expenditure will be approximately PLN 800m. The CHP plant is scheduled to be placed in operation in autumn 2013. ENERGA will be responsible for organisation of the construction process and will be the majority shareholder in a special purpose vehicle established for that purpose, with PGNiG SA supplying the fuel and the LOTOS Group being the main customer of the new plant. The new advanced

gned by Waldemar Wójcik, Vice-President of PGNiG SA and Oil Mining Director and H. E. Eng. Sameh Fahmy, Oil Minister of the Arab Republic of Egypt. The cost of the exploration work to be performed in the area is estimated at USD 48m.

Under the agreement, the Company will drill at least two exploration wells and perform 1,350 km of seismic surveys. In the event of any discoveries, deposits will be developed and brought on stream.

# 2009

## June

On June 1st 2009, PGNiG SA and OOO Gazprom Export signed an agreement for supply of natural gas to Poland. The agreement covers the period until September 30th 2009 and the delivery of 1,024bn m<sup>3</sup> of natural gas. It means that PGNiG SA will be able to fill the underground storage facilities before the autumn and winter period. Natural gas will be supplied through delivery points on the Polish-Ukrainian and Polish-Belarus borders.



On June 17th 2009, a declaration on sustainable development of the energy sector was signed. The signing of the declaration concluded a Responsible Energy conference entitled "Challenges of Sustainable Development in the Energy Sector", which was organised in Warsaw by Polskie Górnictwo Naftowe i Gazownictwo SA in cooperation with PricewaterhouseCoopers. The following energy sector companies joined the initiative: EDF Polska, Enea, GAZSystem, GDF SUEZ Energia Polska, PGNiG SA, Tauron and Vattenfall Poland. By signing the declaration, its signatories confirmed the need to strive for energy security and sustainable development by ensuring the efficient operation of the markets. The achievement of those objectives depends on such key factors as greater freedom and openness of trade as well as secure and transparent operation and investment rules and proper management of efficient competition. The conference was also attended by the presidents of several dozen companies and many sustainable development and responsible business specialist from outside the energy sector.

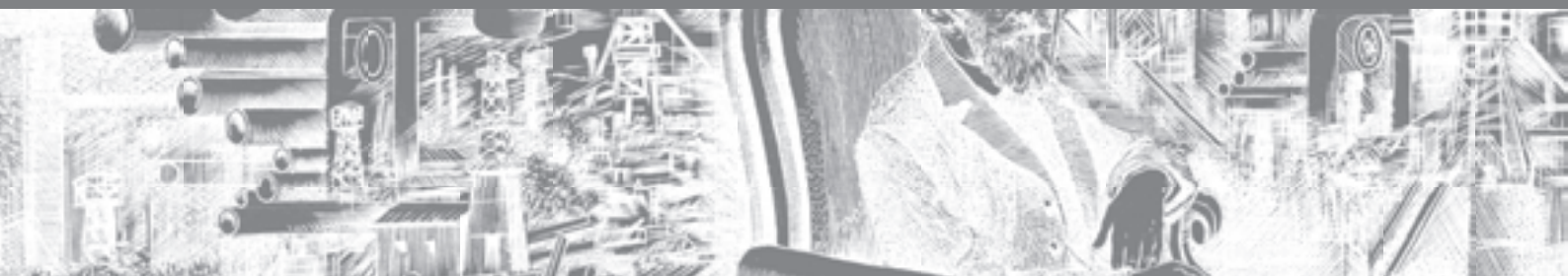
On June 22nd 2009, PKN Orlen SA and PGNiG SA signed an agreement on joint implementation of an exploration and production project in north-western Poland. The project is a follow-up on the initial prospecting and exploration work performed by PGNiG SA in the Polish Lowlands. An initially prospected crude oil accumulation within the Sieraków field is located in the vicinity of the largest crude oil discoveries made in the recent years by PGNiG SA in Poland. Geological reserves are estimated at approximately 130m barrels, including recoverable reserves estimated at 26m barrels, with the production volume planned at approximately 15m barrels at this stage of the prospecting work. PGNiG SA plans to acquire a 51% interest in the project, with PKN Orlen acquiring a 49% interest. In exchange for covering 51% of the expenditure required to complete the project, PGNiG SA will receive the right to the corresponding share in future revenues. The balance of 49% of the revenues will be retained by PKN Orlen.

On June 29th 2009, the Management Board of PGNiG SA and Qatargas Operating Company Ltd jointly announced that they had signed a contract for sale and delivery of liquefied natural gas (LNG) from Qatar to Poland. Under the terms of the 20-year contract, Qatargas will deliver to PGNiG SA 1m



tonnes of LNG annually for a period of 20 years. LNG will be delivered to the new terminal in Świnoujście starting in 2014.

On June 29th 2009, a ceremony was organised at which the Information Security Management System certificate was granted to PGNiG SA, which had implemented the system based on the PN-ISO/IEC 27001 standard. PN-ISO/IEC 27001 is an international standard used in the management of information security, published in 2005 by the International Organisation for Standardisation (ISO) and the International Electrotechnical Commission (IEC).



5

# DIALOGUE

The Group's Stakeholders



## Key Risks and Opportunities

The PGNiG Group has a wide circle of stakeholders, which follows from our large scale of operations and their wide reach. The business pursued by the Group's branches and companies as well as their place in the Group's value chain result in a wide variety of the stakeholder groups. The key partners for our head office are suppliers of natural gas from Poland and abroad, our strategic customers (such as central state authorities, including the Ministry of State Treasury, the Ministry of Economy and the Ministry of Environmental Protection, as well as the Public Procurement Office, the URE, and the Anti-Trust and Consumer Protection Authority), our transmission business partners (OGP GAZ-SYSTEM SA and, recently, Polskie LNG Sp. z o.o. responsible for the LNG terminal project) and, finally, financial institutions (the Warsaw Stock Exchange), consultancies, and contractors in the gas, IT, and financial services sectors. It comes naturally that the Energy Regulatory Office as well as retail and industrial customers purchasing natural gas are the largest group in the dialogue with our trading branches and their gas distribution companies.

For our service and production companies, relationships with local communities – particularly those affected by our use of the natural environment – as well as the dialogue with NGOs and the state administration are of vital importance. For the distribution companies, the strategic members of the our group, the most important partners in dialogue are customers purchasing distribution services, that is organisations selling natural gas to end-users. At present, PGNiG SA is the main customer for distribution services (through our Gas Trading Companies), which additionally owns the gas distribution companies. Local governments, customers connected to the gas network, the URE and the Anti-Trust and Consumer Protection Authority are also very important stakeholders for the Distribution Companies. Our ability to expand the gas network and increase the customer base in a given region to a large extent depends on the relations between such entities and the Distribution Companies.

All the core values of the PGNiG Group, including accountability, credibility, quality and partnership, play an important role in shaping our dialogue with the internal and external environment. We acknowledge that such values pose tough

challenges, but also offer huge opportunities for the Group. We want all our partners to know and understand how we operate. We also want to be familiar with and understand their expectations.

It would be difficult to present all the interdependencies, as well as the communication channels and tools identified in the process of devising the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group. We would like to present the most important and most common ones from the perspective of the mission and objectives underlying the Sustainable Development and Corporate Social Responsibility Strategy. The diagram on page 44 shows groups of our stakeholders and the tools and channels used in our communication with them.

Another reason for PGNiG SA's dialogue with the external world becoming so important is that fuels, climatic changes, protection of natural environment and corporate responsibility have never before been so extensively discussed by politicians, the public and the business world. It is vitally important for us to make positive relationships with all those who take interest in our operations and those who can influence the debate on energy policy.

We are aware of the wide variety of views and opinions regarding the current and future energy policy. All the more so we care about the discussion and building close relationships with other participants of the energy market. From that sprang the idea of organising a regular conference dealing with the subject of challenges to sustainable development in the energy sector, which was held in June 2009 for the first time.

This section presents the most important, sometimes difficult, questions, as well as opinions of our internal and external partners. Finding a balance between the interests of all stakeholders is not always easy, therefore we need to strive for a consensus. Concurrently, as indicated by the participants of the Responsible Energy Conference, cooperation in the energy industry is not only necessary but also expected.

For more information on the relationships with the internal and external environment, see Challenges Facing the PGNiG Group and Results of Its Activities to Date.

**Tools and Channels Used by the PGNiG Group  
in Communication with its Stakeholders**



## Opinions given by the Participants of the Responsible Energy Conference\*

	Responses: "I agree" and "I fully agree"
I think energy companies should engage in joint initiatives in the area of sustainable development and corporate responsibility	86
I think that energy companies should have a joint Code of Ethics / Code of Values	68
I am interested in working with other energy companies on initiatives concerning sustainable development and corporate responsibility	91
I believe that such initiatives as this Conference are useful for the energy industry	95

\* percentage of responses

## Interests of PGNiG SA's Stakeholders\*

I am interested to learn about the PGNiG Group's objectives in the area of:	Employees of the Group	Customers and other participants of the capital market
	Responses: "I agree" and "I fully agree"	
Working with local communities	72	73
The Group's impact on the environment	79	100
The Group's cooperation with local authorities and the public administration	75	82
New projects	88	91
Improving the model of serving retail customers	76	77
Health and safety at work	91	41
Personnel and training policy	96	46

\* percentage of responses

The frequently asked questions selected for this section deal with the problem of natural gas quality, brought up by the press from time to time, the uncertainty about gas bills or the customers' difficulties with mandatory replacement of contracts.

## Gas Quality and Consumption

**A reader from Warsaw who has a gas boiler complains that she used to have "very hot water" and now the water is merely hot. How can you explain this?**

**Has the level of gas supplies changed in Warsaw?**

In every part of Poland, gas rationing level 1 applies, which means that natural gas, without limitations and of certain agreed quality, is supplied to all households connected to the networks. Quality inspections are carried out on an on-going basis by means of special devices called process chromatographs. Tests performed by accredited laboratories confirm the high quality of gas, even exceeding the standards defined in the regulation of the Ministry of Economy, Labour and Welfare of 2004, and the tariffs approved by the President of URE.

We wanted to thoroughly examine the issue brought up by the user and performed an analysis which indicated that the key reason behind the problem was the weather. PGNiG SA's data concerning air temperature indicate that the temperatures recorded in the few past weeks were significantly lower than those in the corresponding period of the previous year. This results in higher consumption of energy (gas) necessary to heat water. It is worth mentioning that a customer can always request to have his or her gas installation checked. All the customer needs to do is report the problem to the nearest Customer Service Centre.

**The Szczecin editorial office of Gazeta (a nationwide daily) is visited by people who received their gas bills in the past few days. They are surprised to find a large difference between the last bill (for December) and the November bill. For instance, the bill in November showed PLN 300 while the bill for December – PLN 500 (this concerns people who heat their houses using gas boilers). The bills indicate a sharp increase in gas consumption.**

Given the very general description of the problem, it is difficult to precisely name all the factors which could have resulted in increased gas consumption. In order to diagnose a given case accurately, one would have to know detailed information, e.g. the applied tariff, comparison of the present gas consumption with the consumption levels in the corresponding period of the previous year, etc. However, it is always possible to name a few general reasons which contribute to greater use of gas and translate into higher bills for customers in winter. The first reason is obvious – significantly lower temperatures, which is all the more true as the temperatures in Poland fell sharply at the end of December 2008 and the beginning of January 2009. This naturally results in higher gas consumption. Other factors which affect gas consumption include the technical condition of equipment such as gas boilers, water heaters and gas cookers. We need to ensure that they are appropriately maintained, for instance nozzles should be replaced in gas cookers. PGNiG SA is particularly keen on disseminating such knowledge among customers. There are simple tips for using our equipment which will help us save gas and cut the bills. Let us remember a few basic rules for the efficient use of gas.

### STEP 1: Uncover the radiators

Long curtains, radiators blocked with furniture, or towel and laundry lines installed on radiators may consume up to 20% of heat. Uncovered radiators guarantee free distribution of heat in a room.

### STEP 2: Air rooms reasonably

Rooms should be aired frequently, but each time for a short period of time, with the radiator control valve set to the minimum temperature. Increase the temperature only after you have closed the windows.

### STEP 3: Install screens

When installed behind radiators, screens reflecting heat can help save approximately 4% of heating bills.

### STEP 4: Set the Temperature

Adjust the temperature in a room to the type of activity and the purpose for which such a room is used. Increasing temperature by 1 degree Celsius increases the cost of heating by approximately 6%. During the day, it is sufficient to

keep temperatures at 20–22 degrees Celsius and during the night – approximately 16–17 degrees Celsius. It not only helps to lower the bills but is good for your health. However, turning off radiators completely is not recommended as more energy is needed to heat up a cold room than keep it at a constant temperature of, for instance, 17 degrees Celsius. It is worthwhile to check gas consumption by regularly inspecting the gas meter. Spotting a surge in consumption can help identify ineffective or inaccurate operation of the boiler earlier.

### STEP 5: Invest in Equipment

A modern boiler and central heating installation help save 25–30% of energy. An installation with automated temperature control adjusts the temperature to individual preferences of the user, helping to cut the cost.

### STEP 6: Buy Suitable Pots

Heat is used efficiently when the pot and the hob have similar diameters. Energy can be saved when we use pots with tightly fitted lids. Cooking without the lid on the pot causes 30% of energy to be lost.

### STEP 7: Steel is the Answer

Buying high quality steel pots pays off. When cooking in a stainless steel pot, we use 36% less energy than when using an enamel pot.

### STEP 8: Shower

The cost of taking a bath in a tub can be nearly four times higher than showering reasonably.

### STEP 9: Descale

Frequent removal of limescale from heating equipment extends its life and helps save energy significantly, by up to 20–30%. Before turning heating on, it is advisable to let air out of radiators to avoid losing further 10% of heat.

### STEP 10: Maintain Your Equipment

Regular maintenance and adjusting of equipment helps reduce energy consumption by approximately 4% as it guarantees efficient and economic operation of heaters, boilers and gas cookers. Equipment in good working order increases the safety of use.

The difference in the amounts shown on the invoices also follows from the change in gas tariffs as of November 1st 2008 (previously, the tariffs were changed in April 2008). It is worth to remember that all price adjustments are approved by the URE whose task is to check the legitimacy of prices submitted by PGNiG SA in its tariff applications. The price of natural gas depends on two key factors. One of them is PGNiG SA's paying for gas in dollars, which means that the PLN/USD exchange rate plays a significant role. Secondly, the price for gas is determined on the basis of the average price for oil and oil derivatives in the previous nine months. Therefore, even falling oil prices do not immediately translate into lower prices paid by PGNiG SA. In addition, we would like to emphasise that, bearing in mind the customers' reservations, PGNiG SA regularly checks the quality of the gas supplied and its conformance to the applicable standards. To date, no irregularities have been identified. However, we are always willing to look into a specific issue and investigate it thoroughly.



## Replacement of Contracts – Customer Service

**The readers requested our assistance with regard to notifications they receive from the gas distribution company in Jarosław informing that they have to appear in person at the specified Customer Service Centres. It causes serious difficulties to those who live even up to 30 km from the nearest Customer Service Centre. Not to mention that it is inconvenient for working persons or seniors. Cannot this be done in any other way?**

The gas distribution company in Jarosław, as well as other gas distribution companies of the Karpacka Gas Trading Division of Tarnów are in the process of updating gas delivery contracts in line with the generally applicable guidelines. The first step in the process consists in notifying the customers of the procedure by distributing contract replacement information leaflets along with current invoices for gas deliveries. The leaflet explains the reasons for the replacement and contains detailed information regarding two alternative methods: in person at Customer Service Centres or by mail.

The markedly insufficient customer response to the leaflets distributed by the gas distribution company in Jarosław prompted the extension of the procedure by introducing personalized "Invitations to update the contract". Each customer who has not updated the contract receives such a personal invitation along with the other correspondence and the current invoice. Customers with access to the Internet may update their contracts at [www.pgnig.pl](http://www.pgnig.pl) by downloading the contract template and sending two completed copies to the relevant Customer Service Centre. Having verified the data contained in the contract, the service centre employee signs it and sends one copy back to the customer. Thus, the contract replacement process may be carried out through several different channels of communication.

Our discussion of PGNiG's dialogue with its stakeholders would be incomplete without presentation of problems experienced by the Group's employees. Hence we include a short report on an on-line chat with the Group's employees.

## Questions directed by PGNiG Group's employees to Michał Szubski, President of PGNiG SA

**Is the Pakistan tragedy going to affect operations of the Group companies, especially those which are active in potentially dangerous areas?**

The tragedy in Pakistan has been a great shock for all of us, but we cannot surrender to the pressure of terror. That is exactly what the terrorists are counting on. All companies of the PGNiG Group which operate in dangerous regions have raised their already high standards of security.

**Would you agree that there are too many trade unions within the company, which often makes them act as "stoppers"?**

Considering that PGNiG is a fuel and energy company, you could say that the number of trade unions is significantly below average. I greatly value the cooperation with our trade union organizations. What I am concerned about are divisions seen among the trade unions in recent years. I do hope that the leaders will show their maturity by leaving their individual interests aside. If they focus on their private affairs instead of representing the interest of the employees, they will indeed become "stoppers".

**Are you acquainted with the troubles afflicting the field units and nepotism which affects them? What is your strategy for fighting those?**

The PGNiG Group is a company boasting rich traditions, one of which is the "family succession" at the gas distribution companies. This pertains to smaller towns in particular, where the plants and their field units have always been valued as employers. It was therefore natural that many employees sought to have the members of their family employed as well. I believe that there is nothing wrong in the very fact that a company attracts families; this practice can be observed in many enterprises all over the world and particularly in the case of those with a long and established tradition. Employment of family members ensures greater loyalty and attachment of the personnel to the company. The problem emerges when nepotism comes into play, when family members are favoured in the course of recruitment processes or in the case of reporting relationships between family members. Polish law does not prohibit reporting relationships between members of the same fami-



ly, but internal company rules, procedures and codes may regulate such matters. I think that the PGNiG Group should adopt this type of methods to prevent nepotism. But it is also important that employees themselves set give the good example. My wife, who worked at the PGNiG SA Head Office, took leave without pay when I became President of PGNiG SA.

**In this section we also present the opinions of Mariusz Swora, the President of URE, regarding sustainable development in the energy industry. Other interesting opinions of our stakeholders expressed during the "Challenges of Sustainable Development in the Energy Industry" Conference (June 2009) are available at [www.odpowiedzialna-energia.pl](http://www.odpowiedzialna-energia.pl)**

## Mariusz Swora, President of URE

**Do you believe that cooperation between energy companies regarding sustainable development is necessary? To what extent would such cooperation bring most benefits to companies and customers?**

To pursue the idea of sustainable development, energy companies have no other way but to cooperate. It is particularly necessary in the energy industry. Sustainable development will become reality on two conditions: one is competition, the other is "coopetition", which means cooperation within competitive activities. Recently, the latter has been increasingly emphasized. Such cooperation in the case of projects executed jointly by several companies allows for investment cost sharing which, in turn, accelerates all the processes and results in a greater number of enterprises successfully completed. Moreover, cooperation enables the companies to enter such areas of activity where they cannot capitalize on their competitive advantage or where competition is impossible. I believe that the Declaration – fruit of the conference on "Responsible Energy: Challenges of Sustainable Development in the Energy Industry" organized by PGNiG – is an example of laying foundations for effective cooperation between energy companies.

**Which sustainable development goals would you define as crucial in the context of the energy industry? Impact on the natural environment? Innovative enterprises?**

Such goals must be defined, in the first place, by energy companies that should outline development strategies in accordance with the CSR principles. What I consider crucial is the trust to be built between the companies and their customers as well as local communities. One must remember that investments in the energy industry very often cause dramatic changes to the way in which local communities actually function and have considerable impact upon the environment.

**What is your opinion on the "Challenges of Sustainable Development in the Energy Industry" Conference?**

It was definitely an important initiative and signing of the Declaration is its greatest success. I would like to wish all energy companies and end customers that all the praiseworthy principles included by the Signatories in the Declaration will be fully implemented.

# 6 STRATEGY

Our approach to sustainable development and corporate social responsibility



## 1. Method for Determining Significance of Particular Issues

In November 2008, the Management Board of PGNiG approved the business strategy for the PGNiG Group until 2015. At the same time, the Company started developing the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group. This strategy was to be designed in such a way as to support and supplement business objectives set by the PGNiG Group in all areas of our. It was our firm intention to set the objectives and specify steps to be undertaken in all areas of corporate social responsibility (CSR), i.e. Work Place, Natural Environment, Market, and Local Community. Prior approval of the business strategy by the Management Board enabled us to perform these tasks.

Additionally, we decided that the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group should supplement business strategy with the objectives and development directions identified within the abovementioned areas of corporate social responsibility but not covered in detail in the business strategy. And so, we set not only objectives pertaining to business, customer service, or developing the value chain, but also ensured that the sustainable development strategy covered issues related to the work place, communication and marketing. Moreover, as the environmental protection has always been considered significant in our business and is a part of our mission, it constitutes one of the six pillars of the social strategy of the PGNiG Group.

This approach allows the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group to complement our business strategy and to outline the strategic directions for our sustainable development and corporate social responsibility for the coming years.

As the scale of our business is very large and we conduct activities through various diverse units at different locations, such as gas distribution companies or domestic and international branches and subsidiaries, it was decided that the project-based approach would be the most suitable method of work. An independent advisor, PriceWaterhouseCoopers, was selected to support the implementation of this process.

## 2. Developing the Strategy

When President of the Management Board and Vice-President and HR and Restructuring Director became the Project Sponsors, and when the full integration of the sustainable development strategy with our business strategy was assumed, the process became an initiative of strategic importance to us. The selected approach to work allowed us to engage a large team of employees from all areas of the Group's activity in the project. Furthermore, thanks to the Management Board's commitment it was possible to win participation of persons responsible for the development of individual areas of the Group's business. The project's management structure was defined and included a Steering Committee formed by the directors of key business departments. In addition, Working Groups responsible for the four areas of corporate social responsibility were formed and included employees from the Head Office and other branches and subsidiaries of the PGNiG Group. Further, a new layer was added in the management structure at PGNiG's gas distribution companies, branches and subsidiaries to account for the CSR strategy, and communication and marketing officers at these organisations were appointed Regional CSR Coordinators.

The key stages of the CSR strategy development involve collecting and analysing data, as well as designing the strategy itself. This should be followed by drawing up the strategy implementation plan, and then by developing internal and external communication and reporting systems.

The development of the CSR strategy started with a series of meetings at the Head Office, which were attended by persons involved in different areas of the Company's business, as well as with preliminary visits to selected branches and subsidiaries of the PGNiG Group. As the Group's business activity is diverse, it was our firm intention to develop universal data collection tools, which could be applied at various subsidiaries. Additionally, the meetings in gas plants, branches and subsidiaries of the PGNiG Group enabled better understanding of these individual units and allowed us to engage the employees in the CSR strategy process.

Subsequently, the Company collected and analysed data from all subsidiaries and branches of the PGNiG Group, ar-

ranged meetings with CSR coordinators and leaders from different business areas, and organised strategy workshops. These two-day long workshops were attended by the Members of the Management Board, directors, representatives of different business areas of the PGNiG Group, and the CSR Coordinators, and were a valuable experience. Approximately 160 persons representing various Group units participated in the workshops, including business, communication, HR, and environmental protection specialists. They were divided into teams comprising people from the same business area, who identified major steps to be undertaken in their respective areas in order to implement the CSR strategy. Having considered previously identified actions and to what extent they have been so far implemented, and having compared them with world's leading companies, PGNiG identified the areas which should be accounted for while defining the objectives of the PGNiG strategy and the measures of success. These measures will be treated as a reference point while assessing the implementation of the strategy. After consultations with the persons responsible for each business area, detailed objectives were identified and their implementation plan was drawn up; and on the basis of this plan the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group was developed. It should also be noted that the workshops were a starting point for identification of further actions which should be undertaken as part of the Sustainable Development Strategy. The Strategy was approved by the Management Board of PGNiG SA on July 20th 2009. Concurrently, the Management Board identified further steps to be undertaken, such as management of the strategy within the Group.

The PGNiG Group has also decided to draw up a CSR report, which would summarize achievements to date and demonstrate the fulfilment of our declarations in the immediate future.

Development of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group and its implementation were included in the annual Management By Objectives plans for PGNiG, which allowed a complete integration of the Strategy with the Company's business strategy.

It should be noted, that even though the development of a strategy is always a challenge, and in particular for large

companies such as the PGNiG Group, the project sparked positive reactions from the employees of PGNiG branches and subsidiaries. Their favourable response, and often even enthusiasm, as well as the commitment of the Management Board Members and top executives, was of the utmost importance to the success of the project. Implementation of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group aids macro-level thinking, inside as well as outside of various areas, units, and structures. The adopted strategy also offers new prospects and demonstrates that the identification of tasks and objectives is as significant as the way they are implemented.

The next stage involves developing individual strategic plans by subsidiaries and branches of the PGNiG Group, which would be consistent with the main strategy, but would also reflect local needs and capabilities.

### 3. Six Pillars of the Strategy

The Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group comprises six strategic objectives, which the Company should concentrate on in the coming years. Each objective is related to a different area. The six pillars of the strategy are presented below:

- Customer care;
- Business expansion in line with the principles of sustainable development;
- Creating safe and friendly working environment;
- Dialogue and cooperation with local communities and business partners;
- Protection of the natural environment;
- Credible and consistent communication and marketing.

These matters are covered by particular the strategic objectives, which are implemented within the whole value chain of the PGNiG Group. Accurate communication and marketing is the basis of the social responsibility strategy and influences all other pillars, as presented in the diagram on page 53. The pillars of the Strategy are pivotal to this CSR report, which is addressed to the Group's stakeholders, and their implementation to date and the challenges they pose are the report's key themes.

Detailed information on each element of the Sustainable Development Strategy are discussed in section 8 (Challen-

ges Facing the PGNiG Group and Results of Its Activities to Date). The strategy's implementation plan and objectives are scheduled for 2009-2012. This will be followed by a revision of the objectives and identification of further steps to be taken until 2015.



# 7 STRUCTURE

Management of sustainable development at the PGNiG Group



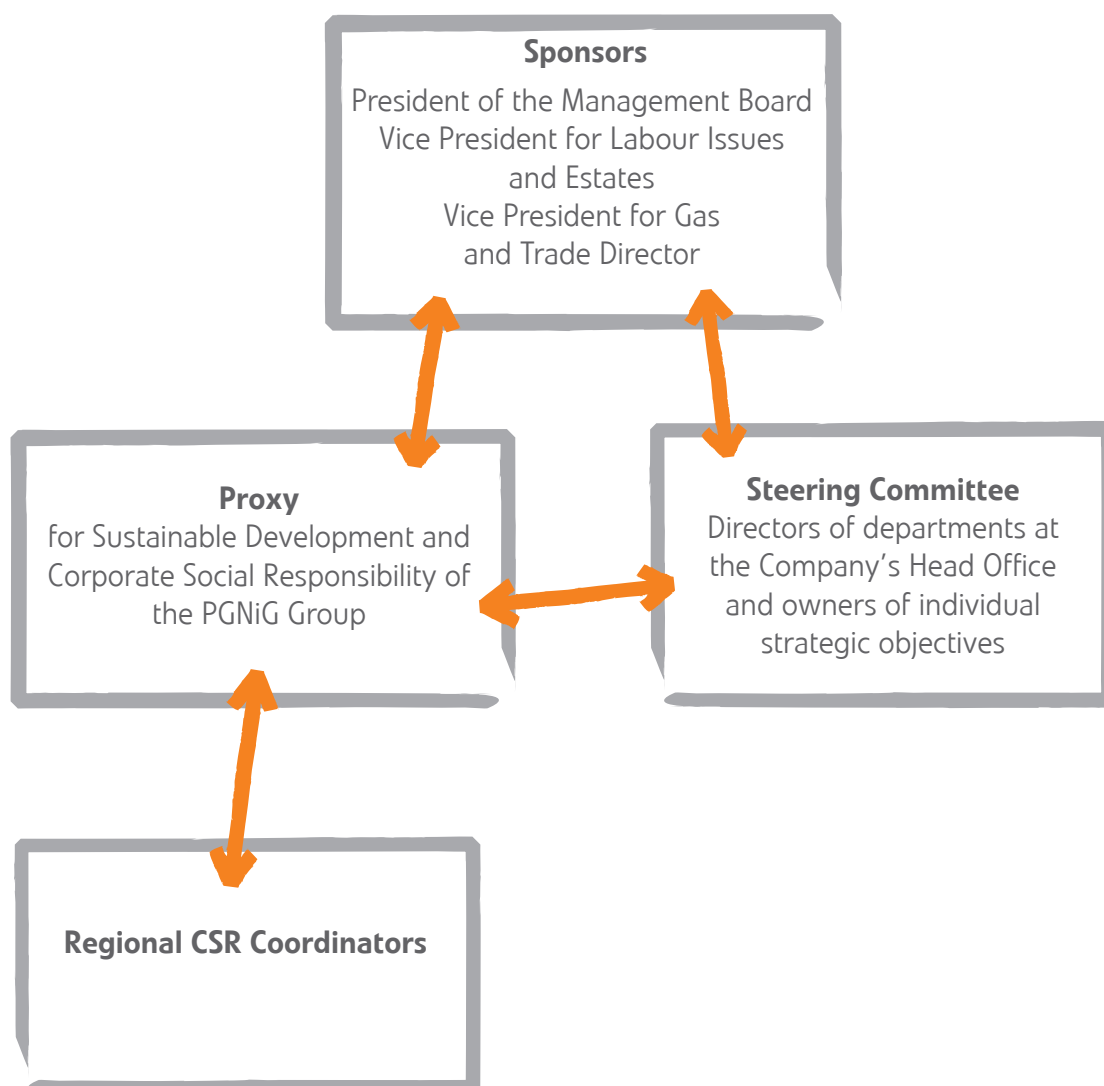
The Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group is complementary to the our business strategy. At the same time it sets strategic directions for the PGNiG Group’s Sustainable Development and Corporate Social Responsibility for 2009-2015.

While approving the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group, the Management Board took decisions concerning future management of the CSR processes. The implementation and execution of the strategy is based on a three-level management structure.

The persons key to managing the implementation of the Sustainable Development Strategy include the President of the Management Board of PGNiG SA, Vice President for Labour Issues and Estates, as well as Vice-President for Gas and Trade Director,

1. approve the direction and scope of activities;
2. express their opinions on and supervise the adaptation of sustainable development and corporate social responsibility activities to the business objectives of the PGNiG Group.

The Steering Committee and Proxy for Sustainable Development and Corporate Social Responsibility at the PGNiG Group provide direct support in the area of organization and expertise relevant to the executed tasks.



## Steering Committee

The Steering Committee is another body responsible for implementing the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group, which involves fulfilment of individual operational objectives and implementation of particular tasks within its competencies / responsibility.

The Committee is comprised of Director of the Strategy Department, Director of the Regulatory Department, Director of the Corporate Service Department (as well as HR Director), Director of Exploration, Director of Trade, Director of Transport, Director of the Investment Department (as well as Director of the Environmental Protection Office), Director of the Social Dialogue and Social Relations Department, Director of the Production and Mining Department, Director of the Procurement, Property and Administration Department, Director of the Marketing and Communication Department (as well as Director of the Communication Office and Spokesperson).

The Steering Committee performs mainly advisory functions in the area of implementation of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group, which include:

1. presenting opinions and providing advisory support in the area of sustainable development and corporate social responsibility and their compatibility with business objectives;
2. cooperation with the Proxy for Sustainable Development and Corporate Social Responsibility of the PGNiG Group.

The Steering Committee performs its tasks on an ongoing basis and cooperates with the Proxy for Sustainable Development and Corporate Social Responsibility of the PGNiG Group. Sessions of the Steering Committee attended by all its members must take place at least once a year.

## Proxy for Sustainable Development and Corporate Social Responsibility of the PGNiG Group

The Proxy for Sustainable Development and Corporate Social Responsibility of the PGNiG Group holds joint responsibility

for the implementation of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group and coordination of the strategy implementation at the Group companies and branches.

This is achieved through:

1. Supervision over implementation of the mission of the Sustainable Development and Corporate Social Responsibility compatible with the PGNiG Group's strategy;
2. Coordination of implementation of the Sustainable Development and Corporate Social Responsibility Strategy at the Group companies and branches;
3. Regular cooperation with the Steering Committee and the Regional CSR Coordinators;
4. Monitoring progress in the implementation of the strategic and operational objectives;
5. Regular progress reports;
6. Annual reviews of the strategy's assumptions and objectives at particular implementation stages;
7. External and internal communication of activities related to sustainable development and corporate social responsibility;
8. Cooperation with CSR units responsible for sustainable development at other organisation on the energy market, the URE, and other bodies of public and state administration.

The Proxy executes his tasks on an ongoing basis, and is supported by a Team composed of:

1. Coordinator in charge of Communication of the Sustainable Development and Corporate Social Responsibility Strategy, responsible for external and internal communication of activities related to sustainable development and corporate social responsibility;
2. Coordinator in charge of Communication of Environmental Issues related to the Sustainable Development and Corporate Social Responsibility Strategy, responsible for coordination of communication in the area of environmental protection within the PGNiG Group, and particularly for the communication with the Environmental Protection Office and relevant units at the Group companies and branches.



Both the Proxy for Sustainable Development and Corporate Social Responsibility and the coordinators form part of the Marketing and Communication Department (within the Corporate Communication Office).

### Coordinators

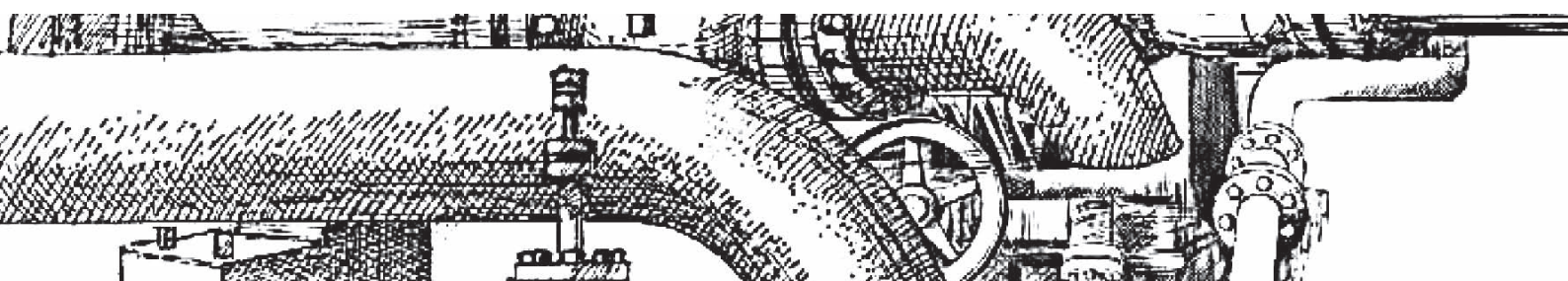
Regional CSR Coordinators hold joint responsibility for implementation of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group in their organisations.

This is achieved through:

1. coordination of activities in the process of implementation of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group and appointment of a team responsible for such activities within the company or branch;
2. cooperation with the Directors/Management Board of their respective organisations and heads of a number of divisions within the organisations during the process of implementation and execution of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group;
3. external and internal communication of activities;
4. reporting progress in the execution of the strategy to the Proxy for Sustainable Development and Corporate Social Responsibility of the PGNiG Group.

The Coordinators perform their tasks on an ongoing basis. In order to increase effectiveness of the activities, the Proxy for Sustainable Development and Corporate Social Responsibility can appoint thematic working teams consisting of Regional CSR Coordinators.

Such a structure seems to be the most effective method of coordination of sustainable development activities across the Group. At the same time, all the Group companies and branches can select such a structure of management of sustainable development which is optimal for a given organisation and takes into account its specific circumstances, such as the headcount. This is very important, as some of the companies have a workforce of fewer than 20 employees and in some of the Group companies and branches the staffing levels reach a few thousand.



# EFFECTIVENESS

Challenges facing the PGNiG Group and results of its activities to date



For the purposes of clarity, this section is divided into six equal parts. Each of these parts corresponds to the six pillars of the Sustainable Development Strategy of the PGNiG Group, which include also communication and marketing although, as far as we understand it, this objective is present in all the other elements, an illustration of which may be the diagram presented on page 53.

Each part is devoted to one strategic objective of the PGNiG Group in the area of sustainable development, challenges and plans related to it as well as our achievements to date.

It is the most extensive section of the Report, but at the same time it provides the high-level overview of all our plans and current developments. Nonetheless, it concerns a few dozens of entities out of which at least ten to twenty, given the scale of their activities, could publish interesting CSR reports on their own.

Our intention was to create the most comprehensive self-portrait of the PGNiG Group in the context of our Sustainable Development and Corporate Social Responsibility. Furthermore, it is the first work of its kind and although it is devoted only to the achievements of 2008, it is an outcome of many years of work.

Future publications will focus exclusively on the progress of the Group companies and branches following the adoption of the strategy.

The following sub-sections present the six pillars of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group:

## 1. Customer Care

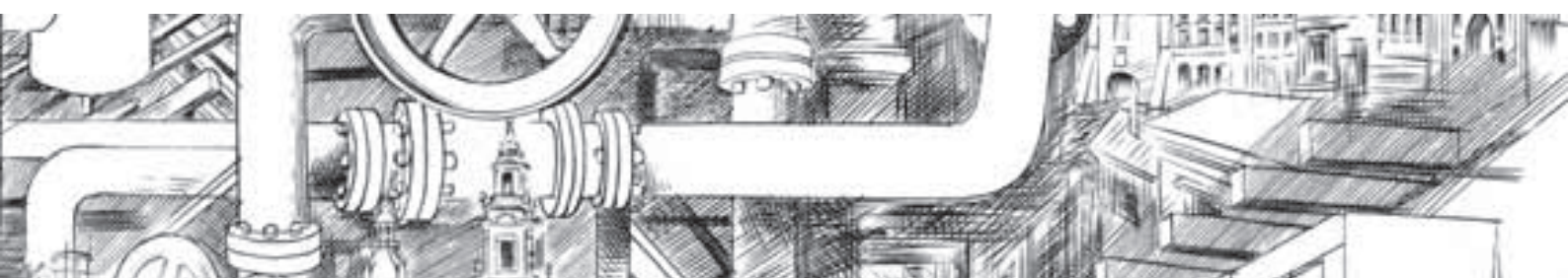
## 2. Development of New Business Areas

## 3. Employees and Safe Working Environment

## 4. Local Community

## 5. Environmental Protection and Environmental Management Systems

## 6. Communication and Marketing



# CREDIBILITY

Customer care



## Challenges

PGNiG SA provides services to approximately 6.6m customers, delivering gas to them as the largest gas supplier in Poland. A vast majority of our customers (99.6%) are retail users. Industrial customers, including nitrogen companies and refining and petrochemical plants, account for a small portion of our customers, but they generate as much as 60% of PGNiG SA's sales revenue.

Furthermore, the majority of the remaining members of the PGNiG Group provide services to industrial customers. The services rendered to these customers include specialist exploration and production services, design and construction of mines as well as training and rescue services. The PGNiG Group includes companies which principally provide intra-group services; however, some of the Group's members are companies which successfully operate in international markets and are capable of being a serious competitor to other operators.

The scale and diversity of activities conducted by the members of the PGNiG Group determine the extent of challenges faced by the Group as a whole. Hence, care about our customers and improvement in customer satisfaction are the main pillars and objectives of the Sustainable Development and Corporate Social Responsibility Strategy followed by the PGNiG Group. We realise there is plenty of room for improvement in customer satisfaction – PGNiG SA delivers gas to more than 6 million retail customers; additionally, other independent distribution and transmission companies participate in the process. Organisational changes in the energy industry necessitated by legal requirements, which involved unbundling of our transmission business from the PGNiG Group and establishment of the independent company GAZ-SYSTEM a few years ago, and, more recently, separation of gas distribution and sale, are frequently unclear to customers and can be a source of confusion and dissatisfaction. Customers have the right to be provided with quick and efficient services regardless of the multitude of parties involved in the process. PGNiG's interdependence on distribution and transmission is also present in other areas. For instance, if PGNiG SA refuses to connect a customer to the gas network, which may happen at times, than what we may or may not offer to the customer instead depends on

our capabilities and the throughput of the pipeline system, which depends on the transmission and distribution potential.

PGNiG SA strives to build lasting and partner-like relations with its customers based on a deep understanding of their needs. To get to know these needs, the Marketing and Communication Department conducts customer satisfaction surveys among its retail clients and key and strategic partners on a regular basis. We are committed to meet their expectations, especially in terms of flexibility and price negotiation capability, which our customers look forward to obtaining from us. We wish to rise to the challenge of increasing awareness and higher expectations of our customers; furthermore, we are dedicated to meeting market standards, including advances in the use of IT systems in service provision.

Implementation of the electronic flow of documents can contribute to timely handling of customer complaints. In addition to PGNiG SA, which is responsible for sales, other participants of the process include transmission and distribution companies. At present, all gas distribution companies are required to resolve complaints filed by customers within statutory dates. However, we realise that our customers frequently expect us to respond more quickly and we intend to shorten the time necessary to effectively handle the complaints.

In the case of gas consumers, we are also committed to comply with the guidelines set by the Energy Regulatory Office. Gas consumers are a highly varied group, not only in terms of business needs but also in many other respects. We are concerned about the needs of customers who have been defined by the URE as vulnerable groups; moreover, we address the expectations and needs of the disabled.

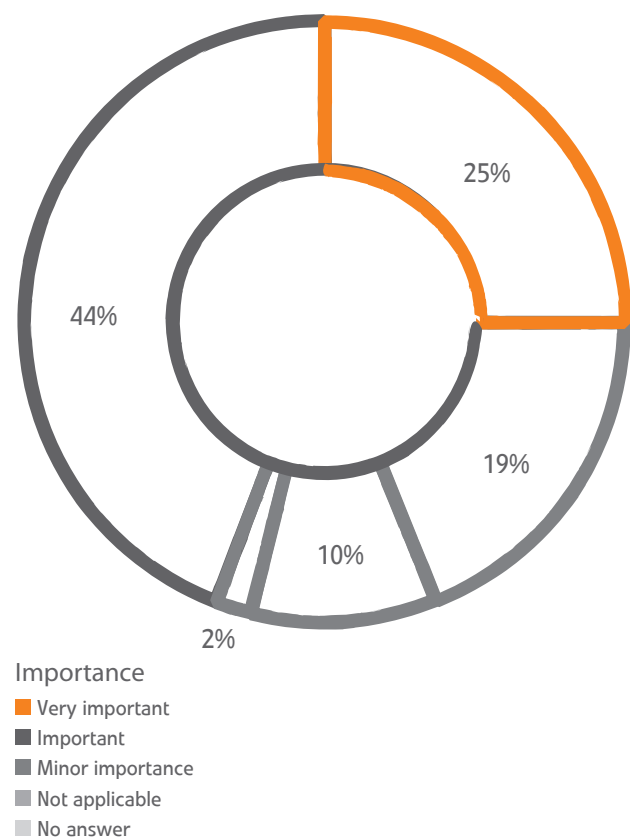
*"Matters related to our customer approach and building trust between the company and its clients and local communities in line with corporate social responsibility principles are among the key matters relevant to the development of the energy industry," says Mariusz Swora, President of the URE. PGNiG SA lives by this message.*

At the same time, PGNiG SA and the other members of the PGNiG Group (including service, drilling and exploration companies) have similar approach to customer care. Worldwide, more than 80% of companies operating in the energy sector formulate and pursue strategies for sustainable development. In view of this fact, the PGNiG Group companies operating both in Poland and internationally are required to address new challenges and seek improvement in this regard.

## Our Accomplishments

Regardless of the product or services offered, customer care and satisfaction already are among the priorities shared by most of the PGNiG Group companies. Almost 70% of the PGNiG Group members put strong emphasis on a dialogue with customers and customer satisfaction surveys, whereas more than 50% of the PGNiG Group's members assert to have already taken measures in this respect.

### Dialogue with Customers, Including Customer Satisfaction Surveys\*



\* Opinions of 49 companies and branches expressed in a survey concerning the implementation of the CSR Strategy.

Gas consumers are the primary focus of our activities due to the nature of this utility and the number of the consumers. We launched a range of initiatives focused on improving the quality of customer service, the most prominent of which include development of a single service standard for retail customers, educational campaigns and customer satisfaction surveys (conducted at numerous Group members, including Geofizyka Kraków, BUG Gazobudowa and the gas distribution companies in Warsaw, Zabrze, Wrocław and Poznań).

The results of customer satisfaction surveys identify areas which need change in order to fully meet the needs of the Group's retail, strategic and key customers alike. One of the recent interview-based surveys among strategic and key customers, which was conducted in July 2009 in Warsaw, Gdańsk, Zabrze, Wrocław, Poznań and Sandomierz, showed that customers were mostly disturbed by insufficient flexibility of PGNiG. This drawback has a major impact on the quality of cooperation and customer satisfaction level. Customers expect changes where they would be able to negotiate gas prices (i.e. discounts for large customers), and have more detailed contractual provisions included in the contracts. Additionally, customers look forward to changes allowing them to tailor the offering to their specific needs (e.g. ability to change capacity, customised solutions). The most satisfying aspects of cooperation with PGNiG named by the customers include reliability of natural gas supplies and individualised customer service.

### We Introduced a Single Retail Customer Service System (OKI)

In 2008, we developed a single retail customer service system (OKI), designed for all the gas distribution companies across Poland. Currently, the final phase of the system's implementation is about to be completed; the implementation has been possible, to a large extent, due to the organisational changes within the PGNiG Group, involving the unbundling of the gas distribution and trading business. As a result, the twenty three gas distribution companies, previously operating as part of six Gas distribution companies, were grouped under the umbrella of PGNiG SA, which is the parent undertaking of the PGNiG Group, based on a functional approach. In the past, the gas distribution companies used various customer service models, but the merger was a stimulus to develop a uniform standard in this respect.

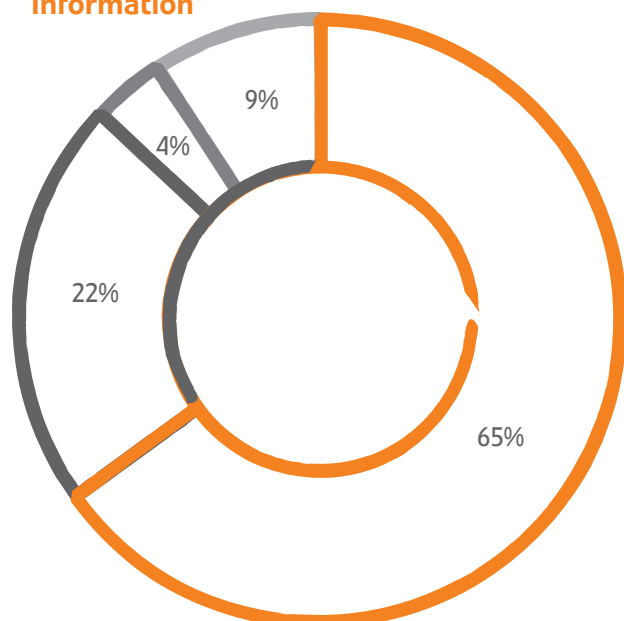
*“The OKI model comprises and regulates modern solutions used for connecting to the gas network, concluding comprehensive gaseous fuel supply contracts, modification of data, settlements and invoicing, handling of customer complaints, contract termination, suspension of gas supplies due to reasons other than debt collection proceedings, resumption of gas supplies and debt collection procedures,”* says Artur Bieliński, Head of the Gas Trading Department of PGNiG SA.

First and foremost, the OKI System is most beneficial to our customers as it supports the application of modern information exchange technologies. Standardised documents used in the customer service process can be downloaded from the Internet. Even now, most customers are capable of filling them in on their own and do not spend time on additional discussions with our consultants.

### We Provide Our Customers with the Right Access to Information

Another matter relevant to the quality of customer service is providing our customers with the right access to information. The right access to information is seen as very important or important by approximately 87% of companies and branches of the PGNiG Group.

### Providing Customers with the Right Access to Information\*



Importance

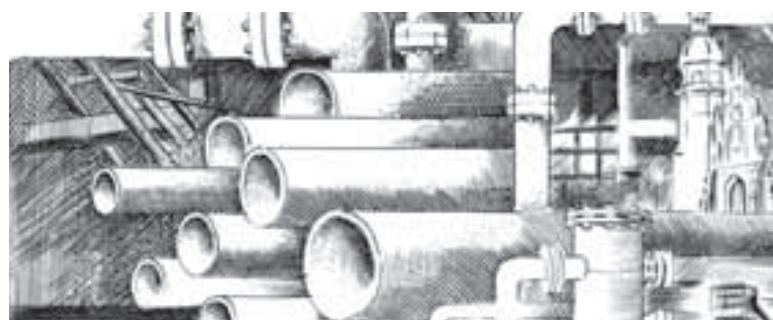
- Very important
- Important
- Minor importance
- Not applicable
- No answer

\* Opinions of 49 companies and branches expressed in a survey concerning the implementation of the CSR Strategy

The legal regulations currently in force do not require or specify the manner for disclosure of information on gas supplied to our customers. However, PGNiG SA publishes data on gas supplies on its website. Furthermore, customers can also obtain full information in this respect on request. This information is published in monthly communiqués on gas quality, which include data on gas calorific value, which is the key useful parameter of gaseous fuel.

Furthermore, upon the initiative of the Dolnośląska Gas Trading Division and the Mazovian Gas Trading Division, customers served by these entities regularly receive documents confirming the quality of gas supplied. Gas samples are taken by well-trained staff at least once every ten days. Furthermore, Gas distribution companies review the gas quality on an on-going basis.

Customers can also forward their queries to Customer Service Centres. Generally, customers are interested in the quality of gas supplied to their homes. In addition to the traditional forms of contact (other than our website), we continue to open new Customer Service Centres, which currently number more than 330. In 2008, several new Customer Service Centres were opened across Poland.

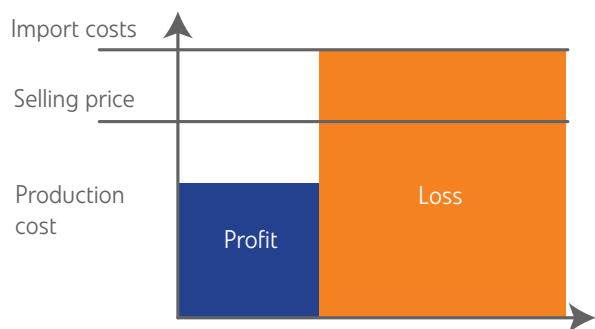


## Number of Customer Service Centres within the Reach of Individual Gas Distribution Companies

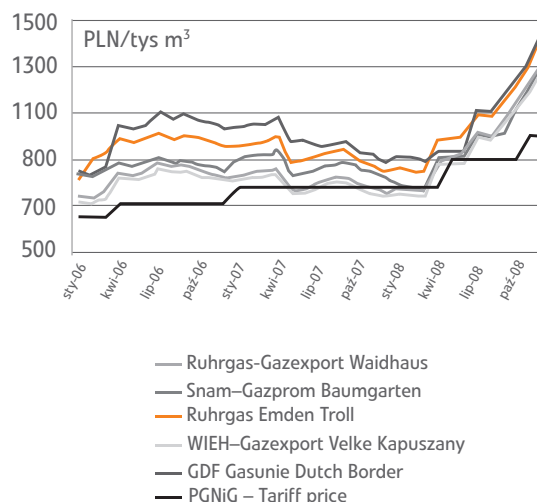




## Tariff Model Used in Poland



## Monthly Average Prices of Gas Under the European Contracts and the PGNiG Tariff in 2006–2008



- PGNiG wholesale tariff is regulated;
- Regulated wholesale price is determined as the weighted average cost of imported gas and the cost of domestic production;
- Under the Polish law, it is permitted to apply for a revision of tariff rates if the gaseous fuel price changes by 5% in relation to the price set for calculation in the tariff.

## We Are Open about the Components of the Gas Price

*“Our customers become increasingly familiar with our pricing policies. It is important for PGNiG to make sure that they understand the rationale behind our pricing rules. We are concerned about transparency in this respect,”* says Andrzej Janiszewski, Head of the Regulation Department of PGNiG SA.

It is particularly important as Poland uses regulatory mechanisms with respect to gas prices. Wholesale price is determined as the average weighted of the cost of imported gas and the cost of gas from domestic production.

The currently used model for gas price regulation assumes that PGNiG’s gas import activities are subsidised by the production business. As a result, most of profits generated by production activities are used to cover the losses sustained on gas imports.

Thus, accepting lower profits on operating activities, PGNiG sells gas to its customers at the cost below import costs, offering gas at the lowest possible price, which is significantly less than the prices used in other EU countries.

## We Are Concerned about Vulnerable Customers

Currently, about one-third of PGNiG gas distribution companies declare that they take action to protect vulnerable customers. At the same time, 82% of respondents admit that these initiatives are important or very important to them. The most frequently-mentioned customer protection measures include spreading payments into instalments, remission of statutory interest in particularly justified cases, or cancellation of interest.



The Polish laws and regulations do not contain a straightforward definition of vulnerable customers, which prevents PGNiG from implementing uniform standards in this area.

In the retail segment, PGNiG frequently deals with customers who do not pay their bills on time. Debt collection procedures applied by the PGNiG Group clearly specify how past due receivables should be collected in such cases. Before gas supplies are actually suspended, there are many forms of aid available to customers to help them make payments in a timely manner, such as setting additional payment dates or spreading payments into instalments.

Additionally, social welfare institutions, including municipal and communal social welfare centres, regularly provide financial support to financially-challenged customers and pay bills for them. It should be noted that aid is provided to customers outside of PGNiG SA's scope of services, on the basis of agreement between the relevant social welfare institution and a customer. Still, the Company strives to provide the needy customers with full information on how to obtain financial support of this type.

## We Compete to Deliver High Standards and Quality

Members of the PGNiG Group participate in the entire process of natural gas and crude oil production, starting from geophysical surveys, which precede the exploration phase, to drilling, deposit extraction, product preparation and sale.

Our strength consists in highly specialised staff using the most state-of-the-art equipment, which makes the Group companies recognised and highly regarded worldwide. Long-standing experience gives them background to effectively carry out projects in climatically and geologically diverse regions of the world and also in culturally distinct areas.

Our efforts in this respect have not gone unnoticed – the members of the PGNiG Group operating in Poland and internationally have been awarded many prizes and honours on their business achievements.





## Best Practices

### KRAKÓW GAS PLANT KARPACKA GAS TRADING DIVISION

The Kraków Gas Plant launched cooperation with Vaillant, a manufacturer of gas heaters, with a view to training the Customer Service Centre staff in the area of heating technology, focusing on gas heating systems. The training was carried out in two groups and the total number of participants was approximately 30–40.

### WIELKOPOLSKA SPÓŁKA GAZOWNICTWA

The main responsibility of distribution system operators is to ensure continuous and safe supply of gaseous fuel to customers. Fulfilment of this commitment is our key priority as any interruption of gas supplies may result in substantial losses, such as disruption of technological processes, damage to equipment, and in the case of households it can cause major inconveniences, especially during the heating season. That is why whenever a distribution system failure occurs, the maintenance personnel of Wielkopolska Spółka Gazownictwa make necessary repairs immediately. In such an event the customers are notified of the situation by various channels. Distribution system failures are extremely rare and most often affect only small groups of customers.

The operations which was far more complicated and troublesome to customers was the switching of the network and gas equipment in Poznań and several counties in the Province of Poznań from nitrogen-rich gas to high-methane gas, which was carried out in 2008–2009. In 2008, the equipment of more than 120,000 customers had to be adapted to the new type of gas and in 2009 equipment modifications had to be done for more than 140,000 customers (each year within four months, from mid-May to mid-September). Between the date on which the new type of gas was introduced to a given gas sector and the time when gas equipment was switched by the service staff the gas was not supplied to the customers. This transition period lasted from one day to three weeks. The company was aware that this would make customers highly dissatisfied,



especially those using water heaters. In order to minimise the inconvenience, the company made thorough preparations before it proceeded with the project.

#### 1. Information Campaign

The company notified the customers of the operation well in advance, explaining its reasons, purpose and advantages as well as providing information on the manner of its implementation, timing, obligations of the customers, etc. To this end, the company sent special notifications, launched a dedicated website, placed announcements in newspapers, radio and television, displayed posters and made audio announcements from the emergency service vehicle in the area of the planned switching. As soon as work commenced, the company and three contractors responsible for the modification of gas equipment opened dedicated hotlines.

2. In order to ensure a relatively quick completion of the work related to the replacement of the gas equipment, the company employed 900 people as service staff.

3. A separate plan of action was established for customers from tariff groups 5 and higher (industrial customers). In their case, work was conducted in such a manner so as to ensure that interruption in production processes would not last more than several hours. With respect to other customers, including hospitals, kindergartens, nurseries, bakeries and catering businesses, the company prepared a list specifying which of these organisations were to be switched to the new type of gas in the first place. The company also made an effort to ensure that gas equipment was

replaced in the shortest possible time at vulnerable households, e.g. with bed-ridden persons or infants.

4. In addition, if a customer used a unit (cooker, water heater) whose design did not allow it to be fed with high-methane gas, such customer received a new unit free of charge.

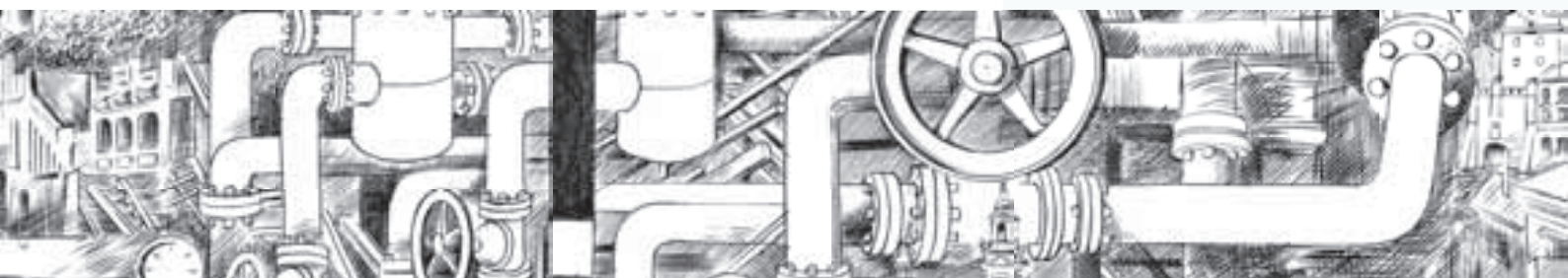
Thanks to the steps taken, the project, which was logistically challenging and troublesome to customers, was implemented efficiently and without complications.

### **GEOFIZYKA KRAKÓW, BUG GAZOBUDOWA, INVESTGAS**

The companies carry out surveys on customer satisfaction, which are performed in cooperation with customers (investors) once their projects are completed. The survey is carried out in the form of questionnaires or interviews, which help continuously monitor the quality of services provided as well as customer satisfaction with various aspects of cooperation during particular phases of the project execution.

The satisfaction surveys have been carried out since 2001, when the integrated management system was implemented. One effect of the surveys was the transition to a project-based work system and commencement of the implementation of a project management system at Geofizyka Kraków. The satisfaction surveys are described in accordance with the procedure specified under the ISO-9001-compliant Integrated Management System.





## Plans for the Future

In order to maintain the existing customers and acquire new ones, the Company is planning a number of initiatives mainly aimed at improving the quality of customer service. We will focus on two areas: services for retail customers, who constitute the main group of PGNiG SA's customers, and services for industrial customers, which to some extent are provided by PGNiG SA but predominantly it is the responsibility of other companies in the Group.

PGNiG SA would like to see the gas business to be regulated by general market mechanisms, where volume discounts would apply. We intend to adjust our offering so that it meets customers' individual needs more than before (ability to change capacity, implementation of non-standard solutions or introduction of discounts, in particular for key accounts).

One of the initiatives addressed to retail customer is the launch of an effective user-friendly self-service platform. We also intend to open a nationwide hotline and an on-line helpdesk. With the disabled in mind, before the end of 2009 the Company expects to launch a specially designed website allowing people with visual impairment to benefit from this means of communication. Another initiative is aimed at improving the comfort of customer service at Customer Service Centres. We are reviewing the process of staff recruitment in order to ensure that employees at Customer Service Centres are particularly friendly to our customers. The Company also intends to expand the staff training programme aimed at improving the quality of customer service.

Furthermore, the PGNiG Group plans to focus more on educational activities in the area of use of gas and efficient utilisation of energy. New programmes will also be developed for vulnerable customers. The Company wants to minimise the number of disconnections, which are necessary in the

case of some customers who default on their bills. Unfortunately, this unpleasant procedure cannot be avoided as no company can finance certain customer groups at the expense of others.

In accordance with the business strategy for 2009–2015, in order to acquire new customers the Company expects to densify its distribution network and connect to the gas network new communes and municipalities which have not previously had access to gaseous fuel. We intend to apply for EU funds to partially finance the network extension. We hope that the launch of the LNG terminal in Świnoujście, which is currently being constructed by GAZ-SYSTEM, will stabilise gas supplies in North-Western Poland.

Having in mind the good of its retail and industrial customers, the Group's objective will be to reduce the costs of project execution, focus technology upgrades, improve management efficiency and enhance the quality management systems.

Business Awards

Value Chain Element	Company	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Exploration and Production	PGNiG SA Odolanów Branch	Award for the Best Employer	Odolanów Local Government Committee	Support for the initiatives of the local government and social organizations
		"Złota Honorowa Odznaka"	Committee of the National Board of the Polish Union of Associations of Inventors and Innovators	Popularization of innovative support for young people
		"Złoty Talent Wyrwałości"	The Catholic Action in Odolanów	Reliable performance, generosity and social sensitivity
	PGNiG SA Zielona Góra Branch	Regional Quality Award of the Lubusz Province	Committee of the Quality Award of the Lubusz Province	Observance of the basic principles of perfect total quality management
	Geofizyka Kraków	"Gazela Biznesu 2008"	Puls Biznesu (Daily)	Strong development
	Geofizyka Toruń	"Złota Karetka"	Nowości (Daily)	For the entrepreneurial spirit and contribution to the city's and the region's development
	PNiG Jasło	"Gazela Biznesu 2008"	Puls Biznesu (Daily)	Achievement and demonstration of good financial results, strong development, reliability and success in combating unemployment
		Leader in the Rzeszów Province 2009	Chamber of Commerce and Industry in Rzeszów	Best financial results stimulating economic development of the Rzeszów Province
	PNiG Kraków	"Euro Leader"	Rynki Zagraniczne (Weekly)	EU companies with admiration for the individual image of modern and reliable business
		"Euro Marka"	Centrum Promocji Jakości (Centre for Promotion of Quality)	Natural gas and crude oil exploration and production drilling
		"Gazela Biznesu"	Puls Biznesu (Daily)	Strong development
		"Laur Eksportera"	Rynki Zagraniczne (Weekly) and Polish Chamber of Commerce	Maintaining strong exports in recent years, entering new markets and vital contribution to development of Poland's foreign trade
		"Lider Rynku"	Interres International Fair sp. z o.o.	Natural gas and crude oil exploration and production drilling

Business Awards

Value Chain Element	Company	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Exploration and Production	PNiG Kraków	"Liderzy Eksportu"	Amadeus Art.	Capital expenditure abroad
		"Liderzy Marki"	Amadeus Art.	Brand innovativeness
		"Marka Polska"	Polish Chamber of Commerce and the Ministry of Economy	PNiG Kraków has all the necessary attributes of a house brand and the reputation it enjoys in Poland justifies its participation the Brands Academy
		"Merkur"	IG	Market Personality
		Employer – Organizer of Safe Work	National Labour Inspectorate	In the group of large plants in the Kraków Province
		Distinguished Polish Exporter	Polish Chamber of Commerce and Rynki Zagraniczne (Weekly)	High standard of export drilling services
	PNiG NAFTA	"Gazeta Biznesu"	Editors of Puls Biznesu (Daily)	Strong development in Poland
	PN „Diament"	4th place in the ranking of the Lubusz Province companies employing over 50 staff	Committee (Marshal of the Lubusz Province, Governor of the Lubusz Province, President of "Lubpress" Publishing House)	High quality of performed works, innovativeness, social security of employees, environmental protection
		Award for sport supporting activities, Cooperation with the Crisis Management Centre	City Office	Significant organizational and financial support for local sports organizations
	ZRG Krosno	Certificate of the Chamber of Commerce and Industry in Tarnów	Chamber of Commerce and Industry in Tarnów	Implementation of the environment management system

## Business Awards

Value Chain Element	Company	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Trade	Górnośląski Oddział Obrotu Gazem Gazownia Zabrzeńska	"Korona Europejska 2008"	Committee of the Media Program "Poland in Europe – Europe in Poland" at the Studio and Program Centre of Press, Radio and TV	High standards of customer relations conforming with the EU requirements
	Karpacki Oddział Obrotu Gazem Gazownia Krakowska	Diploma and Statuette for the gas plant	Chamber of Commerce and Industry in Tarnów	Developing the entrepreneurial spirit and ability to avoid redundancies
		Key Customer Jubilee Certificate 2008	Poczta Polska (Polish public post service) Post office centre Regional Branch in Kraków	Key Customer 2008
	Karpacki Oddział Obrotu Gazem Gazownia Rzeszowska	"Srebrny Klient"	Poczta Polska (Polish public post service)	Silver Customer 2008
	Wielkopolski Oddział Obrotu Gazem Gazownia Kaliska	KALBUD 2008 Medal	Council of the Polish NOT Federation of Engineering Associations in Kalisz	Most interesting design of the stand
Distribution	Wielkopolska Spółka Gazownictwa	„The Best in Poland” Emblem certificate and the Hipolit statuette	Hipolit Cegielski Society	High level of gas supply security
	Dolnośląska Spółka Gazownictwa	Lower Silesian Economic Certificate for Large Enterprises	Wrocław Province Office	The Lower Silesian Economic Certificate (LSEC) is a regional certificate of economic reliability and quality granted to entrepreneurs and products by the Katowice Province Office. The purpose of LSEC is to distinguish reliable Lower Silesian businesses and products significantly contributing to the region's development. The following criteria apply: participation in creating the labour market, quality of products and services, innovativeness and technological advancement. In its activities, the LSEC Committee concentrates on emphasizing the unique character of Lower Silesian economy as well as the regional possibilities of supporting the development of innovativeness and the spirit of enterprise for the sake of Lower Silesia economic growth. The springboard for the idea of LSEC were well-known international economic awards such as the Japanese Deming Prize, the American Malcolm Baldrige Award or the European Quality Award. LSEC goes in line with the process of striving for regional integration, economic growth and labour market development



Business Awards

Value Chain Element	Company	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Distribution	Górnośląska Spółka Gazownictwa	"Złote Kowadło Braci Śniadeckich"	Committee of the Media Program "Poland in Europe – Europe in Poland" at the Studio and Program Centre of Press, Radio and TV	Successful completion of a difficult restructuring process unbundling the trading assets from the distribution business; achievements in expanding, maintaining and managing the gas network in Silesia and Opole Province
		"Śląski Oskar"	Goniec Górnośląski (Weekly)	Good example of combining tradition with innovation, development of new technologies based on the use of clean fuel (gas), consistently pursued quality policy appreciated by customers who set store by guaranteed supply and security of the energy source
	Karpacka Spółka Gazownictwa	"Filar Polskiej Gospodarki"	Puls Biznesu (Daily)	The company's importance in the region is due to the transparency of its activities along with social sensitivity, fairness and outstanding financial performance
	Pomorska Spółka Gazownictwa	Award granted by the Marshal of the Gdańsk Province in the 12th edition of the Pomeranian Quality Award Competition	Pomeranian Council of the Polish NOT Federation of Engineering Associations in Gdańsk	Achievements in promoting the principles of ethical and fair conduct as well as modern management concepts; involvement in and contribution to the Gdańsk region development
Others	BSiPG GAZOPROJEKT	White List – Bronze Certificate of credibility and reliability	Chamber of Commerce in Wrocław	Fulfilment of conditions for participation (reliable and timely payment of liabilities to the Social Insurance Institution and the Tax Office). The award is a result of GAZOPROJEKT's two-year continuous participation in the programme and positive outcome of the verification process
		Gold Certificate LSEC	Committee of Lower Silesian Economic Certificate presided over by the Marshal of the Province	Fulfilment of conditions for participation (financial results, payment of liabilities, creating labour market, innovativeness). GAZOPROJEKT was granted this title for the third time in a row and as a result it received the Gold Certificate
	ZUN Naftomet	Subcarpathian Economic Award – nomination to the award in the category of EXPORTER	Business Promotion Centre	Dynamic growth in the area of export

# FUTURE

Development of new business areas



## Challenges

The PGNiG Group offers special attention to projects which help build company value in the long term.

A core element of our business strategy is to explore new directions and identify new sources of gas supplies. In 2008, PGNiG allocated PLN 815m to the implementation of strategic projects involving the expansion of production capacities and diversification of gas supply sources. Development of gas deposits and increasing the volume of gas produced domestically is our top priority, although simultaneously we look for new business opportunities outside Poland. Since 2007, PGNiG has had access to gas and oil reserves on the Norwegian Continental Shelf (NCS), and towards 2009 the Company started efforts to secure further exploration licenses in the area. Furthermore, in 2007 we gained access to the Bahariya deposits in Egypt, and a year later we increased our interest in the exploration and production license in Denmark. In June 2009, the Company signed an LNG supplies contract with Qatargas, with first deliveries to Świnoujście scheduled for 2014.

The projects likely to shape our future development include the expansion of underground storage facilities. The implementation of the projects will ensure that seasonal or extraordinary increases in demand are covered, the energy security is enhanced and the continuity of gas supply to customers is improved.

PGNiG attaches great importance to undertakings which provide for innovative applications of natural gas. The Company promotes new solutions and technologies, for instance those that allow for using natural gas in air-conditioning systems and will enable to heat or cool premises at costs competitive with other forms of energy. PGNiG is the only company in Poland to own a network of CNG filling stations (CNG, or compressed natural gas, is used as motor fuel), with 29 stations in operation towards the end of 2008.

While developing the Group's existing segments of operations, the Company explores new business opportunities. Global trends in the power industry demonstrate an inclination towards building multi-energy companies. This follows from higher expectations and changing needs of customers

and markets as well as growing importance of environmentally friendly sources of energy.

In formulating its business and sustainable development strategies, the PGNiG Group has to face the challenge and ensure compliance of production and distribution of electricity (chiefly based on natural gas but also renewable sources of energy) with the principles of sustainable growth.

A distinctive feature of the Polish power sector, which offers a major growth opportunity for PGNiG SA, is a need to close down the ubiquitous coal-fired plants which more often than not fail to meet the environmental requirements. PGNiG is set to exploit the opportunity and replace the plants' capacities with a more environmentally friendly technology based on natural gas. Moreover, natural gas can be a convenient fuel in cogeneration of heat and power.

*"We have already commenced work on expanding our operations with power-related activities, as outlined in the PGNiG Group's strategy until 2015. It is of utmost importance to us that from the very beginning this new business segment is built with due care paid to the principles of corporate social responsibility",* says Marcin Lewenstein, Head of New Project Office at PGNiG SA.

## Our Accomplishments

### Process of Building a Multi-Energy Company Under Way

*"For the last decade, the PGNiG Group has been making attempts to enter the power industry. The conditions prevailing today favour the expansion. Following the adoption of the EU energy and climate package and the IPPC1 directive on pollution prevention, natural gas has become an attractive competitor against other sources of energy. Consequently, the idea of creating a multi-energy company which makes use of renewable energy sources and new technologies in addition to natural gas has never been closer to reality",* says Tomasz Karaś, Head of the Strategy Department at PGNiG SA.

The Management Board of PGNiG SA has made certain additions to the Group's organisational structure to facilitate the implementation of the plans outlined above. New Project

Office and Power Project Division have been set up within the Strategy Department at the Company's Head Office. The new units are taking actions aimed at creating a company dedicated to implementing power-related projects. When established, the company will take over PGNiG's power assets and will be responsible for delivering small- and medium-size projects in the power sector. Such a solution, where specific tasks are carried out by a special purpose vehicle, will ensure that the projects are given high priority.

Around ten projects are ready to be reviewed and implemented by the dedicated company. Among other things, they involve the construction of a CHP plant near the LNG terminal and the construction of a peaker plant near the Kosakowo gas storage facility (currently being developed in the vicinity of the Gdańsk-Gdynia-Sopot agglomeration) to efficiently handle the power load on the grid at the time of peak demand for electricity.

### **In-House Research Laboratory**

Exploring new business areas is strongly dependent on the development of research capabilities.

For 15 years now, PGNiG SA has owned an in-house research unit, the Central Research and Testing Laboratory (the Laboratory). Since its inception, the Laboratory's responsibility has been to oversee a number of gas delivery settlement processes.

Today, the Laboratory is commissioned by large market players to estimate the volume of carbon emissions from natural gas combustion. In Autumn of 2008, the Central Research and Testing Laboratory, operating as a branch of PGNiG SA, was awarded accreditation to test and evaluate the quality of equipment used to estimate the carbon footprint. Based on the readings obtained from the equipment, the CO<sub>2</sub> emissions factor can be established. Annual carbon emissions are calculated by multiplying the factor by the volume of fuel used. The Laboratory is the only laboratory in Poland to have the accreditation. Currently, the services are sought to be extended to include other emitters of CO<sub>2</sub> resulting from natural gas combustion but also of greenhouse gases caused by biogas, and solid and liquid fuels.

*"The accreditation certificate has a great social value as well. It was the Kyoto Protocol that placed an obligation on its signatories to estimate the effects of and reduce carbon emissions. The accreditation has given Poland a powerful instrument to calculate the emissions factor in accordance with the teachings of the art. Until now, such instruments were in short supply, and PGNiG's Central Research and Testing Laboratory was able to fill the gap",* says Grzegorz Rosłonek, Head of the Laboratory.

The Laboratory's key responsibility is to maintain reference standards for devices and measuring units used in the natural gas industry. Moreover, the Laboratory oversees



metering systems by conducting periodic inspections on request of the parties to gas supply contracts, as well as in emergencies or dispute settlement. It launches research and implementation projects involving in particular new techniques and technologies for the natural gas industry (for instance, those designed to assess the quality of gas).

The Central Research and Testing Laboratory is PGNiG's flagship division also thanks to its openness to the public and a warmly welcome offered to all those interested in science: residents of Warsaw, schoolchildren and students. It runs internship programmes for university and college students. For a year now, undergraduates of the University of Warsaw and Cardinal Stefan Wyszyński University are allowed to do research for their BA and MA theses at the Laboratory, thus becoming familiar with all aspects of the natural gas industry.

Other PGNiG Group members which have their own R&D include:

- PGNiG Zielona Góra Branch
- Karpacka Spółka Gazownictwa Sp. z o.o.
- Poszukiwania Nafty i Gazu Jasło Sp. z o.o.
- Zakład Urządzeń Naftowych Naftomet Sp. z o.o.

The R&D arms of the abovementioned companies and branches cover a great variety of areas: beginning with those directly related to the Company's business, for instance gas quality testing (Karpacka Spółka Gazownictwa of Tarnów), through research aimed at reducing the environmental impact (PniG Jasło Sp. z o.o. and the Zielona Góra Branch of PGNiG SA), to tests and research whose findings contribute to formulating new technical standards and regulations for the gas market (Karpacka Spółka Gazownictwa of Tarnów). To note, Pomorska Spółka Gazownictwa intends to enter the territory as well, and has taken initial steps to prepare an ordered plan for developing its own R&D capacity. A dedicated Task Team has been put together to coordinate research tasks and prioritise them in line with the Company's strategy.

### Support of Industry Growth

The PGNiG Group's activity is not limited to exploration of new business areas. Our experts are highly motivated to share their expertise at a wide variety of public events, such as conferences, panel discussions, etc. For more information, see Communication and Marketing.

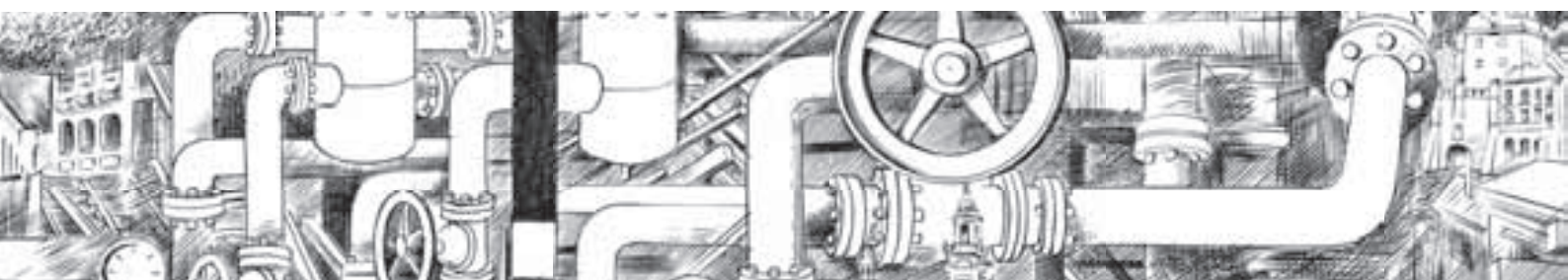
The Group companies maintain cooperation with scientific and research institutions across the country. Almost 38% of the companies and branches have forged partnerships with selected research centres from all over Poland. Particular importance to such partnerships is attached by the exploration and production companies (67%).

Among the host of research centres which launched cooperation with the PGNiG Group there is University of Science and Technology of Kraków (Akademia Górniczo-Hutnicza), Silesian University of Technology (Politechnika Śląska), Polish Committee for Standardisation (Polski Komitet Normalizacyjny), Oil and Gas Institute (Instytut Nafty i Gazu), Poznań University of Technology (Politechnika Poznańska) and Motor Transport Institute (Instytut Transportu Samochodowego).

It is worth noting that Pomorska Spółka Gazownictwa has become involved in the European BIOGASMAX Project promoting the use of biogas and natural gas in transport, and the Baltic Ecoenergy Cluster consortium which implements EU-funded renewable energy projects in the north of Poland.

Furthermore, the Group companies are vitally interested in the development of CNG filling stations network, drilling mud management, soil and water research and analysis, waste management, environmental monitoring and materials science.





## Plans for the Future

PGNiG SA is chiefly focused on the development of small co-generation heat and electricity sources (2-10 MW; the capacity of larger power plants, in comparison, is approximately 800 MW). Smaller plants may be located in close proximity to their customers, which is highly advantageous as it reduces the transmission costs and minimizes landscape changes. The Group is planning to participate in such projects not only as a gas supplier, but also as an equity investor (either as an independent investor, or as part of joint ventures with the existing operators).

However, the Group has no intention to give up the construction of larger co-generation sources, which would provide electricity and gas supplies to large industrial customers. Therefore, we are planning to construct a gas and steam unit in Stalowa Wola (jointly with Tauron), as well as a CHP plant, which will supply heat to the LOTOS refinery.

*"In Poland, electricity and heat are often sourced from old coal-fired boiler houses. They are not as efficient as the ones fired with gas, as gas provides more energy than coal. Nature endowed us with many resources and we should use them responsibly; turning to gas would allow us to do that,"* says Marcin Lewenstein, New Project Office Director.

### Biogas

PGNiG SA also plans to commence activities in the sector of renewable energy sources (RES). The biogas ventures we have undertaken are not very common in Poland and therefore offer a great potential. A biogas plant can process (through fermentation) such substrates as biofuel feedstock cultivation, livestock waste, distillery waste, or methane from dumping sites. The produced fuel is consumed at small cogeneration units (0.5-2 MW).

Purchase and construction of a biogas plant is our main objective in the area of developing renewable energy sources. The plant will provide heat to local customers and sell green energy.

### CCS Technology

New areas of our business, introduced as part of the sustainable development strategy, involve the CO<sub>2</sub> capture and storage technology, which enables underground storage of carbon dioxide, in places which were previously filled with gas. Developing environmentally-friendly solutions, such as the CCS technology, is one of our business objectives and forms an element of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group.

### Potential of the PGNiG Group

Independent rankings have shown that PGNiG SA is a company with great potential. The Group ranked 926 in 2009 (compared to 1170 in 2008) in the Global 2000 ranking, which is a Forbes ranking of the world top listed companies.

We have been recognized a reputable brand in the energy sector and have been assigned the "Premium Brand" status in 2009. PGNiG Group also ranked six in the ranking of Poland's one hundred most valuable companies published by A.T. Kearney and Newsweek Polska. This ranking was prepared based on revenues and earnings data, and also took into account the companies' reputation among Polish customers. We were also the winner of the 2008 edition of the "Pillars of Polish Economy" competition organised by Puls Biznesu and Coface Intercredit Poland, a business intelligence agency.

As sustainable development is considered to be of crucial importance, we became a member of the Global Compact, a programme promoting corporate social responsibility, and in March 2009 we joined the Responsible Business Forum.

For more information on the prizes and awards received by the Company for its business activity see sub-section 8.1 Customer Care.



# ACCOUNTABILITY

Employees and safe working environment





## Challenges

PGNiG SA is one of the largest employers in Poland. The Group companies employ over 30 thousand personnel, of which 99.08% employees work full-time. Of this, 97.74% of personnel work under employment contracts, and 2.14% – under commissioned work contracts.

<i>Employment by segments</i>	2008	2007
<i>Exploration and Production</i>	10,725	10,151
<i>Trade and Storage, including:</i>	4,088	4,104
<i>Companies consolidated with the equity method*</i>	295	294
<i>Distribution</i>	13,746	13,538
<i>Other**</i>	2,881	2,532
<i>Total</i>	31,440	30,325

\* Headcount data for the companies consolidated with the equity method are presented under Trade and Storage.

\*\* PGNiG SA Head Office provides services to all other segments; accordingly, its headcount is presented under Other, rather than under any particular item.

### People

The number of employees at the Group equals the population of a mid-size town. This fact alone, as well as the variety of specialisations and professions of the personnel employed at the Group, from geologists, drillers, and seismologists to economists, negotiators, account managers and salespeople, and the number of entities in the Group best illustrate the enormity of challenges in this area. Given that the PGNiG Group has a unique position in the Polish market, resulting from the fact that some of the services it offers are not provided by any other company in Poland, the experience and expertise of our employees are indeed one of the most important assets of the organisation. For us, this is more than just a catchy phrase.

### Workplace

Our subsidiaries boast a long and rich tradition resulting in a particular corporate culture, often different from the models adopted by the major company of the Group – PGNiG SA and other Group members. Each of the companies strives to provide its employees with opportunities for development and with safe working conditions. Our ambition goes beyond that – we want to develop consistent models and values which would unite the employees of the PGNiG Group, and build common foundations for our operations.

We want to employ the best practices and draw from experience of the companies involved in the PGNiG Group's value chain. In this area, our long term goal is to build an organisation which learns and develops in accordance with the principles of sustainable development, and one which gives satisfaction to its employees and meets the expectations of the market.

## Our Accomplishments

### We Consult Our Employees on Matters of Key Importance

We employ highly-qualified staff specialising in different areas of expertise, such as natural gas exploration, production, storage, distribution and sales. Our people enable us to offer quality service to a million households and a variety of businesses and entrepreneurs both in Poland and abroad.

There are 109 trade union organisations active at the PGNiG Group. Each member of the Group has appointed one person responsible for employees' affairs and relations with trade unions. The companies consult each key decision with employee organisations. This interaction is especially important for us, but on many particular occasions it may protract the decision making process. This issue has been identified by the trade unions active at PGNiG SA and at the Group. In 2008 and 2009, they took steps aiming at establishing a platform of cooperation common for all trade unions. The platform's objectives included coordination of activities taken by trade unions in respect of employers in the oil and gas industry. The number and variety of trade unions stopped the initiative from being implemented with full success. Accordingly, the social dialogue with the

employer has remained complicated which, however, does not directly affect the employer's operations and efficiency. Let us hope the difficulties are temporary and will soon be overcome.

*"The relationships between the employer and the trade unions are very good. Apart from certain minor exceptions, we are engaged in a constructive dialogue, which is beneficial for both the company and its employees,"* says Joanna Sztajer, Head of Social Dialogue and Social Relations Department at PGNiG SA.

Communication with employees and consulting key decisions with them is additionally facilitated by the on-going cooperation with the Employee Councils which have been established at PGNiG SA and many other members of the Group.

As regards the timeframes for consulting decisions, the following terms apply under the agreement with trade union organisations (which represent the trade unions active within the Group): 30 days for a response to a written communication, 30 days for circulation of a document which requires agreement on certain matters, and 14 days for issuing an opinion. Consultations with ZZ PGNiG SA (one of the trade unions at PGNiG SA) require, respectively, 30 and 10 days. The employer should provide the Employees Council with requested information within 14 days. The Council should issue its opinions within 14 days from the day of receiving the relevant information. Under the law, the employer should provide the Council with information on such date and to such extent as to enable the Council to familiarise itself with the matter and prepare for consultations.

### **We Are Developing a Transparent Recruitment Policy**

For a large organisation operating over a sizeable area, such as the PGNiG Group, the ability to recruit staff internally is crucial. This is also very important for employees wishing to further their careers at the Company or within the Group, and for the Company because it does not lose competent personnel. Accordingly, we are particularly interested in recruiting staff internally.

*"When searching for new employees for any position, we always start with internal recruitment. This rule applies at PGNiG SA. In addition, an employee moving within the*

*Company does not lose any benefits related to his or her length of service with us,"* says Marta Cydejko, Head of Human Resources and Training Office at PGNiG SA. This does not mean that external candidates stand no chance of being offered a job at the Group. Each year we participate in traineeship and internship programmes, for instance, we offer internship to winners of the Grasz o staż contest who, after completing the programme, have the opportunity to stay with the Company.

*"Our key criterion in selecting employees are always expertise and competence of a candidate while participation in an internship at the Group may only add a few extra points,"* adds Ms Cydejko.

It is worthwhile noting that our best practise in this particular area of corporate responsibility includes educating new generations of specialists for the industry, which we achieve either by funding scholarship allowances for outstanding students of technical faculties or acting as sponsors of or even launching – in cooperation with competent authorities – specialist vocational schools.

Over three quarters of members of the PGNiG Group declare that they talk to employees who choose to leave the company in order to find out the reason for their decision.

### **We Offer Generous Benefits Packages**

Apart from regular salary, our employees are offered a number of benefits, such as: gift vouchers, private medical care, commuter allowances (partial funding of fares for travelling to and from work), and the possibility to participate in sports events at national and international levels.

Employees and their families may also enjoy other social benefits such as: partial funding of holidays or housing loans with preferential interest rates. Those who found themselves in a difficult financial situation or have fallen ill, may also apply for financial aid.

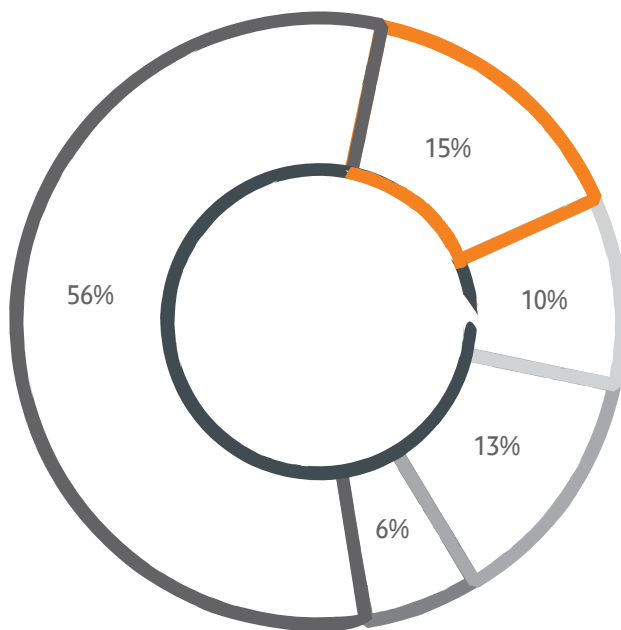
In 2008, all of the Group companies paid their lowest-ranking employees wages above the minimum statutory wage (PLN 1,126).

PGNiG SA sees also to the wellbeing of its employees in a long-term, by offering them participation in a Pension Scheme and funding the basic premium at 7% of the employee's salary.

Employees also highly appreciate two extra days off per annum. One of them falls on December 4th, that is Saint Barbara's Day, which is the patron saint of miners. The other day off is a birthday or name-day gift for employees and can be taken at any time convenient to the employee.

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 for the Employees of PGNiG SA which was adopted after many months of negotiations with the trade unions. The Agreement came into force in July 2009. We hope that the agreed terms will become a useful reference for the other members of the Group which have their own collective bargaining agreements.

### Packages of Non-Financial Benefits for Employees and their Families\*



Importance

- Very important
- Important
- Minor importance
- Not applicable
- No answer

\* Opinions of 49 companies and branches expressed in a survey concerning the implementation of the CSR Strategy.

The issue of non-financial benefits is perceived as a very important one by a majority of the PGNiG companies and branches. Over 70% of them assigned it an "important" or a

"very important" ranking, while assessing them very highly (self-assessment grades of "4" and "5" from approximately 65% of the respondents).

At present, employees receive a full range of non-salary benefits at 73% of the Group companies and branches. It is worth noting that while PGNiG SA stands out in this respect as the undisputed leader among Polish employers, its range of non-salary employee benefits is being continually enhanced and modified.

A specific type of non-financial benefit is the right to acquire PGNiG shares free of charge. It is not extended, however, to all the employees. Pursuant to the applicable statutory provisions, the eligibility to be granted an option to acquire PGNiG shares free of charge was determined at the time when the then state-owned enterprise was transformed into a joint-stock company, i.e. in 1996. The staff employed after that date do not qualify as eligible. Nevertheless, in 2009 tens of thousands of PGNiG SA's and the Group companies' employees, as well as eligible retirees, exercised their options to acquire PGNiG shares free of charge. The number of shares acquired by employees in this way differed depending on their respective lengths of service. Holding an equity interest in PGNiG SA certainly strengthens the affiliation between an employee-shareholder and the Company.

### Supporting Staff's Aspirations Through Training

While contributing to the achievement of the PGNiG Group's plans, investments in human capital help realise the ambitions and aspirations of individual employees. The wide spectrum of activities in which the Group entities are engaged is reflected in a wide variety of training courses offered to their employees.

Our employees are given an opportunity to study foreign languages (some of them in individual classes), complete post-graduate studies, attend industry-focused conferences held in Poland, attend various seminars or symposia, take part in work placements and benefit from new self-training tools such as e-learning. Additionally, they may be offered paid internships at the PGNiG representative offices in Moscow or in Brussels, lasting up to several months. During such internships, they get to know the specifics of

those entities' day-to-day work, while improving their language skills.

In 2008, the Group companies spent an average of PLN 1,291.30 per employee on various forms of training.

At some of the Group companies (e.g. Wielkopolska Spółka Gazownictwa), employees receive financial assistance covering a part of their university fees. Moreover, the employees attending secondary schools, universities or post-graduate studies are entitled to additional leave days.

To implement its training objectives, the PGNiG Group relies on specialist providers of educational services. One of them is the Training and Qualification Development Center for Oil and Gas Production (whose services are used by PNiG Kraków) – an institution authorised by the Regional Mining Authority to provide instruction to mining companies' staff. As the only institution in Poland, and one of the few in Europe, the Training and Qualification Development Center holds a certificate issued by the International Well Control Forum (IWFC Scotland) and is accredited by the International Association of Drilling Contractors (IADC Texas, USA), whereby it is authorised to provide training courses, organise exams and issue internationally recognised certificates to drillers and supervisory personnel in the area of blowout prevention and blowout control. The Center is equipped with the only DrillSim – 5000 simulator in Poland. In addition, Karpacka Spółka Gazownictwa runs its own Training and Qualification Development Centre in Podgórska Wola. It offers training to the company's staff and any other interested parties. The Centre has state-of-the-art technological and audiovisual equipment and provides courses taught by lecturers and instructors holding European certificates. All this allows trainees to learn a new profession and raise their qualifications.

Depending on their scopes of responsibility, employees can also attend courses in the area of broadly defined modern management and business organisation. The topics covered by such courses include project management, legal environment analysis, business risk management, customer service, internal communications and intra-Group cooperation. The courses are co-financed by the European Social Fund.

Given the specific business profiles and high degree of specialisation of the PGNiG Group companies, some of the

courses are tailored specifically to their needs. Such tailor-made courses are offered, for example, to the employees of Geofizyka Kraków, Geofizyka Toruń and Poszukiwania Nafty i Gazu Kraków who leave for 6 to 8 weeks for Kazakhstan, Pakistan, Libya, Uganda or Ukraine to carry out work under contracts. The companies offer their staff regular courses in inter-cultural differences, which in many cases may lead to dangerous situations. In the case of PNiG Kraków, such courses are delivered by specialist firms, e.g. Clayton Consultants Inc., as well as a psychologist and the heads of the Health and Safety-at-Work, HR and Training departments.

*"Before the performance of a contract begins, special courses are provided to the employees who are about to leave, lasting from a few hours to a whole day. The employees learn about the social conditions at the location where the contract is to be performed, the natural perils they may encounter, such as diseases or earthquakes, the geo-political situation of a given country, the cultural and religious differences, as well as the best ways of conducting dialogue with local communities,"* says Ms Magda Pachocka of Geofizyka Kraków.

Interestingly enough, employees of the PGNiG Group are also offered training in the area of policies and procedures relating to the issue of human rights. For instance, PNiG Kraków, a company operating on foreign markets, declares that it provides about 200 hours of that kind of training per year.

There is a so-called HSE (Health, Safety, Environment) officer, posted permanently at every location where a foreign contract is performed, who is responsible for strict oversight over compliance with the health, safety and environmental protection procedures. Additionally, relying on external firms, the PGNiG companies offer courses designed to reinforce the desired mental and physical qualities in their staff, such as leadership skills, the right social behaviours, creativity, innovative approach or problem-solving skills, as well as to increase their knowledge about the labour market and customers. PNiG Kraków has also introduced training courses for the middle and top level management, so that the newly acquired qualifications can be used in the management of the company and its foreign branches, as well as during any future organisational changes at the company. Members of the management staff have an opportunity to raise their qualifications by completing post-graduate stu-

dies, both at Polish and foreign universities, and by taking part in a variety of other courses and training programmes offered by international education providers.

### Improving Health and Safety at Work

Many tasks performed on-site by the PGNiG Group employees are associated with a high level of risk. Therefore, the Health and Safety at Work issues are among the priorities of the PGNiG Group.

The Group carefully monitors the number and causes of accidents. We analyse accident data to improve the methods of preventing accidents at work. Such an approach produces measurable effects: the number of accidents falls from year to year and the high level of work safety at the Group's divisions and companies has been maintained for the last several years. However, we are far from resting on our laurels and continue to take steps to improve the standards in place.

Total number of accidents	2007	2008
PGNiG SA	27	21
Companies	201	192
PGNiG Group	228	213

In 2008, there were in total 213 accidents (involving one or more employees) at the entire Group, in which 217 employees suffered personal injury. One person employed at PN Diament of Zielona Góra died as a result of an accident. The company's employee, without any protective equipment, fell off an 18-metre tower platform. In 2008, we recorded a decrease in the number of accidents (by 15) and persons injured in accidents (by 20) relative to the figures for the previous year. Consequently, the average accident rate per 1,000 employees fell from 8.0 in 2007 to 7.2 in 2008.

*"The most common places where accidents have happened in recent years are not those typical for the industry activities undertaken in the course of exploration and operation of crude oil and natural gas reserves or maintenance of gas networks and equipment. Such accidents account for*

*only a small percentage of all accidents. The main places and sources of accidents have recently been simple cleaning work, work performed at workshops, construction and assembly work or work performed during unloading of materials and tools",* says Mr Tadeusz Iwanowski, Head of the Health and Safety at Work Team at PGNiG SA. A sign of the times is the fact that there are also accidents caused by "mental stress" related to the nature of work performed (e.g. at well surface installations), but also resulting from an employee's overall situation, which may involve family or other problems. Although it is difficult to define and, what follows, eliminate, we also try to prevent such accidents.

Last year, the PGNiG Group employees were unable to work as a result of accidents for 11,271 days, down by 1,921 days relative to 2007. At the same time, the average accident severity ratio, defined as the number of days of accident-related sick leave per accident, amounted to 53 days and was down by five days relative to the previous year.

Accident rate per 1,000 employees	2007	2008
PGNiG SA	3.2	2.4
Companies	9.8	9.2
PGNiG Group	8.0	7.2

We also monitor employee's occupational diseases. In 2008, the State Sanitary Inspector found only two such cases at the PGNiG Group. One such case related to hearing damage suffered by a person employed at Gazobudowa of Zabrze, while the other related to the so-called vibration syndrome suffered by an employee of PNiG Kraków.

The accident statistics at the individual companies and branches and the improvement recorded in that area show that the companies try to ensure appropriate and safe work conditions.

In the work safety area, the PGNiG Group companies operating abroad meet the global HSE (Health, Safety and Environment) standards, which allow them to offer their services to global leaders such as Shell or Statoil, to name just few, expecting the highest safety standards from their partners.

The Natural Environment and Occupational Health and Safety Management System was implemented at PNiG Kraków more than ten years ago. The system formulates and codifies the rules of work under special conditions, such as: noise, vibration or noxious atmosphere. PNiG Kraków has also implemented the Du-Pont's STOP system which is designed to improve the compliance with work safety rules and prevent accidents and injuries. PNiG Kraków's long-standing experience as well as the analyses and research performed by the company proved that the trained participants of the STOP programme are more sensitive to environmental protection and work safety issues.

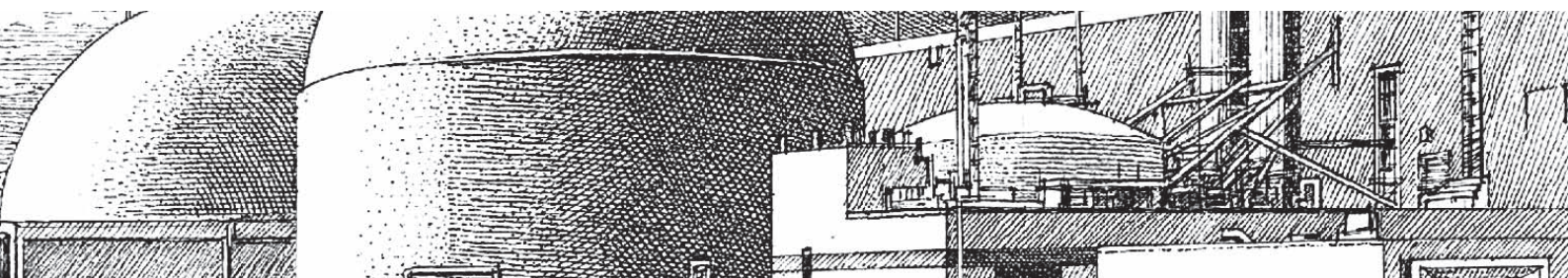
In January 2009, PNiG Kraków also began the implementation of two new standards relating to the Environmental Management and Health and Safety at Work: ISO 14001:2004 and OHSAS 18001:2007. PNiG Kraków plans to obtain certification for the standards in November 2009. The main measures to be taken in the Health and Safety at Work area will be primarily focused on the provision of appropriate protective clothing to the employees, the modernisation of plant and equipment or the modernisation and refurbishment of the premises. In 2008, a number of interesting initiatives were also implemented, including some adopted following the suggestions from PNiG Kraków's employees.

The PGNiG Group employees of all levels also undergo regular Health and Safety at Work training. One of such training programmes, related specifically to the HSE management, took place in February at the Holiday and Training Centre in Krempana. The training was organised by PNiG Jasło and was conducted by PetroSkills Training Inc., a US training company and the leader in the international drilling training market. The training was attended by 13 persons, including nine employees of PNiG Jasło and two employees delegated by each PNiG Kraków and PNiG Piła.

An annual Health and Safety at Work competition is very popular among the Wielkopolska Spółka Gazownictwa employees working at gas pipelines and gas installations. The competition is a strong motivating factor to improve employees' skills and knowledge in that area.

Selected PGNiG SA employees are also members of official Health and Safety at Work committees. This function allows them to actively participate in Health and Safety at Work inspections and submit their proposals in that respect.

Finally, it should be noted that the PGNiG Group offers many non-salary benefits, including the right to a two-week rehabilitation holiday which could be taken by employees to improve their overall health condition. The cost to the employee is only nominal and covers merely 1% of the actual cost of such holidays.





## Best Practices

### PGNiG GROUP

Although many PGNiG Group companies have their own codes of ethics and values in place, one of the objectives of the Group's strategy is the implementation of a common Code of Values at the Group.

The first steps in this regard were undertaken by PGNiG SA, as the ultimate parent undertaking of the Group, as early as in the second half of 2007 and the first half of 2008, when a series of training courses was organised for the middle and senior management staff of the PGNiG Group, devoted to understanding of the employee motivation mechanisms and attempting to define the most important values of the Group's employees. The work was continued at the workshops intended to devise the Sustainable Development and Corporate Social Responsibility Strategy at the PGNiG Group, in April 2009. At the same time, on April 7th 2009, the Management Board of PGNiG SA approved the document entitled "Good Practices for the Managers of the PGNiG Group", which is an element of a coherent system, at the core of which will be the Code of Values for the PGNiG Group's employees.

### PGNiG SA'S HEAD OFFICE

The development of managerial skills of its key staff is one PGNiG SA's priorities in the area of human resources development management. As part of its efforts in that area, a project entitled "PGNiG SA's Human Capital Development" was devised at the Company's Head Office, covering, inter alia, an extensive range of management training courses. Some 670 persons will take part in the project, while 180 will participate in the project's component involving the training of managerial skills. As part of the project, employees, currently holding managerial posts and working as key specialists, will be able to, inter alia, participate in training modules on team building, management through objectives, change management and employee motivation. The level of advancement of the individual modules will be adjusted to the needs of the participants – specialists and newly promoted managers will participate in the courses at the beginners level, while experienced managers intending to broaden their competences – at the advanced level.

The skills obtained in the course of the "PGNiG SA's Human Capital Development" project will be used and developed both during the performance of day-to-day tasks and the execution of projects implemented at the entire organisation level. In that way, on one hand we will broaden the group of persons with managerial knowledge, and on the other hand the persons already holding managerial posts will have a chance to supplement and extend the knowledge useful in performing their duties.

### **PGNiG SA SANOK DIVISION**

At the end of 2008, the Human Resources Management and Training Department of the Sanok Division initiated and developed a project involving an anonymous survey research entitled "The Perspective of an PGNiG Sanok Division Employee" to be conducted among the Division employees. The purpose of the research was to obtain the employees' opinion on work quality. The survey examined the identification of the staff with statements describing the Division's organisational culture. Following the analysis of the survey's results, the employees' satisfaction in seven major areas was evaluated, which included: work motivation, subordinate-superior relationships, communication, promotion opportunities or training system. As much as 83.88% of the staff participated in the survey (or 1,764 employees), which shows that it is the employees' preferred form of communication with the employer.

### **DOLNOŚLĄSKA SPÓŁKA GAZOWNICTWA**

A two-level form of evaluation of training effectiveness is used at the company. Upon the completion of each training course, the attendees fill in the "Training Effectiveness Evaluation Survey". A database of trainers, training companies and conference centres is maintained based on the information provided in the surveys. Subsequently, a month after the training, the employee's direct superior assesses to what extent the employee uses the acquired knowledge.

### **MAZOWIECKA SPÓŁKA GAZOWNICTWA**

Mazowiecka Spółka Gazownictwa is the sponsor of the Gas Industry Technical College at the Senior High School Complex No. 3 in Łódź. On March 20th 2008, a letter of intent was signed on the creation of a class with an extended programme for future gas industry professionals at the Senior High School Complex. Students began education in September last year, and as of September 2009 anyone interested

in that specialisation may choose between a full-time or extramural form of studies. It is a pioneering project in our sector, which will provide new professionals for all gas projects carried out by the Group and the market in general.

### **WIELKOPOLSKA SPÓŁKA GAZOWNICTWA GEOFIZYKA TORUŃ; PNiG KRAKÓW; PGNiG SA ODOLANÓW BRANCH**

There is the so-called exchange box in place at Wielkopolska Spółka Gazownictwa. Notifications of any potential irregularities are collected from the box by the Quality System Coordinator once per month. Similar boxes are also in place at *Geofizyka Toruń* (HSE suggestion boxes), *PNiG Kraków* (not only circumstances adversely affecting work, but also proposed innovations at the company may be reported through the box) and the *Odolanów Branch*. Moreover, survey research is also conducted at Wielkopolska Spółka Gazownictwa, the purpose of which is to examine the employees' opinions on such matters as their well-being at the company, their assessment of superiors, their professional plans and the factors preventing them from working productively.

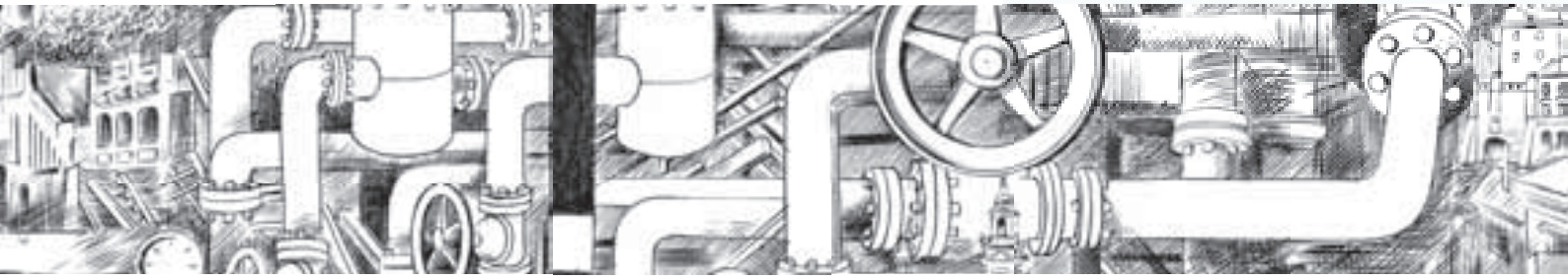
### **GEOFIZYKA KRAKÓW**

In May–July 2008, an operational study of the company was carried out. Each employee had an opportunity to indicate, anonymously, the problems relating to his/her day-to-day work. The results presented the company as viewed with the eyes of its employees and helped to diagnosis the problems impeding its operations. The results of the study were used to define the directions of the company's future development: from training and evaluation systems to organisational changes and long-term strategies. The study was carried out in cooperation with Heidtman & Piasecki, a consultancy and research company.

### **GEOFIZYKA TORUŃ**

The company has implemented the "Professional Skills Improvement Rules" procedure and the "HSE Competences and Training" standard. Based on the above, each year the company prepares an Annual Training Plan, covering external and internal training courses, both specialist and HSE courses. As part of the training plan, in 2007–2008 the company organised a specialist training programme for the employees implementing a seismic survey project for Shell in Syria. Because the project is carried out in a desert





area and, additional elements, relating mainly to work in difficult field conditions and transfer of expertise facilitating adaptation and work in a different environment, were added to the training programme. Accordingly, the training addressed such issues as: survival in desert environments, resuscitation procedures and automatic defibrillation (based on the American Heart Association standards), defensive and off road driving, as well as human behaviour and communication in Middle East countries (custom, language and religion aspects) and the procedure in the event of archaeological finds.

## Plans for the Future

In accordance with the adopted Sustainable Development and Corporate Social Responsibility Strategy at the PGNiG Group, we begin work on the development and implementation of a HR strategy, which would also address the problems of disable employees.

We intend to extend cooperation and expertise exchange between the HR teams within the Group. The implementation of the HR strategy and other cooperation methods within the Group will allow us to build and improve Health and Safety at Work management systems and will strengthen employee satisfaction. The improvement of the HSE standards at the selected PGNiG Group companies will also drive up the market competitiveness of the companies.

Another task is the development and implementation of a motivation and loyalty system for our employees. Not only will it increase employee effectiveness and productivity, but it will also improve their satisfaction. One of the elements of the new system is, for instance, the implemented standardisation of additional medical services for the PGNiG SA employees. In this case, we want to ensure the highest

standards and provide over eight thousand PGNiG SA employees with a medical coverage plan comparable with the plan which is already offered to the Company's Head Office staff.

We also want to ensure that periodical employee satisfaction surveys are a standard tool used within the PGNiG Group.

The actions set out in the Sustainable Development and Corporate Social Responsibility Strategy at the PGNiG Group will help us to transform the Group into an organisation which is constantly learns, has good communication with the employees and social partners and develops in line with the principles of corporate social responsibility. We want that to be our day-to-day practice, but also our ethos and values uniting employees. Therefore, by the end of 2009 we will adopt a common Code of Values for all the PGNiG Group employees.

The measures taken in the Workplace area are our priorities, because we believe that appropriate treatment of employees, staff development and the maintenance of high safety standards translate not only into a higher value of the entire PGNiG Group, but also into positive views on the Group by the interested parties: clients, investors and future employees.

Awards granted to PGNiG companies in the Workplace category

Value Chain Element	Entity	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Exploration and Production	PGNiG SA Sanok Branch	Award in the "Employee-friendly Employer" Competition	National Board of NSZZ "SOLIDARNOŚĆ"	Fulfilling the objectives of the "Employee-friendly Poland" campaign
	PNiG Jasło	Nomination for the "Reliable Employer 2008" award	Grupa Media Partner	The company was highly assessed as a reliable employer (terms of employment, timely salary payments, social benefits, career track, external and internal opinions about the company, employment growth in recent years)
	PNiG Kraków	"Employer – Organizer of Safe Work" Competition	National Labour Inspectorate District Labour Inspectorate in Warsaw	The company was highly assessed in 5 categories: a. conformity with legal regulations b. conformity with safety at work rules and regulations c. implementation of labour protection systems d. accidents at work e. additional elements of labour protection Additionally, the company earned points for lack of recorded workplace accidents in recent years (occupational diseases not taken into account).

Awards granted to PGNiG companies in the Workplace category

Value Chain Element	Entity	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Trade	Karpacki Oddział Obrotu Gazem Gazownia Tarnowska	"Employee -friendly Employer" Award was granted in January 2008	National Board of NSZZ "SOLIDARNOŚĆ"	The certificate is awarded to an employer who follows good practices as regards conformity with labour law and thereby meets the objectives of the "Employee-friendly Poland" campaign. The award is granted by the Certification Committee.
	Mazowiecki Oddział Obrotu Gazem Gazownia Warszawska	"Employer – Organizer of Safe Work" Competition 1st place in the category of employers with over 250 staff in the 15th Edition of the Competition (2008)	National Labour Inspectorate District Labour Inspectorate in Warsaw	The company was highly assessed in 5 categories: a. conformity with legal regulations b. conformity with safety at work rules and regulations c. implementation of labour protection systems d. accidents at work e. additional elements of labour protection
	Pomorski Oddział Obrotu Gazem Gazownia Bydgoska	"Company staff with high standards of work ethics"	Bogdan Jański School in Warsaw, Management Department	The company was highly assessed for its conformity with the principles of ethical management.

Awards granted to PGNiG companies in the Workplace category

Value Chain Element	Entity	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Distribution	Dolnośląska Spółka Gazownictwa	Lower Silesian Economic Certificate 2008 (13th Edition)	Wrocław Province Office	One of the conditions for receiving the Certificate was the fulfilment of Good Employer practices: conformity with labour law and employee training.
	Karpacka Spółka Gazownictwa	„Employee -friendly Employer” Certificate (January 2008)	National Board of NSZZ “SOLIDARNOŚĆ”	The company was highly assessed in 3 categories: a. Kong-term employment; b. conformity with labour law and standards; c. enabling the employees to form trade unions.  (grounds: Regulation of employee-related matters by Corporate Collective Bargaining Agreement, Employee Rules and Regulations and other Rules related to the Collective Bargaining Agreement, including the cooperation agreements between Trade Unions and the Company Management Board).
	Mazowiecka Spółka Gazownictwa	“Złota Karta Bezpiecznej Pracy”	Central Labour Institute (Committee for Selecting the Leaders in Safe Work)	The Committee resolved to extend the validity of the certificate in recognition of the company’s achievements in the effective use of science and technology for improving workplace conditions, security and protection of employees in the working environment.
	Pomorska Spółka Gazownictwa	Award granted by the Marshal of the Gdańsk Province in the 12th edition of the Pomeranian Quality Award Competition	Pomeranian Council of the Polish NOT Federation of Engineering Associations in Gdańsk	Achievements in promoting the principles of ethical and fair conduct as well as modern management concepts; involvement in and contribution to the Pomeranian region development.
		“Company staff with high standards of work ethics”	Bogdan Jański School in Warsaw, Management Department	The company was highly assessed for its conformity with the principles of ethical management.
		“Remarkably Mother-friendly Company”	Fundacja Świętego Mikołaja (Santa Claus Foundation)	The company’s policy towards mothers, as evidenced by questionnaires completed by employed women, was highly assessed.

Awards granted to PGNiG companies in the Workplace category

Value Chain Element	Entity	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Distribution	Wielkopolska Spółka Gazownictwa	"Company staff with high standards of work ethics"	Bogdan Jański School in Warsaw, Management Department	The company was highly assessed for its conformity with the principles of ethical management.
		Reliable Employer of the Year	Media Partner	Exemplary human resources policy, investments in employee training and remarkable care for the retired.
Other	BN Naftomontaż	Reliable Employer of the Subcarpathian Region	Grupa Media Partner	The company was highly assessed as a reliable employer (terms of employment, timely wage payments, social benefits, career track, external and internal opinions about the company, employment growth in recent years)
	BSiPG GAZOPROJEKT	Investor in Human Resources	Institute of Labour and Social Studies, Institute of Management	The company has been highly assessed for its activities aimed at development of human capital and maintaining positive relations with employees.
	PGNiG SA Head Office	Award in the "Employee-friendly Employer" Competition	NSZZ Solidarność	The company meets the objectives of the "Employee-friendly Poland" campaign.

# PARTNERSHIP

Local community



## Challenges

The Local Community area, including the issues relating to the dialogue and cooperation with social and business partners, lies at the foundation of social responsibility and the sustainable development strategy.

The number of the PGNiG Group entities, as well as the variety and nature of their operations defines the scale of challenges in this area. We conduct operations not only in Poland, but also in a number of locations all over the world, often in different cultural environments, conducting exploratory work, drilling and production, as well as supplying gas and providing maintenance to our retail customers. Our activities frequently involve interference with the natural environment or leads to changes in the land ownership structure. At the same time, we are a major and, in some cases, the only employer in the region, we invest in infrastructure and connect municipalities and communes to the gas network.

It is our objective to combine business activity with harmonious functioning within local communities, offering to them our assistance and support in solving their problems. In this respect, the PGNiG Group companies may boast of a rich tradition dating back to the very beginning of the Polish oil industry and Ignacy Łukasiewicz's activity. In our times, we strive to keep up with this tradition.

We see our paramount objective and challenge in the Local Community area in structuring our actions addressed to local communities across the Group and enhancing the effectiveness of the dialogue with our stakeholders: local communities, business partners, regulatory authorities and local governments. We want to develop and use effective and varied communication tools and channels in order for our activity to meet the needs of our stakeholders in the best manner possible.

## Our Accomplishments

The PGNiG Group has a strong basis for further effective development of its social activity in the implementation of the sustainable development strategy. Individual members of the Group actively support various initiatives in the fields of education, sport, culture, environmental protection, healthcare and science progress.

### What Thematic Areas Are Covered by Your Company's Social Involvement?\*



\* Opinions of 49 companies and branches expressed in a survey concerning the implementation of the CSR Strategy.

As seen in the diagram above, we are involved in the matters important to local communities and their various problems. PGNiG SA has also been contributing materially to the implementation of projects in cooperation with local governments, for instance projects relating to the development of municipal or communal infrastructure.

### Employee Recruitment on Local Labour Markets

Wherever we operate, whether in Poland or abroad, employees recruited on the local labour market represent a high percentage of the total workforce. This way we help reduce unemployment in the regions of our presence.

Across the entire Group, the percentage of employees attracted from local communities ranges from 30% to 100%, with the rates below 50% primarily recorded at the companies operating abroad, including in Pakistan, Kazakhstan, Uganda and Ukraine. Some of the Group companies have implemented hiring procedures guaranteeing that a pre-defined minimum share of locals in the total employment number is achieved. This is the case of Geofizyka Toruń, which employs 34% of its workforce on local markets for its foreign operations, and PNiG Kraków, where this rate stands at 40%.

Each local employee recruited by PNiG Kraków is given career and promotion opportunities on an equal opportunity basis and may pursue their professional development along a specified career path. All local employees (Kazakhs, Pakistanis, Ukrainians etc.) who have worked for PNiG Kraków are looked for by foreign companies, as other companies deem PNiG Kraków's credentials a guarantee of high qualifications.

Also in Poland, our branches and subsidiaries undertake initiatives involving active search for qualified employees, thus contributing to the reduction of unemployment. In line with its recruitment procedures, Dolnośląska Spółka Gazownictwa notifies the respective County Employment Offices of job opportunities and publishes appropriate announcements in local press. Such initiatives increase the share of locally recruited employees in the total workforce. Budownictwo Urzędzeń Gazowych GAZOBUDOWA serves as an example of a company having implemented an effective local recruitment policy: the share of locally recruited employees is estimated at 50% there.

### Investments in Local Infrastructure

Not only do the Group companies recruit employees on local labour markets; they are also involved in the construction of local infrastructure. The very nature of the Group companies' business in many cases requires the use of heavy equipment for drilling work or production, with inevitable effect on local infrastructure, including roads. Therefore, the Group companies involved in such operations (including PNiG Jasło, PNiG Kraków and PN Diament) participate in repairs of communal, municipal and county roads, as well as in other initiatives which significantly enhance local

living standards. Consequently, the condition of local roads improves. Moreover, the Group's drilling projects often require drilling water wells and constructing connections to water supply system. The work having been completed, the wells and connections are left for the local community to use. Other activities connected with investments in local infrastructure include financing the construction of traffic lights in heavy-traffic roads, providing equipment for language learning laboratories at schools, one-off subsidies for assistance centres for the disabled (as is the case of Karpaczka Spółka Gazownictwa), construction of bridges, roads, a church (in Kazakhstan) or assistance in transport of pupils during the construction of a school building (PNiG Kraków).

The local communities highly value such activities and view the Group companies as "good neighbours" contributing to the improvement of local living standards.

### Just Compensation Policy

The work conducted by the PGNiG Group companies in many cases serves as a basis for compensations paid out to the locals, e.g. for the use of their land. Not with standing such just liabilities, our companies care about informing the local community in advance on our planned operations within a given area. Therefore, before execution of a project commences, we organise educational meetings for local community. At such meetings, we present the objectives of a given project, outline execution methods and inform members of the community of the expected benefits (e.g. higher tax revenues).

*"We harmonise the execution schedules with the needs and expectations of land owners. For instance, we do not perform construction work on land plots in the harvesting season. We also strive to confine gas pipeline protection zones to the necessary minimum,"* says Barbara Koba, Investment Department Director at PGNiG SA

Most frequently, compensation is paid for occupation of land and its temporary exclusion from use or temporary occupation of real estate for mining work on boreholes, or – to land owners – for plot value impairment after a pipeline has been laid within the plot. In each case, having obtained necessary documents and permits, before commencing execution of a project, we organise meetings with

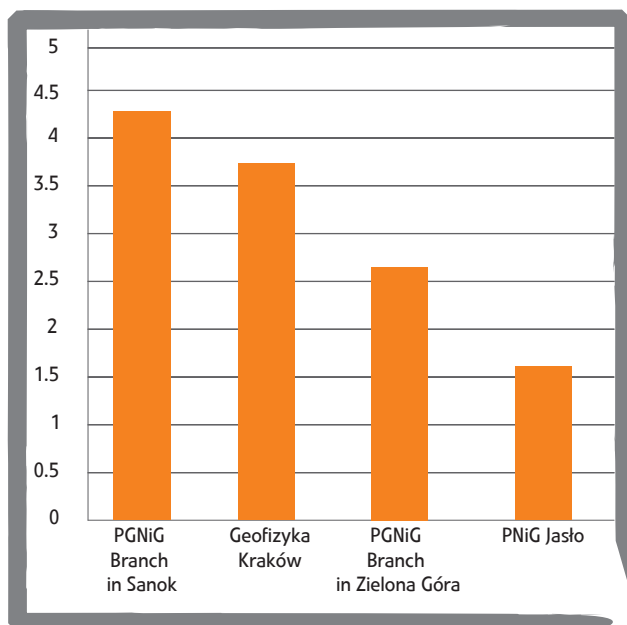


the land owners and propose compensation. If our proposal is accepted, we pay out the compensation; otherwise, we continue negotiations.

In 2008, compensation paid out to local communities, as well as to institutions and organisations which incurred losses caused by the operations of six of the Group companies exceeded PLN 16.11m.

The largest aggregate compensations were paid out by PGNiG Sanok Branch (PLN 4.29m), Geofizyka Kraków (PLN 3.80m), PGNiG Zielona Góra Branch (PLN 2.60m) and Poszukiwania Nafty i Gazu Jasło (PLN 1.68m).

### Compensations for Local Communities (PLNm)



### PGNiG SA's Ignacy Łukasiewicz Foundation

The PGNiG Group's work for local communities has for several years now been supported by Polskie Górnictwo Naftowe i Gazownictwo SA's Ignacy Łukasiewicz Foundation. As specified in the Foundation's Articles of Association, its activities include support of culture, progress in pure sciences and technology, protection of historical monuments, sports and healthcare. Over the first three years of its operation since the launch in 2004, the Foundation focused on financing scientific research. Two years ago we decided to extend the area of the Foundation's interests and thus better reach out to local communities. Currently, the Founda-

tion primarily focuses on assistance to children and youth: it grants prizes, scholarships and subsidies, or – in exceptional situations – charitable assistance.

Since 2007, the Foundation has been executing its following two key programmes:

#### Student Volunteers

The programme is jointly implemented by the Polish-American Freedom Foundation and the Polish Association of Pedagogues and Animators Klanza. The programme is an equal-opportunity project addressed to children and youth from rural areas and small towns (with a population of up to 20 thousand). Student volunteers conduct extra-curricular activities for these pupils, also during summer holidays. PGNiG SA finances teaching aids for these activities, insurance for the students involved and their commuting costs.

To date, 3,500 pupils from 84 towns or villages all over the country have participated in the programme. 445 student volunteers have been involved and implemented 178 educational projects. The majority of volunteers implemented their own original projects, having consulted them with the Klanza Association. The activities cover all subjects included in the school curriculum. They enable the participating pupils to be involved in the learning process and expose them to everyday benefits of learning.

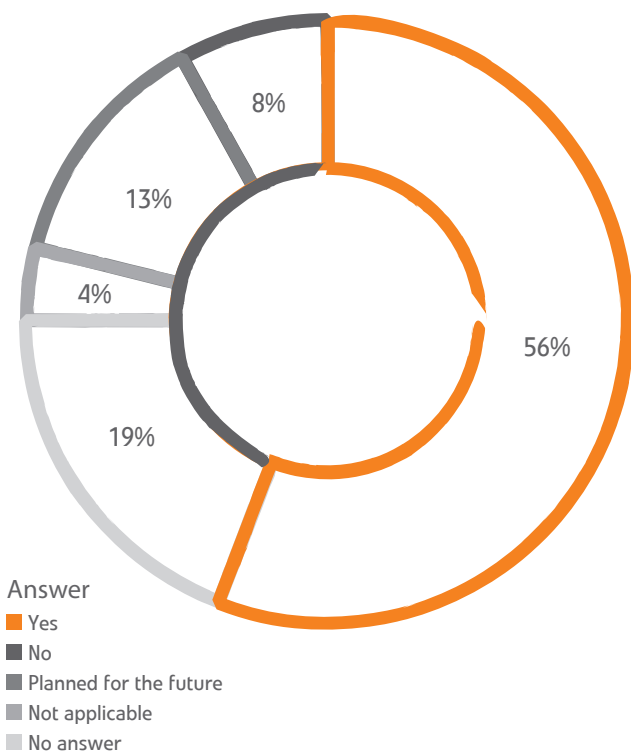
#### Wings from PGNiG SA

The programme, co-organised by Caritas Poland, is an equal-opportunity project addressed to children from poor families. A total of 300 children from 15 dioceses benefit from the programme. The children to be included in the programme are jointly selected by school pedagogues and Caritas representatives. The effectiveness of the programme is measured by comparing a participating child's psychological profile at the entry to the programme with a similar profile prepared after one or two years of participation.

Each of the participating children has received PLN 735 per school semester. The Group's managers have joined the programme, each contributing PLN 147 from their monthly remuneration all year long.

## Over 56% of the Group's Branches and Companies Have Expressed Their Willingness to Participate in the Foundation's Activities\*

Would you like to have possibility of being involved in the projects of the Foundation?



\* Opinions of 49 companies and branches expressed in the research concerning the implementation of the CSR Strategy.

These results attest to an enormous potential of the Foundation's further activities. The most-frequently indicated areas for the Foundation's future operations are education and environmental protection, followed by science progress and healthcare. These areas are also most often selected for the PGNiG Group's internal communication activities, including sponsoring. We believe that further coordination of the Foundation's activities with the Group's sponsoring and marketing initiatives offers significant synergies and a possibility for more effective work for the local communities.

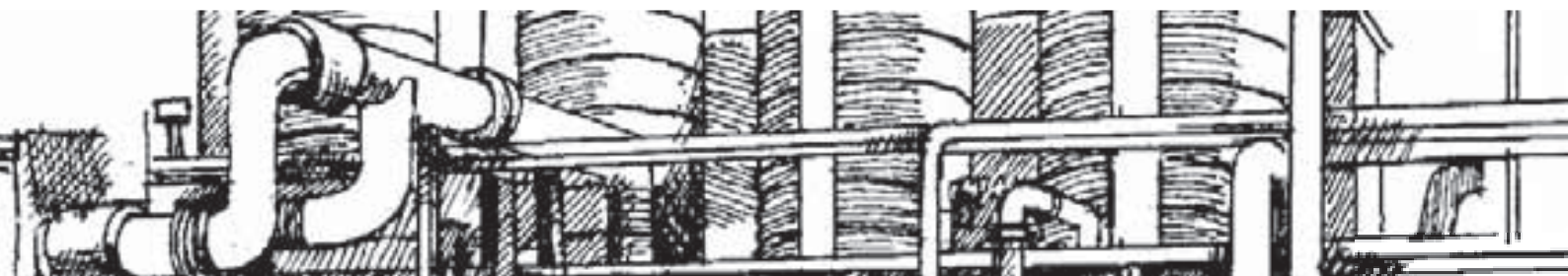
## Donations

Both cash and non-cash donations to different groups of beneficiaries are among the most common ways of supporting local communities by the PGNiG Group companies. In 2008, a total of PLN 3,246,289 was donated this way (including a donation for the Ignacy Łukasiewicz Foundation).

It would be difficult to enumerate all activities in the area discussed or the amounts and their application, as they are highly differentiated. The companies endeavour to meet the expectations and needs of the respective local communities. Such activities are, for instance, undertaken by Wielkopolska Spółka Gazownictwa, which supports the public healthcare system with purchases of medical equipment. Hospitals in Poznań, Ostrów Wielkopolski and Szczecin have already benefited from this form of assistance. A material annual donation to a single beneficiary has for years been the donation to the unique Ignacy Łukasiewicz Museum in Bóbrka. Another unique institution, the Gas Industry Museum in Paczków, is financed by Górnośląska Spółka Gazownictwa.

## Voluntary Work

Another way of our contribution to local communities is encouraging our employees to volunteer. Our employees are among the Group's most valuable assets. The Group employs over 31 thousand people, mostly in Poland. The Group companies and branches attempt to involve their employees in social responsibility initiatives. The oldest and most popular initiative in this area is voluntary blood donation. The other initiatives may be classified in several categories: youth education, mobilisation of the excluded, support for the disabled and pro-environmental campaigns.



Awards granted to PGNiG companies in the Local Community category				
Value Chain Element	Entity	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Exploration and Production	PNiG Jasło	Jasło Culture Patron 2009	The Town of Jasło and the Jasło Culture Centre	Participating in and contributing to the development of cultural life in Jasło
	PN „Diament”	Honorary Patronage of the Lubusz Region Museum	Muzeum Ziemi Lubuskiej	Supporting the initiatives and activities of the Museum.
Trade	Pomorski Oddział Obrotu Gazem Gazownia Olsztyńska	Silver Mask for the Friend of the Theatre	Stefan Jaracz Theatre in Olsztyn	Supporting the activities of the Theatre in 2008; Stefan Jaracz Theatre obtained the status of the National Institution of Culture
		Gold Statuette of Sandomierz “Friend of the Earth”	Ecological Education Centre in Olsztyn	Supporting the development of the Eco Team Programme in the Olsztyn Province
	Dolnośląski Oddział Obrotu Gazem Gazownia Wrocławska	“The Friend of Children”	Society of the Friends of Children Regional Branch	Participation in the “Help Children” initiative
	Karpacki Oddział Obrotu Gazem Gazownia Sandomierska	The City of Zamość Culture Sponsor	The Committee headed by the Mayor of Zamość. The Committee awards honorary titles annually in three categories: Sponsor, Ambassador and Animator.	Activities aimed at providing material values for development of culture.

Awards granted to PGNiG companies in the Local Community category

Value Chain Element	Entity	Awards	Awarding organization	Reasons for the award/ Criteria / Grounds
Distribution	Karpacka Spółka Gazownictwa	"Nowy Impuls"	Nowy Przegląd	Investment activities improving the operation of the company and cooperation with Stakeholders.
		Tarnów Culture Patron 2009	Mayor of Tarnów	The company has long been supporting the most significant cultural initiatives in Tarnów and the region and remains one of the leaders in cultural patronage.
	Pomorska Spółka Gazownictwa	Good Company 2008 CSR Leader	Forum Biznesu and Gazeta Prawna	The company was highly assessed for its involvement in charity and sponsorship activities, implementation of its employment policy and other positive aspects of the company's activities.
	Górnośląska Spółka Gazownictwa	Honorary Friend	Silesian Scholarship Fund Foundation	Financial support for the Silesian Scholarship Fund
		Foundation Supporting Member	Foundation of the Silesian Centre for Heart Diseases	Financial support for the Foundation
Other	PGNiG SA	Philanthropy Leaders	In 2008, PGNiG ranked ninth among the largest donors for social purposes.	In 2007, PGNiG SA donated the total amount exceeding PLN 2.09m, i.e. 0.2% of its pre-tax revenue. In 2008, it was PLN 3.25m.





## Good Practices

### PGNiG HEAD OFFICE

The personnel of PGNiG Head Office have donated blood every six months for the last two years. Eighteen litres of blood were donated in 2008 and in April 2009 it was as much as 21 litres. The number of people who are willing to give disinterested help has been growing. The blood donors who appeared at the facility at ul. Kasprzaka were not only the employees of PGNiG SA Head Office, Mazowiecka Spółka Gazownictwa or the Warsaw Gas Distribution Company of Warsaw, but also volunteers who learned about the initiative from posters. A few weeks before the donation the employees receive relevant information through the following channels: the daily newsletter, the "maGAZyn" periodic publication, special page on the portal for employees (newsletter) and the posters. Moreover, a special e-mail address is activated so as to enable each prospective donor to find out the exact hour of donation and ask questions.

Each time the initiative is organized, the donors declare their willingness to participate in future donations. As a result, the number of donors has been increasing year after year.

### DOLNOŚLĄSKA GAS TRADING DIVISION Gas Distribution Company of Wrocław

The Gas Distribution Company of Wrocław regularly bestows patronage on Dolnośląskie Onkoigrzyska Dzieci i Młodzieży ("Oncolympic" Games for Children and Adolescents in Lower Silesia) and participates in the nationwide social initiative "Łańcuch Krewniaków" ("Chain of Blood Relatives") organized by the European Foundation for Voluntary Blood Donors. Furthermore, the Gas Distribution Company of Wrocław was also involved in other initiatives, e.g. "Numery Twoich Przyjaciół" (Numbers of Your Friends), an information and education campaign promoting, for instance, the principles of safe use of natural gas. The Company also held patronage over a fine art competition "Bezpiecznie z gazem" (Careful with gas) and provided funds for the figure of the dwarf Ołbiniusz, the patron of the Elementary School No. 107 in Wrocław.

The Gas Distribution Company of Wrocław extends its patronage over cultural events in Lower Silesia, e.g. The Inter-

national Festival Wratislavia Cantans, "Jazztopad" and "Jazz nad Odrą", two jazz festivals organized in Wrocław, as well as the annual May festivities ("Majówka Tumska") and the Festival of Flour in Wrocław.

### GÓRNOŚLĄSKA GAS COMPANY

In 2008, Górnośląska Spółka Gazownictwa launched another edition of the campaign "Bezpieczny Mieszkaniec" (Safety at home) which focused on promoting the principles of safe use of public utilities among the youngest pupils of primary schools in Gliwice, Zabrze and Częstochowa. The principles were presented during the classes conducted by qualified pedagogues. They were attended by 14.3 thousand students from 695 classes in 98 primary schools (first, second and third grade). By the end of the classes the students produced posters on the topic of safe use of public utilities.

There were no restrictions as to the size or technique (paints, coloured pencils, cut-outs and other) of the posters entered for competition. As it turned out, children knew very well what is good and what is bad about gas or electricity and how to use them in a safe way. The most interesting posters awarded in the previous edition of the "Safety at home" competition were put together to create a 13-board calendar sent to the winners from the schools participating in the campaign in 2007 and 2008 as well as to educational officers. The posters are also on display at the offices of the company.

### POMORSKA GAS COMPANY

In 2008, the company played the role of the principal partner in the Christmas Gift initiative for the second time. It organized a competition for children from the primary school in Wielkie Podlesie, a small town in the Gdańsk Province. The task was to produce a drawing on a topic related to Christmas. The author of the best work, of which thousands of copies were printed, was 6-year-old Natalia Bronk. The

profit from the sale of the copies and support from people of good will allowed for preparing 2.5 thousand Christmas gifts that were donated to the wards of the Municipal Social Welfare Centre and for organizing the concert of Golec Orkiestra band on December 13th, attended by Paweł Adamowicz, Mayor of the City of Gdańsk.

Moreover, the company is involved in activities in its local community, e.g. it supports Kindergarten No. 35 which is the only institution in Gdańsk specialized in caring for sightless and visually impaired children. On the Miners' Day, Pomorska Spółka Gazownictwa donated to the kindergarten the specialist equipment indispensable in the process of preparing visually handicapped children for starting their education at school. The equipment included: Braille typewriter and a heater for embossing graphic signs on special paper. The company also provided funds for comprehensive motor development equipment, comprising slides, swinging platforms, climbing lines, jump-in wheels, trapezes and balance beams.

### POMORSKA GAS TRADING DIVISION

As part of the PGNiG SA educational activities, the Pomorska Gas Trading Division has been organizing the competition "Gaz ziemny na wesoło" (Natural gas: it's a gas!) since 2007. It encourages teachers to prepare a script of a lesson on natural gas. The purpose of the competition is to instruct children about safe and rational use of natural gas and heating devices, provide them with information on natural gas as the fuel of the future in terms of economy and ecology as well as to develop ecological awareness and environment-friendly attitude among them. The competition is organized annually in primary schools in the distribution area of the gas distribution companies of Gdańsk, Olsztyn and Bydgoszcz. The organizers have decided that the subsequent editions of the competition will present ecological values in a different form.



The second edition of the competition encouraged teachers to prepare a short drama performance on the topic of natural gas (e.g. a sketch, a fable or a dramaticule).

The most interesting mini-dramas from Olsztyn were staged in the Actor's Studio at Stefan Jaracz Theatre. Children from the Primary School No. 6 in Olsztyn, the winners of that edition, will give the performance at the opening ceremony of the Days of Science and Art in Olsztyn.

As part of its social involvement, the **Pomorska Gas Trading Division** organized a campaign "Bezpieczna droga do szkoły" (Getting to school safely). Each first-grade student from the primary schools in the distribution area of the gas distribution companies of Gdańsk, Olsztyn and Bydgoszcz received a reflective badge.

The **Gas Distribution Company of Gdańsk** joined the nationwide promotional and educational campaign on transplantation and voluntary blood donation: "Łańcuch Krewniaków – Obdaruj sobą innych" (Chain of Blood Relatives – Give Yourself to Others). The main objective of the project (European Foundation for Voluntary Blood Donors) is to raise the social awareness with regard to transplantation. Thanks to the displayed billboards the participants of the campaign create a Chain of Blood Relatives. Furthermore, the purpose of the campaign is to spread the idea of the Declaration of Will, i.e. a consent to have one's tissues and organs transplanted after death. Only adult persons may sign the Declaration.

The **Gas Distribution Company of Olsztyn** has for the last nine years given its financial and professional support to the Eco Team Program propagated by the Ecological Education Centre in Olsztyn in the Province of Warmia and Mazury. The program is designed to teach children and young people how to be actively attentive to their local environment and how to develop environment-friendly attitudes. Cooperation with the Ecological Education Centre in Olsztyn resulted in releasing an educational CD for teachers, containing ready-made scripts of lessons on natural gas and its history, use as well as environmental merits. It was made available to all schools in the distribution area of the Company of Olsztyn.

In 2008, the artworks and comic strips were exhibited at

the City Hall of Olsztyn during a ceremonial conference attended by teachers, students and their parents.

During the ceremony the winners received diplomas and awards funded by the organizer. The Primary School from Kwiecewo won a digital camera.

## **WIELKOPOLSKA GAS TRADING DIVISION Gas Distribution Company of Poznań**

The Gas Distribution Company of Poznań organized a competition for primary schools in Wielkopolska. Its topic was "Travels of the gas spark" and it comprised two age groups: the first, second and third grades (fine art competition) and the fourth grade (literary competition). The schools that decided to participate received educational materials on natural gas which provided a springboard for drawing or writing the adventures of the gas spark. The company commenced cooperation with the schools in September 2008 by providing them with specially designed Student's Books.

1212 works from 28 schools and three culture centres in Wielkopolska were submitted to the competition. Attractive prizes were prepared for the winners who received them at the award ceremony in April 2008. It was attended by representatives of all schools participating in the competition. All authors received a diploma and a small gift from the Gas Distribution Company of Poznań.

## **GAZOPROJEKT**

The employees of GAZOPROJEKT initiated a company donor session. It was coordinated by the Regional Centre for Blood Donation and Blood Therapy. It was an event without precedence and considering the degree of interest and engagement, the company hopes that such initiatives will be organized on a regular basis in the future.

## **GEOFIZYKA TORUŃ**

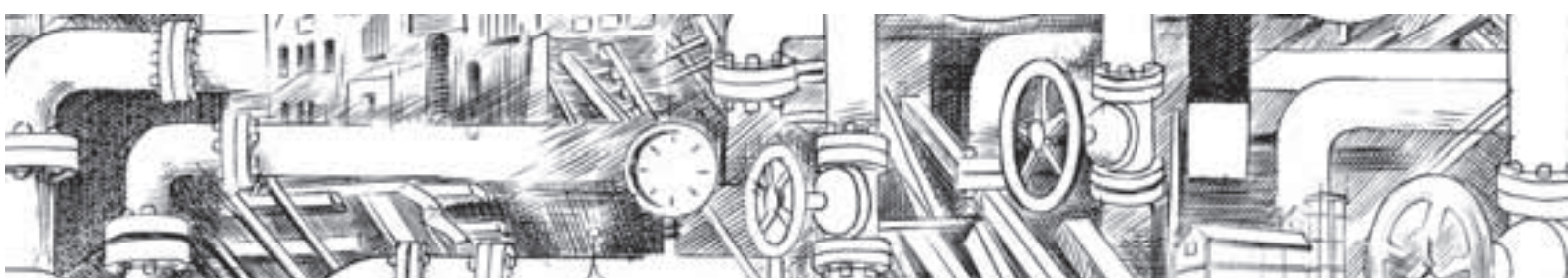
The Corporate Social Responsibility Policy of Geofizyka Toruń professes the employment of members of the local community and subcontractors, with a particular emphasis on those who can effectively contribute to the achievement of the given project's objectives as regards e.g. HSE (Health, Safety and Environment), keeping lower rank positions for the local population and training of higher rank local employees.



## PNiG Kraków

One of the key objectives of PNiG Kraków's strategy is the local recruitment of employees in Kazakhstan, Pakistan, Uganda, Ukraine and other places. The qualifications acquired by local employees enable them to continue to develop as professionals. Each local employee has equal access to the positions and may realize his or her professional development in accordance with the career track defined by PNiG Kraków. "Many foreign companies are willing to employ the local inhabitants (the Kazakhs, the Pakistanis, Ukrainians etc.) who used to work for PNiG Kraków. References provided by PNiG Kraków constitute a guarantee of high qualifications," says Agnieszka Sioła, PR Specialist, PNiG Kraków.

PNiG Kraków was the sponsor and co-organizer, along with the Pakistani Embassy in Poland, of the "National Days of Pakistan" in 2008. The festivities were a good occasion for promoting Pakistani culture and exchanging experiences between business persons from Poland and Pakistan. Furthermore, PNiG Kraków organizes bilateral meetings promoting the interests of Polish and Kazakh businesses and finances the journey of the Polish emigrants' children to Poland (e.g. from the Junior High School No. 23 in Almaty).





## Plans for the future

The PGNiG Group actively supports local communities. However, in contrast to the model commonly adopted in large corporations, our model is not based on one or two central programmes. The size and extent of our Group bring us closer to local communities – we are aware of their needs, we know what is most important to them and what kind of support they require. At the same time we believe that the activities of the PGNiG Group could respond to the needs and concerns of local communities in even better way. Although we provide our services in diverse environments and to various customers, we operate in one sector and within one Group. This is what sets our priorities within the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group. One of our most important priorities is the creation of Social Engagement Strategy, which would be common for the whole Group and would involve such matters as engagement of local communities

in Group companies' projects and support of local investments. An important objective is also development of long-term partnerships with contractors and suppliers. In the near future we plan to carry out an opinion poll among this group of stakeholders.

We strive for a more effective dialogue with public administration, the URE and the industry, including research centres

Our objective is to pursue initiatives that would serve both the PGNiG Group, local communities and the entire Polish energy industry.

For more information on these matters on the sponsorship activities of the PGNiG Group, see sections The Group's Stakeholders and Communication and Marketing.



# NATURAL ENVIRONMENT

Environmental protection and environmental management systems



## Challenges

Protection of the environment is the underlying assumption of sustainable development. Upon adoption of the PGNiG Group's Sustainable Development and Corporate Social Responsibility Strategy it officially became a strategic priority. However, for many years the Group companies, irrespective of their business area, have been particularly focusing on environmental protection, mitigation of the negative environmental impact and implementation of pro-environmental projects in all areas of their presence, at home or abroad.

Our business inevitably causes interference with natural resources and various elements of the environment. On the other hand, natural gas produced or procured by the Company helps significantly reduce emissions of pollutants to the air in comparison with other fossil fuels. That is why more common use of natural gas is so important in the times of making a worldwide effort to prevent climate change.

Apart from implementing strategic objectives of sustainable development, PGNiG SA is devoted to replacing large heat generators with small ones and turning to cogeneration, which will improve the energy efficiency of technological processes. In addition, the reduction of pollutant emissions will lead to improvement in quality of air.

An objective with a similar environmental and economic effect is to provide support for popularisation of CNG-fuelled vehicles on the car market, including passenger cars, buses and delivery vehicles.

PGNiG SA believes that the most important challenge is to conduct its activities in such a way to ensure that its wide-ranging impact is effectively used for the benefit of the environment and that threats are changed into opportunities.

### Pollutant Contents in Natural Gas and Other Fuels Compared

Pollutant	Natural gas	Fuel oil	Coal
Ash	no	0.0–0.4%	7–30%
Sulphur	trace quantity	0.1–4.0%	0.5–2.5%
Nitrogen	< 1%	no	1–2%
Chlorine	no	no	up to 0.6%
Arsenic	< 0.00003	0.5–2.0	80–2900
Cadmium	< 0.04	0.5–0.7	400
Cobalt	no	no	80–1600
Mercury	< 0.004	0.09–0.16	400
Chromium	< 0.003	0.6–1.2	120–1800
Magnesium	no	no	400–1200
Nickel	no	no	320–3200
Vanadium	< 0.006	2–1300	320–6000
Zinc	< 0.0003	2–20	1200–8000
Lead	< 0.006	3.0–25.0	1200–4000
Other trace inorganic substances	no	no	5–10

# Our Accomplishments

## Highly Qualified Environmental Protection Staff

Changing regulations related to environmental protection and increasing importance of environmental issues result in constant extension of the scope of responsibilities of the PGNiG Group's environmental protection staff. Compliance with the requirements related to environmental protection requires broad knowledge and considerable experience. The PGNiG Group is proud to have staff who are well qualified in this area thanks to their specialist academic education as well as many years of professional practice.

*"If the employees responsible for the application of environmental protection principles in the Company's operations are highly qualified, it makes it possible to implement and maintain environmental management systems, achieve new strategic objectives of the PGNiG Group and create a positive image of the Company as a pro-environmental enterprise,"* says Grzegorz Sojski, PGNiG SA's Environmental Protection Office Director.

Annual conferences of the PGNiG Group's environmental protection staff facilitate exchange of information and ma-

king decisions related to new environmental challenges. The conferences are an opportunity to present the results of environment-oriented activities, including the work of thematic teams, hold a debate on legal matters and economic instruments for environmental protection.

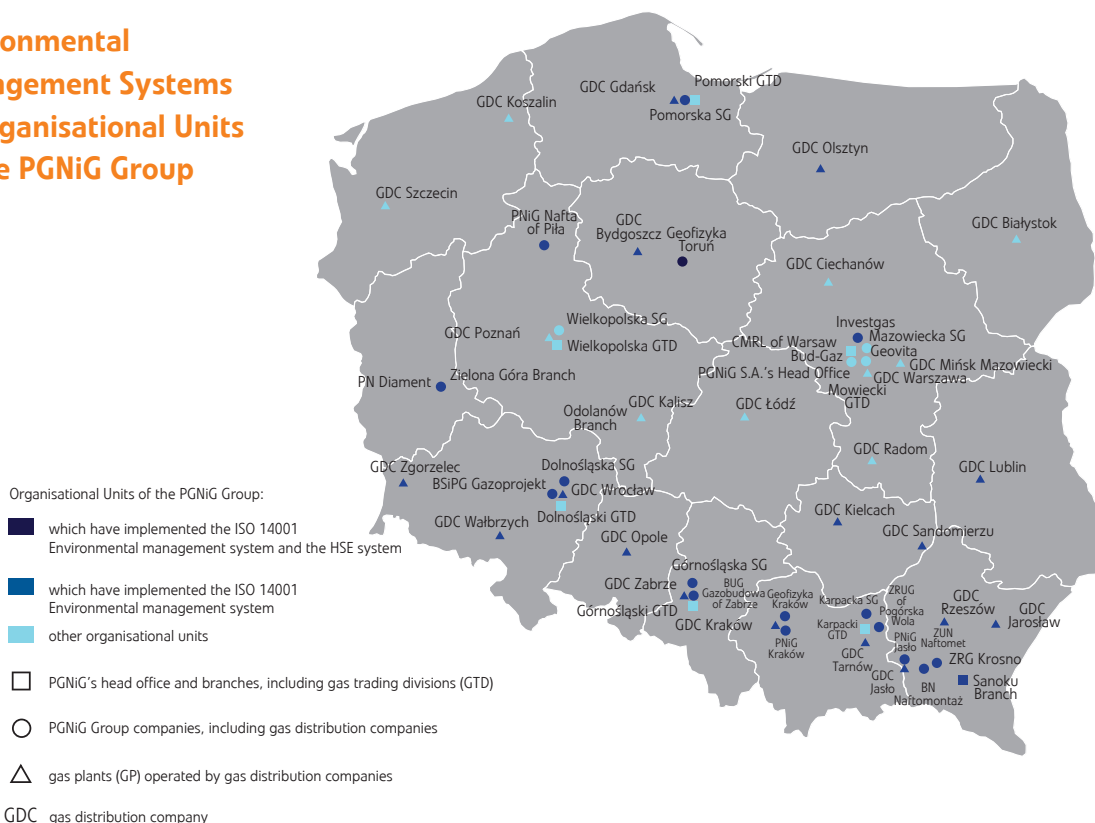
The Company provides its employees with opportunities to improve their professional skills on external trainings, studies or post-graduate studies related to the environment. In addition, PGNiG SA's Head Office organises internal training sessions with the participation of top lecturers representing the Ministry of Environment or research and scientific institutions.

## Providing Compliance with Environmental Protection Regulations; No Environmental Fines Imposed

All organisational units of the PGNiG Group have been issued with relevant permits and approvals related to the use of environment. Additional permits are always obtained or the existing ones are replaced with new whenever a material change in operations of an organisational unit occurs or if revised regulations so require.

In 2008, despite numerous inspections carried out by Provincial Environmental Verifiers and District Mining Authorities no environmental fine has been imposed on any organisational unit of the PGNiG Group.

## Environmental Management Systems at Organisational Units of the PGNiG Group



## Environmental Management Systems at the PGNiG Group

Organisational unit of the PGNiG Group	Date of implementation/ certification	Certifying authority	Date of recertification
Company Branches			
Head Office	July 2009	Det Norske Veritas	
Odolanów Branch	May 2003	Lloyd's Register Quality Assurance Limited Gdańsk	January 2007
Sanok Branch	May 2004	Det Norske Veritas	02/01/08
Zielona Góra Branch	April 2002	Det Norske Veritas	June 2005 April 2008
PGNiG Group core-business companies			
Dolnośląska Spółka Gazownictwa	May 2005	Det Norske Veritas	2008
Górnośląska Spółka Gazownictwa	October 2004	Polish Centre for Accreditation	October 2007
Pomorska Spółka Gazownictwa SA	December 2005	Polski Rejestr Statków S.A. of Gdańsk	
Karpacka Spółka Gazownictwa	September 2009	UDT-CERT	
Other PGNiG Group companies			
Geofizyka Kraków*	November 2001	Bureau Veritas BVQI	May 2005 May 2008
Geofizyka Toruń*	January 2004	TUV Munich	January 2008
Poszukiwania Nafty i Gazu Kraków*	during implementation	TUV Munich	
Poszukiwania Nafty i Gazu Jasło*	November 2001	TUV Munich	September 2008
Poszukiwania Nafty i Gazu NAFTA of Piła	June 2000	TUV Munich	December 2006
Poszukiwania Naftowe Diament	November 2003	TUV Munich	February 2007
Geofizyka ZRG Krosno	11/01/05	TUV Rheinland	December 2008
PGNiG Group special purpose vehicles			
BUB Gazobudowa of Zabrze	September 2001	Polish Centre for Testing and Certification	December 2007
BN Naftomontaż	December 2004	TUV Munich	December 2007
ZRUG of Pogórska Wola	May 2006	TUV Saarland e.V.	
GAZOPROJEKT	December 1999	Polish Centre for Testing and Certification	December 2008
PGNiG Group special purpose vehicles			
INVESTGAS	December 2005	TUV Munich	October 2008

\* entities applying the HSE system

## Application and Maintenance of Environmental Management Systems

The Company's most important achievements in the area of pro-environmental activities include the implementation, certification and maintenance of an environmental management system based on the PN-EN ISO 14001 standard at more than 70% of the PGNiG Group companies. In many cases, the system has been integrated with other systems, including the quality, health and safety at work as well as data protection management systems. Only the most recently established Gas Trading Divisions and two gas distribution companies have not yet implemented the environmental management systems. The systems, which have been in operation for several years, place the PGNiG Group among the strongest enterprises showing environmental awareness operating in Poland and abroad, including in Norway, Pakistan and Egypt. The Group's presence in these countries means that the Group companies can meet the most stringent global HSE management requirements.

Thanks to environmental management systems the Company is not only able to fulfil the requirements specified by the applicable legal regulations, but also better meet the expectations of its customers and communities in which it operates and build up their confidence in PGNiG SA.

*"By following the procedures and instructions not only do we manage to reduce our environmental impact but we also eliminate the areas of insufficient environmental supervision, and thus remove the irregularities,"* says Anna Markiewicz, PGNiG SA's Environmental Management Systems Division Manager.

In addition to the above, the benefits of implementing the environmental management system include reduction of operating expenses through rational raw materials consumption, as well as optimisation of raw materials and product selection (e.g. recyclable waste), more efficient utilisation of the infrastructure, lower production of pollutants and waste, and reduced cost of their management, reduced demand for and lower cost of consumption of power and water. The companies incur lower fees for use of the environment and benefit from reduced insurance rates. The implementation of environmental management systems has also resulted in improved work safety and increased

awareness of employees' role in the reduction of the company's environmental impact. It is also noteworthy that the environmental management system is also an effective tool to unlock employees' potential. By engaging them in the affairs of the PGNiG Group companies, it provides an opportunity to more effectively protect the environment.

## Preventing Climate Change Through Greenhouse Gas Emissions Management

The operations of the PGNiG Group companies involve emission of gas and dust pollutants to the air, which are mainly generated:

- in technological processes at oil and gas mines;
- during auxiliary work conducted in companies providing technical back-up and during operation of gas pipelines;
- during combustion of fuel in motor vehicles and in heat generators used for own purposes.

Pollutants are emitted to the air in a manner which is organised (from stationary point sources) and unorganised (means of transport, torches, etc.). The applicable legal regulations related to the management and reduction of greenhouse gas emissions made it necessary for the PGNiG Group companies participating in the Community system for trading greenhouse gas emission allowances to monitor and report on carbon dioxide emissions. As part of the activities to reduce greenhouse gas emissions, the PGNiG Group companies introduced internal and external gas quality control systems, are using their own accredited ISO 17025 standard compliant laboratories to perform comparative measurements and analyses, monitor and verify the correctness of process chromatographs' operation, use spreadsheets to calculate the level of carbon dioxide emissions generated within a single company and have modernised the systems measuring the amount of utilised gas. Uniform emission ratios have been developed with respect to methane emissions in the oil mining segment, whereas in the gas segment, work is still underway on the common methodology for all gas distribution companies.

For the purposes of reporting on carbon dioxide emissions, the Company's annual reports have been reviewed by Det Norske Veritas.

Details on carbon dioxide emissions in 2008 are presented



below. Currently, no unit participating in the system for trading carbon dioxide emission allowances requires investment or modernisation as they have been previously upgraded or are relatively new, constructed just before 2000.

### Carbon Dioxide Emissions in 2008 [in Mg]

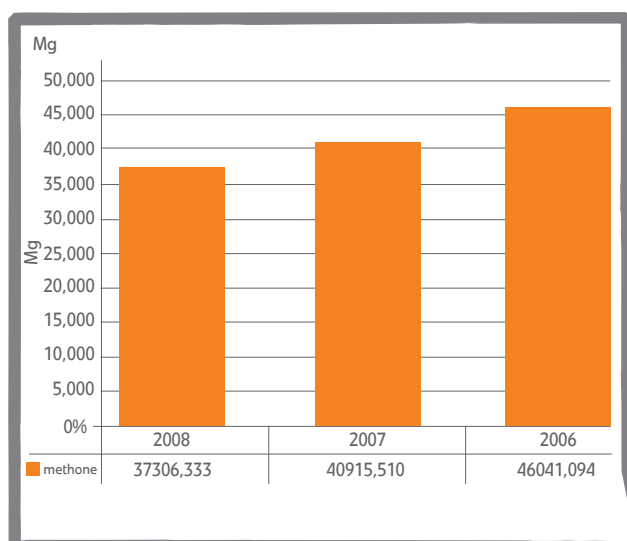
The PGNiG Group's total emissions of methane have been

Unit	NAAP1 Number	Allowance [Mg]	Actual emissions [Mg]	Balance [Mg]
CUGS Mogilno	PL- 898-08	26,642.00	9,401.00	17,241.00
Odolanów Branch	PL-562-05	11,181.00	10,835.00	346.00
Odolanów Branch	PL-950-08	30,495.00	25,783.00	4,712.00
Zielona Góra Branch KRNiGZ Dębno	PL-563-05	31,664.00	27,366.00	4,298.00
		99,982.00	73,385.00	26,597.00

<sup>1</sup> NAAP – National Allowance Allocation Plan.

decreasing steadily owing to the undertaken projects and overhauls, as well as to the implemented, more accurate settlement methods.

### Methane Emissions from the PGNiG Group Companies' Operations of in 2006–2008



### Reduction of Emissions to the Environment at the Group's Facilities

The mines which produce natural gas contaminated with mercury use modern physico-chemical methods of mercury removal (mercury traps and absorbers). It is worth noting here that achieving the high level of gas purification was possible owing to the innovative modification of technological units, implemented by PGNiG SA's employees.

In the case of gas reserves containing hydrogen sulphide, PGNiG SA produces natural gas which subsequently is desulphurised at site. Hydrogen sulphide is a toxic and combustible gas which might pose a serious threat to the environment. In the desulphurisation process, elemental sulphur, liquefied petroleum gas (LPG) and condensates are produced. Both sulphur and liquefied petroleum gas are products marketed by the Company.

In order to prevent emissions of harmful substances and gases, including large emissions of hydrogen sulphide to the air during hydrogen production, we have been using a technology providing for injection of acid gases generated during desulphurisation. The acid gas injection method has been used since the early 1990s. The method enables production intensification. Since the infusion of acid gases on the Borzęcin field commenced, we have tested and modelled gas propagation within the field. The expertise thus gathered may serve as the basis for the development of carbon capture and storage (CCS). In its search for alternative methods of reducing greenhouse gas emissions, the European Union has recommended research efforts desi-

igned to assess the feasibility of reducing carbon dioxide emissions from fossil fuel combustion through its capture and storage (CCS) in geological structures.

### Optimisation of Water Consumption and Wastewater Generation

The deficit of domestic water resources and its deteriorating quality are for the PGNiG Group material issues in terms of quality and economy, as well as environmental protection. That is why undertaking steps designed to protect water resources is so important.

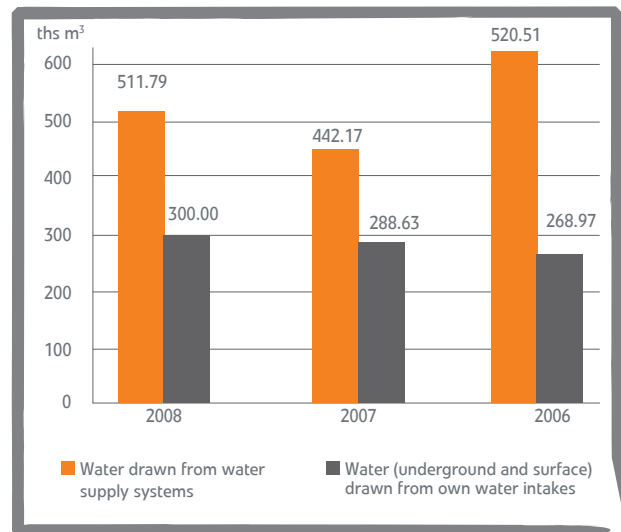
The PGNiG Group companies draw water from their own wells or water supply systems. Water is drawn mainly to cater to social needs and, to a lesser extent, for technological processes. Changes in water consumption observed from year to year are primarily connected with the number of the exploratory and projects executed.

In 2008, the Group's consumption of water drawn from water supply systems increased to 511.8 thousand of cubic metres, from 442.2 thousand of cubic metres a year earlier, which is also reflected in the quantity of generated wastewater (a total of 471.26 thousand of cubic metres).

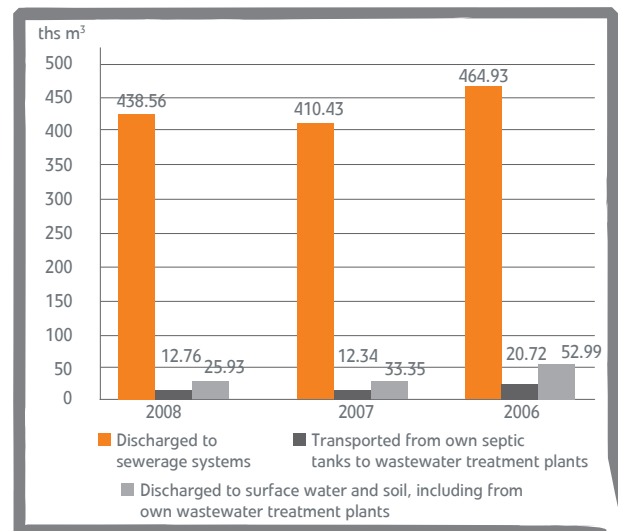
Wastewater generated by the Group companies is discharged to sewage systems (under relevant agreements with water and sewage utilities), into surface water or into soil (in accordance with the conditions stipulated in the water permits held), after introductory treatment or treatment at companies' own wastewater treatment plants.

It is worth noting that the quantity of wastewater discharged to water and soil, as well as to septic tanks and no-escape reservoirs has been on a decline, as sewage systems have been extended and connections to sewage systems and wastewater treatment plants have been constructed.

### Underground and Surface Water Intake in 2006–2008 by Supply Source



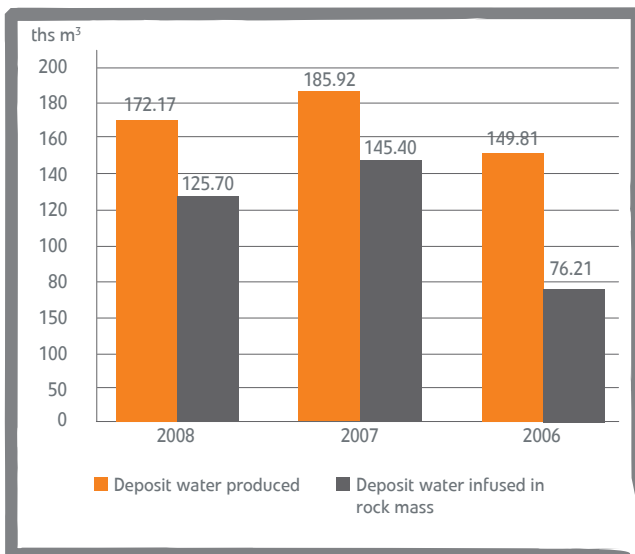
### Wastewater Generated in 2006–2008 by Type of Discharge Site



In the Group's water and wastewater management, a separate category is represented by deposit water produced during hydrocarbon production from deposits. In order to intensify production, a significant proportion of deposit water is infused back to the same geological structures from which it was produced. Deposit water whose infusion proved impossible is classified as non-hazardous neutral waste (Code 010102) and stored in rock mass under the licences for waste storage in rock mass held by the Company.

In 2008, the quantity of produced deposit water decreased year on year.

## Deposit Water Produced in 2006–2008

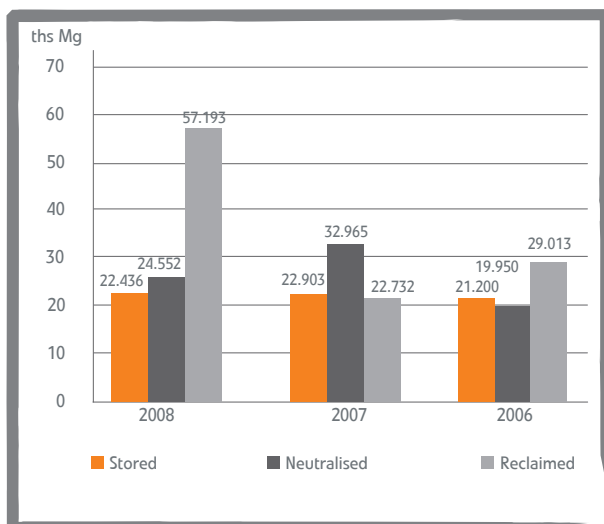


## Efficient Waste Management

In 2008, the entire PGNiG Group generated 104.2 thousand Mg of waste (net of municipal waste), which was delivered for reclamation or neutralisation, stored at waste dump yards or collected for later management.

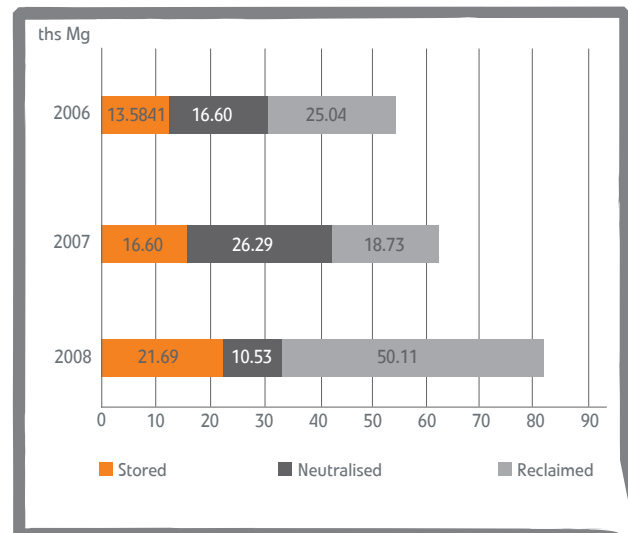
## Waste Generated Net of Non-Segregated Municipal Waste

Drilling waste has the largest share (of around 80%) in total waste generated. Drilling waste consists of drillings generated during drilling oil or gas wells and drilling mud (mix of clay minerals, chemicals and water enabling drillings to be extracted to the surface).



The PGNiG Group entities have for a number of years now gradually been reducing the quantities and noxiousness of waste generated. A significant proportion of the waste produced is managed.

## Drilling Waste Generated in 2006–2008



Drillings are separated from drilling mud on vibrating screens or with use of other devices. In 2008, the majority of drilling waste was recycled.

Another significant type of waste generated by the PGNiG Group entities is overhaul and construction waste, waste generated during road repair and reconstruction, waste rubble, concrete or scrap metal generated during the construction, repair and replacement of gas pipelines. Gas purification waste (containing sulphur and phenols) is yet another waste category.

In response to the swelling problems relating to waste management, the PGNiG Group has defined objectives and undertakings leading to the reduction of the quantity of generated waste or increase in the quantity of recycled waste. Each of the PGNiG SA's organisational units has implemented a waste management programme, which specifies waste recycling as the preferred waste disposal method. In numerous cases, this also translates into financial benefits for companies (including Mazowiecka Spółka Gazownictwa, Poszukiwania Naftowe Diament, Naftomet and BUG GAZO-BUDOWA). For instance, in order to eliminate hazardous waste, drilling companies (including PNiG Jasło) use equipment

systems supporting the recovery of drilling mud and enabling the thus neutralised waste to be used for reclamation of excavations and dump yards.

In waste management, the Group entities faces limitations connected with technological feasibility of processing of a given type of waste or overly high cost. As part of work on implementing waste management procedures, the following tasks have been performed:

- identification and documentation of all places at which waste may be generated;
- limitation of waste transported to waste dump yards (municipal waste only is disposed this way);
- reduction of the number of and definition of catchment areas for storage yards of hazardous waste.

Waste which for technological reasons requires neutralisation is delivered to specialist companies licensed to carry out neutralisation.

### Preventive Measures Taken to Avoid Failures with Serious Environmental Impact

Due to the quantity of the hazardous material stored on their premises, five entities from the PGNiG Group are subject to the laws and regulations concerning serious industrial failures. Of those five, three entities qualify as Plants of High Risk (the Odolanów Branch, the Zielona Góra Branch - (KRNiGZ Dębno (the Dębno Oil and Gas Mine) and PMG Wierzchowice (the Wierzchowice Underground Gas Storage Facility)), CUGS Mogilno (the Mogilno Cavern Underground Gas Storage Facility) – INVESTGAS), and two qualify as Plants of Increased Risk (Mazowiecki Operator Systemu Dystrybucyjnego Gazownia Białostocka Rozdzielnia Gazu in Ełk and KRNiGZ Zielin (the Zielin Oil and Gas Mine)). No serious industrial disaster or environmental emergency which could exert any effect on the environment or human health occurred in these business units of the PGNiG Group. As regards the other business entities, none of them stores such quantities of hazardous substances which could classify them as belonging to one of the risk groups.

### Inspections and Monitoring of the Environment

The necessity to conduct environmental inspections by the entities of the PGNiG Group is on the one hand imposed

by the applicable laws, and on the other hand – a valuable source of knowledge. Owing to the inspections, the PGNiG branches and companies acquire data for their documentation, environment impact assessments and reports, and information they use to plan environmental projects. Environmental inspections and monitoring also allow to define the environmental conditions prior to, during and after project execution. The inspections and monitoring cover emissions of pollutants into the air, surface and underground water condition, quality of wastewater, soil and ground, noise intensity and influence of electromagnetic fields. We also monitor the tightness of the underground gas storage facilities and the content of hazardous elements, mostly in waste, but also in petroleum reservoir water. Thanks to the inspections and the environmental monitoring we can control the environment on an ongoing basis, but we are also able to identify any environmental risks that might have originated in the past.

### Reclamation of Derelict Land

The business entities of the PGNiG Group have been conducting work designed to identify the state of the environment and prepare appropriate reclamation plans for contaminated areas. In the course of the work carried out to the date, typical contaminants introduced to the ground and water as a result of our operations have been identified as oils, polycyclic aromatic hydrocarbons, monocyclic aromatic compounds, cyanides, phenols and metals.

Each time an investment project, prospecting and exploration work or production operation is completed, a facility is decommissioned or significant norm exceeding is identified, the companies of the PGNiG Group conduct reclamation work. *“The reclamation includes remedial measures on soil degraded as a result of use of heavy equipment, land deformation during seismic work or well drilling, destruction of soil layers, local land and surface water contamination (and, on very rare occasions, underground water) during exploration and production work, as well as the reclamation of drilling waste dumps. Another category includes land contaminated in the course of past operation of traditional gas works,”* says Ms Monika Kadziewicz-Schoeneich, Head of PGNiG’s Environmental Protection Instruments Division.

In 2008, the following reclamation work was carried out: reclamation of polluted soil on the mine, oil terminal and storage depot sites, drill sites, shut-in or workover well sites, drilling waste dumps, reclamation of land which previously accommodated traditional gas works.

The above activities included removal of the pollutants using the following methods:

- in-situ method (without removing the land, using the biological method) or
- ex-situ method (the land is removed and decontaminated on the premises or taken away as waste to undergo treatment), with subsequent restoration of the natural land layout (including replacement of soil layers).

In the first half of 2009 reclamation work on a real property in Sławno at ul. Mireckiego 11 was completed. The work, conducted in 2006-2009, included decommissioning of two tar tanks, decontamination of the soil and land on the bioremediation fields and decontamination of the underground water on the treatment station premises. As a result of the reclamation work on the land and water, performed using the ex-situ biological method, the admissible levels of land and water contamination were achieved. The reclamation project was approved by the Sławno County Office in January 2009.

In 2008 work was conducted to decommission tar tanks and reclaim contaminated land (through treatment) on a part of a real property at ul. Kasprzaka 25 in Warsaw. Also in 2008, operating teams carried out reclamation work on the premises operated by the Zielona Góra Branch, which included biological treatment of land contaminated with oil derivatives on the Mozów and Jarszewo oil terminal sites and on the site of Ośrodek Grupowy Kopalń Granowo. Wielkopolska Spółka Gazownictwa decommissioned three gas pitch tanks on the premises of a real property in Szczecin, and Pomorska Spółka Gazownictwa carried out the process of ground water remediation on the premises of real properties in Sopot and Kowalewo Pomorskie. The exploration companies carried out reclamation work around exploration wells and workover wells (42 wells in total). The companies which during 2008 were involved in the construction of gas pipelines carried out reclamation work on the pipeline construction sites.

## Gradual Remediation of the Negative Effects of Past Petroleum Mining Activity

In order to mitigate the adverse effect of past operations, PGNiG SA decommissions oil mining facilities whose operation was discontinued several dozen years ago, such as shafts, diggings and drilling pits. Decommissioning work is very expensive and requires the use of specialist equipment and effective technologies.

Petroleum has been drawn from seepages in the Carpathians from time immemorial. Demand for crude oil led in the 19th century to the development of digging shafts (diggings). Negative or worked-out diggings were "abandoned" or "decommissioned" in a wrong way. Currently, such diggings are found all over the Carpathians, and they pose a threat – not only to the environment, but also to humans and animals. Within the PGNiG mining areas they are gradually decommissioned, although the Company has not contributed to their creation or been their owner.

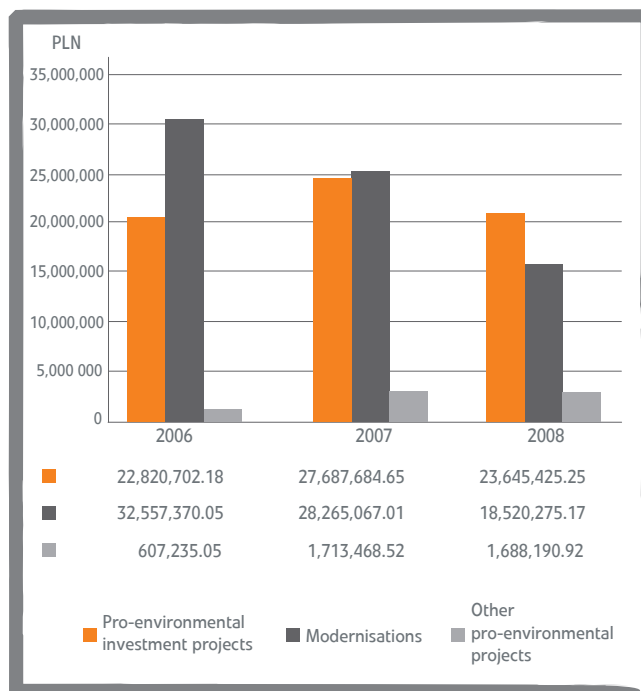
## Spending Substantial Amounts on Pro-Environmental Projects

The PGNiG Group conducts a number of pro-environmental investment projects. This is actually one of the directions of development of our business – construction and opening of new CNG filling stations, but also a number of other projects, which are less spectacular but equally important for the environment. On the one hand they are connected with the daily operation of the Group companies and relate – for instance – to buying natural gas fuelled vehicles, installation of sun collectors or thermo-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, construction of sound-absorbing screens limiting the noise emissions in borehole zones, or fitting of noise silencers and measurement of peak firing pressure in motor-driven compressors. Other activities that can be classified in 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 ap-

plied, as well as maintenance of treatment plants, purchase of sorbents, neutralising agents, and foil to be used under tank stations, generator sets for drilling rigs and new highly efficient engines, rebuilding of the installations used for desulphurisation of natural gas and crude oil and for waste injection at petroleum production sites, modernisation of reservoir water installations and borehole installations, and their refitting for injection of reservoir water to native rock mass, construction and upgrading of gas-fired boiler houses and cogeneration systems with a view to limiting emissions from energy-generation sources or replacement of cast-iron gas pipelines with PE ones.

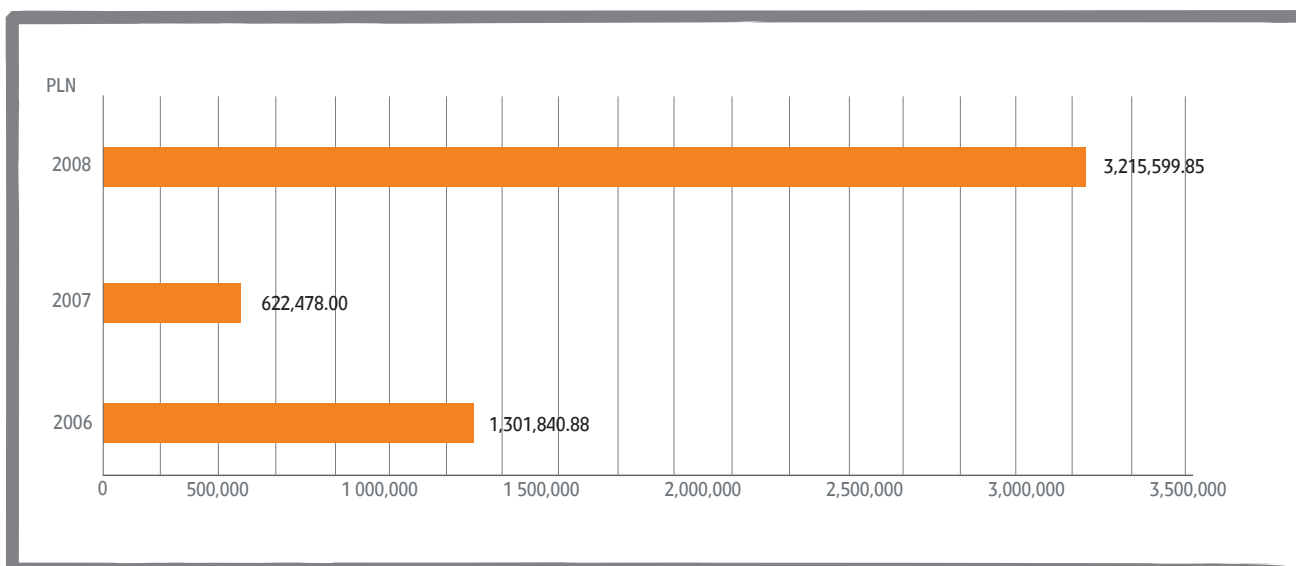
Pro-environmental work carried out as part of repair and maintenance includes primarily additional safeguards on tanks, tank embankments, and sealing of tank bottoms, overhauls of gas boilers, measurement apparatus and odorizing systems.

### Expenditure on pro-environmental investment projects and modernisation work, 2006-2008



Our capital expenditure on pro-environmental projects has remained relatively steady for several years and the costs of overhaul work done to improve the operating condition of facilities and equipment have grown considerably. This way, we consistently succeed in mitigating the negative impact of the PGNiG Group organisational units on the environment.

### Cost of pro-environmental overhaul work, 2006-2008



## In the investment process, we apply technical and technological solutions protecting the natural environment

Environmental considerations are becoming of great importance when selecting the site and technology and when analysing the future costs of operation. In our opinion, a set of uniform guidelines on fulfilment of environmental protection requirements in projects in the planning or execution phase is one of the major achievements of PGNiG. Selection of green technologies is part of the Company's strategy. *"For several years we have been applying new solutions and implementing new environment-friendly technologies. We rely in this respect on the knowledge and experience of the PGNiG engineers combined with cooperation with research and academic institutions. This enables us, for instance, to use deposits with high content of sulphur and nitrogen, deposits containing carbon dioxide or even certain harmful substances, such as quick silver,"* says Monika Kadzikiewicz-Schoeneich, Head of the Environmental Protection Instruments Division at PGNiG SA

When considering a site for a project, we analyse whether there are any protected areas, *Natura 2000* sites or other areas valuable to nature conservation, which on the one hand require special procedures during project implementation or taking compensatory measures, and on the other hand restrain the planned activities.

When undertaking investment projects which require an environmental impact analysis, the PGNiG Group companies comply with all procedures and prepare environmental reports. *"We seek approval for our plans not only from official bodies or research and academic institutions but also from population and environmental organisations,"* says Grzegorz Sojski, Head of the Environmental Protection Office at PGNiG SA. Thanks to modern technological solutions we can limit the impact on flora and fauna by reducing the area subject to tree felling, securing the root systems during earthwork, limiting vibrations, noise and emissions of pollutants, especially during the mating and breeding seasons for animals.

## We Publish Environmental Reports

For ten years the environmental protection services at PGNiG's Head Office in Warsaw have published the environmental report for the Group's internal purposes. The envi-

ronmental data presented in the reports are organised into topic groups linked with specific types of environmental impact and with specific elements of the environment. The report covers all aspects related to environmental protection, namely legal, investment, and economic issues, environmental management systems, implementation of new technologies, including in particular:

1. Use of the natural environment;
2. Determining the impact on the individual components of the environment (including identification of environmental aspects);
3. Undertaking remedial measures and steps aimed at curbing the adverse impact of our operations;
4. Compensatory measures;
5. Surveys of environmental expenditure and costs;
6. Analysis of compliance with environmental laws;
7. Voluntary efforts to limit the environmental impact through environmental management systems;
8. Analysis of documents, reports;
9. Research and publications commissioned by PGNiG SA.

The goal behind preparing the environmental report is to distribute environmental information and exchange information on best environmental practices at the PGNiG Group. Last year, on the basis of such information, the PGNiG Group for this first time prepared an external report on environmental protection.

## Awards and Distinctions

Our environmental care does not pass unnoticed, as evidenced by awards and distinctions frequently received by the PGNiG Group companies in various environmental contests. In 2009, PGNiG SA scored the maximum of 100 points in the category of environmental responsibility in the ranking of socially responsible firms prepared by the *Gazeta Prawna* daily.



## Our plans

In the area of “Natural Environment”, the Group’s strategic goal, provided for in the Strategy for Sustainable Development and Responsible Business of the PGNiG Group, is to do business in a responsible manner, with due respect for the environment. Given the environmental challenges posed today in particular by climate change, depletion of natural resources and excessive contamination of various components of the environment (air, water, soil), it is our unwavering intention to further minimise the environmental impact in all areas of our firm’s value chain (exploration, production and storage, distribution, trade, power), while promoting innovative and eco-friendly solutions and technologies.

To this end we have made a voluntary commitment to enhance and harmonise the methods we currently apply to assess the environmental impact of our facilities and units at each stage of their functioning (design and construction, operation, liquidation). Moreover, we plan to expand the scope and efficiency of our monitoring efforts and make regular and in-depth analyses of monitoring results.

In particular, as the main domestic producer and supplier of natural gas in Poland, we feel it is our duty to limit harmful air emissions by promoting the use of this most environment-friendly fuel among conventional fuels. Our efforts will consist in educating the population and advocating the replacement of other fossil fuels (coal, fuel oil) with low-emission natural gas. We also envisage further development of the network of CNG filling stations and production of electricity and heat (cogeneration) using the gaseous fuel.

Moreover, we are aware of the need to take into account environmental aspects when selecting and planning new investment projects and technologies and we appreciate the undisputed (not just economic) benefits of such an ap-

proach. For this reason we introduce new solutions which comply at least with best environmental practices, and where necessary – with best available technologies (BAT).

Objective and comparable data and information on the components of the environment, whose resources we use, as well as on the effect of the PGNiG Group’s operations on its condition, will be provided to us in relevant reports and statements, which we plan to prepare in a similar format, in accordance with our in-house standards, uniform for all Group members.

We have assumed that the fulfilment of the operating goals described above and provided for in the Strategy for Sustainable Development and Responsible Business of the PGNiG Group will be supported by continued implementation of environmental management systems at the key companies of the PGNiG Group and/or improvement of the existing environmental management systems. To this end we plan, among other things, to increase the amount of funds allocated for this purpose.

Concurrently, certain elements of the environmental management system being implemented and/or enhanced will be included in the health, safety and environment (HSE) systems, which are international management standards now practically indispensable in the case of companies operating internationally and more and more frequently required when cooperating with foreign partners on the Polish market.

While pursuing our existing practices, we also plan to further enhance the environmental awareness of our employees through regular training, information, and promotion of eco-friendly approach and solutions at the workplace.

We assume that in the coming years the gradual implemen-



tation of all our environmental goals, which in our strategy take the form of a number of specific activities (each of these activities is assigned an entity responsible for its implementation, has a specific success measure and a performance deadline), will not only facilitate preserving the natural environment in good condition in the areas of the PGNiG Group's operations, but will also represent an essential step towards preventing climate change.



# SPEED

Communication and marketing



## Challenges

Communication and Marketing is one of the six pillars of the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group; this pillar is special as it affects all other pillars as well as the main four areas of sustainable development and responsible business.

Thus, the challenges related to sustainable development are at the same time challenges in the area of communication and marketing. The key challenge for us is the number and diversity of activities of the PGNiG Group members. Also, as in the case of market-related matters, there is a significant difference between the customers of PGNiG SA (whose core businesses involve primarily gas sales to over six million retail customers), and the institutional or industrial customers of other members of the Group (which provide highly specialised services). It should also be remembered that the PGNiG Group operates not only in Poland, but also in many other places across the world, frequently with very different cultures, which is also reflected in our communication activities.

PGNiG SA – the parent company of the Group – is also key to ensuring Poland's energy security. This has a fundamental impact upon our informational activities, in particular in crisis situations resulting for example from limitation of gas deliveries to Poland.

Another very important communication and marketing area requiring special attention is internal communications and building a common organisational culture within the PGNiG Group, with more than 31,000 employees in 34 companies.

The key communication and marketing goal of the PGNiG Group is to ensure coherent, reliable and effective communication, to establish positive relations with the media, and to conduct marketing activities in accordance with the principles of sustainable development. We wish to use efficient and diverse communication tools and channels so that our activities correspond to the largest extent possible with the needs of our stakeholders.

## Our Achievements

### Active Participation in Development of the Industry

At the level of employees, member companies, and the entire Group, PGNiG SA contributes to the development of the industry through:

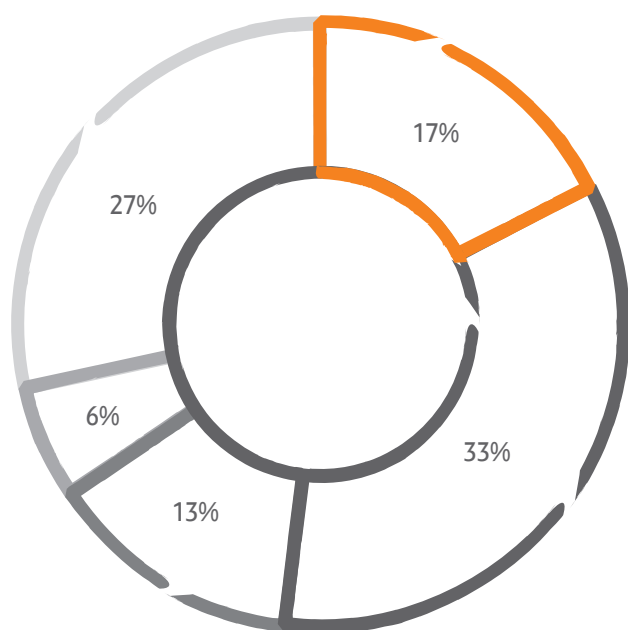
- Cooperation with trade organisations such as the Chamber of Gas, the Polish Associations of Engineers and Technicians of the Oil and Gas Industry (SITPNiG), the Polish Cogeneration Club, Wrocław University of Technology (Department of Mechanics and Energy, Faculty Cryogenics and Gas Technologies), Oil and Gas Institute, Polish Association of Engineers and Sanitary Technicians (PZITS), Polish Corporation of Sanitary, Heating, Gas and Ventilation Techniques, the AGH University of Science and Technology, and international organisations such as the International Association of Drilling Contractors (IADC), the International Well Control Forum (IWCF), the Society of Petroleum Engineers (SPE), and many others.
- Membership in trade organisations, research activities, initiatives, participation in conferences. This includes such activities as providing opinions on proposed regulations, preparing standards and guidelines for the industry, and professional development.

One of the companies intensely involved in cooperation with trade organisations is INVESTGAS SA. This company cooperates with such institutions as the Chamber of the Natural Gas Industry, the Scientific and Technical Association of Engineers and Technicians of the Oil and Gas Industry, ProLinea Association for Development of Infrastructure, and "LEWIATAN" Association of Employers. The company's involvement in the organisations' activities is confirmed by the membership certificates it holds.

All these activities have a long tradition at the PGNiG Group. The PGNiG Group is the workplace for many outstanding specialists in the energy industry, thus a source of great knowledge, frequently unique. We can boldly say that almost no significant conference within the industry takes place without participation of our representatives. Members of the PGNiG Management Board, CEOs of other Group companies and the directors of divisions, offices and departments are frequently involved in such events.

Our subsidiaries are well aware of the significance and advantages of such participation (over 54% of the respondents found them important or very important).

### Cooperation with trade organisations\*



Importance  
 ■ Very important 17.00%  
 ■ Important 33%  
 ■ Minor importance 13%  
 ■ Not applicable 6%  
 ■ No answer 27%

\* Opinions of 49 companies and branches expressed in a survey concerning the implementation of the CSR Strategy.

Many scientific conferences and symposiums are organised on the initiative of the PGNiG Group. The numerous examples include not only those dedicated to specific, highly specialised industry-specific themes. We more and more frequently also play an active role in other areas. For example, each year in June, together with Karpacka Spółka Gazownictwa and the Kraków Gas Distribution Company, we co-organise a conference on marketing in the gas industry.

Another project of this type was the first PGNiG conference "Responsible Energy" dedicated to sustainable development of the Polish energy sector, which was held in June 2009, at which, on the initiative of PGNiG SA, the first Declaration on sustainable development in the energy sector in Poland

was signed. The first signatories of the Declarations were such major players as EDF Polska, Enea, GAZ-SYSTEM, GDF SUEZ Energia Polska, PGNiG, Tauron and Vattenfall Poland.

### We Provide Access to Information

Access to information is particularly important for PGNiG SA as a provider of services to retail customers. Communication and education are important elements of customer service quality. We consider educational campaigns, satisfaction surveys, development of electronic communication with customers, but also but creation of a uniform standard of retail services to be the most important initiatives. Gas distribution companies across Poland organise information campaigns dedicated to the safe use of gas appliances, including the necessity of annual equipment inspections, in particular before the heating season. We also popularise the topic of CNG usage for transportation in urban agglomerations.

One of the most recent educational initiatives is the opening of the modern natural gas industry exhibition in Bóbrka. Karpacka Spółka Gazownictwa was the originator of the idea to create the museum, and the initiative was also supported financially by PGNiG SA. The goal of this project is to create a place that would reflect the climate of the earth's interior, together with high-class multimedia equipment that will allow the audience to see "with their own eyes", and understand the complex processes of gas production and extraction.

The communication aspects of customer relationships are also very important for other companies of the PGNiG Group, particularly for companies providing services on foreign markets and thus required to have standards of quality management. For more information on communication with customers of the PGNiG Group, see sub-section Customer Care.

Media relations are extremely important for every business entity. This is evident in the context of all communications, not only with the company's customers, but also in the process of building social trust and company's image. This is an extremely important area for PGNiG. Our mission is to assure safe and reliable energy delivery. The Company's activities are significant for the country's energy security.

Therefore, we pay particular attention to providing broad information on our projects, diversification of deliveries, purchases of new deposits, and also changes in the operations of our subsidiaries. One such transformation was the unbundling of the trade and gas distribution assets, which although it took place in 2007, before this period covered in this report, is worth mentioning as it was an extremely important project for the contemporary history of the gas market in Poland. At that time, all trading divisions (responsible for gas sales in Poland) held press conferences devoted to the new operating principles of the gas market. Communication with the media is also of the utmost importance in crisis situations when difficult questions regarding the state of gas deliveries and its quality may emerge. The way we act during a crisis is demonstrated by description of relations of PGNiG with the media in January 2009.

At the same time it should be remembered that defined frames of our communication are determined by standards applicable to listed companies, including PGNiG SA. The company operates based on the document "Code of Best Practice for WSE Listed Companies" and aims to implement best practices in this respect. Published press releases must be in line with stock exchange reports released by the company. Our Investors Relations team cooperates closely with the Press Office so that information important for the press can be distributed as quickly as possible. If necessary we even publish current reports several times a day. This also assures coherent communication between the Company and the market.

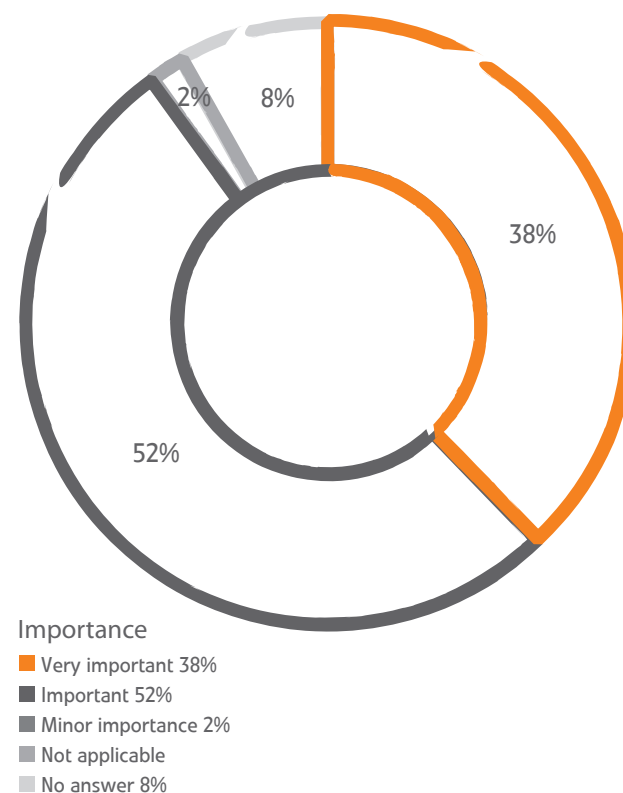
### Involvement in Social and Sponsoring Projects

The companies of the PGNiG Group are involved in issues important to the local communities in areas of our operation. Participation in developing the necessary infrastructure, strengthening the labour market by employing locals, and various pro-publico bono and charity activities are just some of such initiatives. This is one of the foundations of our past practices and the new Strategy of Sustainable Development and Responsible Business of the PGNiG Group, discussed in sub-section Local Community. We try to conduct our sponsoring activities in accordance with these ide-

as. We operate on the assumption that the PGNiG Group, as a vital element of the Polish economy, should also include social aspects in activities whose direct goal is advertising and promotion. Therefore our sponsoring and marketing projects frequently focus also on vital social issues. As the Group draws from the achievements of science, we are particularly interested in its popularisation amongst children and youngsters, and we take this into account in our sponsoring decisions. Another important aspect for our business activity, considered in our marketing operations, is protection of the environment. We eagerly support projects that may influence social attitudes in this area, both locally and nationwide.

As many as 87.5% of the companies, divisions and gas distribution companies of the Group declare to include environmental and social elements in their external communications, which, in the opinion of almost 90% of the respondents, is important or very important.

### Inclusion of environmental and social elements in external communications \*



\* Opinions of 49 companies and branches expressed in a survey concerning the implementation of the CSR Strategy.

This is extremely visible in the upstream sector – 100% of the entities in this segment include environmental and social elements in their communications, considering them to be important (100% - important or very important).

One company involved in environmental activities is INVESTGAS SA, which conducts an advanced environmental policy, considering it its priority to incorporate environmentally-friendly solutions at the stage of design, construction and operation of buildings and industrial installations, reducing emissions of noxious substances to the atmosphere, reduction of waste, limitation of noise, avoidance of environmental disasters, as well as monitoring and correcting the adopted pro-environmental solutions.

In 2009, PGNiG SA became involved, yet again, in the “PGNiG Safe by the Water” project, promoting a splendid sport – sailing – and at the same time the safe and environmentally-friendly use of the nature’s charms. The first edition of this initiative, “PGNiG Safe Masuria”, was presented in this year’s report on best practises in corporate responsibility published by the Responsible Business Forum. This was not the only PGNiG Group initiative noticed by the Forum. Another project was EKOSTYLE, an educational and informational campaign conducted by Pomorska Spółka Gazownictwa. This campaign was divided into three phases. The first consisted in sending e-mails to employees responsible for environmental protection. In the second phase, all employees received eco-friendly multiple-use shopping bags, and in the third stage, the company issued an internal “Ekoelementarz” - a ecological lifestyle guide for employees. The bags were also distributed among customers.

A similar idea was also implemented by the Olsztyn gas distribution company, whose customers received eco-friendly shopping bags. The bags were also available at Customer Service Centres in the area of operations of the company, as reported in “green newspaper” – a supplement to the Olsztyn edition of Gazeta Wyborcza devoted to environmental-protection matters. The initiative was conducted twice – in October 2008 and in April 2009. The April edition finished with an additional day of planting trees with Gazeta Wyborcza and its publishing partner, the PGNiG Olsztyn gas distribution company. The idea of an eco-friendly gift, such as the shopping bags, was greatly appreciated by the Ste-

fan Jaracz Theatre in Olsztyn, open to unconventional means of approaching customers. As a consequence of common activities this year, shopping bags was added to each theatre ticket sold. As well as the gift itself, the attached information was also important, in which the Olsztyn gas distribution company proposed each resident in the region to take common actions for the neighbourhood, starting from shopping with multiple use bags.

Another group of projects combining the social involvement of PGNiG companies with their marketing goals is sport sponsoring. This form of cooperation is expected by our stakeholders, therefore many PGNiG entities support local clubs and sport events. For many years the PGNiG SA Branch in Sanok and the Jasielsk gas distribution company have been involved, for example, in the Gorlice Oil Run. The Gdańsk gas distribution company and Pomorska Spółka Gazownictwa sponsor races of dragon boats on the Motława River. There are many more examples of such activities. It is also worth mentioning another nationwide project – in October 2008, PGNiG SA started cooperation with the Polish Rowing Association (PZTW). We hope that this will help to popularise rowing as a sport especially associated with the beauty of nature, and the tremendous successes of our Olympic champions from Beijing – the crew of four: Marek Kolbowicz, Konrad Wasileski, Michał Jeliński and Adam Korol.

PGNiG also participates in numerous local and nationwide events important for Polish culture and art. We sponsor local initiatives through the chain of gas distribution companies, divisions and other subsidiaries of the PGNiG Group. Karpacka Spółka Gazownictwa and the PGNiG Branches of Sanok and Zielona Góra, where these firms are one of the largest business entities, have an especially rich tradition in this respect. The Karpacki Gas Trading Division, and in particular the Kraków and Sandomierz gas distribution companies, support important cultural events, such as the Misteria Paschalia Music Festival, Cracow Cribs Competitions and the Unusual Film Festival more frequently than sports. In this aspect it is impossible not to mention Wielkopolska Spółka Gazownictwa, which has for years sponsored the Poznań

Boys' Choir and the Henryk Wieniawski Violin Competitions, and has provided support to the most outstanding sculptors in the Wielkopolska region; their works are now exhibited in the company's head office. The company also participated in local initiatives aimed at erecting monuments of Hipolit Cegielski in Poznań and King Casimir the Restorer in Pobiedziska.

In the last month of work on the Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group, the company also created the Sponsoring Activity Strategy for the PGNiG Group. This Strategy was developed based on the best practises of the Group, including the principles of sustainable development. This is another step towards greater efficiency and cohesion of external communications of the PGNiG Group companies.

### **We Care for Social Dialogue and Internal Communication**

Social dialogue has a rich tradition in the energy industry. The significance of the relationship between the employer and trade unions in PGNiG SA is demonstrated by the fact that one of the members of the Management Board of PGNiG SA is elected for a three-year term with votes of the Company's employees, and three representatives of the staff have a seat on its Supervisory Board. Care for employees is one of the main pillars of the Sustainable Development Strategy of the PGNiG Group.

These matters, except internal communication, are discussed in detail in sub-section Employees and Safe Working Environment. Internal communication is a real challenge in the PGNiG Group. We employ tens of thousands people in several divisions and in dozens of companies, performing various business undertakings and projects. Access to reliable and fast information is one of the most important rights of the employees, and also the basis of business success. Therefore within the PGNiG Group we are continuously developing tools and channels of communication with the employees. The most important of them include:

**System of Communicators** – a team of people responsible for coordination of internal communication at their home units (gas distribution companies/ divisions / subsidiaries), and coordination of cooperation in this scope with other

entities of the Group, including the Head Office. Several dozen people within the PGNiG Group are in ongoing contact with their counterparts, and participate in communication and marketing meetings at least twice a year.

**Newsletter Portal** – an electronic portal publishing the most important information for the employees of the Group (news, local information, stock exchange commentaries etc.), which can be accessed by all, regardless of the IT systems used in their companies or divisions.

**Electronic Newsletter** – sent every day by the Head Office to employees of PGNiG and communicators who distribute it among the employees.

**MaGAZyn** – a monthly magazine of the PGNiG Group with a circulation of 5,000.

**On-line Chats** – with President of the Management Board of PGNiG SA are organised at least twice a year by the Head Office.

**Business presentations, consultations and meetings** – organised when needed.

These are the fundamental communication tools and channels at the PGNiG Group. However, it should be mentioned that due to the quality and time management systems used at many companies and branches of the Group, these entities also frequently use internal communication tools, which are not yet popular across the entire Group.

For more information on communication with various groups of stakeholders, and also charitable activities of the Group companies, see section The Group's Stakeholders, and sub-sections Local Community, Customer Care and Employees and Safe Working Environment.



## Best Practices

### PGNiG SA

PGNiG SA was the main sponsor of the 2008 Science Festival in Warsaw. The goal of the Festival was to promote science and its achievements as the manner of building a modern country, economically competitive in Europe and worldwide. The average number of participants of general meetings was approximately 50,000, and the number of school pupils participating in the festival lessons approximately 15,000. There were also meetings organised throughout the year related to the Festival. These included "Scientific Cafes" – discussions held in various parts of Warsaw, and the "Science Festival School" – an educational project popularising molecular biology and biotechnology amongst youngsters and teachers.

In 2009, PGNiG has continued cooperation with the Warsaw Festival by organising the Open Day at the Head Office at ul. Kasprzaka 25, and has additionally supported similar events in the Tri-City (Gdańsk, Gdynia Sopot), Kraków, Wrocław, Lublin and Olsztyn.

### PGNiG INVESTOR RELATIONS

Our approach to reporting was appreciated during this year's gas crisis. This is demonstrated by the opinion published in Gazeta Prawna on January 12th, at the height of the crisis: "There are companies that have demonstrated that they are able to use what they received from the stock exchange. The Polish gas problems can be best tracked based on the PGNiG current reports. The company publishes these even several times a day, also providing the time stamp. And this one – on 6 and 7 January – was not far away from the time of the report publication [each report must be signed by the company's representatives named in the National Court Register]. Moreover, from the PGNiG communications, shareholders of other companies could have found out which public companies would receive less gas. We should hope that PGNiG will always remain so diligent in informing investors about their current situation, and that other will follow PGNiG".



## PGNiG SA BRANCH IN ODOLANÓW

For 25 years, during the “Summer with Helium” initiative, young enthusiasts of physics, together with scientists from Odolanów, have the opportunity to explore secrets of science. The project includes various types of educational activities for children and youth. Additionally, in 2008, on the occasion of celebrating the 100th anniversary of the helium liquefaction by Kamerling Onnes (at Leiden University) the laboratory in Odolanów prepared exceptional shows and experiments. The youth were able to see boiling helium – the so-called helium fountain, and listen to physics lectures.

In 2009, the Odolanów branch again hosted participants and lecturers of the European Education Program, this year dedicated to cryogenics. Three universities participated in the program: the Technical University of Dresden, the University of Science and Technology in Trondheim, and the Wrocław University of Technology. The goal of the project is to prepare students to participate in development of cryogenic technologies, rapidly changing in Europe. The program is addressed to student and Ph.D. fellows of European universities of technology, specialising in refrigeration, energy, construction of fluid flow machines and processing engineering. It consists of three separate one-week sessions held in Germany, Poland and Norway, focused respectively on liquid hydrogen, liquefied helium and liquefied natural gas technologies.

## POMORSKA GAS TRADING DIVISION Gdańsk Gas Distribution Company

The Pomorska Gas Trading Division started cooperation with the “Gdańsk Fortress” Culture Park of City Fortifications. The area of the Grodzisko Fortress (a fortified hill 50m above the sea level) hosts the educational and recreational centre offering various exhibitions devoted to the populari-

sation of modern technology of efficient energy extraction from natural gas. The overall goal of the Eko-Hewelanium campaign is to increase environmental awareness of inhabitants of the Gdańsk Province by presenting legally protected natural places, and also promoting, in an interesting manner, the use of renewable energy sources.

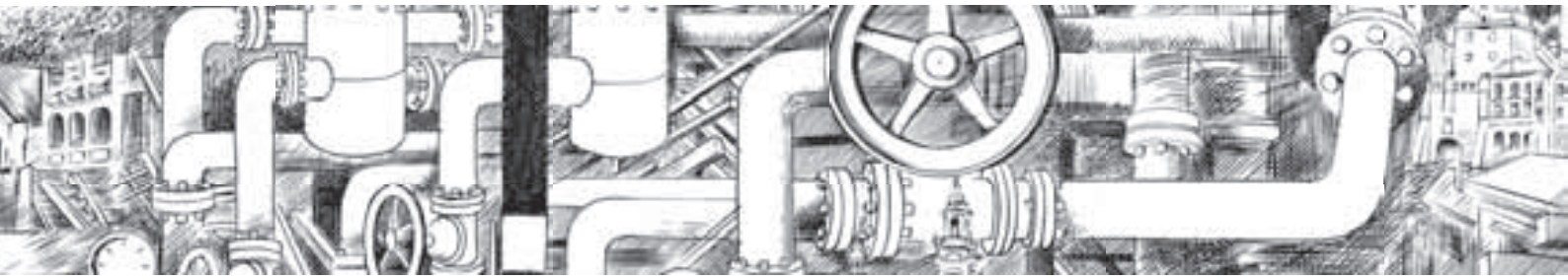
## POMORSKA GAS TRADING DIVISION Olsztyn Gas Distribution Company

The Olsztyn Gas Distribution Company held an initiative “Breath for the City” promoting CNG for cars of driving instructors, consisting of subsidising installations in training cars. Course participants were also informed about the possibilities and advantages of using CNG as an alternative fuel. The information about the possibility to learn how to drive with a car fuelled by CNG and advantages for the environment was also communicated in the local press during events and advertising campaigns. The Gas Distribution Company was the main sponsor of a theatre show thanks and, on the opening night, helped organise a happening informing about the advantages of CNG.

## NAFTA PIŁA

In April 2009, the town of Piła hosted participants of the International Scientific and Technical Conference dedicated to the development of oil exploration techniques and technologies. The conference was accompanied by an exhibition where global oil companies presented the latest equipment and technologies. Adam Szejnfeld, Secretary of State in the Ministry of Economy, was the honorary patron over the conference.





## Plans for the future

We believe that reliable and efficient communication is a necessary element of our actions in all areas of responsible business, in the entire value chain of the PGNiG Group.

In accordance with the adopted Sustainable Development and Corporate Social Responsibility Strategy of the PGNiG Group, we first initiate activities regarding development of a joint corporate communication strategy for the Group, covering all aspects of internal and external communication – relations with the media, crisis communication, social involvement of the Group's entities, and the already mentioned sponsoring and marketing activities. We care about developing clear rules and procedures consistent with the principles of sustainable development. We wish to improve channels of internal communication and conduct joint actions related to this. Within the Sustainable Development Strategy, many business areas also adopted goals regarding broader cooperation within the Group.

We believe that all these activities will help us with better and more effective communication with our stakeholders, including internal parties, and consequently will become a source of competitive advantage.



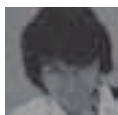
9

# HARMONY

Sustainable development and corporate social responsibility coordinators at the PGNiG Group



## PGNiG SA



**Marzena Strzelczak**, PGNiG Head Office, Management Board's Proxy for Sustainable Development and Corporate Social Responsibility Strategy



**Katarzyna Mróz**, PGNiG Head Office, Sustainable Development and Corporate Social Responsibility Strategy Coordinator



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**Christina Paulsen**, PGNiG Branch in Denmark



**Michał Kopczak**, PGNiG Branch in Egypt



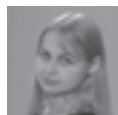
**Katarzyna Cholaśt**, PGNiG Branch in Odolanów



**Ewa Król**, PGNiG Branch in Sanok



**Agnieszka Gocek**, PGNiG Branch in Zielona Góra



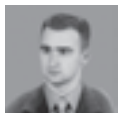
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**Bogumiła Koman**, gas distribution company  
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**Maja Girycka**, Górnośląska Spółka Gazownictwa



**Bożena Malaga-Wrona**, Karpacka Spółka Gazownictwa



**Emilia Tomalska**, Mazowiecka Spółka Gazownictwa



**Katarzyna Wróblewicz**, Pomorska Spółka Gazownictwa



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**Michał Kolankiewicz**, Geovita



**Sławomir Duran**, ZUN Naftomet

# GLOSSARY

## Key terms

### Glossary of CSR Terms:

**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.

**Declaration on sustainable development in the energy sector** - the declaration of 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 declaration.

**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.

**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.

**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 1000 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 Gazeta Wyborcza 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.

**Stakeholder** - any entity with an interest in 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.



**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.

**Social campaign** - activities aimed at changing the attitude or behaviour of a given group as well as preventing their development. 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. Company's involvement in a social campaign strengthens its image of an entity with active interest in its environment and gives an opportunity to build stronger relationship between the employees as well as between the company and particular groups.

**Company's Code of Value** - a code of value adopted by a company defining its organisational culture. A common code of value promotes higher awareness of the unwritten principles and company rules among employees, allowing them to build closer relationship with the company and other employees.

**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.

**Cause-related marketing** - an intermediate form of marketing between commercial and social marketing. It involves supporting a social cause to strengthen the image of the company. The implementation of cause-related marketing very often involves three parties: the company, civil society organisations and consumers.

**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.

**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 company's operations.

**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 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.

**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.

**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 popularisation. Sponsorship involves planned and intended activities aimed at creating a positive image of a company.

**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.

**Voluntary work** - involvement of company employees in voluntary work for the benefit of civil society organisations. The 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, providing material, logistics or financial assistance.

**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.

## Glossary of Industry-Specific Terms:

**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 CO<sub>2</sub> 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.

**Distribution** - transport of gaseous fuels to customers via distribution networks.

**Exploration and Production or E&P** - one of PGNiG's segments of operation. The companies operating in this segment are engaged in exploration, geophysical and geological work. The segment also involves production of natural gas and crude oil.

**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 reserves.

**Direct gas pipeline** - the gas pipeline used for transmission of gaseous fuel directly to the customer's installation, omitting the gas system.

**PGNiG Group** - Polish Gas and Oil Company Group

**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.

**MPZP** - local land development plan (miejscowy plan zagospodarowania przestrzennego).

**OGP GAZ-SYSTEM** - abbreviated name of Operator Gazociągów Przesyłowych GAZ-SYSTEM SA. 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 conducts business activities of a gas transmission system operator under a licence issued by the Polish Energy Regulatory Office.

**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 operated domestically. Six such facilities are in Poland – five of them located in worked out natural gas caverns, and the sixth one in a salt cavern in Mogilno.

**Transmission** - transportation 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 a transmission system operator.

**Distribution network** - a gas network of low, medium and high pressure, other than a mine pipeline or a direct pi-

peline. The responsibility for network traffic rests with gas distribution companies.

**SGT EuRoPol GAZ**- abbreviated name of System Gazociągów Tranzytowych EuRoPol GAZ SA. The company is responsible for natural gas transmission along the Polish section of the Yamal transit pipeline, connecting the Russian Federation with Western Europe.

**Gas 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.

**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.

**URE (Urząd Regulacji Energetyki)** - 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.



# 11 INDICATORS

## GRI indicators presented in the report

The GRI indicators have been 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 indica-

tors enables objective comparison of CSR-related activities among companies. In addition to principles and recommendations, the GRI guidelines include a system of indicators from which companies may voluntarily select. The indicators selected by the Company are presented in the table below.

No.	Type of GRI indicator	Place of presenting in the Report
	<b>Strategy and Analysis</b>	
1.1	Statement from the most senior decision maker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy	Letter of the President Pages 4-5
1.2	Description of key impacts, risks and opportunities	section V Page 42
	<b>Organisational Profile</b>	
2.1	Name of the organisation	section II Page 11
2.2	Primary brands, products and/or services	section III Page 13
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	section III Page 13-15
<b>2.4</b>	<b>Location of organisation's headquarters</b>	

2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Section III Page 19
2.6	Nature of ownership and legal form	Section III Page 31
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Section III Page 18-19
2.8	Scale of reporting organisation, including: <ol style="list-style-type: none"> <li>1. - Number of employees</li> <li>2. - Net sales (for private sector organisations) or net revenues (for public sector organisations);</li> <li>3. - Total capitalisation broken down in terms of debt and equity (for private sector organizations); and</li> <li>4. - Quantity of products or services provided</li> </ol>	Section III Page 13-29
2.9	Significant changes during the reporting period regarding size, structure, or ownership including: <ul style="list-style-type: none"> <li>- The location of, or changes in operations, including facility openings, closings, and expansions; and</li> <li>- Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations).</li> </ul>	Section IV Page 35-41
2.10	Awards received in the reporting period	Section VIII Page 70-73, 90-93, 99-100
	<b>Report Parameters</b>	
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	Section II Page 11
3.2	Date of most recent previous report (if any)	Section II Page 11
3.3	Reporting cycle	Section II Page 11
3.4	Contact point for questions regarding the report or its contents	Section II Page 140
	<b>Report Scope and Boundary</b>	
3.5	Process for defining report content, including: <ul style="list-style-type: none"> <li>- Determining materiality of individual issues to the organisation and its stakeholders;</li> <li>- Prioritising topics within the report; and</li> <li>- Identifying stakeholders the organisation expects to use the report</li> </ul>	Section VI Page 51
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	Section II Page 9
3.7	State any specific limitations on the scope or boundary of the report	Section II Page 11

3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations	Section II Page 11, 34-41
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/ periods, nature of business, measurement methods)	Section II Page 11, 34-41
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	Section II Page 11
	<b>GRI Content Index</b>	
3.12	Table identifying the location of Standard Disclosures in the report	Section XI Page 144
	<b>Governance, Commitments and Engagement</b>	
	<b>Governance</b>	
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	Section III Page 31-32
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement)	Section III Page 31
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Section III Page 31
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Section III Page 31
	<b>Stakeholder Engagement</b>	
4.14	List of stakeholder groups engaged by the organisation	Section V Page 43-44, 51-57
4.15	Basis for identification and selection of stakeholders with whom to engage	Section V Page 51-57
	<b>Management Approach and Performance Indicators</b>	
	<b>Performance Indicators</b>	
	<b>Aspect: Economic Performance</b>	
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	Section III Page 16-17
	<b>Aspect: Market Presence</b>	

EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	section VIII/Employees Page 83
	<b>Aspect: Indirect Economic Impacts</b>	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	section VIII/Local Community Page 95-106
	<b>Environment</b>	
	<b>Aspect: Materials</b>	
	<b>Aspect: Water</b>	
EN8	Total water withdrawal by source	Section VIII/ Environment Page 114
EN10	Percentage and total volume of water recycled and reused	Section VIII/ Environment Page 115
	<b>Aspect: Biodiversity</b>	
	<b>Aspect: Emissions, Effluents, and Waste</b>	
EN16	Total direct and indirect greenhouse gas emissions by weight	Section VIII/ Environment Page 113
EN21	Total water discharge by quality and destination	Section VIII/ Environment Page 114
EN22	Total weight of waste by type and disposal method	Section VIII/ Environment Page 115
	<b>Aspect: Compliance</b>	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Section VIII/ Environment Page 110
	<b>Aspect: Overall</b>	
EN30	Total environmental protection expenditures and investments by type	Section VIII/ Environment Page 117-119
	<b>Labour Practices &amp; Decent Work</b>	
	<b>Aspect: Employment</b>	
LA1	Total workforce by employment type, employment contract, and region	Section VIII/ Employees Page 81
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Section VIII/ Employees Page 82-83
	<b>Aspect: Labour/Management Relations</b>	

LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	section VIII/Employees Page 81-82
	<b>Aspect: Occupational Health and Safety</b>	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region	section VIII/Employees Page 85-86
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	section VIII/Employees Page 83-84
	<b>Aspect: Training and Education</b>	
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	section VIII/Employees Page 83-84
	<b>Human Rights</b>	
	<b>Aspect: Investment and Procurement Practices</b>	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	section VIII/Employees Page 84, 88-89
	<b>Society</b>	
	<b>Aspect: Community</b>	
SO1	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	section VIII/Local Society + Communication Page 95-98, 125
	<b>Product Responsibility</b>	
	<b>Aspect: Product and Service Labelling</b>	
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	section VIII/Customer Page 62-66





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Piotr Dworak, Head of Gas Transport Department at PGNiG SA, Bożena Malaga-Wrona, Spokesperson for Karpacka Spółka Gazownictwa, Beata Błaziak-Pyzel, Customer Service Centre Organisation Division Manager at Gazownia Krakowska, Tadeusz Solecki, PR Specialist at Geofizyka Toruń, Joanna Zakrzewska, Spokesperson for PGNiG SA, Leszek Łuczak, PR Representative at Wielkopolska Spółka Gazownictwa, Barbara Koba, Head of Investment Department at PGNiG SA, Dorota Rajczyk-Gałkowska, Market Development and Marketing Division Manager at Gazownia Gdańsk, Magdalena Pachocka, Spokesperson for Geofizyka Kraków, Anna Dłużniewska, Director of PGNiG SA's Ignacy Łukasiewicz Foundation, Agnieszka Siola, Spokesperson for PNiG Kraków, Emilia Tomalska, Spokesperson for Mazowiecka Spółka Gazownictwa, Katarzyna Wróblewicz, Spokesperson for Pomorska Spółka Gazownictwa, whose picture on page 94 opens section "Local Community",

Monika Kadzikiewicz-Schoeneich, Environmental Protection Instruments Division Manager at PGNiG SA, Anna Markiewicz, Environmental Management Division Manager at PGNiG SA and Grzegorz Sojski, Head of Environmental Protection Office at PGNiG SA, whose picture on page 108 opens section "Environmental Protection and Environmental Management Systems",

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