



Polish Oil and Gas Company (PGNiG SA)  
Head Office

Warsaw, December 19th 2012

## **Short-term Value Creation Strategy for the PGNiG Group until 2014**

Current Report No. 185/2012

The Management Board of Polskie Górnictwo Naftowe i Gazownictwo SA ("PGNiG", "Company") reports that on December 18th 2012 the PGNiG Supervisory Board approved the *Short-Term Value Creation Strategy for the PGNiG Group in 2012–2014*.

The strategy is a comprehensive plan of coordinated activities designed to attain the overriding strategic objective of the PGNiG Group which is to build value for shareholders. The strategy is also consistent with the *Revised Strategy for the PGNiG Group Until 2015* adopted in mid-2011.

The *Short-Term Value Creation Strategy for the PGNiG Group until 2014* provides for 19 initiatives subdivided into three business areas:

### **Initiatives in the Upstream area:**

1. Appraisal and development of unconventional hydrocarbon reserves under licences held
  - Stream 1 – Implementation of exploration and production programme on the Wejherowo licence
  - Stream 2 – Implementation of exploration and appraisal programmes in other locations.
2. Cooperation with external partners in the area of hydrocarbon exploration and production
  - Stream 1 – Start of cooperation with domestic partners on the Wejherowo licence
  - Stream 2 – Implementation of other joint ventures involving unconventional resources.
3. Intensification of conventional hydrocarbon exploration in Poland
  - Stream 1 – Implementation of exploration and production programmes on the licences held
  - Stream 2 – Implementation of tools to optimise investment decision-making and control the Group's upstream operations.
4. Optimisation of upstream operations outside Poland
  - Stream 1 – Consolidation of the Group's foreign upstream operations
  - Stream 2 – Launch of hydrocarbons production in Norway



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- Stream 3 – Drilling exploration wells in Libya and Egypt
- Stream 4 – Continuation of exploration work in Pakistan
- Stream 5 – Discontinuation of upstream operations in Denmark.

#### **Initiatives in the Market area:**

5. Enhancing efficiency in the marketing and customer service areas
  - Stream 1 – Optimisation of organisation and processes in the marketing and customer service area
  - Stream 2 – Optimisation of business customer marketing and service model
  - Stream 3 – Optimisation of retail customer marketing and service channels
  - Stream 4 – Restructuring/optimisation of the BOK (Customer Service Office)/ POK (Customer Service Point) network
  - Stream 5 – Optimisation of IT system in the customer service area
  - Stream 6 – Promoting customer-centred attitudes among the Group's employees.
6. Implementation of integrated product offering
  - Stream 1 – Implementation of customer segmentation
  - Stream 2 – Introduction of electricity offering
  - Stream 3 – Launch of new gas and gas-related products and services.
7. Implementation of new marketing policy
  - Stream 1 – Change in the corporate brand and trade mark architecture
  - Stream 2 – Optimisation of the marketing communications and PR policy
  - Stream 3 – Optimisation of marketing structures and processes.
8. Active participation in and support of the gas market deregulation programme
  - Stream 1 – Development of conceptual scope of market maker's responsibilities
  - Stream 2 – Launch of exchange trading
  - Stream 3 – Efforts to promote deregulation of gas prices for business customers
  - Stream 4 – Efforts to promote deregulation of gas prices for retail customers.
9. Development of the power segment
  - Stream 1 – Construction of CCGT unit at the Żerań CHP
  - Stream 2 – Reconstruction of boilers at the Siekierki CHP with fuel change from coal to biomass
  - Stream 3 – Construction of CCGT unit at the Stalowa Wola CHP
  - Stream 4 – Construction of gas-fired CHP with selected partner
  - Stream 5 – Participation in development of district and industrial heating systems.



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#### 10. Change in pricing rules for gas import contracts

Stream 1 – Renegotiation of the pricing formula under the gas import contract with Gazprom (accomplished)

Stream 2 – Renegotiation of the pricing formula under an LNG import contract or liquidation on an international market (option).

#### 11. Change in the structure of imported gas sources

Stream 1 – Initiatives to remove legal and administrative barriers in decision-making processes relating to gas imports

Stream 2 – Change in the structure of imported gas sources towards increased share of gas purchased under short- and medium-term contracts

Stream 3 – Possible utilisation of idle capacity at the LNG terminal.

#### 12. Centralisation of the wholesale trading function at the PGNiG Group

Stream 1 – Development of detailed business concept for the Wholesale Gas Trading Division (OOH),

Stream 2 – Establishment of OOH

Stream 3 – Transfer of the wholesale gas trading function from the Gas Trading Divisions at PGNiG Energia, PGNiG Termika and PGNiG Sales & Trading to the OOH

Stream 4 – Development of a risk management model for the wholesale gas trading business

Stream 5 – Adding missing capabilities in the wholesale gas trading area.

### **Initiatives in the Business Model area:**

#### 13. Optimisation of the HR management system at PGNiG SA

Stream 1 – Streamlining and standardisation of HR rules and procedures

Stream 2 – Development of a comprehensive remuneration policy (job roles and grading, optimisation of the remuneration system)

Stream 3 – Implementation of uniform IT system to support HR processes at PGNiG SA

Stream 4 – Improvement of the corporate culture (including PGNiG's reputation as employer).

#### 14. Implementation of a project/project portfolio management system

Stream 1 – Development of concept for and establishment of the Project Management Office

Stream 2 – Development of uniform project management policy/rules at the PGNiG Group

Stream 3 – Development and implementation of tools to support project management/coordination

Stream 4 – Training/certification of employees in project management basics.

#### 15. Establishing Shared Services Centre

Stream 1 – Development of target operating model for the Shared Services Centre within the Group



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Stream 2 – Implementation of the Shared Services Centre – transfer of supporting functions (financial and accounting, payroll, IT and (optionally) procurement) from the respective Group companies participating in the process of building the Shared Services Centre.

#### 16. Restructuring of the PGNiG Group's core businesses

- Stream 1 – Consolidation of the power generation business within PGNiG Termika,
- Stream 2 – Restructuring of Hydrocarbon Production Branches
- Stream 3 – Merger of Gas Companies into a single entity.

#### 17. Restructuring of the PGNiG Group's non-core businesses

- Stream 1 – Merger of drilling and service subsidiaries into a single entity (PGNiG Poszukiwania) and partial sale of shares in PGNiG Poszukiwania through IPO
- Stream 2 – Sale of Geovita Sp. z o.o.
- Stream 3 – Sale of shares in PGNiG Technologie through IPO
- Stream 4 – Sale of shares in other non-strategic subsidiaries.

#### 18. Employment restructuring

- Stream 1 – Determination of the optimum headcount for the Group
- Stream 2 – Definition of objectives for and implementation of voluntary redundancy programme
- Stream 3 – Implementation of further employment restructuring programmes.

#### 19. Optimisation of the storage segment at the PGNiG Group

- Stream 1 – Consolidation of the gas storage operations
- Stream 2 – Consolidation of storage assets.

The implementation of Short Term Value Creation Strategy of PGNiG Group will enable to realize ambitious investment program, repay existing debts and generate excess cash (amounting to ca 15 billion PLN), which could be spend on additional investments.