



**Report by Gas Transmission Operator GAZ-SYSTEM S.A.
on Progress in Implementing the Global Compact Initiative:
07/2009 – 07/2010**

Communication on Progress

Ladies and Gentlemen,

In July 2009, Gas Transmission Operator GAZ-SYSTEM S.A. joined the Global Compact initiative, declaring its respect for the ten principles on human rights, labour relations, environmental protection and anti-corruption.

Participation in the Global Compact is an opportunity to develop our business by including the social dimension in our business vision and by using socially responsible policies and practices.

We've been doing our best to do business in line with the principles of corporate social responsibility which is understood throughout the Company as an essential part of its management policy. Through social dialogue, our desire is to help shape favourable conditions to strike a balance between the Company's business, environmental and social dimensions. Accepting the corporate responsibility concept translates into our organisation's reliability in all aspects and building sustainable and transparent relations with external stakeholders.

One full year has passed since GAZ-SYSTEM S.A. joined Global Compact. I'm convinced that the measures taken by the Company over that period have demonstrated our enormous determination to achieve the goals of this global Initiative. This was evident in our use of transparent rules of conduct, reliable communication and developing effective relations with our employees, and business and social partners. We've also strived to promote extra social initiatives compliant with the Global Compact principles. These were addressed to our employees, customers, business partners, as well as local communities and public authorities.

In carrying through our primary business objective, GAZ-SYSTEM S.A. has paid attention to how the responsibilities stipulated by the Company's Articles of Association are implemented. This is why it is so important for us to act with respect to key values. Given the above assumptions, GAZ-SYSTEM S.A. has adopted the Code of Ethics to define the rules of ethical conduct and highlight the central position of values which inform our Company's activities and decision-making.

Specially notable is also our building of strong relationships with local communities based on long-standing dialogue and openness. GAZ-SYSTEM's investment in development of our transmission system to diversify natural-gas supplies and Poland's energy security reinforce the Company's sense of responsibility for the region's inhabitants and natural resources used. We've been doing our best to make our activities fully understood and accepted, and carried out with respect to the environment, and to provide a chance to give to any given region significant benefits from the projects being implemented.

In a move to realise these objectives, GAZ-SYSTEM S.A. has proposed to hold regional meetings (in Szczecin, Gdańsk, Poznań and Wrocław) with the participation of local authorities. Furthermore, information campaigns have been conducted among Lower Silesian residents. These meetings have allowed to present plans to expand the gas-pipeline transmission network in the region and to hear opinions and expectations from direct stakeholders.

In this year, we've also launched broader measures to promote pro-environmental attitudes. In 2009, we've adopted a "Corporate Social Responsibility Programme for Gas Transmission Operator GAZ-SYSTEM S.A.", which focuses on three pillars: environment, education, and workforce's involvement in societal activities. In 2010, we've been implementing first initiatives within that programme targeting students, employees and local communities.

I can assure that we'll make every effort to further improve our activities, by establishing friendly and responsible relationships with the environment, and to pursue our business goals with due respect to the environment.

We have a stake in a consistent and long-standing commitment to the Global Compact principles, and full-heartedly declare further support to this amazing Initiative.

Best regards,

Jan Chadam
Executive Board President, GAZ-SYSTEM S.A.

This summary of progress in the implementation of the ten Global Compact principles is the first Report since Gas Transmission Operator GAZ-SYSTEM S.A. joined this Initiative in July 2009.

The figures in this Report apply to the closed reporting period 2009 (in some instances, the figures for the first semester of 2010 are also presented). To enable comparisons and progress assessment, figures for 2008 are included.

Company Profile

Gas Transmission Operator GAZ-SYSTEM S.A. is a company responsible for natural-gas transmission and management of the transmission network in Poland. The Company has been given the status of a strategic company for Poland's economy and energy security.

GAZ-SYSTEM's responsibilities include:

- ensure coordinated and efficient network operation, ensuring the required level of reliability of gas fuel supplies and their quality,
- provide equitable access of gas-market participants to the transmission network,
- operate, repair and expand transmission installations, with due respect to the environment,
- provide sufficient information to the respective operators of the transmission, storage, distribution, and LNG systems to enable transport and storage of natural gas in a way ensuring safe and efficient operation of the combined systems,
- provide to each transmission system participant information needed for them to gain an effective access to the system.

Corporate oversight over the Company is exercised by the State Treasury which holds 100% of shares.

GAZ-SYSTEM S.A. coordinates the construction of the Liquefied Natural Gas (LNG) terminal at Świnoujście. At the same time, GAZ-SYSTEM S.A. owns the special-purpose vehicle Polskie LNG S.A., a company established to build and operate the terminal on the Polish coast.

GAZ-SYSTEM S.A. plans to build in Poland about 1000 km of new gas transmission pipelines. In addition to the expansion of the domestic transmission system, the Company builds a interconnector between Poland and the Czech Republic. Moreover, gas transmission pipelines are being extended in Lower Silesia to take off more natural gas through the Lasów point on the Polish-German border.

Human Rights and Labour Standards

Principle 1. Support and respect the protection of internationally proclaimed human rights.

Principle 2. Eliminate any human rights abuses by the company.

Principle 3. Respect the freedom of association.

Principle 4. Eliminate any forms of forced and compulsory labour.

Principle 5. Effective abolition of child labour.

Principle 6. Effective prevention of discrimination in respect of employment and occupation.

Polish law is based on fundamental principles and instruments adopted by international community. GAZ-SYSTEM S.A. assumes that respecting the laws on human rights and labour relations is a prerequisite for the operation of any market-based enterprise and, indeed, an essential minimum.

The Company rigorously respects any employee rights, including the prohibition of forced and compulsory labour, right to decent working conditions and wages, as well as the right to organise and strike. Respected are also workers' rights to social protection and healthcare.

Gas Transmission Operator GAZ-SYSTEM S.A. employs more than 2000 people in six branches throughout Poland and in the Company's headquarters in Warsaw. Despite global crisis, GAZ-SYSTEM S.A. has dispensed with employment restructuring. On the contrary, due to its tight investment plan, the employment level increased in relation to previous years.

Full-time jobs, by Branch Offices and at the Headquarters:

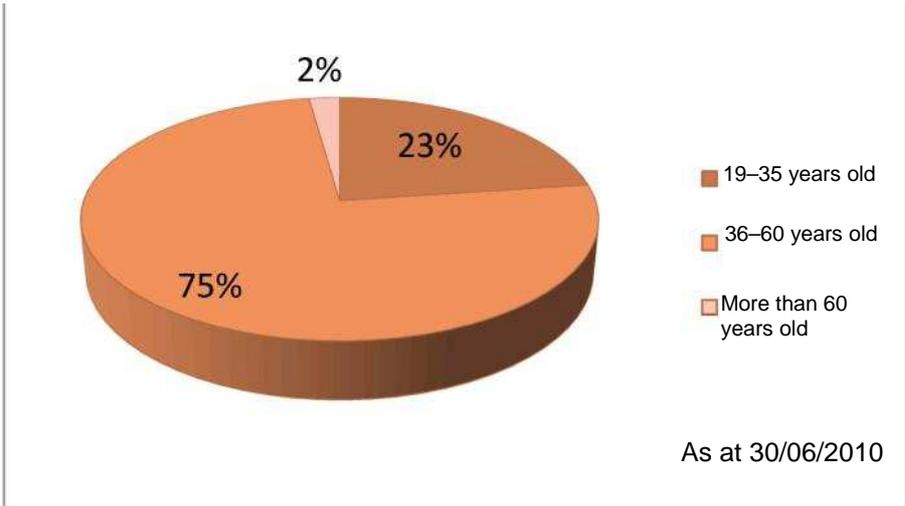
As at 31/12/2009	As at 31/05/2010
Branch in Gdańsk = 157.50 Branch in Świerklany = 208.00 Branch in Tarnów = 569.00 Branch in Rembelszczyzna = 297.75 Branch in Wrocław = 261.00 Branch in Poznań = 231.88 Headquarters in Warsaw = 276.75	Branch in Gdańsk = 162.38 Branch in Świerklany = 210.00 Branch in Tarnów = 584.00 Branch in Rembelszczyzna = 304.00 Branch in Wrocław = 264.00 Branch in Poznań = 235.00 Headquarters in Warsaw = 273.75
Total: 2001.88	Total: 2033.13

A vast majority of GAZ-SYSTEM S.A. employees are employed full-time under employment contract of indefinite duration.

31/12/2008		31/12/2009	
Type of employment/ employment contract	Total	Type of employment/ employment contract	Total
Type of employment, total:	1949	Type of employment, total:	2007
full-time	1939	full-time	1995
part-time	10	part-time	12
Type of employment contract	1949	Type of employment contract	2007
for indefinite duration	1861	for indefinite duration	1963
other employment contracts	88	other employment contracts	44

Employee Age Structure

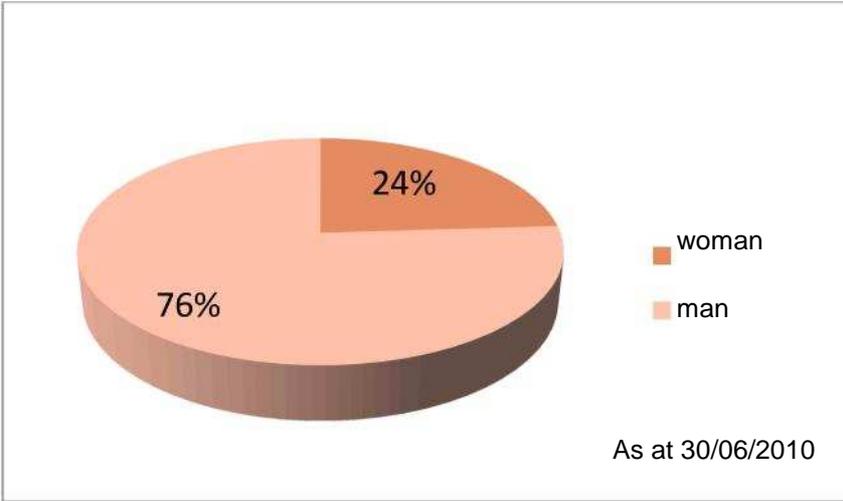
In accordance with the applicable laws, GAZ-SYSTEM S.A. stays clear of any forms of child employment. The Company does not employ workers who are below the legal age of 18 years. At the same time, GAZ-SYSTEM S.A. appreciates its long-standing collaboration with qualified and experienced employees with a long service in the gas industry.



GAZ-SYSTEM S.A. is also proud of its care for the retired employees. They can use non-public health care services provided at preferential rates, receive support from the Company’s social fund, are invited to official corporate meetings, and can take part in a special event for pensioners that is held once a year.

Employment Level, by Gender

As at 30/06/2010, the Company employed 490 women and 1551 men. This gender disproportion is closely linked to the business of Gas Transmission Operator GAZ-SYSTEM S.A., whereby most jobs require hard manual labour.



GAZ-SYSTEM S.A. fully respects the gender equality policy, and guarantees equal treatment of women and men. The Company respects the policy of equal access of females and males to all employment benefits and jobs. The Company also celebrates the Women’s Day.

Collective Labour Agreement

The “Collective Labour Agreement for Gas Transmission Operator GAZ-SYSTEM S.A.’s Employees” details employee rights as required by generally applicable labour-law provisions. The Parties agree to respect equal treatment of employees so that wages should be commensurate with the type of the work performed, its quality and efficiency, and to see to it that the access to employment, training, promotion, employment stability and working conditions were free from any form of discrimination.

Wages

GAZ-SYSTEM S.A. strives to ensure decent wages for the Company’s employees, in proportion to their work quality. Basic wages of GAZ-SYSTEM S.A.’s employees have been steadily rising. The average payment of GAZ-SYSTEM S.A. employees is well above Poland’s gross average of PLN 3,155.10 in 2010 (source: *Rocznik Statystyczny*, Central Statistical Office, Warsaw 2010 (no. 4/2010), p.75).

2009	2010
Average gross basic pay (PLN) at GAZ-SYSTEM S.A. As at 17/06/2009	Average gross basic pay (PLN) at GAZ-SYSTEM S.A. As at 17/06/2010
4,573.89	4,845.13

In addition to the basic pay, the Company uses a system of rewards and incentives. In the period covered, the Company’s employees were receiving quarterly and semestral bonuses, as well as individual rewards for the employees who have played a significant part in the Company’s strategic projects. In connection with the Company’s strong financial performance, the employees also received a bonus from profit distribution.

The remuneration policy for GAZ-SYSTEM S.A. employees is strictly defined and codified in corporate regulations (“Enterprise Conditions for Payment and Financial Benefits for the Employees of Gas Transmission Operator GAZ-SYSTEM S.A.”). This ensures transparency of payments and policies defining the system for extra financial benefits.

Employee Training and Development

GAZ-SYSTEM S.A. also cares for the professional development of its employees, who can use diverse training programmes, including foreign-language training. The employer provides its employees with free access to industry conferences, both in Poland and internationally. Furthermore, GAZ-SYSTEM S.A. offers reimbursement of up to 80% of costs of various university and business-school courses.

Despite the financial crisis in international markets, training spending has not been cut down in 2009 in relation to previous years.

The Company training policy is laid down in a distinct document, "Procedure for Training and Professional Development of Gas Transmission Operator GAZ-SYSTEM S.A.'s Employees".

Training Indicators

Employment structure	Employees as at 31/12/2008	Training hours/ employees as at 31/12/2008	Employees as at 31/12/2009	Training hours/ employees as at 31/12/2009
Training/ courses/ conferences				
Executives	300	45.66	298	51.53
Specialists	657	29.3	657	36.75
Manual workers	745	12.09	927	17.16
Office workers	218	56.71	231	72.6
Continuous education				
Executives	300	11.39	298	14.67
Specialists	657	16.47	657	22.42
Manual workers	745	3.22	927	2.74
Office workers	218	21.98	231	22.51

Non-discrimination in Respect of Employment and Occupation

The Company also respects the prohibition of discrimination in employment and occupation. This is ensured by strictly defined recruitment methods and policies specified in the internal document named, "Recruitment and Employment Procedure".

Employees Leaving Their Job, and Staff Turnover

GAZ-SYSTEM S.A. is proud of a very low rate of workers giving up their job voluntarily.

	Employees leaving, 31/12/2008	Turnover ratio, 31/12/2008	Employees leaving, 31/12/2009	Turnover ratio, 31/12/2009
Total	8	0.41%	11	0.55%
Headquarters	1	0.41%	0	0.00%
Gdańsk	2	1.32%	1	0.63%
Poznań	0	0.00%	0	0.00%
Rembelszczyna	0	0.00%	2	0.67%
Świerklany	3	1.52%	0	0.00%
Tarnów	2	0.35%	7	1.23%
Wrocław	0	0.00%	1	0.38%

Extra Benefits for GAZ-SYSTEM S.A.'s Employees

The Collective Labour Agreement provides employees with a broader scope of entitlements than the scope required by the generally applicable laws and grants them some extra entitlements not covered by these laws whatsoever, including:

- All Saturdays, Sundays and public holidays, as well as the Sector Holiday – “St. Barbara’s Day” (4 December).
- the Sector Holiday – “St. Barbara’s Day”, employees are entitled to a financial bonus, called the “St. Barbara’s Reward”.
- The workers participating in the Collective Agreement can be granted miner’s honours.
- The employee can receive additional financial benefits, including:
 - 1) a share of net profit,
 - 2) incentive bonus,
 - 3) discretionary reward.
- If an employee is employed continuously for at least 15 years with a single employer, they are entitled to a leave that is 2 days longer than that required by Poland’s generally applicable laws.
- Every five years, the employee is entitled to a long-service payment, for up to 50 years of service, provided that they have worked for at least 15 years with a single employer.

Social Package

All GAZ-SYSTEM S.A. employees are guaranteed a social package which covers a partial or total funding of:

1. Leisure in various available forms – the Social Affairs Department, at least twice a year, notifies its offering for organised leisure for children and youth. The funding of organised holidays: for children 3-6 years old – once a year, for children 6-18 years old – twice a year, for young people 18-25 years old – once a year. Moreover, the support from the Social Fund for a family holiday during the holiday leave can be granted to the employee and close family members once a year.
2. Recreation and sporting activities – the Company organises and funds team sports for its employees, as well as organises and co-finances individual sporting activities, in which any Company employee can take part. To build its image and integrate the workers of the gas industry from Poland and abroad, GAZ-SYSTEM S.A. has organised sporting competitions with the participation of the Company team,
3. Cultural, educational and special events – once a year, a family picnic is held which offers many attractions for children. There are also occasional events for children or employees in entertainment centres, theatres or other cultural and educational events. Children up to and including 14 years of age can receive gifts and holiday packets,
4. Financial and material support in form of allowances:
 - expediency – once a year,
 - chance events (e.g. flood, fire, etc.),
5. Accommodation support, which can be granted in the form of:
 - long-term employee loans
 - mid-term employee loans for dwelling repair and upgrade,

- short-term employee loans for minor repairs of the dwelling.

Healthcare

Employees can also use free non-public healthcare services, characterised by a very high quality. The employee entitlements include unlimited access to specialist consultation, various diagnostic tests and procedures. In addition, pensioners and employee family members can purchase subscription packages at promotional rates.

Pension Scheme

Addressing the needs of its employees, GAZ-SYSTEM S.A. has established and funded an extra, non-statutory pension scheme. Although this initiative brings additional costs to the employer, it allows the workers who have bound their lives with the company to enjoy better living standards after retiring. The contribution amount depends on the basic pay, and is charged at a rate of 7% of gross payment of the scheme member. The pension scheme is used by more than 70% of employees throughout the Company.

Consultations with Employees

GAZ-SYSTEM S.A. sets great store by cooperation and dialogue with its employees. A Works Committee operates at the Company – in accordance with the law of 7 April 2006 on employee information and consultation. The employer consults the Committee on the condition, structure, and expected changes in employment, and activities aimed at maintaining the employment level, as well as the measures that can bring about significant changes to the work organisation or employment terms.

Social Labour Inspector

Under the law of 24 June 1983 on social labour inspection (Journal of Laws from 30 June 1983) the Company also has a Social Labour Inspector.

Social Labour Inspection is a social-service activity carried out by the employees, aimed at ensuring safe and healthy working conditions, as well as the protection of workers' rights defined in Labour Law provisions.

Freedom of Association

The Company guarantees Freedom of Association. Three trade unions operate at GAZ-SYSTEM S.A., including one federation, with which the employer has carried out regular negotiations.

Trade unions actively participate in developing the staff policy. This year, the negotiations with the Company's Executive Board resulted in, among other things, "Agreement on the Growth of Wages at Gas Transmission Operator GAZ-SYSTEM S.A. for 2010", concluded on 31 May 2010.

Occupational Health and Safety

GAZ-SYSTEM S.A. attaches great importance to the highest OHS standards. In recent years, no fatal, serious or collective accident happened at the Company. No sector-specific accidents were also reported during hazardous gas work and other hazardous work.

The accidents reported at the Company in the recent period were associated mainly with the movement of employees. The primary cause of such occurrences was sliding related to changing weather conditions.

GAZ-SYSTEM S.A. is doing its best to upgrade the safety of its employees and minimise occupational accidents. In 2009 and 2010 – on the occasion of the purchase of personal and collective safety devices – the history of accidents was analysed to equip workers with new footwear and clothing providing a very high safety standard.

To standardise the systems of assessment of occupational hazards to which the Company's employees are exposed, an IT DGA OHS module was purchased in 2010 to provide employees with an instant access to OHS information and analysis of occupational hazards.

In 2010, GAZ-SYSTEM S.A. also started an initiative to improve occupational safety. As part of the "Stop to Accidents" programme, it is planned to launch a "mailbox" where employees can report any hazards they have noticed and ask direct questions to the OHS specialist.

Category	31/12/2008	31/12/2009
Number of accidents (minor injuries)	13	11
Number of the injured	13	11
Days of work disability	226	190
Occupational diseases	1	0
Fatal accidents	0	0

Worker of the Year

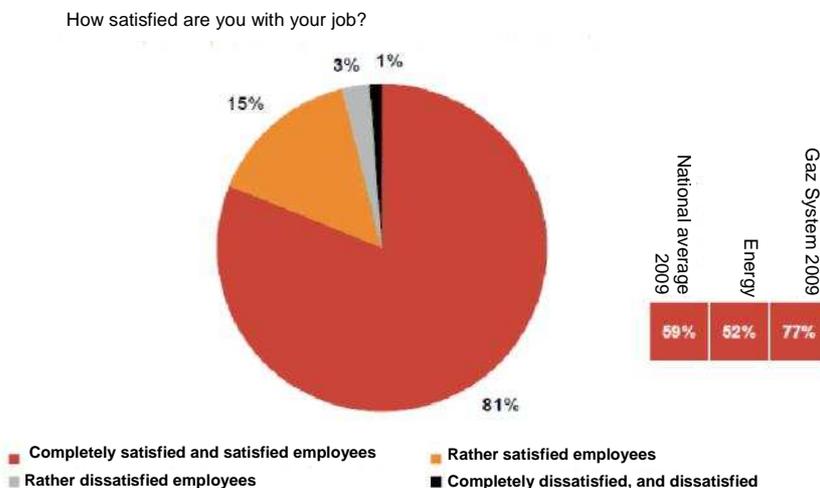
As in previous years, in 2009 the Company has carried out the "Worker of the Year" competition. Seven GAZ-SYSTEM S.A. workers have been nominated, representing the Branch Offices and the Headquarters. The winners will receive attractive trips abroad.

Best Employer

GAZ-SYSTEM S.A.'s determination to provide its employees with perfect working conditions and climate can be demonstrated by the results of rankings kept by some independent research firms. In this year's "Best Employer Study 2010", GAZ-SYSTEM S.A. ranked third in the "Large Companies" category. The study was conducted by Hewitt Associated among 89 companies in Poland. In the international edition of that ranking, GAZ-SYSTEM S.A. came fifth in the category "Large Companies" among 700 organisations researched throughout Central and Eastern Europe.

The indicator of employee involvement measured in this study was very high for GAZ-SYSTEM S.A. and reached 73%, which is six percentage point more in comparison to the 2009 result (67%). This places GAZ-SYSTEM S.A. 25 percentage points above Poland's average and 32 percentage points above the energy-industry average.

GAZ-SYSTEM S.A. has also achieved an impressive result in the research of worker job satisfaction level. A general satisfaction with the job was declared by 81% of people, and as much as 78% employees rated their employer higher than other organisations.



GAZ-SYSTEM S.A. also achieved a very good result in terms of employees' attachment to their job. The readiness to stay at the organisation among this company's employees was much higher than Poland's average. As much as 45 percentage points more employees of GAZ-SYSTEM S.A. than the Polish average wanted to work at the company till they retire.

Environment

- Principle 7. Precautionary approach to environmental challenges.*
- Principle 8. Undertake initiatives to promote greater environmental responsibility.*
- Principle 9. Development and diffusion of environmentally friendly technologies.*

Precautionary Approach to Environmental Challenges

Gas Transmission Operator GAZ-SYSTEM S.A. sets great store by environmental protection in the context of its business activities. Demonstrating its commitment to protect the environment, it has embarked on initiatives, first and foremost, to prevent events with an adverse effect on the environment. The Company has also initiated some activities aimed at preventing situations which can lead to industrial accidents and damage to the environment.

Prevention primarily includes initiatives to limit methane emissions to the environment, measures to decrease the consumption of gas fuels for industrial processes, and by this to drive down gas and dust emissions, as well as measures to limit the consumption of electricity.

2008	2009
Total consumption of natural gas	
2,501,80 GJ (63.940 mln m ³ ; 39.127 MJ/m ³)	2,659,641 GJ (67.848 mln m ³ ; 39.200 MJ/m ³)
Total consumption of electricity	
278,137.88 [GJ]	174,190.64 [GJ]

Examples of these measures include the use of advanced technical solutions and technologies during infrastructure repairs or modernisation, advanced inputs and materials, as well as environment-friendly biodegradable substances and products.

In addition, GAZ-SYSTEM S.A. has taken measures to reduce the production of waste. Waste is sorted, including municipal waste that is sent to a landfill site.

Total weight of waste by type, and disposal methods

Type of waste, and disposal method	Unit of measurement	Total weight	
		31/12/2008	31/12/2009
Total waste produced (by Branch Office)	Mg		
Świerklany		52.6	42.3
Rembelszczyzna		195.7	290.7
Wrocław		38.1	36.4
Poznań		96.4	119.8
Gdańsk		25,269.0	20,297.0
Tarnów		474.0	451.0
Total		25,839.4	20,867.8
Stored (non-municipal)	Mg		
Świerklany		0.3	3.6
Rembelszczyzna		0.0	0.0
Wrocław		0.0	0.0
Poznań		0.0	0.0
Gdańsk		3,800.0	3,300.0
Tarnów		0.0	0.0
Total		3,800.0	3,300.0
Municipal waste	Mg		
Świerklany		44.4	31.5
Rembelszczyzna		91.0	102.3
Wrocław		0.3	0.4
Poznań		75.9	111.9
Gdańsk		13,720.0	12,975.0
Tarnów		130.0	122.0
Total		14,061.6	13,343.0
Managed waste	Mg		
Świerklany		6.6	6.7
Rembelszczyzna		99.7	26.5
Wrocław		33.1	18.4
Poznań		15.7	7.4
Gdańsk		7,749.0	4,022.0

Tarnów		174.0	161.0
Total		8,078.2	4,242.0
Recovered waste	Mg		
Świerklany		1.3	0.6
Rembelszczyzna		4.9	162.0
Wrocław		4.7	17.6
Poznań		4.8	0.5
Gdańsk		0.0	0.0
Tarnów		170.0	168.0
Total		185.6	348.7
Stored in Company's own landfill	Mg		
Świerklany		0.0	0.0
Rembelszczyzna		0.0	0.0
Wrocław		0.0	0.0
Poznań		0.0	0.0
Gdańsk		0.0	0.0
Tarnów		0.0	0.0
Total		0.0	0.0

Moreover, GAZ-SYSTEM S.A. keeps a constant monitoring of pollution released to the air, water and soil. The Company holds all the relevant environmental certificates for all components of the environment, in accordance with the law.

Total volume of sewage, by quality and destination

Item	Unit of measurement	Total volume	
		31/12/2008	31/12/2009
Sewage	m³		
Świerklany		2,312.0	2,348.0
Rembelszczyzna		13,705.0	14,604.0
Wrocław		3,998.0	2,948.0
Poznań		13,448.0	5,294.0
Gdańsk		1,621.0	1,796.5
Tarnów		14,367.0	22,072.0
Total		49,451.0	49,062.5
including:			
Discharged to municipal sewer	m³		

Świerklany		1,771.0	1,742.0
Rembelszczyzna		0.0	0.0
Wrocław		3,876.0	2,789.0
Poznań		12,697.0	4,532.0
Gdańsk		1,482.0	1,638.0
Tarnów		2,027.0	3,614.0
Total		21,853.0	14,315.0
Removed with water wagons	m³		
Świerklany		541.0	606.0
Rembelszczyzna		0.0	0.0
Wrocław		122.0	159.0
Poznań		123.0	154.0
Gdańsk		139.0	158.5
Tarnów		132.0	137.0
Total		1,057.0	1,214.5
Discharged to soil and surface water	m³		
Świerklany		0.0	0.0
Rembelszczyzna		13,705.0	14,604.0
Wrocław		0.0	0.0
Poznań		628.0	608.0
Gdańsk		0.0	0.0
Tarnów		12,208.0	18,321.0
Total		26,541.0	33,533.0

Water consumption

Item	Unit of measurement	Water consumption	
		31/12/2008	31/12/2009
Underground water	m³		
Świerklany		0.0	0.0
Rembelszczyzna		146,072.0	139,985.0
Wrocław		0.0	0.0
Poznań		628.0	608.0
Gdańsk		0.0	0.0
Tarnów		13,409.0	21,218.0

Total		160,109.0	161,811.0
Total quantity (underground water and purchased from municipal water supply system)	m³		
Świerklany		2,577.0	2,354.0
Rembelszczyzna		146,072.0	139,985.0
Wrocław		3,998.0	2,948.0
Poznań		12,420.0	5,396.0
Gdańsk		2,130.0	2,202.5
Tarnów		15,848.0	25,578.0
Total		183,045.0	178,463.5

To promptly respond to outages at the Company, procedures have been implemented as part of the Transmission Network Operating System to define how to notify and respond to outages.

With regard to environmental protection, an Environmental Management System has been implemented and certified based on the PN-EN ISO 14001:2005 standard – “Environmental management systems -- Requirements with guidance for use”. Based on the ERM standard, environmental risks are identified and evaluated.

On top of that, GAZ-SYSTEM S.A. is proud of its highly qualified staff members with an extensive knowledge on and experience in environmental protection.

Integrated Management System

GAZ-SYSTEM S.A. operates an Integrated Management System to enable effective corporate management taking into account green and safe technologies. Management systems which help to live up to the Corporate Responsibility concept provide reliability to all corporate activities and help to build long-lasting and transparent relationship with the stakeholders.

Electronic Document Circulation

The Company is currently implementing its Electronic Document Circulation procedure to save paper, and a central printing system to optimise the use of printing inks and toners.

The adoption of new rules for internal-information sharing is the first step leading to the introduction of company-wide electronic information and document circulation system. Currently, work is underway to deploy the Archivix programme which will primarily streamline the circulation and access to technical documentation, and later it can be used to facilitate the circulation of other documents.

These measures help to reduce the Company’s environmental footprint and bring efficiencies while allowing to adapt the Company to the use of modern, IT-based information circulation methods.

A complete adoption of the electronic document circulation and archiving system is a long process that requires additional software and hardware deployment, and technical potential – the first step is to introduce an internal information circulation using widely available software.

Collection of Batteries

Apart from the paper-saving measures, the Company also organises the collection of batteries. The corporate office buildings have special containers for spent batteries and electronic mediums.

R&D Projects

Furthermore, the Company has been implementing a number of pro-environmental R&D projects. These include research on the impact of noise generated during the bleeding of high pressure pipelines on the vertebrate fauna located in the neighbourhood and vicinity of the works being performed, research to evaluate the emission quantities, and verification of emission rates from selected compressor stations or the transmission network, or the pilot programme to monitor cathodic protection in selected gas pipelines.

Reducing Methane Emissions

GAZ-SYSTEM S.A. has taken active measures to reduce methane emissions. These measures are part of the Company's long-term corporate responsibility policy.

In 2009 the Company has signed with the US Environmental Protection Agency (EPA) an agreement to start joint activities aimed at reducing methane emissions to the atmosphere.

By signing that agreement, GAZ-SYSTEM S.A. has become the official partner of the Natural Gas STAR programme. Using the professional software made available by its US partner, GAZ-SYSTEM S.A. analyses currently possible sources of methane emissions from the transmission system. The next step will be to verify the analysis results, and to perform economic evaluation of measures that can be taken to reduce methane emissions.

Natural Gas STAR is a voluntary programme promoting the implementation of well-established and financially viable technologies to reduce methane emissions. The Programme has been launched by the US Environmental Protection Agency which encourages cooperation between companies from the oil&gas sector.

Environmentally Friendly Technologies

The Company's investment and modernisation measures aimed at developing the gas infrastructure are implemented as efficiently as possible, using advanced technologies.

New technologies, advanced inputs and materials and highly efficient equipment curb air emissions, cut down the consumption of inputs and waste generation, and reduce noise emission to the environment. The measures described above have been implemented using best possible technologies, and thus in compliance with environmental-protection laws and regulations.

Environmental Commitment in Investments

GAZ-SYSTEM S.A. is also distinguished by responsible investing. For all gas pipelines being constructed, environmental certificates are obtained, and their provisions are complied with.

Gas-pipeline routes by GAZ-SYSTEM S.A. are planned in such a way as to avoid disturbing valuable plant and animal sites, and avoid the destruction of protected habitats. For this purpose, the prospective construction sites are watched for many months (environmental inventories) to identify potential collisions with the fauna and flora. One example of this may be the Szczecin-Lwówek gas pipeline which completely bypasses continuous forest complexes of Puszcza Barlinecka which is protected under the European Ecological Network Natura 2000.

Where interference is impossible, e.g. when river flows are crossed, non-excavation methods are used in laying the pipeline (e.g. HDD), thanks to which tree and bush clearance, scaring the animals away, and land drainage can be avoided. Moreover, in wetlands, e.g. peat lands, gas pipelines are laid in an undrained excavation to avoid draining of the adjacent land. Also, appropriate time of the year is applied for the construction work, e.g. outside the bird breeding season, as are technical facilities to minimise negative impacts, such as underground "block and bleed" systems or dampers to help reduce noise emissions.

The effectiveness of the measures to minimise adverse environmental impacts is confirmed by many years of observations, e.g. in the case of the Świnoujście-Szczecin gas pipeline which is currently

being designed, a five-year environmental monitoring has been conducted.

Social Consultations

GAZ-SYSTEM S.A. believes that a prerequisite for responsible investment is to learn the expectations and needs of key stakeholders. The Company responds to the opinions expressed by stakeholder and takes them into account in decision-making. In the areas covered by the investment plan, informative and promotion actions have been conducted among the residents. GAZ-SYSTEM S.A.'s representatives held meetings with local-government representatives. These meetings addressed plans to expand the pipeline network for gas transmission across the region, and provided an opportunity to respond to any stakeholders' doubts and opinions.

Undertake Initiatives to Promote Greater Environmental Responsibility

GAZ-SYSTEM S.A. has taken initiatives to promote pro-environmental attitudes among both its employees and the whole Company's external community.

Training courses for employees within the Integrated Management System addressed the issues of the Company's environmental impacts. Pro-environmental attitudes are being promoted, consisting in, e.g., raising awareness of the need to sort waste, reduce water consumption for personal purposes, saving electricity in office facilities.

Corporate Social Responsibility Programme for GAZ-SYSTEM S.A.

In the recent period, GAZ-SYSTEM S.A. has taken measures to step up its activities to promote green attitudes in the Company's external community.

In 2009, the Company has adopted a „Corporate Social Responsibility Programme for the Gas Transmission Operator GAZ-SYSTEM S.A.”

The Company has based the concept and assumptions of its CSR Programme on its corporate strategy, as well as the mission and vision, which refer to the principles of social responsibility of business and the valued laid down in the Code of Ethics.

Particularly important for the Company has been also the Energy Regulatory Office's guidance which states that Corporate Social Responsibility in the energy sector should not consist in strengthening competitive advantage in relation to the customer or increasing the shareholder value, but in implementing goals such as:

- 1) activity openness and transparency of energy companies;
- 2) integrity in relations with customers – pricing, supply and service quality;
- 3) respect for the environment, reduction of pollution levels;
- 4) efficient use of natural resources;
- 5) amiability towards local communities.

The CSR Programme defines the communication goal, target groups and strategic objectives, and is based on three pillars:

- Pillar I – Eco-projects,
- Pillar II – Education and Information Programme,
- Pillar III – Employee Involvement.

The programme also defines the reporting methods based on the guidance provided by the Global Reporting Initiative.

In line with Pillar I of the “Corporate Social Responsibility Programme”, GAZ-SYSTEM S.A. is actively involved in social dialogue and supports green initiatives. Under the Programme schedule, in the second half of 2010, GAZ-SYSTEM S.A. will organise a grant competition, **Fund for Natural Energy**, to be held in the Western Pomeranian Province.

The competition aims to co-finance the best ideas for how to protect the region's environment, and is targeted to Western Pomeranian municipalities, schools, and residents alike. Five best ideas on how to protect the environment in the region will be rewarded with financial grants.

The Fund for Natural Energy will be held annually and gradually expanded to the whole country. To collaborate in organising and evaluating competition applications, GAZ-SYSTEM S.A. has invited "Our Earth" Foundation (which has for years supported green initiatives in municipalities), environmental protection experts, and the Minister of the Environment.

As part of the education and information pillar of the „Corporate Social Responsibility Programme“, GAZ-SYSTEM S.A. has started cooperation with the AGH University of Science and Technology in Krakow. In April 2010, the Company has signed a cooperation agreement with that university, and its provisions will be implemented at the Faculty of Drilling, Oil and Gas and the Faculty of Energy and Fuels of the AGH. The initial effect of the cooperation is to set up for AGH students a numerical laboratory for transmission network logistics and management based on an advanced simulator of flows in gas networks. Further steps include organisation of scholarships, internships and work placements at the Company.

In areas where GAZ-SYSTEM S.A. implements its investments, initiatives for children are also organised, such as purchase of school equipment for primary-school pupils.

As part of Pillar III of its CSR Programme, which is aimed at encouraging GAZ-SYSTEM S.A. employees to involve in societal initiatives, an action „Donate your bone-marrow – GAZ-SYSTEM S.A. employees at the Bone-Marrow Donor Bank“. The action is performed in cooperation with POLTRANSPLANT, the Central Register of Unrelated Donors of Bone-Marrow and Cord Blood.

Anti-corruption

Principle 10. Work against corruption in all its forms, including extortion and bribery.

Tendering Procedures

GAZ-SYSTEM S.A. conducts tendering procedures in a transparent way, in compliance with any legal requirements stipulated by the Public Procurement Law.

Internal Audits

The Company operates the Audit and Safety Department which is responsible for internal control, among other things. The audits are conducted in accordance with generally accepted auditing and internal-control standards. The department is also responsible for verifying how audit recommendations approved by the Company's Executive Board are being followed up.

In addition, as part of its commitment to the transparency policy, the Company has voluntarily subjected itself to audits which are geared towards identifying any possible irregularities and recommending improvements to the existing procedures and practices.

In 2010, GAZ-SYSTEM S.A. has commissioned a renowned auditing company to conduct an audit of the system of controls to prevent abuse. As part of the project, the auditor has analysed the areas of the Company's business exposed to irregularities, with particular focus on business processes and procedures, information security, IT security, and employee awareness of ethical standards.

The audit reviewed the documents and procedures applicable at the Company, and analysed the scope of competences, responsibilities and basic organisational dependencies. Employees and executive officers were interviewed to identify the areas particularly exposed to the risk of abuse and irregularities.

The project's objective was to identify the areas of potential abuse and to follow up with improvement measures at the Company.

Code of Ethics for GAZ-SYSTEM S.A.

In 2009, the Company's Executive Board has adopted the "Code of Ethics for Gas Transmission Operator GAZ-SYSTEM S.A.", which to the fullest extent possible ensures the compliance with the ten Global Compact principles.

The fact that this document has been implemented at GAZ-SYSTEM S.A. also testifies to the building of a desirable ethical culture within the organisation. A company with clearly defined values and standards for conduct becomes more predictable and reliable for customers, investors, business partners and employees alike. Defining ethical standards and compliance with them allows to build a coherent organisation culture and upgrade the company's brand.

The Code of Ethics for GAZ-SYSTEM S.A. defines the principles of ethical conduct and highlights the key role of values which inform the Company's activities and decision-making. These principles include: **responsibility, commitment, professionalism, team-work, respect.**

The ethics-related measures are addressed to: employees, customers, business partners (suppliers, contractors, subcontractors), local communities and authorities.

The Code has been worked out by the eight-person Team for the Code of Ethics which represented each Branch Office and the Headquarters. The team has prepared the first draft of the document, which was posted on the intranet along with the questionnaire. Employees could express their opinions on these values and complete the questionnaire, thanks to which the Team has learned the comments and suggestions from the staff. This allowed to prepare the final version of the Code of Ethics.

The Code of Ethics has been made available to the employees on the intranet. Customers, business partners and all stakeholders can view it on our corporate site www.qaz-system.pl.

Awards and distinctions:

In the reporting period, GAZ-SYSTEM S.A. has achieved a high rank in the above-described „Best Employer Study”.

The Company also highly values the Polish Quality Award granted in November 2009 in the category of large service-providing companies. GAZ-SYSTEM S.A. was awarded in the 15th edition of this contest after successfully passing the multi-stage evaluation system. The evaluation extended to such areas of company activity as: strategy and policy, personnel and resources management, customer and employee satisfaction.

The Polish Quality Award is awarded to companies and organisations that apply the principle of Total Quality Management, which promotes the establishment of proper relations between competitiveness and quality of products and services. The idea of Total Quality Management also includes the companies' attitude towards environment protection, occupational health and safety. Furthermore, the TQM concept promotes positive relations between the management and the employees of the company as well as between the company and the community.

In recent months, GAZ-SYSTEM S.A. has been also awarded with the PremiumBrand title. In the B2B (business-to-business) category, the Company has been granted the title of High Reputation Firm.

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