ANNUAL REPORT 2014

BOTH IN BUSINESS AND SPORT SUCCESS IS THE ULTIMATE GOAL

PGNiG

Annual Report

PGNiG 2014

The following abbreviations and acronyms are used in this Report:

- PGNiG – the parent company of the PGNiG Group, i.e. Polskie Górnictwo Naftowe i Gazownictwo SA (Polish Oil and Gas Company)
- PGNiG Group – the PGNiG group of companies

TOGETHER WE STAND STRONG

As a strategic sponsor of the Polish national handball team, we know it very well. Last year was full of challenges, and we've kept on scoring ever since, and will never stop. Team approach and the power of unity help us look forward to what future brings.

Table of contents

Table of contents

Mission

CHALLENGE: MISSION STATEMENT

By developing oil and gas production and making efficient use of our infrastructure, we provide our Customers with environment-friendly energy and build the Company's value for our Shareholders and Employees.

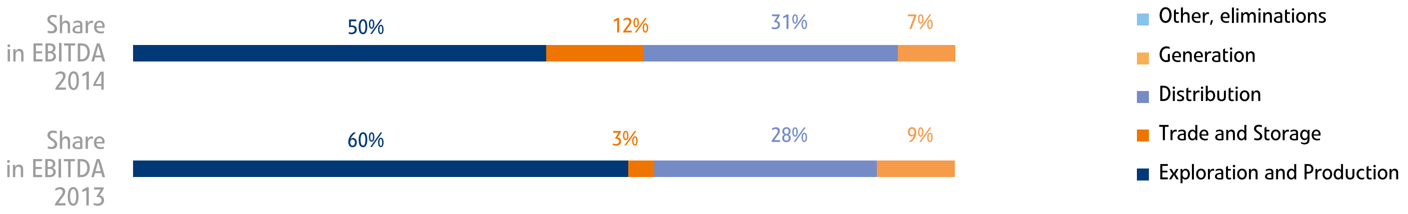
PGNiG Group in numbers

SCOREBOARD: PGNiG GROUP IN NUMBERS

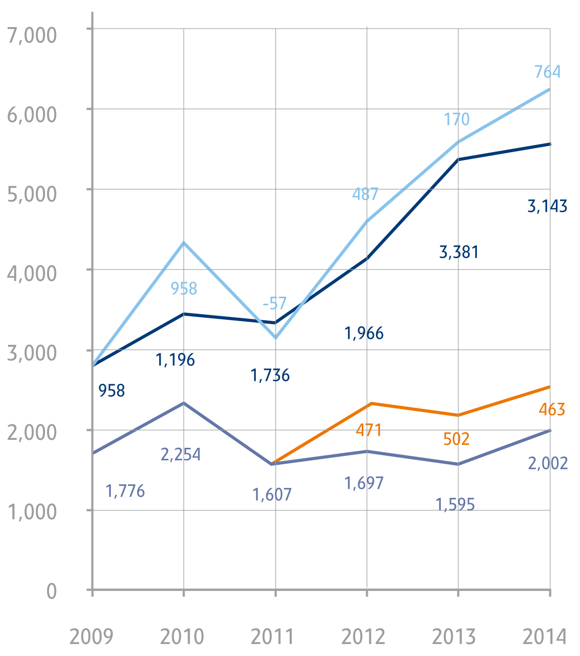
PGNiG Group in numbers

The PGNiG Group holds the leading position in most segments of the Polish gas sector, i.e. in oil and gas exploration and production, gas fuel storage, natural gas trading and natural gas distribution.

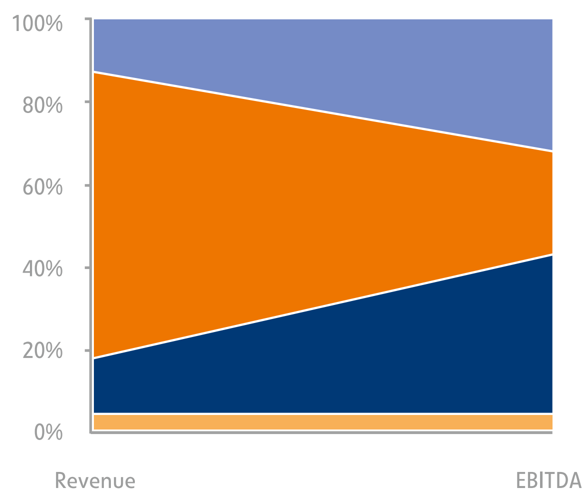
Segments' contribution to EBITDA, 2013–2014



EBITDA by business segments, 2009–2014, PLNm



Segments' contribution to revenue and EBITDA, 2014



The Group's oil and gas upstream operations, carried out primarily in Poland and on the Norwegian Continental Shelf, provide it with a competitive advantage on the liberalised gas market.

The Group's trade and storage operations focus on selling natural gas imported from other countries or produced from domestic fields, and on providing gas supplies at times of peak demand.

The distribution operations involve the supply of gas to customers via the distribution network, as well as extending and upgrading the gas network.

In 2012, the PGNiG Group expanded its operations to include electricity and heat generation and sale.

Group structure

As at the end of 2014, the PGNiG Group comprised PGNiG (the parent) and 30 production, trade or service companies, including 21 direct subsidiaries and 9 indirect subsidiaries of PGNiG.

Consolidated PGNiG Group companies

Parent		Abbreviated name used in the 2014 Annual Report		
Polskie Górnictwo Naftowe i Gazownictwo SA		PGNiG		
Segment	**Subsidiaries**		**Share capital ('000)**	**PGNiG's ownership interest**
Exploration and Production	Exalo Drilling SA	Exalo Drilling	PLN 981,500	100%
	Oil Tech International F.Z.E.		USD 20	100%
	Poltava Services LLC		EUR 20	99%
	GEOFIZYKA Kraków SA	GEOFIZYKA Kraków	PLN 64,400	100%
	GEOFIZYKA Toruń SA	GEOFIZYKA Toruń	PLN 66,000	100%
	PGNiG Upstream International AS	PGNiG UI	NOK 1,092,000	100%
	Polish Oil and Gas Company Libya B.V.	POGC Libya	EUR 20	100%
Trade and Storage	PGNiG Obrót Detaliczny Sp. z o.o.	PGNiG OD	PLN 1,091,000	100%
	PGNiG Sales & Trading GmbH	PST	EUR 10,000	100%
	XOOL GmbH (EUR)		EUR 500	100%
	Operator Systemu Magazynowania Sp. z o.o.	OSM	PLN 15,290	100%
	PGNiG Finance AB	PGNiG Finance	SEK 500	100%
Distribution	Polska Spółka Gazownictwa Sp. z o.o.	PSG	PLN 10,454,207	100%
	Powiśle Park Sp. z o.o.		PLN 81,131	100%
	GAZ Sp. z o.o.		PLN 300	80%
Generation	PGNiG TERMIKA SA	PGNiG TERMIKA	PLN 670,325	100%
Other Activities	Geovita SA	Geovita	PLN 86,139	100%
	PGNiG Technologie SA	PGNiG Technologie	PLN 182,127	100%
	PGNiG Serwis Sp. z o.o.	PGNiG Serwis	PLN 9,995	100%
	B.S. i P.G. Gazoprojekt SA*	Gazoprojekt	PLN 4,000	75%

Non-consolidated companies

Segment	Subsidiaries	Share capital ('000)	PGNiG's ownership interest
	BUD-GAZ PPUH Sp. z o.o. in liquidation	PLN 52	100%
	Polskie Elektrownie Gazowe Sp. z o.o. in liquidation	PLN 1 212	100%
	PGNiG SPV 5 Sp. z o.o.	PLN 250	100%
	PGNiG SPV 6 Sp. z o.o.	PLN 250	100%
	PGNiG SPV 7 Sp. z o.o.	PLN 250	100%
	NYSAGAZ Sp. z o.o.	PLN 9,881	66.28%
	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	PLN 1,806	100%
	Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o.	PLN 3,000	85.51%
	Zakład Separacji Popiołów Siekierki Sp. z o.o.	PLN 1,000	70%
	Gas Assets Management Sp. z o.o. in formation	PLN 20	100%

* PGNiG has the right to appoint the majority of the company's Supervisory Board members. PGNiG's direct interest in the share capital of B.S. i P.G. Gazoprojekt SA is 22.50%. In addition, PGNiG holds a 52.50% indirect interest in the company through PGNiG Technologie SA.

Key corporate events

TIMETABLE: KEY CORPORATE EVENTS

Key corporate events

Key corporate events

First quarter

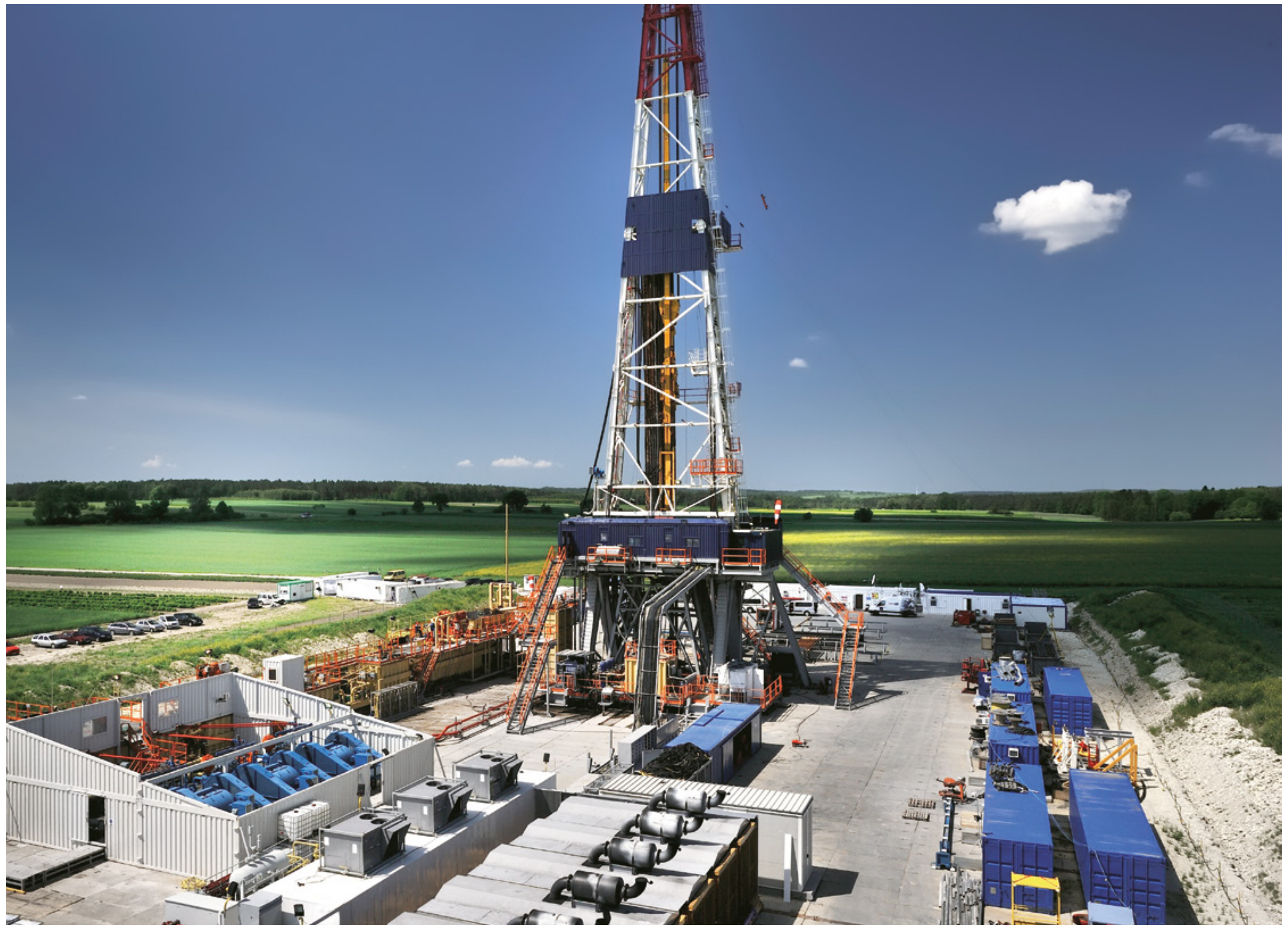
With effect from 1 January 2014, Mariusz Zawisza was appointed President of the PGNiG Management Board. The following people were also appointed for a joint term of office: Jerzy Kurella – Vice-President of the Management Board, Trade; Jarosław Bauc – Vice-President of the Management Board, Finance; Zbigniew Skrzypkiewicz – Vice-President, Exploration & Production; Andrzej Parafianowicz – Vice-President, Corporate Affairs.

Given the political unrest in Libya posing a threat to its employees, POGC Libya B.V. suspended exploration under its Libyan licence.

Second quarter

On 15 May 2014, the Annual General Meeting of PGNiG passed a resolution on the distribution of PGNiG's net profit for the 2013 financial year and decided to allocate PLN 885m to the dividend. The dividend per share is PLN 0.15.

Operator Systemu Magazynowania Sp. z o.o. began to offer the expanded working capacities of the Wierzchowice Underground Gas Storage Facility and the Strachocina Underground Gas Storage Facility.



Third quarter

On 1 August 2014, PGNiG Obrót Detaliczny Sp. z o.o. commenced its operations. It took over PGNiG's existing gas retail business. The change will enable PGNiG to meet the requirement, effective as of 2015, to sell 55% of its high-methane gas volumes fed into the transmission network on commodity exchanges.

On 29 September 2014, PGNiG Upstream International AS acquired interests in four fields located on the Norwegian Continental Shelf from Total E&P Norge AS. The interests cover six licences on the following fields: Morvin, Vilje, Vale and Gina Krog. As a result of the transaction, PGNiG Upstream International AS increased its recoverable reserves in Norway by ca. 60%.

Fourth quarter

PGNiG and Qatar Liquefied Gas Company Limited (3) executed a supplementary agreement to the contract for sale of liquefied natural gas (LNG) of 29 June 2009. The agreement will minimise the risk of PGNiG having to pay for uncollected LNG under the "take or pay" clause. Based on the currently available projections of global LNG prices and natural gas prices in Poland in 2015, the PGNiG Management Board believes that the agreement may enable PGNiG to achieve better results on trading in the natural gas supplied under the long-term contract compared with the original arrangement.

The President of the Energy Regulatory Office approved PGNiG Gas Fuel Supply Tariff No 7/2015 (wholesale tariff), effective from 1 January 2015 to 30 April 2015. The average price of high-methane and nitrogen-rich (Lw) gas was reduced by ca. 4% and 1.4%, respectively.

The President of the Energy Regulatory Office approved PGNiG Obrót Detaliczny Sp. z o.o.'s Gas Fuel Trading Tariff No 1 (retail tariff), effective from 1 January 2015 to 31 December 2015. The average trading price of gas fuel was reduced by 1.8% for high-methane gas (E), by 0.8% for nitrogen-rich gas (Lw), by 1.1% for nitrogen-rich gas (Ls), and by 1.6% for decompressed propane-butane.

On the same day, the President of the Energy Regulatory Office also approved Polska Spółka Gazownictwa Sp. z o.o.'s Tariff for Gas Fuel Distribution Services and LNG Regasification Services, effective from 1 January to 31 December 2015. The average fee rates increased by ca. 2.2%–3.6%, depending on the branch of PSG.

Management Board and Supervisory Board

EACH TEAM HAS ITS LEADERS

Letter from the President of the Management Board

Ladies and Gentlemen,

on behalf of the Management Board of PGNiG,
I present the PGNiG Group's Annual Report for 2014.

Last year, we earned a net profit of PLN 2.8bn – a 47% improvement on 2013. Our EBITDA and EBIT came in at PLN 6.3bn and PLN 3.8 bn, up by 13% and 22% year-on-year. In 2014, we also saw a 7% rise in the PGNiG Group's revenue, to more than PLN 34bn. Our sound performance was driven chiefly by achievements in the exploration and production and distribution areas.

In 2014, PGNiG Obrót Detaliczny commenced its operations, further cementing corporate governance within the PGNiG Group. This also marked a bona fide separation of our retail and wholesale business, which should help PGNiG satisfy the requirement to sell gas by auction or on the exchange market in the coming years, and better respond to the growing needs and expectations of our Customers.

Last year, we also continued the consolidation of the PGNiG Group. Cooperation agreements were concluded between PGNiG and its Group companies, and management regulations for each of the PGNiG Group's operating areas were implemented. Our companies joined a tax group and underwent integration under a common treasury management policy.

After several months of negotiations, we acquired new hydrocarbon fields in Norway, which strengthened our position on the international upstream market and permitted tax optimisation within PGNiG Upstream International.

Also in 2014, we signed an agreement with Qatargas and reopened negotiations of the Yamal Contract, whose results may be important to the Company's market standing in the future.

The past year also saw us adopt the Strategy of the PGNiG Group for 2014–2022, presenting the Group companies with new ambitious objectives to drive further growth. The Strategy is centred around four key areas: maintaining stable values of sales in retail and wholesale, maximising cash flows from the infrastructure and generation areas, strengthening and transforming the upstream business, and laying foundations for growth along the PGNiG Group's value chain.

Our mission, as defined in the Strategy, is to create value through the development of the production business and efficient use of infrastructure while securing uninterrupted supplies of natural gas. Our vision is to grow from a guarantor of gas supplies into a profitable and competitive player on the hydrocarbon production and energy markets.

Our overriding priorities are to build the value of the PGNiG Group and meet expectations of our Shareholders and Customers.

Yours faithfully,

Mariusz Zawisza

Mariusz Zawisza
President of the PGNiG Management Board

Management Board and Supervisory Board

Management Board

The President directs the Management Board's activities and coordinates the work of all its members in all areas of the PGNiG Group's business; the President also supervises and coordinates the Company's operations with respect to the delivery of the PGNiG Group's strategic objectives, comprehensive legal services, management of human resources, protection of classified information, defence issues, control and audit, planning and implementation of the Company's trading policies, tariff policies, sales of natural gas, electricity and other products, cooperation with external partners with respect to imports of liquefied natural gas to Poland; moreover, the President's duties include exercising the owner's supervision within the PGNiG Group and oversight of the operations of the Wholesale Trading Division and of PGNiG's foreign representative offices in Moscow and Brussels.

Mariusz Zawisza
President

Mariusz Zawisza graduated from the Faculty of Economics of the Maria Curie-Skłodowska University in Lublin. He completed a post-graduate course in Management Accounting and Business Controlling at the Lublin University of Technology, and a post-graduate course in International Accounting Standards and International Financial Reporting Standards at Kozminski University in Warsaw. He holds a Master of Business Administration degree from the University of Central Lancashire in Preston, gained on completing a programme run by the Lublin Business School.

For almost eighteen years, Mr Zawisza has held a number of managerial positions, including (chronologically, from 1996 to 1999) Head of the Economic and Marketing Research Department, Head of the Quality Assurance Department, and Head of the Financial Control Department at Zakłady Remontowe Energetyki Lublin SA. From 1999 to 2001 he worked at Lubelskie Zakłady Przemysłu Skórzanego Protektor SA as Head of the Economics Research and Financial Control Department and as its Chief Economist.

Between 2001 and 2004 Mr Zawisza served as CFO and Member of the Management Board of Instal Lublin SA, and then, from June 2004 to June 2006, as Member of the Management Board responsible for finance at MPWiK w m.st. Warszawa SA. From 2006 to 2007 he was Member of the Management Board, CFO and President of the Management Board of Lubelskie Zakłady Energetyczne LUBZEL SA. From July 2007 until August 2010 he served as President of the Management Board of PGE Dystrybucja Lubzel Sp. z o.o., and from January 2010 to December 2013 as President of the Management Board of PGE Dystrybucja SA.

He has also sat on the Supervisory Boards of Elektrociepłownia Lublin Wrotków, EPC SA, Exatel SA, PGE Systemy SA, and others.

With effect from 1 January 2014, Mr Zawisza was appointed President of the Management Board of PGNiG.

The Vice-President of the Management Board for Finance supervises and coordinates the Company's operations in the areas of investment policy planning and control and investor relations; moreover, the duties of Vice-President of the Management Board, Finance, include supervision of economic matters, accounting, business controlling, financial management, taxes, planning, and IT systems development and operation at PGNiG.

Jarosław Bauc
Vice-President, Finance

Jarosław Bauc is a graduate of the University of Łódź (Faculty of Economics and Sociology), where he was awarded a PhD in 1991. He also graduated from the University of Windsor in Ontario, Canada, with an M.A. degree in Economics.

In 1996 he helped design reforms to the Mongolian tax system acting in an advisory capacity to the Minister of Finance in Mongolia. In 1997, he served as an Asociatia Pro Democratia Adviser to the Romanian Ministry of Finance.

Between 1998 and 2000 Mr Bauc served on the Supervisory Board of Bank PKO BP SA, for some time as its Chairperson. From January 1998 to June 2000, he held the office of Secretary of State at the Polish Ministry of Finance and First Deputy Minister of Finance. Then, between June 2000 and August 2001 he held the office of the Polish Minister of Finance. In 1998-2000 Mr Bauc represented the Polish Council of Ministers on the Monetary Policy Council of the National Bank of Poland.

In 2001-2002 he was a USAID Adviser to the Ministry of Finance of the Georgian government.

Between 2002 and 2006, for the first three years he served as President of the Management Board of Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura (a pension fund management company), and then continued as Deputy Chairperson of the Supervisory Board.

From 2002 to 2005 Mr Bauc also sat on the Supervisory Boards of such companies as Mostostal Gdańsk SA, Tras Tychy SA, Netia SA, and in 2004-2006 he held the position of Chairperson of the Supervisory Board of BRE Skarbiec Investments and BRE Agent Transferowy Sp. z o.o. Between 2004 and 2006 he served as President of the Management Board of Skarbiec Investment Management SA, Skarbiec Towarzystwo Funduszy Inwestycyjnych SA and Skarbiec Asset Management Holding SA.

He held the post of President of the Management Board of Polkomtel SA twice – from February 2006 to July 2007, and from May 2008 to November 2011. Then, from November 2011 to March 2012, he sat as a member. He also became Deputy Chairperson of the Supervisory Board of BNP Paribas Bank Polska SA and Chairperson of the Supervisory Board of Łódzka Spółka Infrastrukturalna Sp. z o.o. In August 2013 he was appointed Vice-President of the Management Board of HAWE SA.

Since 2009 he has served as a member of the Economic Council of Cardinal Kazimierz Nycz, and since 2011 as a member of the Group of Social Advisers to the President of the City of Łódź.

With effect from 30 December 2013, Mr Bauc has been appointed Vice-President of the Management Board for Finance of PGNiG.

On 18 June 2014 the PGNiG Supervisory Board resolved to suspend Andrzej Parafianowicz from his duties as Vice-President of the PGNiG Management Board for Corporate Affairs. Andrzej Parafianowicz tendered his resignation as a member of the Management Board of PGNiG on 7 August 2014.
On 29 December 2014 the Supervisory Board dismissed Jerzy Kurella from the PGNiG Management Board and from his position as Vice-President for Trade.

The Vice-President of the Management Board for Exploration and Production supervises and coordinates the Company's activities related to its policies, objectives and programmes with respect to hydrocarbon exploration and production in Poland and abroad, procurement strategies within the Company and the Group, safety and operation of the production systems and underground storage facilities, innovation and development projects involving PGNiG; moreover, the duties of Vice-President of the Management Board, Exploration and Production, include supervision over the operations of the Geology and Hydrocarbon Production Branch, the PGNiG branches in Odolanów, Sanok and Zielona Góra, the Well Mining Rescue Station in Kraków, the Mogilno Underground Gas Storage Cavern Facility and the Wierzchowice Underground Gas Storage Facility, as well as foreign branches.

Zbigniew Skrzypkiewicz
Vice-President, Exploration & Production

Zbigniew Skrzypkiewicz graduated from the Faculty of Chemical Engineering of the Warsaw University of Technology. In 1996 he completed a post-graduate course in Business Administration at the Warsaw School of Economics.

From 1993 to 1997 he served as Deputy Head of Industrial Fittings at KSB Pompy i Armatura Sp. z o.o., a part of KSB AG, a leading global manufacturer of industrial pumps and fittings.

From 1998 to 2000 he was Head of Sanitary and Heating Systems at Raab Karcher Materiały Budowlane Sp. z o.o.,the Polish arm of the large Germany-based trading company. He also held an executive position at Otto Poland Sp. z o.o., a German-owned manufacturing and trading company.

From May 2001 until December 2004 he was President of the Management Board of Instal Lublin SA, a company listed on the Warsaw Stock Exchange. Then, from January 2005 to October 2013, he was President of the Management Board of Finpol Rohr Sp. z o.o., a production company.

He was on the Supervisory Board of PGNiG from 26 June to 30 December 2013.

With effect from 31 December 2013, he was appointed Vice-President of the Management Board for Exploration & Production.

The Vice-President of the Management Board elected by employees supervises and coordinates the Company's operations in the areas of administrative management of the Company's property (excluding network assets, extraction assets and underground gas storage facilities), occupational health and safety, cooperation with the transmission, distribution and storage system operators, collaboration with the trade unions, the Employee Council and other employee organisations within the Company and the PGNiG Group; he also supervises the operations of the Central Measurement and Testing Laboratory in Warsaw, and of the PGNiG foreign representative offices in Kiev and Vysokoye.

Waldemar Wójcik
Vice-President

Waldemar Wójcik is a graduate of the faculty of drilling, oil and gas at the AGH University of Science and Technology in Kraków, and holds a degree of Master Engineer of Oil Mining. He has worked for PGNiG since 1981. He was first employed at Sanocki Zakład Górnictwa Nafty i Gazu, initially serving as an administrative assistant at the Natural Gas Production Facility, then as a shift manager in the Well Workover Department, and after that as Head of the Administrative Centre for Oil and Gas Production Facilities in Przemyśl. From 1994 to 1996 he was a member of the PGNiG Employee Council. Between 2001 and his appointment as a member of the Management Board of PGNiG, Mr Wójcik held the position of Director of Sanocki Zakład Górnictwa Nafty i Gazu of Sanok and then Director of the PGNiG Branch in Sanok.

Between January 2009 and August 2010 he served as Vice-President of the Management Board of PGNiG in charge of Crude Oil Extraction. In September 2010, he was appointed to the Management Board of Polish Oil and Gas Company Libya BV.

Letter from the Chairperson of the Supervisory Board

Ladies and Gentlemen,

The year 2014 was very busy and eventful for the entire PGNiG Group. The ongoing deregulation of the gas market has brought with it increased competition, and the record-low oil prices affected the condition and revenues of the entire upstream industry.

Against this backdrop, the fact that in 2014 the PGNiG Group posted a net profit of over PLN 2.8bn, (up 47% on 2013) is all the more noteworthy. This exceptional result is largely attributable to disciplined management of the Group and the consistent steps that have been taken towards the further restructuring of the Group companies. The PGNiG Group's performance confirms that its remedial programmes, including efficiency improvement measures, are taking it in the right direction.

I have the pleasure of being Chairperson of the PGNiG Supervisory Board, which monitored the economic and financial standing of both the Company and the PGNiG Group, and also cooperated with the Management Board, supporting it in key decisions. In 2014, the Supervisory Board held 14 meetings and passed more than 100 resolutions.

Without question, one of the crucial decisions made in 2014 was the adoption by the Management Board, and then the approval by the Supervisory Board, of the new PGNiG Group Strategy for 2014-2022, awaited by the market and our shareholders.

The PGNiG Group's objective is to remain the leader in the hydrocarbon exploration and production sector, and the main supplier of natural gas, while also offering heat and electricity in a deregulated gas market.

The priorities will include maintaining the value of retail sale and wholesale, maximising cash flows from transmission infrastructure, gas storage and generation, as well as strengthening the exploration and production business. These areas are seen as drivers of the Group's further growth.

PGNiG's strategy will help it achieve its main objectives, including:
- EBITDA growth to PLN 7bn in 2022;
- capital expenditure of PLN 40–50bn by the end of 2022;
- maintaining domestic hydrocarbon production at current levels;
- increasing crude oil and gas production abroad through the acquisition of exploration and production assets;
- developing new areas of operation by expanding the value chain;
- significantly increasing the PGNiG Group's internal operational efficiency.

PGNiG will also continue its efforts to improve the Group's cost effectiveness and organisational efficiency. Improved efficiency and focus on segments of key importance to PGNiG's future will enhance the Group's ability to finance new projects and its competitive position on the market.

I believe that the consistent implementation of these objectives will deliver benefits to all stakeholders of the PGNiG Group. The Supervisory Board will most certainly support the Management Board in that effort.

Yours faithfully,

Wojciech Chmielewski

Wojciech Chmielewski
Chairperson of the Supervisory Board

Management Board and Supervisory Board

Supervisory Board

Wojciech Chmielewski
Chairperson

Wojciech Chmielewski graduated from the University of Wrocław in Polish Philology (1995) and Political Science (1998). He also completed postgraduate studies at Université de Strasbourg III in Politiques Publiques en Europe in 1997, and at the National School of Public Administration in Warsaw (KSAP) (2000).

Since 2000 Mr Chmielewski has worked at the Ministry of the State Treasury, currently as Director of the Ownership Transformation and Privatisation Department.

He was a Supervisory Board member at the following companies: Stocznia Gdynia SA, Agencja Rozwoju Przemysłu SA, PKS Przemyśl Sp. z o.o., Dragmor Sp. z o.o., Mostostal Wrocław SA, Koniecpolskie Zakłady Płyt Pilśniowych SA and Fabryka Wyrobów Blaszanych Polmetal SA. He served as a shareholder's proxy at BIPROWŁÓK Sp. z o.o. of Łódź.

Since 25 February 2009 he has been a member of the Supervisory Board of ENEA SA of Poznań, currently serving as Chairperson.

Agnieszka Woś
Deputy Chairperson

Agnieszka Woś received a Master's degree in Economics at the University of Information Technology and Management in Rzeszów (specialization: Finance and Accounting); she also graduated from the Cracow University of Economics (specialization: Corporate Functioning and Management). The London Chambers of Commerce and Industry Examinations awarded her certificates confirming her command of English. Moreover, she completed a certified study grant at the European University of Finance, Information Systems, Management and Business in Kiev, Ukraine. In 2010 she was awarded a Ph.D. degree in Economics (major: Management Science) at the Cracow University of Economics.

She has also completed a number of certified courses on project management, corporate and NGO management, as well as on the European Union. She has a vast professional experience in organization & management and project development, including acquisition processes. She authored numerous papers that appeared in prestigious scientific and business publications (comprising conference publications) in Poland.

Mrs. Woś worked in the Institute of Economics in Rzeszów, Solidex S.A. in Cracow, Polska Grupa Farmaceutyczna [Polish Pharmaceutical Group] S.A., and in the Marshal's Office of the Podkarpackie Region, first as the Director of the Corporate Governance and Economic Analysis Department, then as the Director of the Corporate Governance and Economic Analysis Office. She was a member of the Council of AEROPOLIS (Podkarpackie Science and Technology Park). Furthermore, she lectured Finance and Management at various universities.

At the moment she is the Director of the Key Companies Department in the Ministry of Treasury, where she supervises companies that are crucial for the Polish economy, energy & fuel security and defence system. She is also the President of the Management Board of Foundation for Development and Promotion of Podkarpacie "Podkarpacka Akademia Rozwoju".

Magdalena Zegarska
Secretary

Magdalena Zegarska graduated from the Private University of Environmental Sciences (PWSOŚ) in Radom, where she obtained an Engineering degree in Occupational Health and Safety. She also obtained a certificate of completion of studies in the Management of Large Enterprises from the School of Management and Marketing of the Business Initiatives Association in Warsaw. She has completed numerous training programmes and courses in psychology of team management. Secretary of the Employee Council of the second term of office. She is a Class I Mining Engineer.

Ms Zegarska joined PGNiG in 1998 as an employee of the gas distribution facility, and then moved on to become a customer service specialist at the Mazovian Trading Division. At present, she works as a debt collection specialist at the Retail Trading Department of PGNiG's Head Office. In the course of her professional career, she has worked on numerous projects carried out for the benefit of PGNiG's employees. She has received honorary awards for outstanding service to the Mazovian Trading Division, as well as to the Oil Mining and Gas Sector.

Janusz Pilitowski
Member

Janusz Pilitowski graduated from the Warsaw School of Economics with a Master's Degree in Economics (Corporate Finance). He began his professional career in 1983 at the Supreme Audit Office. In 1985-2003 Mr Pilitowski worked for Mennica Polska SA (the national mint), where he held a number of positions, including Chief Accountant, Chief Financial Officer, and then member and President of the Management Board. In 2004 Mr Pilitowski joined the Brasco Group, where he was responsible for the biocomponent and liquid biofuels market.

Since 2007 Mr Pilitowski has worked in public administration, first at the Energy Regulatory Office and then at the Ministry of the Economy. Since January 2011 he has been employed as Head of the Renewable Energy Department at the Ministry of the Economy.

Mr Pilitowski is an experienced member of supervisory boards, having served in that capacity at Zakłady Azotowe Puławy SA and Aesculap-Chifa Sp. z o.o. of Nowy Tomyśl. He has also completed a number of training programmes.

Management Board and Supervisory Board

Sławomir Borowiec
Member

Sławomir Borowiec graduated from the AGH University of Science and Technology in Kraków (Faculty of Drilling, Oil and Gas) in 1992, and in the same year joined Zielonogórski Zakład Górnictwa Nafty i Gazu. In 2001, he graduated from The Jacob of Paradyż University of Applied Sciences in Gorzów Wielkopolski – Institute of Management and Finance, where he completed studies in Management and Marketing. In 2014 he earned a degree in Accounting from the Koszalin University of Technology, where his principal field of study was Accounting of Business Entities. At present, he is Head of the Administrative Centre for Oil and Gas Production Facilities in Drezdenko. Mr Borowiec is also a licensed Mine Operations Manager.

In 2002 he passed an examination for candidates to the supervisory boards of state-owned companies, and in 2010 he received a title of Grade II Mining Director.

Andrzej Janiak
Member

Andrzej Janiak graduated from the Adam Mickiewicz University of Poznań. He completed legal training for court judges (1980-1982) and has been legal counsel since 1987. Since 2005 he has held a post-doctoral degree of Habilitated Doctor (doctor habilitatus) in law. Mr Janiak has worked at the Adam Mickiewicz University of Poznań since graduation, and in 2008 became Professor at the Department of Civil, Commercial and Insurance Law.

In 2009-2012 he was also Professor at the Department of Commercial Law of the Faculty of Management at the Poznań University of Economics, and since 2012 – at the Department of Civil and Commercial Law of the Faculty of Law and Administration at the Szczecin University. He has worked as a chief specialist at the Poznań Branch of the National Bank of Poland and adviser to the President of Wielkopolski Bank Kredytowy SA. He has also served as an adjudicator in arbitration tribunals, as well as a legal consultant and litigation attorney for a number of companies.

Member of the Supervisory Board of PGNiG since 26 March 2014.

Ryszard Wąsowicz
Member

Ryszard Wąsowicz graduated from the School of Law and Public Administration in Rzeszów with a Bachelor's Degree in Administration – Human Resources Management (continuation – Master's Degree programme). He started his professional career in 1978 at Sanocki Zakład Górnictwa Nafty i Gazu, working at the Husów gas extraction facility. In 1990–1992 he was a member of the Employee Council at Sanocki Zakład Górnictwa Nafty i Gazu, and in 1992–1996, for two (the fifth and sixth) terms of office, he was a member of the Employee Council at PGNiG. Until 1998 he was a member of the Consulting Board at PGNiG. In 1998 he completed a course for supervisory board members and passed a state exam before the State Treasury Commission. Since 1990 he has been delegated to work in trade union bodies. Mr Wąsowicz was nominated to the Supervisory Board of PGNiG by the President of the Trade Union of Workers of the Mining and Oil Industries (NSZZ Górników-Naftowców).

On 15 May 2014, he was appointed to the PGNiG Supervisory Board as a member elected by the employees.

Irena Ożóg
Member

Irena Ożóg is a licensed tax advisor. In 1989-2003 she served as department head and Deputy Minister of Finance responsible for creating and overseeing the Polish tax system. Ms Ożóg has taught public finance at the Warsaw School of Economics and the University of Warsaw for more than twenty years, and also organises workshops on applied tax law. Ms Ożóg has written nine books and approximately two hundred monographs and papers on financial regulations, including tax law.

Over the years, she has gained substantial experience as a legal and financial tax adviser. Her expertise makes her a frequent collaborator with the public administration and government bodies, as well as business organisations and committees dedicated to tax issues. Ms Ożóg is a member of the Ministry of Finance's Tax Law Consulting Board and the Chairperson of the General Tax Law Team.

Her firm provides advisory services to domestic and foreign businesses and financial institutions. Ms Ożóg has been recognised with numerous awards and distinctions and has frequently topped the tax adviser rankings.

She also has extensive experience serving on the supervisory boards of state-owned and private entities, including public companies.

Maciej Mazurkiewicz
Member

Maciej Mazurkiewicz studied at the Faculty of Mining of the University of Science and Technology in Kraków (AGH), where he began working after graduation in 1970.

He defended his PhD thesis with honours in 1978 and was awarded a post-doctoral degree in engineering (doctor habilitatus) by the Council of the AGH Mining Faculty in April 1990. Mr Mazurkiewicz received his professor's title in 1998, having progressed through all stages of an academic career.

His academic interests include mining, environmental aspects of industrialised regions and waste management (including hazardous waste). Mr Mazurkiewicz has authored and co-authored six monographs (including three on waste) and textbooks, nine course books, over 100 articles in Polish and foreign journals, 20 patents, and a dozen or so grant projects.

He has supervised ten doctoral dissertations and reviewed numerous doctoral, post-doctoral and professorship theses. He has received numerous individual and team awards from the Minister of Mining and Energy, the Minister of National Education and the Polish Federation of Engineering Associations (NOT), the Rector of the University of Science and Technology in Kraków, and the Rector of the State Higher Vocational School in Krosno, including the Prof. Henryk Czeczot team award.

He has prepared several hundred expert analyses and opinions for various industrial organisations, including foreign ones (e.g. from Germany, Hungary and Canada).

At his alma mater, AGH, Mr Mazurkiewicz served as the deputy head of the institute, deputy dean, and chair head. He was also a member of the State Committee for Scientific Research for two terms of office, and an expert for the Environmental Protection, Natural Resources and Forestry Ministry. In addition, Mr Mazurkiewicz is a member of the Polish Academy of Engineering, a number of scientific committees of the Polish Academy of Sciences (on mining, deposit management and environmental engineering), and various scientific councils (at the Strata Mechanics Research Institute of the Polish Academy of Sciences and at the Chief Mining Institute), and sits on a number of ministry committees.

Mr Mazurkiewicz is currently employed at the Faculty of Mining and Geoengineering of the University of Science and Technology in Kraków (Department of Environmental Engineering and Materials Processing) and at the Department of Environmental Engineering of the Technology Institute of the State Higher Vocational School in Krosno (since 2002). A member of the academic Senate at both institutions, he also chairs the Senate's Personnel Committee at the University of Science and Technology in Kraków for a fourth term of office.

In connection with the expiry of the Supervisory Board's term of office, on 15 May 2014 the Annual General Meeting of PGNiG dismissed all the members of the Supervisory Board and appointed, for a joint three-year term of office commencing on 15 May 2014, a Supervisory Board composed of: Wojciech Chmielewski, Sławomir Borowiec (elected by employees), Andrzej Janiak (independent member), Bogusław Nadolnik, Janusz Pilitowski (State Treasury representative appointed upon consultation with the Minister of the Economy), Agnieszka Trzaskalska, Ryszard Wąsowicz (elected by employees), Agnieszka Woś and Magdalena Zegarska (elected by employees).

On 30 July 2014 Agnieszka Trzaskalska resigned as a member of the PGNiG Supervisory Board.

On 6 November 2014 Bogusław Nadolnik resigned as a member of the PGNiG Supervisory Board.

On 16 April 2015, the Annual General Meeting of PGNiG appointed Irena Ożóg and Maciej Mazurkiewicz as new Supervisory Board members.

PGNiG on the stock market

PROMOTION: PGNiG ON THE STOCK MARKET

PGNiG on the stock market

The PGNiG stock delivers stable, long-term growth, attributable to the increasing Company value, which translates into a higher share price and dividend distributions. Since 2005, PGNiG has been a pillar of the Polish stock market.

Position on the Warsaw Stock Exchange

From the day PGNiG shares were first listed on the Warsaw Stock Exchange (23 September 2005), they have been among the most recognisable and credible listed securities. They have been included in the WIG20 index since 2005 and constitute an important component – from the perspective of the Polish market – of regional developing market indices such as the MSCI or FTSE, as well as the RESPECT Index, the only portfolio of socially responsible companies on the Warsaw Stock Exchange. PGNiG has been included in the RESPECT Index since its inception, with its CSR policies recognised once again in 2014, in the eighth edition of the Index.

Performance of the PGNiG stock in 2014

In 2014, the price of shares in PGNiG was marked by significant volatility, greater than in the case of the WIG20 and WIG-Paliwa indices, where the Company is listed. Relative to the 2013 closing price, PGNiG shares moved within the range from -21% to +1%, while WIG20, whose valuation is generally more stable, fluctuated between -7% and +5%. The key reasons of this volatile performance included:

- fears over the conflict between Russia and Ukraine and its consequences for the energy sector,
- the deregulation of the Polish gas market,
- a sharp decline in crude oil prices beginning in August 2014.

In 2014, the price of shares in PGNiG ranged from PLN 4.17 to PLN 5.33. The beginning of the year saw a continuation of the downward trend that began in August 2013, when the shares hit an all-time high of PLN 6.55. Following the introduction of the obligation to sell gas through the power exchange with a very short vacatio legis, investors grew increasingly concerned about the deregulation of the gas market, a salient theme of research reports released at that time. This negative effect was exacerbated on 17 January 2014, when the PGNiG Group announced impairment losses on and provisions for its Libyan assets, which drove the costs reported in Q4 2013 up by over PLN 0.5bn. On 30 January 2014, PGNiG shares were quoted at PLN 4.57 – down 30% on the peak from six months earlier.

After a temporary hike to PLN 5.1 at the end of February, the price underwent a correction in March. The drop came with the military conflict between Russia and Ukraine, which brought on an overall decline of stocks from Central and Eastern Europe. Given the uncertainty surrounding Russian gas supplies through Ukrainian territory, gas companies were particularly hard hit. The negative market sentiment grew stronger as the PGNiG Group EBITDA forecast for 2014 turned out to be below analysts' expectations. As a result, the PGNiG stock hit the year's low of PLN 4.17 at the end of March.

In mid-April, shares in PGNiG began an upward climb, significantly outperforming the broad market. Encouraged by low trading multipliers (P/E – price/earnings, P/BV –price/book value), investors showed more appetite for PGNiG stock. The trend was fuelled by the positive reception of the performance figures for Q1 2014, which showed that the Group's investments in the upstream business were effective, and that trading in natural gas on a regulated market may be profitable (positive margin of 3% on high-methane gas sales).

The trend collapsed in late July (with the price at PLN 5.33), as the global market saw the first signs of a slump in crude oil prices. Within several weeks, the industry's WIG-Paliwa index shrank by more than 11%, as did the price of shares in PGNiG– to PLN 4.73. After remaining in a lateral trend for several months, the PGNiG shares reacted badly to OPEC's decision of 27 November to maintain the crude oil production volumes. The price of Brent crude slid from approximately USD 80 per barrel in November to USD 55 at the end of December, bringing PGNiG's stock down to PLN 4.45 per share as at 31 December.

The price was nearly 50% above the issue price of 2005 and 17% above the closing price on the first day of listing. Factoring in the dividend of PLN 1.08 per share paid in 2005–2014, investors who acquired PGNiG shares at the issue price and held them until the end of 2014 saw a profit of 86%.

Performance of the Warsaw Stock Exchange indices and PGNiG stock

Performance of WSE indices and PGNiG stock

Index	Value/price as at 30 Dec 2013	2014 high	2014 low	Value/price as at 30 Dec 2014	PGNiG's weight in the index as at 8 Jan 2015
WIG	51,284 points	55,637 points	49,521 points	51,416 points	2.52%
WIG20	2,401 points	2,551 points	2,271 points	2,316 points	3.80%
WIG-Paliwa	3,215 points	3,493 points	2,967 points	3,381 points	28.50%
Respect Index	2,559 points	2,933 points	2,450 points	2,674 points	7.34%
PGNiG	PLN 5.15	PLN 5.33	PLN 4.17	PLN 4.45	-

Source: gpwinfostrefa.pl

Rates of return on WSE indices vs PGNiG stock in 2014 and from PGNiG's IPO

Index	Rate of return in 2014	Rate of return from PGNiG's IPO[1] to 31 Dec 2014
WIG	0.3%	54.8%
WIG20	-3.5%	-5.7%
WIG-Paliwa	5.2%	-5.0% [2]
Respect Index	4.5%	167.4%[3]
PGNiG	-13.6%	35.2% [4]

Source: WSE.

[1] Closing price on 23 September 2005.

[2] Calculated in relation to the reference value of the index (reference date: 30 December 2005).

[3] Calculated in relation to the reference value of the index (reference date: 31 December 2008).

[4] Relative to the issue price of PLN 2.98, PGNiG shares yielded a rate of return of 49.3%.

PGNiG's share price performance in 2014

Shareholding structure

As at 31 December 2013, the share capital of PGNiG stood at PLN 5.9bn, and comprised 5,900,000,000 shares, with a nominal value of PLN 1 per share. The shares of all series, namely Series A, A1 and B, were ordinary bearer shares and each share conferred the right to one vote at the General Meeting.

The State Treasury remains PGNiG's majority shareholder. On 26 June 2008, the Minister of the State Treasury disposed of one share in PGNiG in accordance with general rules, which – pursuant to the Commercialisation and Privatisation Act of 1996 – triggered the eligible employees' rights to acquire up to 750,000,000 shares in PGNiG, free of charge. The start date for executing agreements on the acquisition of free Company shares was 6 April 2009. The eligible employees' rights to acquire free PGNiG shares expired on 1 October 2010.

By 31 December 2014, nearly 60,000 eligible employees had acquired 728,282,000 shares, conferring the right to 12.34% of the total vote. Consequently, the State Treasury's interest in PGNiG amounted to 72.40%. The free Company shares acquired by eligible employees were locked up until 1 July 2010, while trading in free shares acquired by members of the Company's Management Board was restricted until 1 July 2011.

Shareholding structure at the end of 2014

Shareholder	Number of shares/votes attached to the shares as at 31 Dec 2014	Percentage of share capital/total vote at the GM as at 31 Dec 2014
State Treasury	4,271,717,836	72.4%
Other shareholders	1,628,282,164	27.6%
including OFE:	651,437,632	11.04%
Total	5,900,000,000	100.00%

As at the dividend record date (14 August 2014), the ten largest institutional investors in PGNiG, apart from the State Treasury, included Polish pension funds. Its major foreign investors included sovereign wealth funds, pension funds and investment funds, mainly exchange-traded funds. The objective of exchange-traded funds is to automatically track their reference stock index, e.g. the Polish market index or that of developing countries. PGNiG's institutional shareholder base comprises investors from 45 countries.

Substantial holdings of PGNiG shares are included in the portfolios of open-end pension funds. As at the end of 2014, these long-term investors held more than 11% of PGNiG's equity, valued at just under PLN 3bn. This means that the number of PGNiG shares held by these funds rose by 14% in 2013. The funds with the largest equity interests in PGNiG were those managing the largest portfolios of future pensions, namely ING, PZU Złota Jesień and Aviva. The share of open-end pension funds in the PGNiG shareholder base has risen significantly since the IPO in 2005, when it accounted for 3.5% of the share capital (valued at PLN 711m). Pension funds are typically long-term investors whose equity portfolios are characterised by low turnover, especially with respect to large dividend-paying companies, such as PGNiG. They have a stabilising effect on the Company's shareholding structure, while limiting its free float, which can translate into lower trading volumes. The average daily trading in PGNiG shares in 2014 was PLN 18.8m, which is a solid result considering the low free float.

Investor relations

Investor relations is an area of business activity that is constantly gaining in importance, reflecting the rapid growth of the Polish capital market, seen in the growing NAV of investment funds and the rising number of publicly-traded companies, which is now in excess of 470. There are almost 1.5m investment accounts registered in Poland, including a dynamic group of retail investors who invest their capital through the Warsaw Stock Exchange. The importance of investor relations also follows from increasing legal and regulatory requirements, imposed by such bodies as the Polish Financial Supervision Authority and resulting from the transposition of EU law into the Polish legal framework.

In 2014, PGNiG's website was reconstructed, which included an update and refurbishment of the Investor Relations section containing all the Company's current and periodic reports, information on dividend payments and shareholding structure, current prices of shares in PGNiG, and brokers' recommendations. The section also features PGNiG's investor presentation, which outlines the PGNiG Group's equity story in a concise and accessible manner, and includes the telephone and email contact details of the PGNiG Investor Relations Division.

In 2014, representatives of the Company held close to 150 meetings with investors and stock analysts. We also continued our involvement in the 'Shareholder Democracy' (Akcjonariat Obywatelski) project, initiated in 2012. PGNiG is taking an active part in its 2014/2015 edition by attending meetings with retail investors and providing financial support for the project.

Strategy of the Group

COMPETITION: STRATEGY OF THE GROUP

Strategy of the Group

The Strategy of the PGNiG Group for 2014-2022 has been developed to address the challenges facing the Group in the coming years.

Mission statement

By developing oil and gas production and making efficient use of our infrastructure, we provide our Customers with environment-friendly energy, while building the Company's value for our shareholders and employees.

Vision

Our vision is to grow from a guarantor of gas supplies into a profitable and competitive player on the hydrocarbon production and energy markets.

Primary objective

Our objective is to maintain EBITDA at current levels until 2017, and increase it to ca. PLN 7bn in 2022.

The new Strategy of the PGNiG Group for 2014-2022 covers four key business areas and 12 strategic initiatives.

Strategy of the PGNiG Group for 2014-2022

A	B	C	D
Maintaining a stable value of sales (both in retail and wholesale)	Maximising cash flows from infrastructure and generation areas	Strengthening and transforming the exploration and production area	Laying foundations for growth along the value chain
1 Optimising the natural gas portfolio management	3a Maximising value from transmission infrastructure – gas distribution	5 Maintaining current volumes of domestic production from conventional deposits	8a Efficiency Improvement Programme
2 Developing and implementing a new retail and wholesale model	3b Maximising value from transmission infrastructure – heat distribution	6 Confirming the geological and economic potential of shale gas deposits in Poland	8b Sale of non-core assets
	4 Taking an active part in developing energy market regulations	7 Expanding the upstream business outside of Poland	9 Creating an organisation based on efficient human resource management, focused on objectives and resource acquisition
			10 Stepping up R&D activities and searching for innovative areas of growth

A. Maintaining a stable value of sales (both in retail and wholesale)

Deregulation in the present form creates a situation in which the PGNiG Group is responsible for Poland's gas security, ensuring stable gas supplies to customers and handling import contracts, while also being forced to comply with the tariff model, which leads to high losses in the wholesale business, and also meet the requirement to sell a part of its gas volume through the power exchange, which drastically elevates the risk of losing a significant share of the market. Under this gas market deregulation model, the PGNiG Group bears the full cost of the process, which results in losses on its wholesale operations. These losses represent stranded costs and cannot be charged to end users.

The PGNiG Group must immediately take steps to overcome the threats to its operation on the domestic gas market. A failure to resolve the problems associated with long-term import contracts, regasification charges and the consequences of the exchange sale requirement may cripple the PGNiG Group's financial strength.

Within this area, the PGNiG Group will seek to maintain its leading position on the gas market and remain the preferred gas supplier across all customer segments. The Group intends to pursue these objectives by developing and implementing mechanisms that would encourage customers to continue their relationship with PGNiG, and by transforming its sales model to improve customer service quality. The strategy of the PGNiG Group is to maintain a high stability of gas supplies to end users and to enhance the Group's product offering through such initiatives as the launch of dual fuel products and the development of additional services. The priority in this area is to develop and implement mechanisms that would mitigate the risk related to the Company's long-term gas import contracts. The Company will seek to introduce more flexibility into its natural gas portfolio and adjust the portfolio to the changing pricing and supply/trading conditions on the market, while maintaining its ability to ensure the security of supplies expected by customers.

Related initiatives:

1. Optimising the natural gas portfolio management
- Liberalising the natural gas portfolio by increasing the flexibility of prices and supply terms, while securing uninterrupted supplies of natural gas.
- Optimising the portfolio management and trading policies for the liberalised natural gas market.
- Developing and implementing the final concept for gas procurement after 2022.
- Reducing the adverse impact of long-term gas supply contracts and of the agreement with the LNG terminal operator concerning the allocation of regasification capacities.

2. Developing and implementing a new retail and wholesale model
- High customer satisfaction – qualitative change in the customer service model (building the sales function) and implementing new product offerings.
- Achieving an operating efficiency at the Retail Trading Company that would allow PGNiG to reduce customer service costs.
- Minimising the decline of PGNiG's share in the market's total volume of gas sales.
- Creating conditions for the exchange sale requirement to be met.
- Developing and implementing a foreign operations model.
- Limiting the negat\\ive impact of the Polish gas market liberalisation on the results of the PGNiG Group.
- Generating a positive margin on gas wholesale trading.

B. Maximising cash flows from infrastructure and generation areas

The PGNiG Group's grid infrastructure, gas storage, and electricity and heat generation assets are a source of predictable, stable revenue and deliver attractive rates of return relative to the risks. In the coming years, the assets will prove important in stabilising the Group's financial performance and enhancing its ability to finance new projects. The role assigned to the infrastructure and generation area will call for ongoing cost control and the optimisation of capital expenditure. In a time of intense competition, it will be of paramount importance to ensure that this business area generates maximum free cash, particularly for new growth-oriented projects. Furthermore, new investment projects will have to be carefully selected to ensure that the Group's potential and available synergies offered by new growth areas are fully leveraged. The Group will pursue new, profitable transmission infrastructure projects (heat networks) as one of its development directions.

Given the regulatory risks inherent in the PGNiG Group's principal business, the implementation of the Group's strategy requires dialogue with the regulator, decision-makers, representatives of the industry, and key stakeholders in the Company's environment to minimise the negative impact of legislative solutions on the Group's operations.

Related initiatives:

3a. Maximising value from transmission infrastructure – gas distribution
- Maximising profitability with WACC at a level agreed for distribution operations by the President of the Energy Regulatory Office (URE).
- Increasing the volume of transported gas through development projects and new connections.

3b. Maximising value from transmission infrastructure – heat distribution
- Seeking additional value growth in new segments – long-term increase in cash flows through effective investments in new network infrastructure projects (heat distribution).
- Reaching synergies in the network distribution area.

4. Taking an active part in creating energy market regulations
- Preparing a detailed programme to support changes in the regulatory environment aimed at improving the profitability of the fuel and energy industry and gas distribution sector, in particular through supporting highly-efficient natural gas based cogeneration, storage, distribution, as well as the exploration and production segment.
- Developing suggestions for regulatory alternatives to mitigate risks arising in connection with long-term contracts and statutory obligations.
- Preparing suggestions for regulatory changes that would be favourable for the development of new segments (CNG, LNG).

C. Strengthening and transforming the exploration and production area

The development of the PGNiG Group should leverage its key competitive advantages and focus on the most prospective area of its operations. The competence and experience gained by the PGNiG Group in hydrocarbon exploration and production, and the increasing importance of access to a diversified portfolio of hydrocarbon deposits for fuel and energy companies to remain profitable, make the upstream segment the key driver of the Group's further growth. However, if the confirmation of geological and economic potential of shale gas deposits in Poland will not result in a revolution on the hoped for scale, building a sustainable and profitable portfolio of production assets will require the PGNiG Group to pursue more exploration projects outside of Poland (also covering unconventional deposits).

A reasonable evaluation of the potential of domestic conventional deposits does not promise any discoveries that would markedly increase the PGNiG Group's reserves in Poland and allow the Group to further expand production from domestic fields. The Group may only aspire to maintain its current levels of production. In order to be able to fully utilise our capabilities, which are unmatched by any competitors in Poland, and to ensure meaningful growth of the Company's value, we must take active steps to consistently build a portfolio of foreign exploration and production assets.

PGNiG's main objective is to maintain stable production of natural gas and crude oil in Poland. However, to secure further meaningful growth of shareholder value, the Company intends to take active steps to build a portfolio of foreign exploration and production assets.

The Company will also continue its efforts to confirm the geological and economic potential of shale gas deposits in Poland, within its most promising licence areas, with a view to verifying recoverable unconventional reserves and commencing economically-viable production of hydrocarbons in the shortest possible time.

Related initiatives:

5. Maintaining the current volumes of domestic production from conventional deposits
- Maintaining production levels from the existing licence areas by implementing an enhanced recovery programme.
- Implementing best production practices using a benchmarking system.
- Improving the capital efficiency of reserves development.
- Accelerating the development of hydrocarbon reserves in Poland – shortening the duration of development projects.
- Confirming the potential and economic viability of production from domestic conventional hydrocarbon reserves.

6. Confirming the geological and economic potential of shale gas deposits in Poland
- Appraising shale gas reserves.
- Finding external partners to jointly explore for shale gas.
- Verifying the economic viability of production in Poland.
- Pursuing the commercial production of unconventional hydrocarbons.

7. Expanding the upstream business outside of Poland
- Developing competence to build and manage the target portfolio of foreign projects with varied characteristics (risk, completion stage) in the exploration and production segment.
- Building the value of exploration and production segment in line with the adopted strategic objectives by pursuing new projects abroad.
- Developing and implementing a model for building and managing the target portfolio of foreign projects.

D. Laying foundations for growth along the value chain

The market deregulation, growing competitive pressures and the development of new business areas (international upstream, unconventional hydrocarbons and infrastructure) require the PGNiG Group to radically change its cost structure and focus on segments vital to its future. The PGNiG Group should improve its capacity to finance new investment projects and its liquidity, while sharpening its competitive edge based on increased operational efficiency.

The PGNiG Group's staff must be perfectly prepared for changes in the Group's environment.

To be able to face the challenges ahead, the PGNiG Group needs to build an efficient team of change promoters, to acquire and develop key competencies, and to make a great effort to engage the entire organisation in building a new project-based organisational culture fostering the effective management of resources.

To fully leverage Poland's energy and resource potential, the PGNiG Group will have to optimally apply technology innovations developed in Poland or elsewhere in the world. Executing new, prospective projects may reposition our business so we can become a company whose competitive edge is based both on expertise and cost advantage.

To ensure further growth, the Group will take steps to improve its cost effectiveness and organisational efficiency at each stage of the value chain. These steps will include cost rationalisation at the PGNiG Group, necessary in light of market deregulation and growing competitive pressures, and the development of new operations (upstream and infrastructure). The Group will also focus on segments of key importance to its future. These measures will improve the Group's ability to finance new projects and enhance its competitive position on the market.

To ensure the effective implementation of strategic initiatives, an efficient team of change leaders will be established, and the entire organisation will have to be engaged in creating a new objective-, efficiency- and project-oriented organisational culture.

Moreover, PGNiG is looking to assume a structured approach to R&D and innovation management, to obtain financing for its R&D projects from EU funds, and to optimise its portfolio of innovative projects.

Related initiatives:

8a. Efficiency Improvement Programme
- Improving operational efficiency throughout the Group.
- Achieving sustainable savings in operating expenses.
- Improving the effectiveness of capex spending in all segments of the PGNiG Group's business..

8b. Sale of non-core assets
- Reducing the PGNiG Group's exposure to non-core assets and equity investments yielding rates of return below WACC.

9. Creating an organisation based on efficient human resource management, focused on objectives and resource acquisition
- Building teams, organisation and culture to support the implementation of the PGNiG Group's strategic objectives.
- Developing and implementing competency models for key areas of the Group's business, to identify and eliminate any differences between competencies required and possessed by the organisation.
- Supporting staff development in areas intended to close competency gaps and implementing a talent development programme.
- Implementing the organisation's knowledge management system.

10. Stepping up R&D activities and searching for innovative areas of growth
- Creating competitive advantages and fully leveraging the potential of PGNiG's business model by improving technological efficiency in the hydrocarbon exploration and production area.
- Enhancing the PGNiG Group's development potential through increased innovation.
- Creating conditions for the continued development of the PGNiG Group based on promising commercial technologies in areas closely related to the Group's business profile.
- Efficiently acquiring EU funds supporting innovation and R&D activities.

Strategy of the Group

Key strategic objectives

- Stabilisation of EBITDA at approximately PLN 7bn in 2022.
- Increase in average annual capital expenditure on organic growth and acquisitions by approximately 20% relative to 2008-2013.
- Hydrocarbon production in Poland maintained at current levels, i.e. approximately 33 million boe per year.
- Increase in total crude oil and gas production volume (in Poland and abroad) to approximately 50-55 million boe in 2022 through the acquisition of exploration and production assets.
- Development of new business areas by expanding the value chain in the distribution segment through the addition of heat assets.
- Significant enhancement of the PGNiG Group's operational efficiency (savings of approximately PLN 800m).

The Efficiency Improvement Programme comprises 18 initiatives.

The initiatives are implemented in three streams:
- Stream A – Initiatives dedicated to individual business segments within the PGNiG Group.
- Stream B – Cross-cutting initiatives related to all business segments of the PGNiG Group.
- Stream C – Initiatives related to mechanisms for expenditure allocation within the PGNiG Group.

Expected total savings generated by the Efficiency Improvement Programme:
- approximately 15%-20% of the identified 2013 cost base.
- up to approximately PLN 700m-800m of repeatable effects on EBITDA as of the end of 2018.

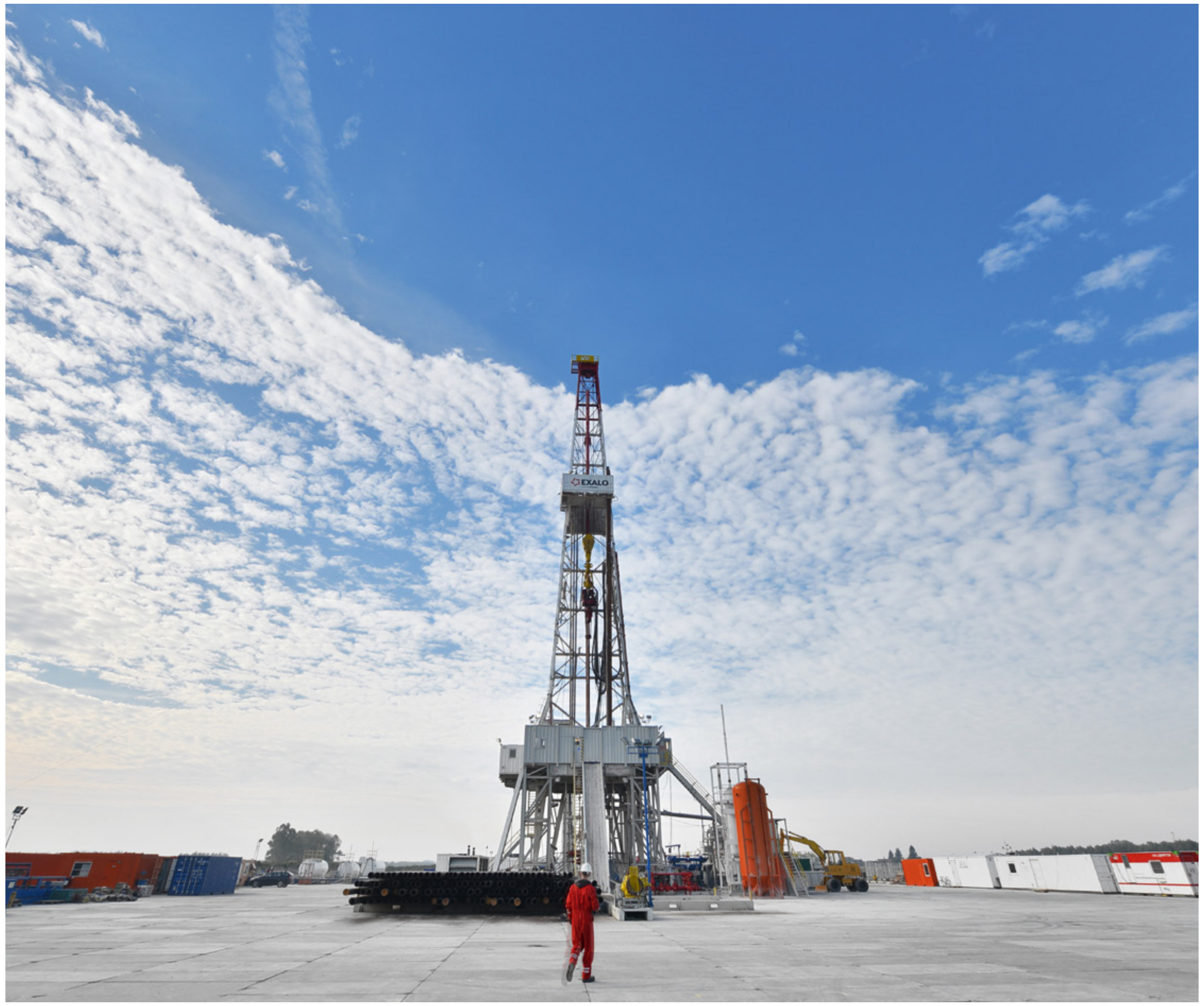
New strategic areas

Our investments in heating assets offer many benefits to the Group, but also to prospective sellers. The PGNiG Group has a long track record of managing assets on regulated markets, where investments offer stable returns and have a known risk profile. Nearly 70% of heating systems are still held by local governments, but municipal heating assets often require investments exceeding their owners' financial capacities. As an industry investor, PGNiG will be able to commit to investment projects aimed at replacing dilapidated heating systems and ensuring their compliance with strict environmental requirements. PGNiG is a recognisable and respected Polish investor, with a nationwide presence and long-standing experience of working with local authorities. Furthermore, PGNiG will be able to leverage the synergies and capabilities of the entire Group, including PSG and PGNiG TERMIKA.

Strategy of the Group

Strategic approach to sustainable development and responsible business at the PGNiG Group

The PGNiG Group's companies conduct their business not only with the economic outcome in mind, but also with care for the process of achieving their objectives, taking into account the expectations and needs of stakeholders. That is why a comprehensive strategy of sustainable development and responsible business was implemented in 2009. It was formulated with active contribution from employees of all areas of the PGNiG Head Office and the PGNiG Group's companies. Ever since then, we have published CSR reports and been included in the WSE's Respect Index of socially responsible companies.



The Corporate Social Responsibility Strategy of the PGNiG Group, which harmoniously combines ethical and environmental aspects with business efficiency, is a blend of best practices in that area. By pursuing its sustainable development and responsible business strategy, PGNiG also fulfils its commitments resulting from membership in Global Compact, the UN's international initiative. We are also an active member of the Responsible Business Forum.

Macroeconomic environment in 2014

CONDITIONS: MACROECONOMIC ENVIRONMENT IN 2014

Macroeconomic environment in 2014

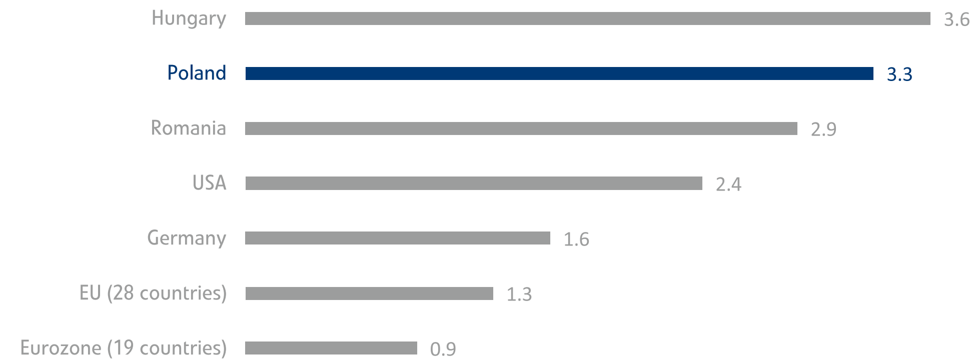
In 2014 Poland's GDP grew 3.3%, following a 1.7% rise in 2013, according to preliminary estimates of the Central Statistics Office. The key growth driver was domestic demand, which improved 4.6% (compared with merely 0.2% a year before). Strong growth was recorded in the consumption of households (up 3.0% vs. 1.1% in 2013) and investment (up 9.4% vs. 0.9% in 2013). Net exports no longer had a positive impact on GDP in the period under review.

In 2014 Poland was one of the fastest growing economies in the EU. To compare – Germany's economy, the largest in the EU, expanded by 1.5%.

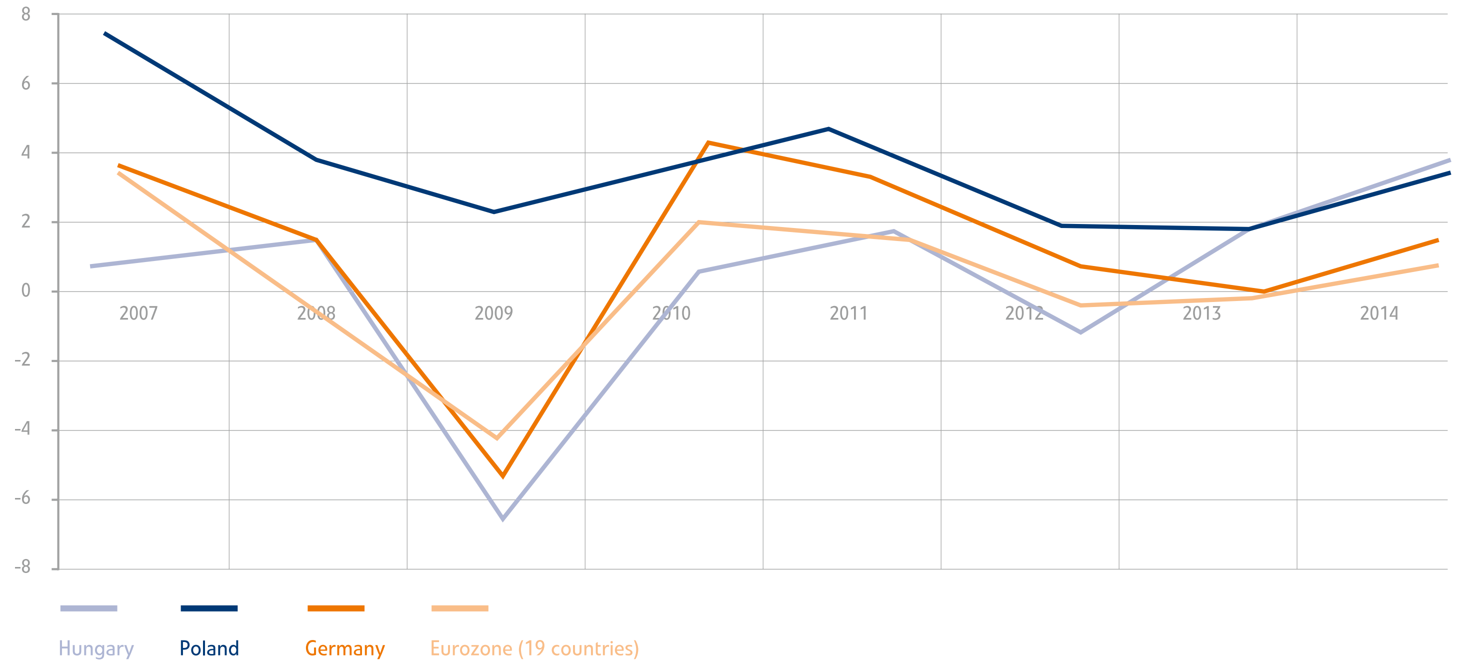
GDP in the eurozone and the entire EU improved slightly in the third quarter, thanks mainly to Germany, which managed to avoid technical recession, and a faster growing France. Poland continues to be one of the leading EU Member States in terms of GDP growth rate.

In the long term, there is strong correlation between Poland's GDP growth and rising natural gas consumption. This is an effect of many factors, including a stronger demand for gas as a chemical feedstock for production (e.g. plastics, fertilisers); growing affluence, which promotes a change in house heating systems from coal-fired boilers to cleaner and easier to maintain gas-fired ones; the extension of the gas network and a gradual shift in the Polish power sector towards low emission intensity, supported in particular by cogeneration CCGT units.

GDP growth rate in 2014 (change compared with the previous year)



GDP growth rate in 2007-2014 (change compared with the previous year)



Natural gas prices on European commodity exchanges

Apart from seasonal factors such as air temperature, in 2014 the natural gas prices on European markets were affected by limited supplies from Norway, resulting from stoppages scheduled for September, maintenance shutdowns of gas-fired power stations, but also the political situation in Ukraine, reduced supplies to Europe from Russia, and a decline in oil prices, which are still an element of the pricing formulas incorporated in many long-term contracts.

Further, the high levels of stocks held at gas storage facilities in Europe suggested weaker demand for gas in 2014.

As of September 2014, natural gas prices picked up on the Polish Power Exchange compared with NCG and TTF. The reasons for the wider spread between the price of natural gas on the Polish Power Exchange and in the neighbouring countries in the fourth quarter of 2014 were purely fundamental. Throughout the entire fourth quarter, gas supplies from sources east of Poland were significantly reduced. Concurrently, demand for gas grew steadily, as usual in the autumn and winter season. In these circumstances, with limited technical capacity to import gas from sources other than those located east of Poland, which were insufficient to cover the entire consumption, the market balance was disturbed as demand outstripped supply. This resulted in significantly higher activity of the demand side on transmission capacity auctions held by OGP Gaz-System SA. As a result, auction premiums rose to levels several times higher than tariff rates, which significantly increased the cost of cross-border transmission capacities. In turn, this marked growth in the cost of gas imports to Poland helped widen and preserve the difference between gas prices in Poland and the neighbouring countries. It is worth pointing out, however, that since the beginning of the first quarter of 2015, when OGP Gaz-System SA provided access to new large transmission capacities (a more than doubled capacity increase for imports from Germany through the Mallnow Reverse and Interconnection Points (PWP), to 5.5 bn m^3 per annum), the above infrastructure constraints were largely removed, which brought the price spread back to levels seen before supplies from east of Poland were reduced.

Natural gas prices on European commodity exchanges (EUR/MWh)

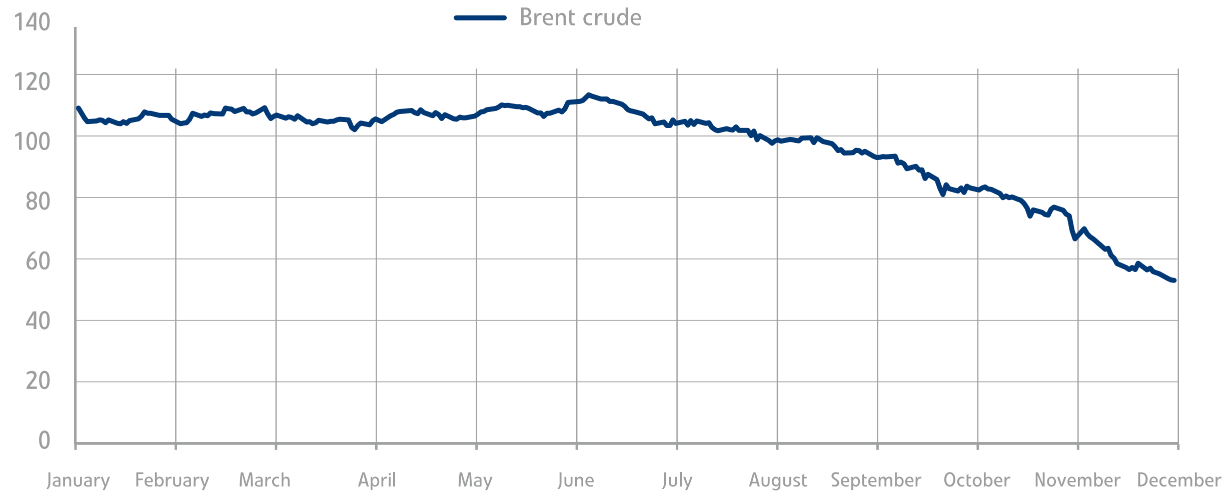
Brent crude oil prices

Crude oil prices were depressed by forecasts of a slowing global economy. Disappointing industrial output data from the world's two largest economies, the US and China, rekindled investor worries about falling global demand.

Amid continuing price declines and the strengthening US dollar, there was an increase in global crude oil supply. Supply also grew on the back of the shale revolution in the US, where the monthly crude oil output rose between January and December 2014 by more than 16%. Despite pressure from some OPEC countries, no production limits were introduced.

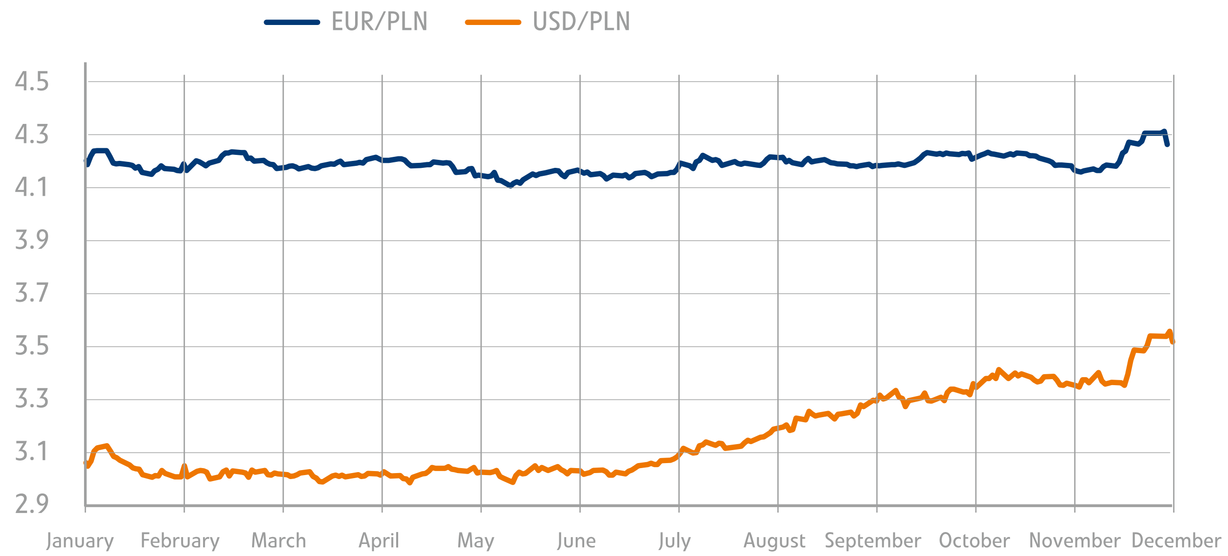
On the last day of 2014, the oil price was down 48% on the quotations from the beginning of the year.

Brent crude oil prices (USD/bbl)



EUR/PLN and USD/PLN exchange rates

The first eight months of 2014 saw the Polish złoty strengthening against the euro and the US dollar, with the trend reversing in the following months. The exchange rates of the currencies grew to PLN 1 = EUR 4.26 and PLN 1 = USD 3.51 as at the last day of the year. The depreciation of the Polish złoty was caused by the weakness of the eurozone economy, tensions in Ukraine, and net capital outflows from developing economies. The USD/PLN exchange rate was also affected by improving conditions in the US economy and growing risk aversion in global markets in connection with the falling oil prices.



Exploration and Production

ROUND 1: EXPLORATION AND PRODUCTION

Exploration and Production

This segment's business focuses on extracting hydrocarbons from deposits and preparing products for sale. The segment comprises the entire process of oil and gas exploration and production, from geological analyses, to geophysical surveys and drilling work, to field development and hydrocarbon production. The work is conducted by the segment on its own, or jointly with partners under joint operations agreements. It relies on storage capacities available at the Daszewo and Bonikowo Underground Gas Storage Facilities.

The PGNiG Group is the leader of the Polish hydrocarbon exploration and production market. As of 1990, hydrocarbon exploration in Poland is based on a licensing policy that ensures equal access to exploration licences for all market participants. Over the past 25 years, a number of foreign companies have carried out explorations in Poland, including globally-known players such as Amoco, Texaco, Conoco and Exxon. At the same time, new exploration companies were established by Polish petrochemical giants PKN Orlen and Grupa LOTOS. At the end of 2014, 21 companies were engaged in hydrocarbon exploration in Poland. Despite this highly competitive environment, the PGNiG Group has maintained its leading position – no foreign company has independently made a material discovery or become the operator under a production licence. As regards oilfield services, a number of international companies such as Schlumberger, Halliburton, Weatherford and United Oilfield Services, also operate in Poland. Despite the intense competitive pressure, PGNiG Group companies GEOFIZYKA Kraków, GEOFIZYKA Toruń and Exalo Drilling enjoy a strong position in this market area.

Analysis of financial performance in 2014

Operating profit of the Exploration and Production segment was PLN 2,006m, down PLN 325m (14%) on 2013. At PLN 3,143m, EBITDA was lower than the year before – by PLN 238m (7%).
The segment's revenue was down by PLN 114m (2%) year on year, despite a nearly 6% growth in oil sales volumes. The revenue decline reflected a slump in crude oil prices (the average annual price of Brent in PLN was 10% lower in 2014 than in the previous year). A PLN 211m (5%) increase in operating expenses was a result of impairment losses recognised on exploration and production assets. The impairment losses were recognised as a result of a change in the calculation of future cash flows (for impairment test purposes):

- previously the tariff price of gas was used in the calculations, while now they are based on the market price; the calculation method was revised as a result of changes in the natural gas market, including in particular the ongoing deregulation of gas prices and the introduction of the statutory requirement to sell gas on the exchange market,
- the expected new tax expenses in connection with hydrocarbon production were taken into account.

The impairment losses on assets, which constrained the segment's operating profit, amounted to PLN 707m as at the end of 2014. In addition, based on an analysis of the Group's licences and the effectiveness of its exploration programme, the Group charged PLN 330m of expenditure incurred on dry wells and seismic data acquisition to the segment's expenses at the end of 2014. An increase of PLN 87m (8%) in amortisation and depreciation is related chiefly to the Norwegian assets and follows directly from increased crude oil production.

Exploration and Production
PLNm

	2014	2013	2012	2011	2010	2009
Segment's total revenue	6,071	6,185	4,325	4,081	3,452	3,201
Segment's total expenses	-4,065	-3,854	-2,972	-2,954	-2,864	-2,865
EBIT	2,006	2,331	1,353	1,126	588	337
Segment's assets	15,442	15,364	16,580	14,923	12,797	11,063
Segment's liabilities	5,531	4,954	5,823	2,177	1,863	1,608

Segment's figures

NATURAL GAS PRODUCTION, PGNiG Group
m m^3

	2014	2013	2012	2011	2010	2009
HIGH-METHANE GAS (E)	1,876	1,890	1,607	1,616	1,605	1,634
including in Poland	1,457	1,550	1,607	1,616	1,605	1,634
including in Norway	418	340	-	-	-	-
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	2,627	2,692	2,710	2,713	2,615	2,471
including in Poland	2,569	2,667	2,710	2,713	2,615	2,471
including in Pakistan	58	25	-	-	-	-
TOTAL (measured as E equivalent)	4,503	4,582	4,317	4,329	4,220	4,105

CRUDE OIL, CONDENSATE AND NGL, PGNiG Group
ths tonnes

	2014	2013	2012	2011	2010	2009
Production of crude oil and condensate	1,207	1,098	492	468	501	503
including in Poland	789	815	492	468	501	503
including in Norway	418	283	-	-	-	-
Sprzedaż ropy naftowej i kondensatu	1,169	1,106	485	469	501	506
including in Poland	780	809	485	469	501	506
including in Norway	389	297	-	-	-	-

Regulatory environment

The main legislative act governing business activities in the area of hydrocarbon exploration and production in Poland is the Geological and Mining Law. It regulates the ownership of minerals, the conditions for the organisation and supervision of mining and geological work, and the responsibility for damage caused by mining operations. Geological and mining activities are subject to supervision by competent geological and mining supervision authorities. The Geological and Mining Law provides for criminal sanctions for a failure to comply with its regulations, and specifies the upper and lower limits of royalty fees.

On 11 July 2014 a new Act Amending the Geological and Mining Law was passed, introducing a number of material changes to the regulatory environment of the exploration and production segment, including an integrated licence (covering hydrocarbon exploration, appraisal and production) and obligatory qualification procedures. It also allowed consortia to apply for licences and significantly increased royalty fees (while maintaining the previous royalty regime for marginal deposits).

The new licensing system introduced by the new Act Amending the Geological and Mining Law of 11 July 2014 may significantly slow down the administrative processes, ultimately leading to a decline in the number of hydrocarbon exploration and appraisal licences issued in Poland.

A new legislative act forming part of the legal framework for the exploration and production segment is the Act on Special Hydrocarbon Tax, passed by the Polish Parliament on 25 July 2014. It introduces to the Polish tax regime a special hydrocarbon tax (tax on profits from hydrocarbon production) and adds crude oil and natural gas production to the list of activities specified in the Act on Tax on Production of Certain Minerals of 2 March 2012 subject to the tax on the production of certain minerals.

The act will come into force on 1 January 2016. The obligation to pay the special hydrocarbon tax and the tax on production of certain minerals in respect of production of oil and gas will arise as of 1 January 2020.

The introduction of the taxes specified above will significantly increase PGNiG's tax burden, which may have an adverse effect on the Company's financial performance and, consequently, on its ability to invest.

PGNiG's exploration and production operations abroad are regulated by local legislation and executed agreements (such as the Exploration and Production Sharing Agreement (EPSA) in Libya).

In Norway, the legal basis for the licensing system is the Petroleum Act of 1996. As the Norwegian state remains the owner of mineral deposits on the Norwegian Continental Shelf, official approvals and permits are required at all stages of the process – from the grant of an exploration or production licence, through the acquisition of seismic data, drilling and development of fields, to the decommissioning of wells.

Production licences are usually awarded in licensing rounds. A licence is awarded for an initial period (exploration stage) of up to ten years. During that stage, the licence holder is required to perform a declared work programme (geophysical and geological surveys, drilling work). Following the first stage, the licence may be relinquished or extended if a decision is made to develop the field.

Norway has in place a special system for the taxation of income from hydrocarbon production, which is based on the standard corporate income tax (CIT) regime and on a special petroleum tax. The corporate income tax rate is 27%, while the special petroleum tax is charged at a rate of 51%. When calculating taxable income for the purpose of corporate income tax and special petroleum tax, investments are depreciated using the straight-line method over a period of six years beginning from the year in which they were made. All costs, including exploration costs, research and development costs, financing costs, operating expenses and decommissioning costs, can be deducted. The consolidation of tax accounts for different licences/fields is permitted. Additionally, companies may also be granted an investment incentive under which they may increase the amount of depreciable expenditure by 22% of the investment project value (5.5% annually over four years starting from the year in which the investment project was commenced). In addition, a company not generating income from production is entitled to a reimbursement of 78% of its exploration expenditure in the year subsequent to the year in which the expenditure was incurred, while tax losses may be carried forward indefinitely.

Risks

Resource discoveries and estimates

The main risk inherent in exploration activities is the risk of failure to discover resources, i.e. exploration risk. This means that not all the identified potential deposit sites actually have deposits of hydrocarbons that can qualify as an accumulation.

The reserves estimates and production projections may be erroneous due to imperfections inherent in the equipment and technology, which affect the quality of acquired information concerning the geological factors and reservoir characteristics. Irrespective of the methods applied, data on the volume and quality of commercial reserves of crude oil and natural gas is always an estimate, while actual production, income and expenses may significantly differ from such estimates. The weight of this risk is further increased by the fact that, in the full business cycle, the period from commencing exploration to launching production from a developed field takes six to eight years, while the production phase lasts from 10 to 40 years. Formation characteristics defined at the stage of determining reserves are reviewed after production starts. Each downward revision of the size of reserves or estimated production quantities may lead to lower-than-expected revenue, and adversely affect the PGNiG Group's financial performance.

A risk associated with the exploration for unconventional gas in Poland relates to the lack of proven reserves of shale gas and tight gas. Even if the existence of in-place petroleum is confirmed, its production may prove uneconomic due to poor gas recovery and high investment expenditure necessary for well drilling and the construction of production infrastructure. Another material factor is that access to unconventional gas plays may sometimes be difficult given the environmental regulations and the need to obtain the landowners' consent for access.

Delayed work

Under the applicable Polish legal regulations, obtaining a licence for the exploration for and appraisal of crude oil and natural gas deposits lasts from one to one and a half years. On foreign markets, such procedures may take even two years from the time the winning bid is awarded in a licensing tender until the relevant contract is ratified. Prior to the commencement of field work, the Company is also required to make a number of arrangements, including obtaining formal and legal permits and approvals for entering the area, meeting environmental protection-related requirements and, in some cases, requirements related to the protection of archaeological sites, and abiding by the regulations governing tenders held to select a contractor, which delays the execution of an agreement with a contractor by another few months. Frequently the waiting time for customs clearance of imported equipment is very long. These factors create a risk of delays in the start of exploration work.

Formal and legal hurdles beyond PGNiG's control that significantly delay implementation of investment projects are related, among other things, to local zoning plans, the need to obtain administrative decisions (including environmental decisions), amendments to the current concept of the investment project, as well as obstacles in obtaining permission from land owners to enter the site.

Delays in implementing an entire project and a protracted investment process exacerbate the risk related to the amount of required capital expenditure and its estimation.

Cost of exploration

Exploratory work is capital intensive, given the prices of energy and materials. The cost of exploratory work is especially sensitive to steel prices, which are passed onto the prices of casing and production tubing used in well completion.

An increase in the prices of energy and materials drives up the cost of exploratory work. Moreover, the profitability of foreign exploration projects depends to a significant extent on the prices of oil derivative products and on currency exchange rates. To reduce drilling costs, PGNiG introduced the daily rate system into its drilling contractors selection procedure in 2011.

Unforeseen events

Hydrocarbon deposits developed by PGNiG are often at great depths, which involves extremely high pressures and, in many cases, the presence of hydrogen sulphide. Consequently, the risk of a hydrocarbon blowout or leakage is very high, which in turn may pose a threat to people (workers and local populations), the natural environment and production equipment.

To mitigate individual risks, the PGNiG Group takes the following measures:
- to mitigate contractor or supplier risk – the Group incorporates appropriate clauses into its contracts (e.g. contractual penalties), and takes care to select proven sub-contractors,
- to mitigate force majeure risk – the Group enters into insurance contracts,
- to mitigate technical risk – the Group follows a policy of rational management of deposits,
- to mitigate risk related to the project's environment – the Group takes such remedial measures as selecting an alternative location or alternative project implementation method, conducting negotiations, complying with official deadlines, changing the schedule and organisation of work.

Competition

Both on the Polish market and abroad, there is a risk of competition from other companies in the acquisition of licences for the exploration and appraisal of hydrocarbon deposits. Certain competitors of PGNiG, especially those active globally, enjoy strong market positions and have greater financial resources than those available to the Group. Thus, it is probable that such companies would submit their bids in tender procedures and be able to acquire promising licences, offering better terms than PGNiG could offer, given its financial and human resources. This competitive advantage is particularly important on the international market.

The presence of foreign companies on the Polish market has intensified competition for highly qualified employees with extensive professional experience. This risk of losing experienced personnel is especially high with respect to oil and gas exploration professionals. In countries where PGNiG operates, highly qualified staff are difficult to recruit.

Safety, environmental protection and health regulations

Ensuring compliance with environmental laws in Poland and abroad may significantly increase PGNiG's operating expenses. Currently, PGNiG incurs significant capital expenditure and costs on ensuring compliance of its operations with the ever more complex and stringent regulations concerning safety and health at work, as well as environmental protection. For instance, in 2005 more stringent regulations on the execution of projects potentially affecting Natura 2000 sites were introduced, and environmental protection-related requirements were strengthened with regard to entering areas where protected plant species occur and habitats of protected animals are found.

Operations in Poland in 2014

Exploration and evaluation work

In 2014 PGNiG was involved in crude oil and natural gas exploration and appraisal projects in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands, both on its own and jointly with partners.

As at the end of 2014, PGNiG held 77 licences for hydrocarbon exploration (84 as at 1 January 2014).

Following a series of geological and formation tests assessing the probability of discovering and documenting substantial hydrocarbon reserves, the Company decided to relinquish 14 licences prior to their expiry. In 2014 eight new licences were acquired in the Bieszczady Mountains (Bieszczady blocks), and one new licence application was filed. One licence was not extended.

Drilling work in areas covered by licences awarded to PGNiG was performed on 24 wells, including 15 exploration wells, 6 research wells and 3 appraisal wells. Out of the 24 boreholes, ten were drilled in search for unconventional hydrocarbons.

In 2014 six wells were drilled with positive results, including one exploration borehole in Pomerania (drilled in the past), two exploration boreholes in the Greater Poland region, and three appraisal boreholes in the Carpathian Foothills (including one in search of unconventional deposits).
A total of 14 wells (five of which had been drilled in previous years) failed to yield a commercial flow of hydrocarbons and were abandoned.

Exploration for shale gas

Natural gas is the cleanest fossil fuel, generating low greenhouse gas emissions and no harmful by-products. The advances in and lower cost of extraction technologies have enabled access to new, previously disregarded natural gas resources, i.e. tight gas, shale gas and coal bed methane.

Shale gas, one of the three unconventional gas types, is produced from sedimentary shale rock located deep underground. Shale rock has low permeability, which is why more complex and sophisticated production methods are required to extract shale gas.

Put in simple terms, shale gas production consists in drilling a horizontal well in shale rock and filling the opening with a mixture of water, quartz sand and chemical additives that cause the rock to fracture, releasing the gas.

According to the Energy Information Administration, by 2030 shale gas will account for 7% of all natural gas produced globally.

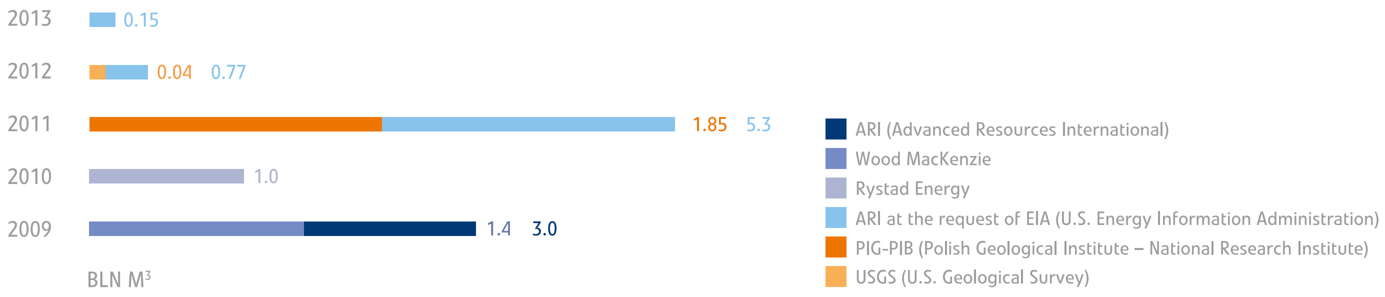
Poland has substantial shale gas resources in Pomerania, the Warsaw region and around Lublin, but gas can only be produced from formations with suitable characteristics.

Based on the North American experience, several renowned American institutions undertook to estimate Polish shale gas resources.

In March 2012, the Polish Geological Institute – National Research Institute (PGI – NGI) published its first report on the estimated recoverable reserves of natural gas and crude oil in Polish shale formations.

The estimated recoverable reserves of natural gas ranged widely from 37.9 bn m^3 to 1,919.7 bn m^3, with the extreme values at both ends of the range considered very unlikely. Based on the most probable assumptions, the volume totals between 346.1bn m^3 and 767.9bn m^3. However, the figures in the report should be viewed as an opening balance, calculated based on data from 39 research wells drilled in 1950-1990 by the Geological Institute, which will be updated as more data from appraisal wells are acquired.

Short history of the assessment of unconventional hydrocarbon resources in Poland



A comparison of the geological data from Poland and the US indicates several geological challenges that will confront companies that have acquired unconventional gas exploration licences.

- Total Organic Carbon – an indicator of the amount of organic matter in rock, determining how much gas can be sourced from a given reservoir. In Poland, the metric stands at about 2%-5%, whereas in the US it ranges from 2% to as much as 14%.
- Thickness of the source rock – the thicker the rock, the better production prospects. In Poland, the average horizontal thickness is ca. 30-70 metres, compared with 20-200 metres in the US.
- Depth – depth at which production is possible. In Poland, shale rock is located at greater depths than in the US (3,000-4,000 metres vs. 400-4,600 metres).
- Mineral composition – mineral content in source rock. In Poland, source rock includes chiefly mudstone and claystone, which are difficult to fracture.

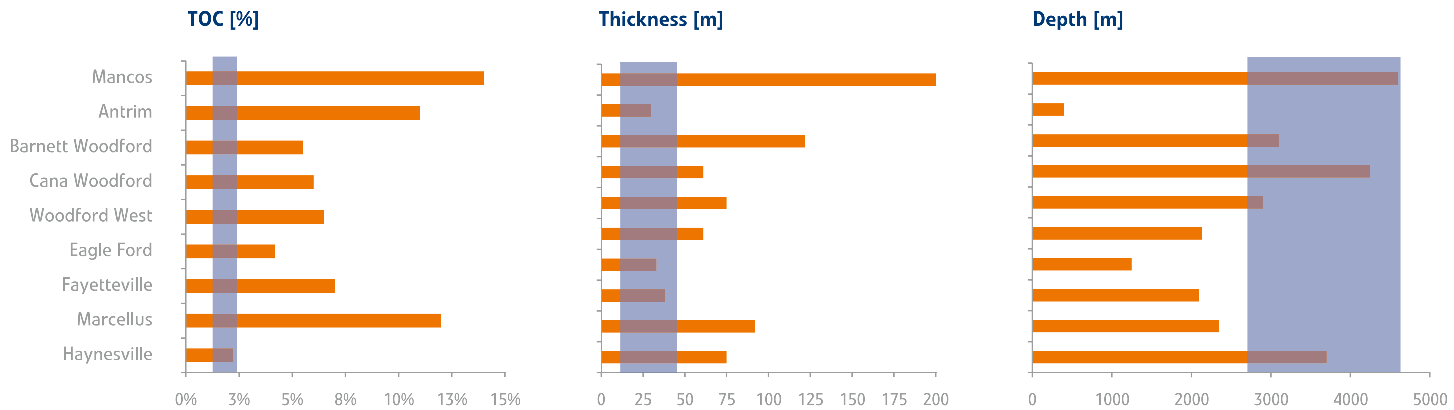
As at the end of 2014, the Ministry of Environment had issued 53 licences for the exploration of unconventional deposits of natural gas in Poland, of which 11 are held by PGNiG.

To date, i.e. in 2009-2014, PGNiG drilled 17 wells, including two horizontal wells, and carried out eight 2D and five 3D seismic surveys to determine shale gas potential in Poland.
Work was carried out in three areas:

- Pomerania,
- Central Poland,
- Lublin region.

For more information, go to www.lupkipolskie.pl.

Comparison of the geological data from Poland and the US



The grey band marks the average values estimated for Poland.

Geological and geophysical surveys, drilling and well services

In 2014 the Exploration and Production companies provided services related to drilling exploration, appraisal, core and production boreholes, as well as boreholes required for the construction and extension of underground gas storage facilities. Other important areas of their activity included the provision of specialist well servicing and geophysical services.

Exploration, appraisal and core boreholes were drilled mainly in search for hydrocarbons, but also for copper. Drilling services were rendered in Poland and abroad both for the PGNiG Group and third-party customers.

In Poland, contracts were performed for companies exploring for:

- conventional gas, e.g. for PGNiG, FX Energy Poland Sp. z o.o. and Energia Karpaty Zachodnie Sp. z o.o. Sp. k.,
- unconventional gas, e.g. for PGNiG, Orlen Upstream Sp. z o.o. (exploration for shale gas) and the Polish Geological Institute (coalbed methane),
- unconventional crude oil, for Wisent Oil &Gas Sp. z o.o. (exploration for shale oil),
- copper deposits, for KGHM Polska Miedź SA, Zielona Góra Copper Sp. z o.o. and Mozów Copper Sp. z o.o.

Furthermore, boreholes were drilled as part of the Kosakowo underground storage facility construction project and the Mogilno underground gas storage cavern facility extension project.

The segment companies also provided specialist well services such as drilling fluid services, cementing services, coiled tubing and nitrogen unit operations, mud logging, services consisting in the provision of downhole equipment and well testing, reservoir measurements and production tests, as well as remedial treatments, workovers, and well abandonment services. Well services were primarily performed for PGNiG. Domestically, the main third-party customers for well services included LOTOS Petrobaltic SA, FX Energy Poland Sp. z o.o., Orlen Upstream Sp. z o.o., Wisent Oil&Gas Sp. z o.o., Geops Deep Drilling Sp. z o.o., Przedsiębiorstwo Budowy Kopalń PeBeKa SA, the Polish Geological Institute and Chevron Polska Energy Resources Sp. z o.o.

In 2014, companies of the Exploration and Production segment performed geophysical services in the area of exploration geophysics (including the acquisition, processing and interpretation of seismic data) and well logging. In the Polish market, their most important customers included PGNiG, Chevron Polska Energy Resources Sp. z o.o., FX Energy Poland Sp. z o.o., NAFTA a.s. and Orlen Upstream Sp. z o.o. For PGNiG, the Exploration and Production segment companies performed exploration geophysics services; for third-party customers, they provided both exploration geophysics and well logging services.

Reserves

Recoverable reserves in Poland in 2008-2014

	Recoverable reserves				
	natural gas (measured as high-methane gas equivalent) bn m^3	crude oil (including condensate) m tonnes	natural gas mboe	crude oil mboe	total mboe
2008	91.12	20.34	573.13	149.09	722.22
2009	96.65	20.00	607.93	146.60	754.53
2010	94.17	20.59	592.32	150.92	743.24
2011	93.62	20.37	588.87	149.31	738.18
2012	89.80	19.93	578.94	146.09	725.03
2013	85.37	19.27	550.38	141.25	691.63
2014	81.68	18.57	526.57	136.14	662.71

Reserves to production (R/P) ratio in 2009-2014

	R/P
2009	24.49
2010	23.71
2011	23.13
2012	22.65
2013	20.68
2014	20.88

Production

Natural gas and crude oil in Poland is extracted by two PGNiG branches: the Zielona Góra Branch and the Sanok Branch. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 22 sites, including 13 gas production facilities, 6 oil and gas production facilities and 3 oil production facilities. The Sanok Branch produces high-methane and nitrogen-rich natural gas and crude oil at 37 sites, including 20 gas production facilities, 11 oil and gas production facilities and 6 oil production facilities.

In 2014, in the Sanok Branch area two wells on the already producing fields, four wells within exploratory licence areas and four new fields: Łapanów, Pogwizdów, Mołodycz and Wola Rokietnicka, were brought on stream. The total addition to production capacity is approximately 10.3 thousand m3 of gas per hour (high-methane gas equivalent).

In the Zielona Góra Branch area, two wells were brought on stream on the already producing fields: one well on the Radlin field and one well on the Lisewo field (in partnership with FX Energy Poland Sp. z o.o.), with a total production capacity of 3.9 thousand m3 per hour (high-methane gas equivalent). The Komorze field, with a production capacity of 1.0 thousand m3 per hour (high-methane gas equivalent), was also brought on stream in partnership with FX Energy Poland Sp. z o.o. Additionally, in 2014 one oil well was brought on stream on the new Ołobok field, with a production capacity of 15 tonnes per day.

NATURAL GAS PRODUCTION in Poland
m m^3

	2014	2013	2012	2011	2010	2009
HIGH-METHANE GAS (E)	1,457	1,550	1,607	1,616	1,605	1,634
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	2,569	2,667	2,710	2,713	2,615	2,471
TOTAL (measured as E equivalent)	4,026	4,217	4,317	4,329	4,220	4,105

CRUDE OIL AND CONDENSATE in Poland
ths tonnes

	2014	2013	2012	2011	2010	2009
Production of crude oil and condensate	789	815	492	468	501	503

Underground gas storage facilities

In 2014, the Exploration and Production segment used the working capacities of the Daszewo and Bonikowo nitrogen-rich gas storage facilities. Storage capacities used for the purposes of production are not storage facilities within the meaning of the Polish Energy Law.

Working capacities of the underground storage facilities used by the Exploration and Production segment as at 31 December 2014.

	Working capacity (m m^3)	Maximum injection capacity (m m^3/d)	Maximum withdrawal capacity (m m^3/d)
PMG Daszewo (Ls)	30	0.24	0.38
PMG Bonikowo (Lw)	200	1.68	2.40

Sales

Natural gas is sold by PGNiG's Exploration and Production segment directly from the fields (outside the transmission system), from which it is supplied to specific customers via dedicated pipelines, while crude oil is shipped by sea tankers.

Other products obtained in the process of crude refining include crude condensate, sulphur and propane-butane. Some of the produced nitrogen-rich gas is further treated into high-methane gas at the Odolanów and Grodzisk Wielkopolski nitrogen rejection units. Apart from high-methane gas, the cryogenic processing of nitrogen-rich gas yields such products as liquefied natural gas (LNG), gaseous and liquid helium and liquid nitrogen.

Direct sales of natural gas are transacted on the free market, with delivery terms (including pricing) agreed with customers on a case-by-case basis, depending on the characteristics of a given project. In Poland, the largest amounts of natural gas were sold to industrial customers, accounting for about 78% of the total sales volume. This form of purchase is preferred by customers located in close proximity to gas production sites. Sales of natural gas directly from the fields enable the commercially viable development of gas reserves with quality deviating from network standards and attracting customers for whom gas deliveries from the transmission system are not feasible for technical or economic reasons.

PGNiG sells crude oil on free market terms, pricing it with reference to crude prices quoted on international markets. In 2014 PGNiG sold crude oil through the following channels:

- via pipelines to foreign customers,
- via overland transport (road and rail tankers) – to domestic customers.

PGNiG sold crude oil to Shell International Trading and Shipping Company Ltd., Rafineria Trzebinia SA, Rafineria Nafty Jedlicze SA, TOTSA TOTAL OIL TRADING SA and BP Europe SE. In November 2014 PGNiG and Rafineria Trzebinia SA signed an annex to their agreement. Under the annex, the cost of rail transport was transferred to the buyer. Since January 2015 Rafineria Trzebinia SA has been responsible for crude oil transport from PGNiG's railway terminals to relevant destinations, covering all related costs.

Capital expenditure in 2014

The 2014 Capex Plan provided for several dozen projects to maintain production capacity (drilling of production wells, field and well development). In addition to key projects such as Radlin, Księżpol, Radoszyn, Lisewo, Różańsko and Wilków, capex tasks implemented in the upstream segment included the development of regional gas reserves, projects executed to sustain or restore hydrocarbon production rates (upgrade and extension of existing gas production facilities), projects designed to improve the operation of production branches (upgrade of existing technical/administrative infrastructure, purchase of capital goods), projects designed to increase or maintain the production capacities of the Odolanów Branch.

Apart from the key projects, other major investment projects implemented in the upstream segment in 2014 included: the installation and upgrade of field compressors at Gas Production Facilities, the development and hook-up of wells, as well as the upgrade of the KRIO production installation in Odolanów.

The key projects completed in 2014 included the development of the Lisewo and Komorze fields, the development of the Lisewo-2k and Radlina 64 wells, the development of the Maćkowice 3K and Mołodycz 1 and 2 wells, and drilling work on more than 10 wells.

Other projects completed in 2014 included the development of the Maćkowice 2, Jata 1, Lubliniec 12 and Dzików Stary 2 wells, the upgrade of the Żuchlów gas compressor station, the construction of a compressor station at the Zielin Oil and Gas Production Facility, as well as a dozen or so other minor projects involving upgrade and extension of gas production facilities and production installations in Odolanów.

Foreign operations in 2014

Norway

PGNiG Upstream International AS (PGNiG UI, formerly PGNiG Norway AS) was established for the purpose of the Norwegian Continental Shelf project, the aim of which is to provide access to new recoverable reserves of oil and gas outside Poland. The principal business objective of PGNiG UI is the exploration for and production of crude oil and natural gas on the Norwegian Continental Shelf. PGNiG UI has been pre-qualified as an operator by Norwegian authorities.

In 2014 PGNiG UI acquired interests in four fields on the Norwegian Continental Shelf from Total E&P Norge AS (PGNiG UI is not the operator for the fields). The transaction involved three producing fields (Morvin, Vilje and Vale), and one field under development (Gina Krog). According to an independent expert's report, PUI's 2P recoverable reserves are estimated at 33 million boe. According to operator data, the remaining average lifetime of the fields is estimated at 14 years. Following the acquisition of interests in the new fields, PGNiG UI estimates its production volume in Norway to reach approximately 15,000–20,000 boe per day over the next ten years.

A significant portion of the transaction price was covered with cash flows generated in the period between the effective date of the agreement and the transaction closing date. Given the achieved sales targets of hydrocarbons produced from the acquired fields in 2014, as well as reduced costs and capital expenditure, the ultimate cash payment amounted to approximately NOK 844m, which accounted for 43% of the purchase price.

Besides the acquisition of production assets from Total E&P Norge AS, it is also important to note the strong production figures of the Skarv field, PUI's key asset. PGNiG UI's acquisitions in 2014 included an interest in one new licence for which it acts as the operator – awarded to PGNiG UI in the APA2013 licensing round. During the year, PGNiG UI also relinquished two licences, returning them to the licensing authorities. In 2014 PGNiG UI continued to optimise its financing structure, which included the early repayment of financial debt.

PGNiG's 2015 production volume in Norway is projected to reach 510 thousand tonnes of crude oil (including NGL) and 0.4 bn m3 of natural gas.

NATURAL GAS PRODUCTION in Norway
m m^3

	2014	2013
HIGH-METHANE GAS (E)	419	340

CRUDE OIL and NGL in Norway
ths tonnes

	2014	2013
Production of crude oil and NGL	418	283
Sales of crude oil and NGL	389	297

Licenses in Europe

The Skarv field

Interests: BP Norge AS (23.8%) – operator, PGNiG UI (11.9%), Statoil Petroleum AS (36.2%), E.ON E&P Norge AS (28.1%).

The Skarv oil and gas field, covered by licences PL212, PL212B and PL262, was discovered in 1998, and took 13 years to achieve its current development stage. The field was developed together with the adjacent Idun field. In 2007 the Skarv and Idun field licences were consolidated into a single Skarv licence.

Skarv is located some 210 km west of the coast of Norway, where the water depth is approximately 350-450 m. The field was developed using a modern floating production, storage and offloading vessel (FPSO), suitable for operation in rough sea conditions, which was connected to a gas pipeline for exporting the output to European markets.

The remaining recoverable reserves of the Skarv field are estimated at approximately 6.8 m tonnes of crude oil, 3.9 m tonnes of NGL, and 30.5 bn m^3 of gas (according to operator data as at 31 December 2014). In addition, together with its licence partners, PGNiG UI discovered additional reserves (e.g. Snadd North), to be developed using the existing facilities. The discovery increased the recoverable reserves remaining in the Skarv licence area by approximately 46%. PGNiG reserves in the Skarv licence area currently amount to 50.2 m boe.

The newly discovered Snadd North field is estimated to contain 9-16 bn m^3 of natural gas (PGNiG Upstream's interest is 11.9175%). In 2011, the licence partners drilled a production well in the Snadd field to appraise its quality and estimate its production potential. Long-term production tests of the well began in 2013 and will last to the end of December 2015. Their results will inform the decision on the further development of the field.

Licence PL212E

Interests: BP Norge AS (30%) – operator, PGNiG UI (15%), Statoil Petroleum AS (30%), E.ON E&P Norge AS (25%)

The PL212E licence area was separated from the Skarv area after a consolidation agreement was signed in 2007. The work programme for the licence was completed.

In 2012, the licence partners drilled an exploration well and discovered a new gas field in the PL212E licence area (Snadd Outer). The new field is located in the vicinity of the Snadd North gas field and adjoins the Skarv field. According to initial operator estimates, the Snadd Outer field's recoverable reserves range between 2 and 4 bn m3 of natural gas.

The licence partners are completing a comprehensive evaluation of the Snadd Outer field reserves to facilitate their optimum development in the future.

The Gina Krog field

Interests: Statoil Petroleum AS (58.7%) – operator, PGNiG UI (8%), Total E&P Norge AS (30%), Det norske oljeseskap (3.3%)

The Gina Krog field (formerly called Dagny) was discovered by Esso in 1974. It is an oil and gas field located in the central part of the North Sea, 250 km west of Stavanger and 30 km northwest of Sleipner. The Gina Krog field development is among the most important projects of this type being carried out in Norway. Its plan for development and operation (PDO) assumes gross reserves of 225 m boe. According to Statoil's plans, the field is to become an oil hub northwest of Sleipner. The PDO provides for placing on the field a new platform for initial treatment of hydrocarbons and a floating storage and offloading unit (FSO). The floating part of the platform is currently being constructed by Daewoo in South Korea. The platform will accommodate 20 wells, and its capacities will be 10,000 Sm^3/day and 9 m Sm^3/day in the case of gas injection/export, and 4,000 Sm^3/day in the case of treatment of produced water.

The FSO unit, made by converting a shuttle tanker, will be used to store oil produced from the Gina Krog field. It is a stand-alone unit that can hold 860,000 barrels of oil. Oil will be exported via the North Sea using shuttle tankers. To enhance oil production, gas will be injected into the field. Gas for injection will be initially imported from Gassled. Produced gas is transported to the Sleipner centre, where it is separated and transmitted to the Gassled pipeline. Produced condensate is transmitted through Sleipner to Kårstø using an existing pipeline for transporting condensate.

The Vilje field

Interests: Det norske oljeselskap AS (46.9%) – operator, PGNiG UI (24.243%), Statoil Petroleum AS (28.8%)

The Vilje field is located within the boundaries of the 25/4 block in the Norwegian sector of the North Sea, approximately 20 km northeast of the Alvheim field and north of the Heimdal field.

The sea depth in that area is 120 m. The reservoir rock is turbidite sandstone of Heimdal Formation, middle and late Palaeocene, found at the depth of 2,100 m. The Heimdal Formation is composed of unconsolidated, high-porosity sands with high net pay and permeability. The sandstone is subject to normal pressure, and the deposit is characterised by water-drive conditions.

The Vilje field has been developed through three subsea horizontal wells tied to the production unit. Hydrocarbons from the subsea wells are transmitted via a 19-kilometre pipeline for initial treatment on the Alvheim platform. Oil is transported from the platform by tankers.

The Vale field

Interests: Centrica Resources (Norge) AS (50%) – operator, PGNiG UI (24.243%), Lotos Exploration and Production Norge AS (25.8%)

Vale is a gas and condensate field situated 16 kilometres north of the Heimdal gas production facility. The field was discovered in 1991, and its development commenced in 2002. The sea depth in that area is approximately 114-120 m. The plan of development and operation for the Vale field provides for a single subsea well tied to the Heimdal platform. The field is not planned to be developed using pressure maintenance methods. This means that the field will be developed until natural depletion. In the south-west, the field adjoins a water-bearing formation whose drive stimulates production.

The Morvin field

Interests: Statoil Petroleum AS (64%) – operator, PGNiG UI (6%), Eni Norge AS (30%)

The Morvin field is located in the Norwegian Sea, in close proximity to other projects – approximately 20 km north of the Kristin field and 15 km west of the Åsgard B platform. The reservoir is 4,500-4,800 m under water surface, and the sea depth in the area is 360 m.

Morvin is an oil and gas field developed with four horizontal production wells and two subsea templates tied back to Åsgard B, a semi-submersible production platform with facilities for gas treatment and stabilisation of gas and condensate.

Licence PL558

Interests: E.ON E&P Norge AS (30%) – operator, PGNiG UI (30%), Det norske oljeselskap AS (10%), Petrolia Norway AS (10%), Petoro AS (20%).

The licence, awarded in the APA 2009 licencing round in early 2010, is located in the immediate vicinity of the Skarv field. The vicinity of the Skarv FPSO platform will ensure profitable gas and oil exports if hydrocarbons are discovered in the licence area.

In 2011 the existing 3D seismic was reprocessed and the licence was evaluated. In 2012, the licence partners decided to start drilling in the Terne Jurassic prospect. The Terne well was drilled, but in 2014 it was found to be dry and all capitalised expenditure related to the licence was written off in December 2014. The company decided to relinquish the licence in H1 2015.

Licence: PL646

Interests: Wintershall Norge AS (40%) – operator, PGNiG UI (20%), Lundin Norway AS (20%), and Noreco Norway AS (20%).

The licence was awarded in the APA 2011 licensing round. PL646 is located immediately to the south of the PL558 licence area, PGNiG's main area of operations. The licence area contains a Jurassic prospect (Bogart) and a Tertiary lead (Bacall). Seismic surveys of the Bogart play reveal a floor reflection indicative of natural gas and formation fluid. The Company extended the deadline for completion of the field analysis, ultimately releasing it in December 2014, i.e. prior to the drill-or-drop decision due in February 2015. As the prospect and lead appear to be quite small, PGNiG will probably withdraw from the project. Consequently, all capitalised expenditure on operations within the licence area will be written off.

Licence: PL648S

Interests: PGNiG UI (50%) – operator and OMV (Norge) AS (50%).

The PL648S licence, acquired during the APA 2011 licensing round, is the first project in which the company acts as the operator. The licence area is located north-west of the Skarv field and covers shallow stratigraphy over the floor of Cretaceous formations. In 2014, the status of the Kraków play was downgraded from prospect to lead. At the same time, attempts were made to develop Warszawa, an older lead, and raise its status to that of a prospect suitable for drilling. However, as the size of the play was too small to warrant an economically viable decision to drill, the licence holders decided to relinquish the licence in November 2014. All capitalised expenditure on seismic surveys was written off in 2014.

Licence: PL702

Interests: OMV (Norge) AS (60%) – operator and PGNiG UI (40%).

The PL702 licence, awarded during the 22nd APA 2013 licensing round, is located within the Vøring basin of the Norwegian Sea. The licence is located some 120 km south-west of the Aasta Hansteen field, for which a permit approving production has been issued. The licence area contains Billing, a Cretaceous prospect, as well as several smaller leads within the same formation. Billing is a gas play with strong potential, largely similar to other gas fields in the region. In 2013 the licence holders obtained 3D seismic from the licence area, which they subsequently reprocessed and merged with data from the PL703 licence. Release of the analysis has been delayed – most likely its results will be released by the end of October 2015. A request was filed to extend the deadline for making a drill-or-drop decision until June 2016. The request has been approved by the relevant ministry.

Licence: PL703

Interests: OMV (Norge) AS (60%) – operator and PGNiG UI (40%)

The PL703 licence, awarded during the 22nd APA 2013 licensing round, is located within the Vøring basin of the Norwegian Sea. The licence is located some 80 km west of the Aasta Hansteen field, for which a permit approving production has been issued. The licence area contains Loki, a Cretaceous Campanian prospect, as well as several leads in Coniacian formations located within deeper layers. Seismic data on the Loki accumulation indicates a clear geophysical anomaly which, in this region, is mostly associated with the presence of natural gas. The licence holders reprocessed the data and merged it with data from the PL702 licence. Accelerated results of the analysis, which will be available in 2015, will enable the licence holders to make a drill-or-drop decision in June 2015. According to OMV's preliminary findings, Loki may be suitable for drilling. In such a case, the decision to launch drilling could be taken as early as in mid-2015, even though the licence holders have time to decide until June 2016.

Licence: PL707

Interests: Edison Norge AS (50%) – operator, PGNiG UI (30%), North Energy AS (10%) and Lime Petroleum Norway AS (10%).

The PL707 licence, awarded during the 22nd APA 2013 licensing round, is located in the south-east of the Barents Sea, on the Finnmark Platform. The area is some 50 km off the coastline and 150 km east of the Goliat field. This section of the basin is considered to be an unsurveyed oil province. In the 1980s and 90s, only a few wells were drilled in the area, all with promising results. Apart from PL707, the only licence area in this region is PL708. The licence contains Mungo, a Permian prospect connected with carbonate structures (spiculite). Several other leads have been identified in the licence area within the same formation, with further leads visible in deeper layers of the Carboniferous formation. Seismic data on the Mungo play reveal a clear anomaly within its boundaries, indicating the presence of hydrocarbons. A well drilled in the licence area in the 1980s confirmed the existence of this accumulation. Work carried out in the area is on schedule, with the drill-or-drop decision due in June 2015. In 2015, Lundin drilled an exploration well in a similar accumulation located within the area of the nearby PL708 licence. The discovery of hydrocarbon deposits would allow Mungo to be classified as a prospect suitable for drilling.

Licence: PL711

Interests: Repsol Exploration Norge AS (40%) – operator, PGNiG UI (20%), OMV (Norge) AS (20%) and Idemitsu Petroleum Norge AS (20%).

The PL711 licence, awarded as part of the 22nd APA 2013 licensing round, is located in the south-west of the Barents Sea, within the Bjørnøyrenna basin, west of the Loppa uplift, and some 200 km off the coastline and 50 km east of the Johan Castrup zone, where hydrocarbon reserves have been discovered. This part of the basin is considered to be a vast and unsurveyed gas province. The licence area contains Labbetuss, a Tertiary Eocene prospect, as well as several Cretaceous leads. Following the reinterpretation of data, Labbetuss was reclassified as a diagenetic anomaly without commercial hydrocarbon reserves, and consequently exploration work focused on the Cretaceous plays. However, it is unlikely that a new drilling target will be identified in the course of the work. Consequently, a decision was made to write off all capitalised expenditure on seismic surveys performed in the PL711 licence area.

Licence: PL756

Interests: PGNiG UI (50%) – operator, Rocksource Exploration Norway AS (25%), Idemitsu Petroleum Norge AS (25%).

In January 2014 PGNiG UI was awarded a 50% interest in and the operatorship of the PL756 licence in the Norwegian Sea. PL756 is situated immediately to the southwest of the Heidrun field and east of the Smørbukk field. The licence contains the Reodor prospect, which is an amplitude supported hanging-wall trap in Jurassic strata. Younger Cretaceous leads are also present on the licence. Work will continue throughout 2015 to evaluate Reodor as a drilling candidate, prior to the drill-or-drop decision due in February 2016. Higher quality seismic data covering the licence area will be purchased in January 2015 to improve the prospect imaging.

Licence: PL 799

Interests: PGNiG UI (40%) – operator, Statoil Petroleum AS (20%), VNG Norge AS (20%), Explora Petroleum AS (20%).

In January 2015 PGNiG UI was awarded a 40% interest in and the operatorship of the PL799 licence in the Norwegian Sea. PL799 is situated immediately to the west of the Skarv field. The licence contains the Toruń prospect, located with the Lysing formation, and the Warszawa South lead within the Lange formation.

The migration of hydrocarbons into the prospects is the main risk, which will be addressed using the latest Geostreamer 3D seismic data. The drill-or-drop decision is to be made within two years from the award of the licence (no later than in Q1 2017).

Pakistan

PGNiG conducts exploration work in Pakistan under an agreement for hydrocarbon exploration and production in the Kirthar licence area executed between PGNiG and the government of Pakistan on 18 May 2005. Work in the Kirthar block is conducted jointly with Pakistan Petroleum Ltd., with production and expenses shared in proportion to the parties' interests in the licence: PGNiG (operator) – 70%, Pakistan Petroleum Ltd. – 30%.

On 6 July 2012 the Pakistani licensing authority (Directorate General of Petroleum Concessions) classified the Rehman field as a deposit of unconventional tight gas. As a result, the interest holders can raise its prices by 50% relative to prices of gas produced from conventional reserves.

In 2012 PGNiG decided to move on to the second exploration stage on the Kirthar licence, as part of which new exploration wells are to be drilled. In 2013 the construction of pipelines and provisional surface installations was completed and test production from the Rehman-1 and Hallel X-1 wells began.

In 2014 PGNiG began preparations to drill appraisal boreholes Rehman-2 and Rehman-3 (scheduled for 2015 and 2016). PGNiG had to declare a force majeure event and suspend work on the Rizq-1 exploratory well on two occasions, due to armed attacks in the region. Work on Rizq-1 was resumed in late December 2014. Production from the Rehman-1 and Hallel X-1 wells

NATURAL GAS PRODUCTION in Pakistan
m m^3

	2014	2013
NITROGEN-RICH GAS (Ls/Lw as E equivalent)	58	25

SALES OF NATURAL GAS in Pakistan
m m^3

	2014	2013
NITROGEN-RICH GAS (Ls/Lw as E equivalent)	57	25

Licenses outside Europe

Libya

In February 2008 POGC Libya signed an Exploration and Production Sharing Agreement (EPSA) with the National Oil Corporation of Libya, authorising the company to carry out exploration work on Exploration and Production Licence No 113 with an area of 5.5 thousand km2. The licence is located within the Murzuq petroleum basin in western Libya.

In performance of its exploration commitments in Libya, the company has so far acquired over 3,000 km of 2D seismic data and over 1,000 km^2 of 3D seismic data. Two exploration wells have also been drilled and rendered positive results, as confirmed by the National Oil Corporation.

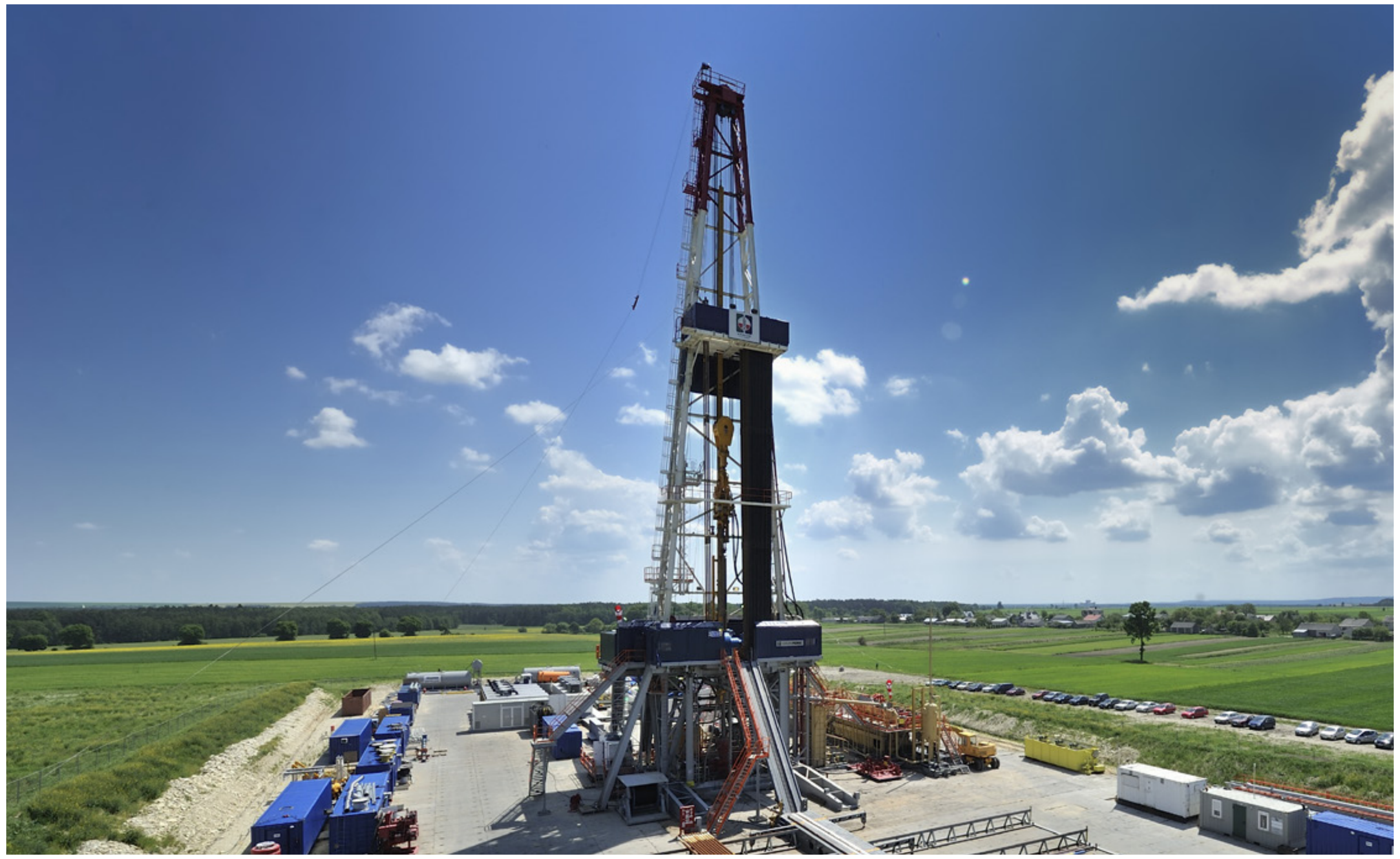
Due to the tense political situation and growing threat to the safety of employees, the exploration work in Libya was discontinued in January 2014.

Geophysical, geological and drilling services provided abroad

In foreign markets, the Group performed seismic acquisition work and well logging services for customers from Hungary, Germany, Slovakia, Serbia, Tunisia, Oman, Georgia and other countries, as well as seismic data processing and interpretation services for customers from Pakistan, France, Yemen, the United Kingdom, Kenya, Cameroon and other countries.

As regards specialist well services performed abroad, the companies' operations included cementing services in Romania and Lithuania, coiled tubing, nitrogen unit operations and mud logging in Ukraine, as well as well workovers and well abandonment services in the Czech Republic.

On foreign markets, drilling was conducted in exploration for conventional hydrocarbons for third-party customers, including in Uganda, Ethiopia, Pakistan, Kazakhstan, Egypt and Lithuania. In addition, the segment carried out contracts for production well drilling, which were primarily performed in Poland for PGNiG, and abroad for third-party customers – mainly in Kazakhstan, Pakistan and Ukraine.



Environmental protection

Well and extraction pit abandonment

Pursuant to the Geological and Mining Law, PGNiG is required to properly abandon worked-out extraction pits, eliminate the danger and repair any damage caused by mineral extraction, and restore the land to its original condition. The plugging of wells and pits prevents any leakage of crude oil and natural gas to the surface and to water courses. Furthermore, if gas wells remain unplugged, there is a risk that escaping gas could accumulate, posing a fire hazard. In 2014 plug and abandonment operations were performed on a total of 45 wells and 34 extraction pits.

Carbon emissions trading scheme

In 2014 the Zielona Góra Branch and the Odolanów Branch, the Mogilno Underground Gas Storage Cavern Facility, the LMG crude oil and natural gas production facility, Wierzchowice Underground Gas Storage Cavern Facility, and Kosakowo Underground Gas Storage Cavern Facility were covered by the carbon dioxide emissions trading scheme (ETS). In 2014 CO2 emissions from these installations reached 146.6 thousand Mg. The amount will be verified by an accredited verifier by 31 March 2015. In 2014 PGNiG reviewed annual reports on its carbon dioxide emissions for 2013. Carbon emissions from the installations covered by the EU ETS scheme in 2013 totalled 84.9 thousand Mg. After reconciling its CO2 emissions with emission rights held, and after redeeming the allowances allocated for 2013, a deficit of 23.8 thousand Mg CO2 was identified. The deficit was covered with reserve allowances accumulated in the accounts of PGNiG's installations (unused free allocations from previous years) and with allowances purchased on the Intercontinental Exchange Futures Europe.

In the current trading period (2013-2020), the free allocation of CO2 emission allowances covers only part of the actual emissions. The free allocations will be phased out, reaching zero in 2027.

Land reclamation and non-productive asset surveying

Pursuant to the Environmental Protection Law, PGNiG conducts evaluation and land reclamation work in areas that have become polluted in the course of its earlier operations (including those related to traditional gas production), with a view to restoring them to a condition prescribed by environmental quality standards. In 2014 no land reclamation work was conducted in polluted areas. We also monitor the soil-water environment of the reclaimed landfill site in Zabrze-Biskupice, and a property in Zabrze. In 2014 the Environmental Protection Division prepared documents for the proceedings to contract land reclamation services concerning polluted properties in Czersk, Reszel and Szprotawa. At present, the unit responsible for organising tenders for land reclamation services is the Administration and Asset Department.

REACH and CLP

In 2014 PGNiG was supervising compliance of its subcontractors using chemical substances for well treatments with the regulations of the European Parliament and of the Council of the European Union on the safe use of chemicals (REACH) and on the classification, labelling and packaging of substances and mixtures (CLP). The Company also drew up contractual provisions, to be included in its hydraulic fracturing, mud and cementing service agreements, concerning the use of chemical substances and mixtures, which would facilitate the control of related hazards and ensure compliance with all requirements imposed by Polish and EU laws.

Environmental protection in drilling operations

Drilling work performed as part of exploration for and production of hydrocarbons has an impact on the environment in the immediate vicinity of the site where it is carried out (the affected area for one borehole is approximately one hectare). Drilling operations cause a temporary change in the character of the land, increased emissions of gases and exhaust fumes, higher noise intensity and generation of waste.

In order to protect the land surface, the upper layer of soil is stripped off to be used later for land reclamation. A drilling rig is installed on tightly insulated ground. Diesel oil tanks and receptacles for waste and hazardous substances are placed in special containers. Drilling muds are made from chemical substances and mixtures meeting the requirements of the Polish and EU law (including the Chemical Substances and Mixtures Act (J.L. of 2011, No 63, item 322) as well as the REACH and CLP Regulations. Besides water (about 25%), organic components (polymers) are the largest mud additives by weight. All waste generated in connection with borehole drilling or human presence on the drilling site is collected in tightly-sealed vessels and transferred to authorised waste management operators.

Emissions of gases and exhaust fumes into the atmosphere are limited by maintaining the drilling rig engines in excellent operating condition and using quality fuel to run the engines. Repeated surveys of the quality and quantity of pollutant emissions into the air and of their distribution patterns have shown that all air pollutant concentration standards are met in the areas where drilling work is conducted.

Noise intensity is reduced by using machinery and equipment that produce less noise, and if the noise emission standards are exceeded, means of acoustic protection are used, such as screens installed to shelter the pipe ramp and pipe rack on drilling rigs.

Special devices are used to minimise the volume of drilling waste, for instance through drilling mud recycling (screens on shale shakers, centrifuges, desilters and desanders). On the other hand, the volume of waste generated in connection with the operation of drilling equipment is limited through the use of modern long-life engine, gear and lubricating oils. The application of the highest quality fuels in the latest generation power generators protects filters against excessive fouling, which prolongs their useful lives. End-of-life filters are hazardous waste. Waste generated on a drilling site is stored in a manner ensuring the protection of the environment and of human health. Stored waste is pre-sorted. All waste storage sites are appropriately marked and under constant surveillance.

In 2014 expenditure incurred by Exalo Drilling to mitigate the impact of its drilling operations on the environment amounted to approximately PLN 16.68m. The funds were spent mainly on projects designed to reduce the volume of drilling waste and limit emissions into the environment, for instance by providing drilling rigs with modern power generators, fuel tanks, shale shakers, mud tanks and waste receptacles, and putting in place a mobile evaporator system enabling waste neutralisation. By equipping its drilling rigs with modern equipment, the PGNiG Group is able to meet the applicable technical and environmental standards.

Planned activities in 2015 and beyond

Exploration in Poland

In 2015 PGNiG will carry out exploratory geophysical work and drilling in Poland on a number of prospects in the Carpathian Mountains, Carpathian Foothills and the Polish Lowlands. The work will be conducted by PGNiG on its own or jointly with partners.

The Company also intends to pursue projects focused on exploring new potential opportunities, where little appraisal has so far been made.

In Pomerania, three horizontal wells will be drilled and fracked. PGNiG also plans to drill two exploratory wells into Carboniferous formations, which are a new direction of its hydrocarbon exploration.

Exploration abroad

In Pakistan, in order to verify the potential of the structure located to the north of the Kirthar discovery, PGNiG will continue drilling the Rizq-1 well and perform further work on the Rehman-2 and Rehman-3 wells.

On the Norwegian Continental Shelf, PGNiG UI, as a project partner, will continue to produce hydrocarbons from the Skarv field and the newly acquired fields, proceed with the development of the Snadd and Gina Krog fields, and prepare for the second stage of the drilling campaign on the Skarv field. In addition, PGNiG UI intends to acquire new licence areas by participating in annual licensing rounds and by acquiring interests from other entities. In the future, the company may participate, as a partner, in drilling projects in deep-sea waters (below 1 thousand metres) and in the Arctic Zone. This is connected with its interests in two licences (PL702 and PL703) within the Vøring Basin in the Norwegian Sea shelf, where the sea depth exceeds 1 thousand metres, and in two licences (PL707 and PL711) in the Barents Sea shelf, in the Arctic Zone.

Natural gas and crude oil production

The PGNiG Group is implementing an investment programme aimed at maintaining its natural gas production capacity in a long-term perspective. As part of the programme, PGNiG plans to develop new deposits and wells, modernise and expand the existing gas production facilities, build new underground gas storage facilities and expand the existing ones.

Plans for 2015 provide for a natural gas production volume of approximately 4.5 bn m^3 of high-methane gas equivalent with a calorific value of 39.5 MJ/cm, of which 0.4 bn m^3 will be produced from fields on the Norwegian Continental Shelf. Within the Sanok Branch area, plans for 2015 include launch of production from two wells on the Przemyśl producing field, as well as launch of production from the new Załęże field. Within the Zielona Góra Branch area, it is planned that in 2015 production will be launched from new wells on the Daszewo, Zaniemyśl and Wilków fields.

The PGNiG Group estimates its 2015 crude oil output at 1.27 m tonnes, including 0.76 m tonnes produced domestically, and 0.51 m tonnes produced from fields on the Norwegian Continental Shelf.

Service activities

In 2015, the PGNiG Group will provide drilling services in Poland and abroad. In Poland, the segment companies will conduct drilling for PGNiG and for third-party customers. In foreign markets, services will be provided for PGNiG in Pakistan and for third-party customers in Egypt, Kazakhstan, Pakistan, Saudi Arabia, Botswana, the Czech Republic, Lithuania, and Ukraine.

Specialist oilfield services are planned to be performed in Poland chiefly for PGNiG, but also for foreign companies that hold licences to explore for minerals (mainly hydrocarbons), and in foreign markets for third-party customers in Croatia, Romania, the Czech Republic, Saudi Arabia, Ukraine, Lithuania, Belarus and other countries.

The segment will also provide seismic data acquisition, processing and interpretation services to PGNiG and third-party customers (including FX Energy Poland Sp. z o.o. and Orlen Upstream Sp. z o.o.). Abroad, the PGNiG Group will render geophysical services in Tunisia, Oman, Pakistan, Kenya, Cameroon, Yemen, India, Georgia and EU member states (the Czech Republic, Slovakia, Austria, Germany, Denmark, Hungary and Croatia).

ROUND 2: TRADE AND STORAGE

Trade and Storage

This segment's principal activity is trade in natural gas.
Gas sold by the segment is mainly imported,
but also domestically produced.

The PGNiG Group is the largest supplier of natural gas in Poland. According to the Energy Regulatory Office, PGNiG's share in total sales of natural gas in 2013 was 94.4%. In 2014 natural gas was supplied to customers mostly by two companies of the Group: PGNiG and its subsidiary PGNiG Obrót Detaliczny Sp. z o.o. (PGNIG Retail), which commenced operations on 1 August 2014. Thus, the company has become the largest retail supplier of natural gas, while PGNiG has maintained its leading position on the wholesale market.

The sale of natural gas through the distribution and transmission network is regulated by the Polish Energy Law, and gas prices are determined based on tariffs approved by the President of the Energy Regulatory Office (URE).
An exception is for natural gas sold at the Polish Power Exchange (PPE). The segment also trades in electricity, certificates of origin for electricity, and CO2 emission allowances. The segment operates seven underground gas storage facilities (Brzeźnica, Husów, Mogilno, Strachocina, Swarzów, Wierzchowice and Kosakowo).

Analysis of financial performance in 2014

An improvement in efficiency was recorded in the Trade and Storage segment, where operating profit was up PLN 591m year on year, to PLN 583m. The segment's performance in 2014 was driven by the average cost of gas fuel procurement being in a more favourable relation to selling prices than in the previous year, chiefly as a result of lower volumes of gas fuel sold.

Year on year, revenue was up by PLN 3,166m (12%), driven principally by higher revenue from gas traded on the Polish Power Exchange, where PGNiG sold 3.7 bn m^3 of gas in 2014 (2013: 0.1 bn m^3). The segment's operating expenses were up by PLN 2,575m (10%) on the back of higher expenses attributable to gas fuel purchased on the Polish Power Exchange by PGNiG Retail. PGNiG's sales and PGNiG Retail's purchases made on the Polish Power Exchange are not subject to elimination from the consolidated financial statements.

A decline in gas volumes sold to customers was the key factor affecting the Trade and Storage segment's performance. In 2014 the segment's gas sales volumes, excluding volumes traded on commodity exchanges, was 13.5 bn m^3, having fallen from 15.1 bn m^3 (11%) in the previous year. The decrease was caused by the average temperatures being higher by 0.9°C than the year before. In addition, as a result of OOO Gazprom Export's order reductions, imports from countries east of Poland in 2014 were down to 8.1 bn m^3 (by 7%). The segment's improved performance was also associated with lower gas procurement costs, which was a result of the four-quarter nine-month average price of Brent, expressed in PLN, being lower by 2%, along with lower average annual prices of gas fuel on the TTF (down by 18%) compared with the year before. As at 31 December 2014, the Group held ca. 2.1 bn m^3 of gas in underground storage – approximately 1.4% less than at the end of 2013.

TRADE AND STORAGE
PLNm

	2014	2013	2012	2011	2010	2009
Segment's total revenue	28,825	25,659	23,713	20,045	19,080	17,371
Segment's total expenses	-28,242	-25,667	-23,388	-20,229	-18,264	-17,421
EBIT	583	-8	325	-184	815	-50
Segment's assets	18,299	17,344	18,650	12,117	10,447	10,201
Segment's liabilities	4,873	4,634	3,937	2,774	3,536	2,921

Segment's figures

NATURAL GAS SALES, PGNiG Group*
m m^3

	2014	2013	2012	2011	2010	2009
HIGH-METHANE GAS (E)	17,261	15,006	13,756	13,167	13,099	11,921
including PGNiG and PGNiG Retail sales outside PGNiG Group	15,501	13,623	13,433	13,167	13,099	11,921
including PST sales outside PGNiG Group	1,760	1,383	324	-	-	-
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	1,342	1,202	1,156	1,111	1,137	1,234
including PGNiG and PGNiG Retail sales outside PGNiG Group	1,285	1,177	1,156	1,111	1,137	1,234
including sales in Pakistan	57	25	-	-	-	-
TOTAL (measured as E equivalent)	18,603	16,208	14,912	14,278	14,236	13,155

* Measured as high-methane gas equivalent, including direct sales from fields (Exploration and Production segment), after consolidation eliminations; volumes of PGNiG sales through the Polish Power Exchange (PPE) and of PGNiG Retail sales were not eliminated due to the anonymity of trade on PPE.

Trade operations in Poland in 2014

Regulatory environment

The regulatory environment of the Trade and Storage segment is formed by a combination of national and EU laws. The most important Polish laws governing the PGNiG Group's operations in the trade and storage area include:

- the Energy Law,
- the Council of Ministers' Regulation of 24 October 2000 on the minimum level of diversification of foreign sources of gas supplies,
- the Regulation of the Minister of the Economy of 28 June 2013 on detailed rules for determining and calculating gas fuel tariffs and on settlements in gas fuel trading,
- the Energy Efficiency Act,
- the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on the Rules to be Followed in the Event of a Threat to National Fuel Security or Disruptions on the Petroleum Market,
- Regulation (EU) No 994/2010 concerning measures to safeguard security of gas supply,
- Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency.

The Polish Energy Law, along with secondary legislation, defines the basic rules for trade in natural gas, grant of licences and determination of energy tariffs. Its content takes into account the legal acts included in the Third Energy Package, in particular Directive 2009/73/EC of 13 July 2009 concerning common rules for the internal market in natural gas, and Regulation No 715/2009 on conditions for access to the natural gas transmission networks. Pursuant to the provisions of the Polish Energy Law, a licence issued by the President of the Energy Regulatory Office is required for trading in gas fuels and electricity. PGNiG conducts its trade activities under the following licences:

- licence to trade in gas fuels,
- licence to trade in natural gas with foreign partners,
- licence to trade in liquid fuels and
- licence to trade in electricity.

PGNiG Retail holds:

- licence to trade in gas fuels and
- licence to trade in electricity.

On 11 September 2013 an Act Amending the Energy Law (referred to as the 'Mini Three-Pack') took effect. Under the amendment, an energy company trading in gas fuels is obliged to sell a part of its high-methane gas volume introduced to the transmission network in a given year on the exchange market (the exchange sale requirement). Consequently, PGNiG, being the only entity actually bound by the obligation, is required to sell on the exchange market at least 30% (in the period from the amendment's effective date to the end of 2013), 40% (in 2014), and 55% (as of 2015) of the high-methane gas volume introduced to the transmission network in a given year. In the period directly following the effective date of the requirement, the demand for gas offered by PGNiG on the power exchange was lower than the supply, which meant that the Company was not able to fulfil its statutory obligation. In those circumstances, on 26 June 2014 the Energy Law was amended again by introducing the rule of general succession of agreements. Following its effective date, on 1 August 2014 PGNiG Retail launched its operations consisting in acquiring gas on the Polish Power Exchange to resell it to retail customers. Since the launch of PGNiG Retail's operations, a material increase in exchange gas sales has been observed. A failure to meet the obligation to sell gas on the exchange market in the amounts specified by the Energy Law exposes the Company to a major risk of a fine. Such a fine would be imposed by the President of the Energy Regulatory Office in an amount of up to 15% of revenue from the licensed operations in gas fuel trading. The initiatives undertaken by the Company allow us to conclude with a high degree of probability that, despite the increase of the statutory obligation from 40% to 55% in 2015, the obligation will be met.

Issues relating to the country's fuel security are regulated under Regulation (EU) No 994/2010 of 20 October 2010 concerning measures to safeguard the security of gas supply, and under the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on the Rules to be Followed in the Event of a Threat to National Fuel Security or Disruptions on the Petroleum Market. The Act defines the rules for creating, maintaining and financing stocks of natural gas by energy companies.

From PGNiG's perspective, another important document is the Energy Efficiency Act of 15 April 2011, enacted to implement Directive 2006/32/EC on energy end-use efficiency and energy services. It establishes a national target for end-use energy savings and introduces a system of energy efficiency certificates (referred to as white certificates) as a means to achieve it. PGNiG and PGNiG Retail, as trading companies, are obliged to purchase and redeem energy efficiency certificates or else pay the buy-out price.

Trade and Storage

Risks

Tariff calculation

The dependence of the PGNiG Group's revenue on tariffs approved by the President of the Energy Regulatory Office is a key factor affecting the Group's regulated business. Tariffs are crucial to the Company's ability to generate revenue that would cover its reasonable costs and deliver a return on the capital employed. Currently, a significant portion of that revenue depends on the selling prices of gas fuel, which – except to the extent that the gas is sold through the Polish Power Exchange – are regulated prices. The tariff determination rules are defined in the regulations issued under the Energy Law, including primarily the Tariff Regulation. The tariff determination methodology is based on planned volumes. Inaccurate estimates of customer demand for gas (affecting the accuracy of projected purchase and supply volumes), changes in imported gas prices, which cannot be accurately projected, as well as unpredictable fluctuations in currency exchange rates (ultimately affecting the cost of gas imports) may have an adverse effect on the financial performance of the Group.

Purchase prices of imported gas

Prices of imported gas are denominated in USD or EUR, and are based on indexation formulae reflecting the prices of petroleum products and/or gas on the liquid market of Western Europe. Accordingly, changes in foreign exchange rates or prices of petroleum products and gas materially affect the cost of imported gas. Any precise forecast of changes in natural gas prices carries a high risk of error. With respect to a part of volumes sold at tariff prices, the approved prices can be legally adjusted during the tariff term. However, there is a risk that an increase in the price of imported gas may not be fully passed on to customers, or that changes in gas sale prices may lag behind changes in gas import prices. Further, if contract prices of imported gas drop materially, the President of the Energy Regulatory Office has the right to call on the company to adjust its tariff prices accordingly, which materially limits the room for a margin increase in the segment.

In the event of exchange sale, which, given the statutory obligations under the Energy Law, affects a material part of imported volumes, there is a risk of a negative decorrelation between the prices quoted on the Polish Power Exchange and the prices calculated in accordance with the formulae stipulated in import contracts. If this risk materialises, it may lead to the need to sell gas at prices lower than the acquisition cost, which in turn will adversely affect the company's financial performance.

Take-or-pay import contracts

In 2014 PGNiG was a party to four long-term take-or-pay contracts for gas fuel deliveries to Poland. The most important of these are the contracts with OOO Gazprom Export and Qatar Liquefied Gas Company Limited (3) (Qatargas).

On 9 December 2014, PGNiG and Qatargas executed a supplementary agreement to the long-term contract for the sale of liquefied natural gas (LNG) of 29 June 2009. Under the supplementary agreement, the parties altered the terms on which the contract is to be performed throughout 2015. In 2015 Qatargas will place the volumes defined under the long-term contract on other markets, leveraging its position of a leading global LNG producer and supplier. PGNiG will cover any difference between the LNG price specified in the long-term contract and the market price obtained by Qatargas. Should the price be lower than PGNiG finds satisfactory, any unsold LNG supplies will be shifted to subsequent years of the contract.

Obligation to diversify imported gas supplies

The Council of Ministers' Regulation of 24 October 2000 on the minimum level of diversification of foreign sources of gas supplies prescribes the maximum share of gas imported from a single country in total gas imports in a given year. Currently (2015–2018), the share must not exceed 59%.

For a failure to abide by the obligation to diversify supplies of imported gas in 2007–2008, the President of the Energy Regulatory Office fined the Company PLN 2m (subsequently reduced to PLN 1.5m by the Polish Court of Competition and Consumer Protection, and, following the Company's appeal, further reduced to PLN 0.5m by the Court of Appeals in Warsaw). PGNiG disagrees with the interpretation of the Regulation's provisions adopted by the President of the Energy Regulatory Office and both courts. Similar administrative proceedings were instituted by the President of the Energy Regulatory Office concerning PGNiG's failure to comply with the obligation to diversify supplies of imported gas in 2009, 2010 and 2011. The conclusion of the proceedings concerning the years 2009, 2010, 2011 and 2012 depends upon the conclusion of the proceedings concerning the years 2007 and 2008, pending before courts of general jurisdiction.

If the Regulation is not amended, the President of the Energy Regulatory Office may in continue to impose fines on the Company for failing to comply with the diversification requirement until gas starts to be supplied from other sources (e.g. through the LNG terminal).

Competition in gas sale

PGNiG remains the largest supplier of natural gas in Poland. However, the upcoming gas market deregulation is bound to trigger major changes in the market itself and the related legal framework. In 2012 trade in natural gas on the Polish Power Exchange (PPE) commenced. In 2014, after the spin-off of PGNiG Retail, high liquidity on the PPE gas market was observed, driven also by the activity of entities from outside the PGNiG Group.

An important development promoting competition on the gas market was the launch, as of 1 April 2014, of the physical reverse flow to Poland from sources west of our country, through the Mallnow entry point. Under the reverse flow service, provided on a continuous basis, it is possible to import 2.3 bn m^3 of natural gas. On 1 January 2015 the technical capacity for continuous gas imports through the Mallnow entry point was further increased to 5.5 bn m^3.

In 2014 no material changes occurred connected with the liberalisation of gas prices for customers. According to earlier announcements by the President of the Energy Regulatory Office, the liberalisation will be a phased process, with gas prices for large industrial customers to be liberalised first.

Increase in the volume of mandatory stocks

The obligation to maintain mandatory stocks of natural gas is stipulated in Article 24 of the Act on Mandatory Stocks. Pursuant to the Act, an energy company engaged in the business of importing natural gas for its resale to customers is required to maintain mandatory stocks of gas in an amount equal to at least the 30-day average daily gas imports into the Republic of Poland. It is worth noting that the amount has been steadily increased over the past several years (from 11 days until October 2009, to 15 days until October 2010, 20 days until 1 October 2012, to the current 30 days, in effect since 1 October 2012). The obligation to create and maintain mandatory stocks is not binding on enterprises importing less than 100 m m^3 of gas and serving up to 100,000 customers. While recently the volume of mandatory stocks has been falling in the wake of PGNiG's reducing gas imports to Poland, the obligation to meet the statutory requirement to maintain mandatory stocks continues to expose PGNiG to numerous risks, including balancing and technological risks, and jeopardises the performance of its contract obligations.

The balancing risk is mainly connected with the inability to cover peak demand for natural gas in autumn and winter if low air temperatures persist. As a result, mandatory stocks significantly constrain the commercial use of the facility's storage capacity and deliverability. This is primarily connected with the risk of being unable to ensure uninterrupted supplies of gas to end users. The technological risk is connected with the adverse effect of maintaining mandatory stocks on the operating parameters of underground gas storage facilities, which, in the long run, may cause gas migration to sections with worse permeability and porosity, and, consequently, reduce withdrawal capacity. Ultimately, it may cause significant difficulties and drive up costs.

In relation to that last risk, it is probable that PGNiG may not be able to meet its contractual obligations concerning offtake of imported gas if the gas volumes in storage are high at the beginning of summer due to the maintenance of mandatory stocks.

Gas imports

PGNiG is Poland's largest natural gas importer. Gas is imported primarily from countries east of Poland, as well as from Germany and the Czech Republic. The existing gas infrastructure makes it possible to import natural gas from the following directions:

- East – through cross-border connections in Drozdovitse and Zosin (on the Polish-Ukrainian border), Kondratki, Vysokoye and Teterovka (on the Polish-Belarusian border),
- West – through the cross-border connection in Lasów and using the virtual reverse flow service on the Yamal pipeline,
- South – through the cross-border connection in Branice or, alternatively, in Głuchołazy, and an interconnector pipeline in the Cieszyn area connecting the gas systems of Poland and the Czech Republic.

In 2014 the volume of PGNiG's imports to Poland reached approximately 9.7 bn m^3 of high-methane gas, including:

- 8.1 bn m^3 (83.48%) - from OOO Gazprom Export,
- 0.3 bn m^3 (3.35%) - from Verbundnetz Gas AG (VNG),
- 0.2 bn m^3 (1.75%) - from Vitol SA,
- 1.1 bn m^3 (11.43%) - from PGNiG Sales & Trading.

The volume of gas received under the Yamal contract in 2014 was lower than in previous years, which resulted from reduced supplies from sources east of Poland from September until the end of the year. Nonetheless, PGNiG complied with all contractual obligations.

In 2014, PGNiG continued to use the virtual reverse flow on the Yamal gas pipeline.

On 1 January 2015 OGP Gaz-System SA added new technical capacities for importing gas to Poland from across its western border using the Yamal gas pipeline. This became possible as a result of extending the Włocławek entry point. At present, gas may be imported to Poland through the Mallnow-reverse point on a continuous basis at the rate of up to 5.5 bn m^3 per annum. The extra transmission capacity was allocated to customers in auctions for quarterly products, which were held in December 2014.

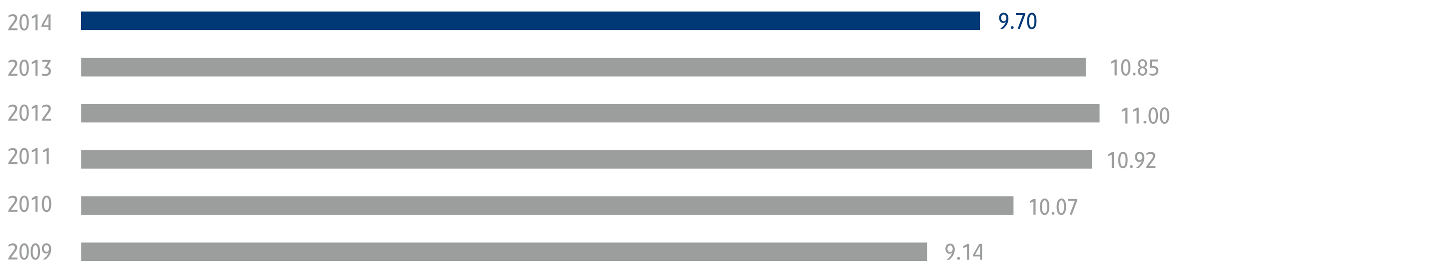
In addition, the transmission capacity at the Mallnow-reverse point is offered on an interruptible basis, which makes it possible to import an additional 2.7 bn m^3 of gas per annum if the Yamal gas pipeline is delivering gas to Germany.

The system connections (the Lasów terminal and the connection with the Czech Republic, near Cieszyn, commissioned in 2011) play a very important role in ensuring Poland's energy security, and may also be used for potential emergency supplies. Further, the connections support free trade flows between EU countries, fostering greater economic integration of member states.

In addition, Polskie LNG SA (a wholly-owned company of OGP Gaz-System SA) is implementing a project to construct the LNG terminal in Świnoujście. In the initial phase, the terminal's capacity will amount to 5 billion cubic metres of gas.

Imports of natural gas to Poland in 2009-2014 (bn m^3)

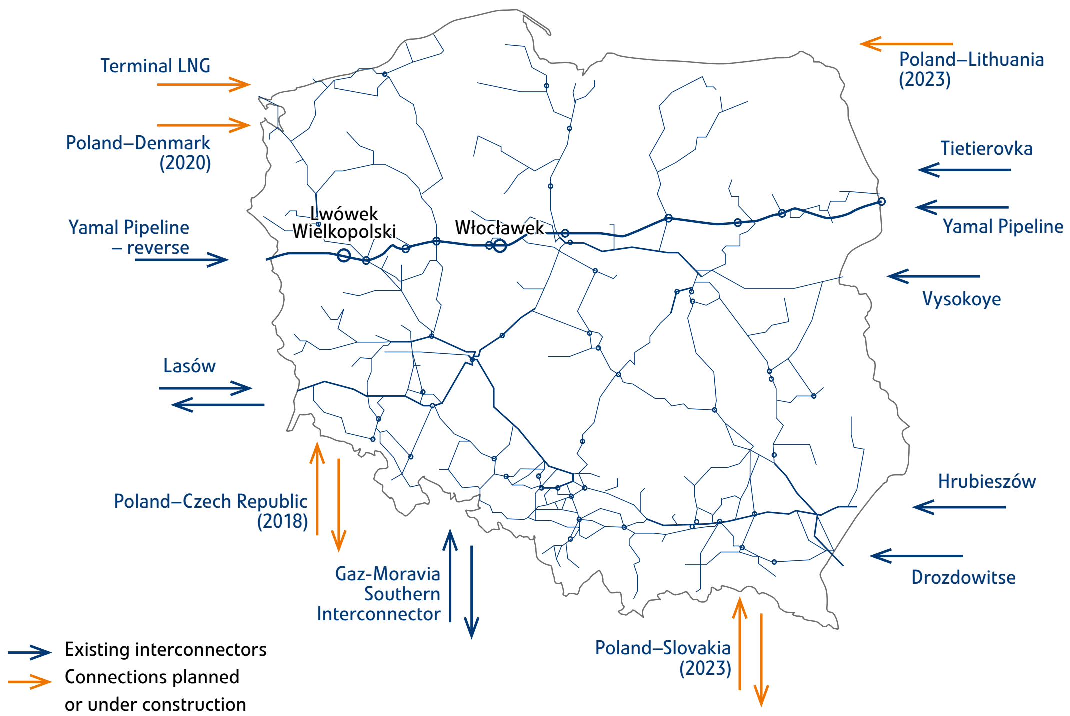
	2014	2013	2012	2011	2010	2009
Total	9.70	10.85	11.00	10.92	10.06	9.13
Sources east of Poland	8.10	8.73	9.02	9.34	9.03	8.14
Sources west of Poland	1.22	1.56	1.42	1.37	1.03	0.99
Sources south of Poland	0.38	0.56	0.56	0.21	-	-



In 2014 PGNiG's share in total gas imports to Poland was 80%, down 6 pp on the year before. Taking into account Poland's gas exports (mainly through Hermanowice), PGNiG's share in net gas imports in 2014 was 89%, down by 6% relative to 2013.

The primary reasons for PGNiG's lower share in gas imports included reduced sales to end users, the termination of the contract for gas supplies through Cieszyn, executed with Vitol SA, and higher transmission capacity from sources west of Poland, which enabled other market participants to import gas. The largest increase in the share of gas imports to Poland was recorded at the Kondratki and Lasów points, while the largest decline was seen at Cieszyn and Teterovka.

Schematic map of the Polish transmission system entry points



PGNiG

Capacity for natural gas imports to Poland available in 2014

		Total transmission capacity in 2014 (PN										
		LNG Terminal in Świnoujście	Mallnow	PWP	Gubin	Lasów	Branice	Cieszyn	Drozdovitse	Vysokoye	Kondratki	Teterovka
available on a continuous basis	mcm/d	13.70	6.30	14.40	0.05	4.32	0.004	2.51	12.00	15.00	91.86	0.65
	kWh/h	6,326,145	2,917,792	6,647,337	22,420	2,007,000	1,803	1,167,920	5,650,000	7,043,750	42,677,169	304,290
available on an interruptible basis	mcm/d	-	14.90	14.90	0.05	4.32	0.004	2.51	15.81	15.16	91.86	0.65
	kWh/h	-	6,868,919	6,868,919	22,420	2,007,000	1,803	1,167,920	7,345,000	7,043,750	42,677,169	304,290

The planned growth in import and export capacity at the border of the Polish transmission system

(based on 'Operator Gazociągów Przesyłowych GAZ-SYSTEM SA's Development Plan for 2014-2023 for satisfying the current and future gas fuel demand' of 4 April 2014 and information available at OGP Gaz-System SA's website).

OGP Gaz-System SA is extending the Polish gas transmission system as part of the North-South Corridor project. As part of the project, new sections of the transmission system will be added in western, southern and eastern Poland. The European Commission has classified the project as a Project of Common Interest. Part of the work has already been completed, while other stages are still under preparation.

Interconnection projects implemented in 2014:

- LNG terminal in Świnoujście. The LNG regasification terminal is a strategic investment project implemented by Polskie LNG SA (a wholly-owned company of OGP Gaz-System SA). In the initial phase (from 2015), the terminal's annual capacity will amount to 5 bn m^3 of gas. Apart from ensuring new sources of gas supplies to Poland, in the future the LNG terminal may be a potential source of supplies to Central Europe, Lithuania and other Baltic states. The terminal in Świnoujście is an element of the North-South Corridor, whose other end is a terminal planned in Croatia.

- Mallnow-reverse On 1 April 2014 the physical reverse flow was initiated from sources west of Poland through the Mallnow entry point. As part of the reverse flow transmission service, the available technical capacity for gas imports to Poland on a continuous basis is 2.3 bn m^3 per annum (6.3 m m^3 per day). According to Gaz System, in emergency cases (if supplies from the eastern direction to Germany are suspended) it will be possible to import up to 14.9 m m^3 of gas per day (or nearly 5.5 bn m^3 per annum). On 1 January 2015 the technical capacity for gas imports to Poland on a continuous basis was further increased at the Mallnow point, and consequently at the Interconnection Point (PWP; Lwówek and Włocławek), by 3,951 MWh/h. Concurrently, following the extension of the Włocławek point, its technical capacity for interruptible transmission rose by 7,201 MWh/h (at the exit point from the Transit Gas Pipelines System and entry point to the Transmission Gas Pipelines System). The increased transmission capacity at the Interconnection Point is also related to higher capacity at Mallnow-reverse.

System interconnections to be set up by OGP Gaz-System SA concurrently with extension and upgrade of relevant sections of Poland's transmission network:

- Connection between the Polish and Czech transmission systems (expected completion – by 2018). The project consists in the construction of a new connection between the Polish and Czech systems with a capacity of approximately 6.5 bn m^3 per annum as part of the North-South Corridor. The new connection is to enable bidirectional gas flows. The project is at the stage of preliminary preparations performed jointly with the operator of the Czech transmission system.

- Connection between the Polish and Slovak transmission systems (expected completion – by 2023). The project consists in the construction of a connection between the Polish and Slovak systems with a capacity of approximately 5.7 bn m^3 per annum as part of the North-South Corridor. The new connection is to enable bidirectional gas flows. The project is at the stage of preliminary preparations performed jointly with the operator of the Slovak transmission system.

- Enhancement of the capacity for gas imports from Germany (expected completion – by 2018). Depending on market conditions, there may be a need to ensure a higher than currently proposed transmission capacity between the German Gaspool/NCG market areas and the Polish market. This will be possible thanks to increasing the transmission capacity of the existing interconnection points or construction of new ones. Preliminary analyses of such projects are under way. Based on current estimates, a higher transmission capacity may be necessary even before 2018, but this will be consulted with market participants in advance.

- Connection between the Polish and Lithuanian transmission systems (project timeline – by 2023). The project consists in the construction of a new connection between the Polish and Lithuanian systems with a capacity of approximately 2.4-4.1 bn m^3 per annum. The new connection is to enable bidirectional gas flows. The project is at the stage of preliminary preparations performed jointly with the operator of the Lithuanian transmission system.

- Connection between the Polish and Ukrainian transmission systems. On 17 December 2014, OGP GAZ-SYSTEM SA and PJSC UKRTRANSGAZ, the Polish and Ukrainian transmission system operators, signed an agreement with the key purpose of defining the rules of cooperation between the parties in preparing analyses of projects necessary for improving the cross-border transmission capacity between Poland and Ukraine. Under the agreement, a feasibility study will be prepared to provide a basis for further decisions on development of the transmission systems in Poland and Ukraine.

Gas wholesale

Tariff policy

Gas fuel trading is regulated by the President of the Energy Regulatory Office (URE). The Office's regulatory powers include the right to approve gas fuel tariffs, including gas fuel prices and fee rates covered by the tariffs, and ensure their compliance with the Polish Energy Law. To that end, they analyse and review costs that energy companies consider relevant for the calculation of tariff prices and fee rates, and exercise overall supervision over such companies. The level of tariff prices and fees, despite the requirement to sell gas on the exchange market, has a material effect on the Company's financial performance. The tariff calculation methodology defines prices and fee rates based on forecast costs and gas sales targets, taking into account the costs of gas supply from all possible sources – both imported and domestically produced gas.

Gas fuel is supplied to customers connected to the transmission network and the distribution network under comprehensive service contracts, which are settled based on a tariff specifying:

- prices and subscription fees applicable to settlements with customers receiving gas fuel from the networks,
- manner of determining price reductions in the event of a failure to maintain gas fuel quality parameters or quality standards in customer service.

In 2014, the following Gas Fuel Tariffs were in place:

- Gas Fuel Supply Tariff No 6/2014, approved by a decision of the President of the Energy Regulatory Office, dated 17 December 2013 (effective from 1 January 2014 to 30 June 2014).
- Amendment to Gas Fuel Supply Tariff No 6/2014, approved by a decision of the President of the Energy Regulatory Office, dated 13 June 2014 (effective from 1 July 2014). The amendment was designed to harmonise the tariff with the Minister of the Economy's Regulation dated 28 June 2013, under which, starting from 1 August 2014, settlements with customers are to be based on energy units, while earlier they were based on units of volume. The new settlement rules did not significantly affect the amounts of payments for gas fuel supplies. The prices of gas fuels, as well as distribution and transmission charge rates were recalculated from amounts expressed per cubic metre into amounts expressed per 1 kWh, with the use of the calorific value adopted to determine prices per unit of volume.

In addition, the President of the Energy Regulatory Office, in a decision of 17 December 2014, approved Gas Fuel Supply Tariff No 7/2015. The new tariff, effective from 1 January 2015 to 30 April 2015, is applicable to businesses purchasing fuels for resale and end users with an annual gas consumption exceeding 25 m m^3.

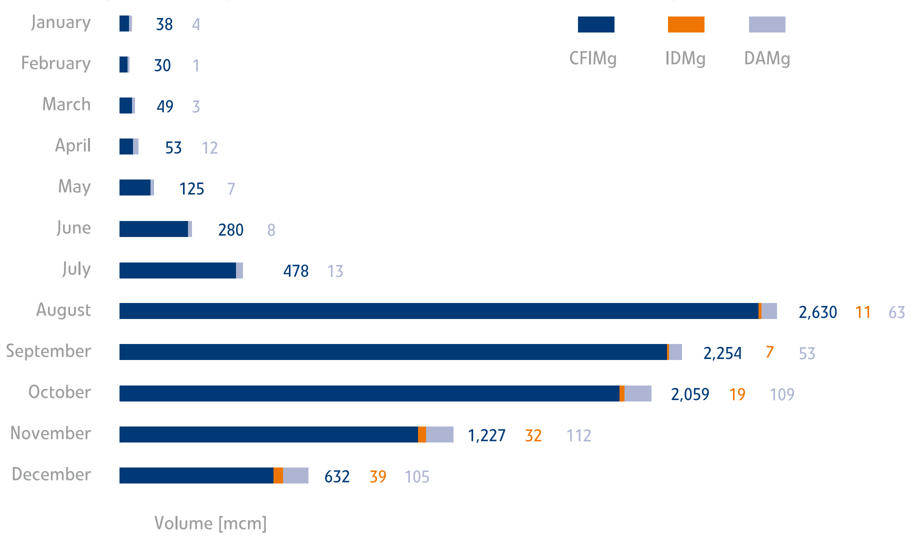
Operations on the Polish Power Exchange (PPE)

After the requirement to sell gas at the power exchange was introduced in 2013 by the Polish Energy Law, PGNiG has naturally become one of the key gas market players at the Polish Power Exchange. PGNiG also acts as a Gas Market Maker at the Polish Power Exchange, committing to regularly place buy and sell orders on the gas futures market. The key role of a market maker is to enhance the market's liquidity and transparency.

In 2014, the Company was an active trading participant on the Commodity Forward Instruments Market (CFIM), the Day-Ahead Market (DAM) and the Intraday Market (IDM). Following the spin-off of PGNiG Retail in August, the volume of gas sold through the Polish Power Exchange has increased substantially for the entire futures curve and for the spot markets. Due to the strong growth in the volumes of gas sold through the Polish Power Exchange, a substantial portion of the volumes migrated from the tariff-regulated segment to exchange sales, which became one of the key distribution channels for the Company.

In exchange trading, both the selling and the buying party remain anonymous. This results in prices being set at the market level, or at a level where supply matches demand, which gives competitors an opportunity to enter the gas market.

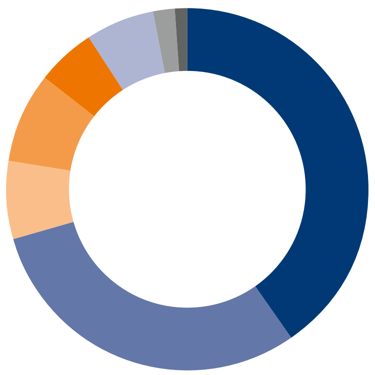
Natural gas trading volume at the Polish Power Exchange in 2014



The chart above presents monthly trading volumes at the gas exchange. It shows clearly that trading is dominated by the Commodity Forward Instruments Market (CFIM), which is used to hedge positions in the medium and long term. The Day-Ahead Market (DAM) and the Intraday Market (IDM) are used to balance short-term positions. The separation of retail trading significantly contributed to a shift in distribution channels. To a large extent, transactions executed on the power exchange have replaced bilateral contracts.

Structure of the major industrial customers of the PGNiG Group

The structure of natural gas sales by the PGNiG Group on the wholesale market remains roughly unchanged year on year. The largest customers are nitrogen plants, accounting for approximately 40% of the PGNiG Group's sales to corporate customers, followed by refineries and petrochemical companies, which accounted for approximately 30% of the Group's wholesale gas sales, as well as glass works with an 8% share, iron and steel works with a 7% share, and power and CHP plants with a 6% share.



Major industrial customers of the PGNiG Group in 2014

- Nitrogen plants 40%
- Refining and petrochemical industries 30%
- Glass works 8%
- Iron and steel works 7%
- Power and CHP plants 6%
- Other industries 5%
- Producers of building materials and ceramics 2%
- Food industry 1%

Currently, gas trading licences in Poland are held by 141 non-Group companies. In 2011–2012, 22 new licences were awarded. In 2013–2014, another 63 licences were granted (excluding PGNiG Retail). The growth in the number of new licences shows the extent of interest in the potential of the Polish gas market.

Additionally, 49 companies (excluding PGNiG) hold licences to trade in natural gas with foreign partners, allowing them to import gas for resale to customers in Poland. In 2014, 17 such licences were awarded.

Retail sales of gas

In order to ensure that PGNiG meets the requirement to sell gas on the exchange market, a new company, PGNiG Retail, commenced its operations in August 2014, consisting in buying high-methane natural gas at the Polish Power Exchange (PPE), and then selling it to retail customers. End-user agreements were automatically transferred to PGNiG Retail by way of universal succession.

The formation of PGNiG Retail is another step in the process of separating wholesale and retail trading, after the establishment of the Wholesale Trading Division at PGNiG. The Wholesale Trading Division took over the customers who purchased more than 25 m m3of natural gas in the previous calendar year, who purchase gas directly from the fields, and who purchase crude oil. The launch of PGNiG Retail's operations will ensure adequate demand for natural gas sold on the power exchange and will enable fair competition between the PGNiG Group's subsidiary and other participants of the Polish gas market.

Tariff policy

Pursuant to the Energy Law, PGNiG Retail was authorised to use PGNiG Gas Fuel Tariff (Part B Gas Fuel Supply Tariff No 6/2014) until introduction of a new tariff prepared by PGNiG Retail. In October 2014 PGNiG and PGNiG Retail applied to the President of the Energy Regulatory Office for approval of the new tariff.

On 17 December 2014 the President of the Energy Regulatory Office approved PGNiG Obrót Detaliczny Gas Fuel Trading Tariff No 1, effective from 1 January 2015 to 31 December 2015. The average trading price of gas fuel (gas fuel price and subscription fee) was reduced relative to PGNiG Retail's previous tariff by 1.8% for high-methane gas (E), 0.8% for nitrogen-rich gas (Lw), 1.1% for nitrogen-rich gas (Ls), and 1.6% for decompressed propane-butane.

On 8 September 2014, PGNiG Retail applied to the President of the Energy Regulatory Office to be exempted from the obligation to submit LNG trading tariffs for approval. On 27 October 2014, the President of the Energy Regulatory Office exempted the company from this obligation.

Competition in gas sale

In 2014 the natural gas market saw a rapid growth of PGNiG Retail's competitors, i.e. energy companies trading in gas fuel. The company's main competitors, whose offerings may be of interest to the PGNiG Group's customers, include DUON Marketing & Trading, RWE Polska, PKP Energetyka, ENEA, Hermes Energy Group and Tauron.

These companies are active on the domestic natural gas market, targeting especially W-5 and W-6 customers, which represent DUON's core market, and W-7 customers, with PKP Energetyka and RWE Polska being particularly active in this tariff group.

Polish power groups such as ENEA, Tauron and Energa are also becoming increasingly active, using their customer databases to resell gas bundled with their main product – electricity.

To a large extent, these companies rely on gas sourced from the PPE, but also on gas procured from foreign suppliers or bought on gas exchanges, mainly in Germany. However, given the limited capacities at the entry points to the Polish transmission system, the general reluctance to store gas fuel in Poland and the obligations imposed by the diversification regulation, imports are not the main source of gas fuel for these companies.

Gas sales - customer overview

PGNiG Retail's business customers include chemical and petrochemical companies, glass and steel works and other entities that require process gas for the manufacture of products, as well as businesses buying gas for heating purposes, operating on the heat generation, industrial, services and trade markets. The breakdown of the company's customer base by tariff groups reveals a very large presence of small and medium-sized customers. A similar relation has been found between sales volumes and the number of customers.

The largest group of customers by number are businesses focusing on trade and services, whereas industrial customers lead in terms of gas volumes received.

According to the Energy Regulatory Office data, in 2014 nearly 6 thousand customers in Poland changed their gas fuel suppliers, with the figure expected to increase in 2015.

Sales of electricity

In 2014 PGNiG engaged in wholesale trading in electricity and related products in Poland and Germany. In Poland, the Company traded on the OTC market under EFET standard agreements and through brokers, and also at the PPE. In Germany, the Company was engaged in spot contract trading on the EPEX Spot market, and in the inter-system Poland-Germany exchange.

In 2014 PGNiG supplied 259.3 GWh of electricity to end users. Since August 2014 PGNiG Retail, a company spun off from PGNiG, has been responsible for active tendering and the acquisition of new customers. Ultimately, PGNiG wants PGNiG Retail to handle all electricity sales to end users. Consequently, electricity sale agreements will be transferred from PGNiG to PGNiG Retail.

PGNiG Retail sells electricity through a network of Business Consultants and Customer Service Offices.

Planned activities in 2015 and beyond

In 2015 PGNiG will face a number of challenges related to the ongoing deregulation of the gas market in Poland.

As regards sales to end users, the Company is focusing on preparing a product offering that would allow it to secure a strong competitive position on the increasingly deregulated gas market. The products will be offered to end users once PGNiG is exempted from the obligation to submit its end-user tariffs for approval.

As regards sales on the gas exchange, PGNiG will focus on offering competitive prices compared with those quoted on deregulated Western markets. This policy should guarantee the Company an ability to meet its statutory exchange sale requirement.

To increase customer satisfaction and mitigate the risk of losing retail customers to competitors, PGNiG Retail is actively expanding its mix of gas-related products and services, as well as improving customer service, for instance by introducing proper customer segmentation, assigning dedicated stationary account managers to W-5 customers, and enabling quicker and more convenient communications through the corporate website and electronic Customer Service Office (e-bok). Work is also under way to facilitate and accelerate PGNiG Retail's invoice flows by introducing e-invoices and streamlining its IT systems to ensure that customers can receive a single invoice for all gas fuel collection points.

With respect to new gas products, the company is working on its dual fuel offering, a gas product offering tailored to specific customer requirements and, in cooperation with other Group companies, on gas-fired cogeneration.

In addition, the company has intensified work on developing a product offering for customers in areas where the gas distribution network is being or will be rolled out, as well as for customers who intend to switch from coal-fired energy sources to gas, for instance by more effectively reaching customers with information on its products.

Plans for 2015 and subsequent years provide for the further enhancement of the product offering and customer satisfaction, driven by continuous improvement and streamlining of customer service, new communication channels and constant growth of the company, as well as PGNiG's continued leadership on the Polish gas market.

PGNiG also intends to take steps to further develop the CNG segment by talking with external partners interested in the construction of new compressed-gas filling stations and launching initiatives to promote this environmentally-friendly fuel, especially among municipal transport providers. In addition, work will be carried out to develop the LNG sector, in particular by expanding ship bunkering operations in Polish ports using LNG from the Świnoujście gas terminal.

Higher volumes of electricity sold, separately or bundled in a dual-fuel offering, as well as other products, may bring added value from mutual cooperation to both PGNiG Retail and its customers.

Trade - foreign operations in 2014

Business overview

PGNiG Sales & Trading (PST) is the PGNiG Group's main entity responsible for energy trading, whose duties also include portfolio optimisation in Western Europe.

PST is active on wholesale energy markets in Germany, the Netherlands, Austria and the Czech Republic, as well as at entry points on their borders. The company sells energy on the German and Austrian markets and provides supplies to end users at entry points.

Apart from the Czech Republic, PST's markets ensure liquidity levels sufficient for PST to fulfil its role within the PGNiG Group. These markets are supervised by national and EU bodies, and PST holds all relevant permits to trade and sell on these markets, and complies with all locally applicable regulations. PST has sourced substantial amounts of energy for the Group (12.4 TWh), and is a reputable member of the German short-term wholesale gas trading market (GASPOOL).

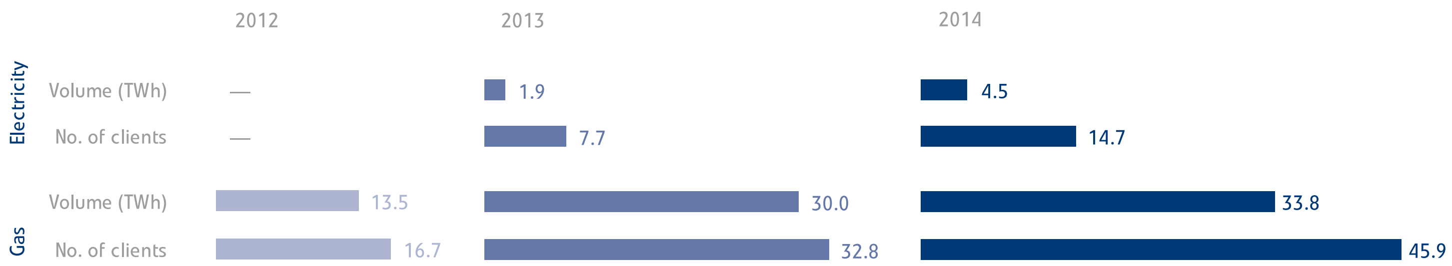
Given that the Czech energy market is still relatively underdeveloped, in 2014 PST used it only to transfer gas from Germany to Poland.

Risks

In the wholesale trade segment, the following risks are managed:

- Market price risk: global or local changes affect commodity markets; uncertainty leads to higher market volatility (for instance the conflict in Ukraine or lower production from the Groningen field in the Netherlands). A small part of PST's revenue is earned on transactions executed for its own account. The amount of profit on such transactions is difficult to predict, and it is also possible that this business will generate a loss. The acceptable level of risk is specified in the Risk Management Policy, which is designed to limit the adverse effects of this business.
- Liquidity risk: a lack of liquidity significantly limits transparency and thus may result in higher transaction costs.
- Counterparty credit risk: default by a counterparty may result in PST's inability to collect payment for delivered goods and/ or a negative position posted by PST as a consequence of marking to market and, as a further consequence, may adversely affect PST's performance.
- Supply risk: supply disruptions/increases affect prices. PST purchases specific volumes of gas produced from Norwegian fields on an ongoing basis. Any unforeseen disruptions in field operations or gas transmission system could disturb the balance of PST's system for a certain period of time, which could result in additional costs. However, since most costs are incurred by the field operator, PST's exposure to that risk is limited.

Operations of PST in 2014



Wholesale trade

PST operates principally in Germany. It is active on the EPEX Spot SE, EEX PEGAS and Power, ICE ENDEX Europe and PPE (through Broker Noble) markets.

PST acts as a market maker on the PEGAS platform for the GASPOOL market area in Germany.

It competes with all trading companies active on the markets on which it operates (currently Germany and Austria). These are mainly established market players (RWE/E.ON/Vattenfall/EnBW), companies owned by local governments and independent sellers.

Trade and Storage

Retail sales

PST's principal business includes sales of gas and electricity to small and medium-sized businesses and households. As at the end of 2014 PST had approximately 60 thousand customers, most of them in Germany, with a small percentage in Austria.

Planned activities in 2015 and beyond

Regarding PST's operations, plans for the coming years include the separation of PST's wholesale and retail business, the further expansion of the customer base for PST's sales operations, the launch of sales operations in Poland, the launch of an LNG trading business, and the entry into new trading markets (e.g. the UK).

The objective is to significantly expand PST's base of end users in Germany and Austria, to promote sales to strategic customers on the German-Polish border and in Poland, and to launch the international LNG business.

Storage

The Trade and Storage segment uses for its own needs the working capacities of the Wierzchowice, Husów, Strachocina, Swarzów and Brzeźnica underground gas storage facilities (UGS), as well as the Mogilno and Kosakowo underground gas storage cavern facilities (CUGS). A part of the working capacity of the Mogilno facility, which was made available to OGP Gaz-System SA, is not a storage facility within the meaning of the Polish Energy Law.

Short-term peak fluctuations in demand for natural gas may be balanced by supplies from the Mogilno and Kosakowo facilities, where gas is stored in worked-out caverns. The capacities of the Wierzchowice, Husów, Strachocina, Swarzów and Brzeźnica facilities are used to minimise the effect of changes in the demand for natural gas in the summer and winter seasons, to meet the obligations under the take-or-pay import contracts, to ensure the continuity and security of natural gas supplies, and to meet the obligations under contracts for gas deliveries to customers' premises.

The capacities of the Wierzchowice, Husów, Mogilno and Strachocina facilities are also used by PGNiG to meet its obligation to maintain mandatory stocks, imposed by the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or Disruptions on the Petroleum Market, dated 16 February 2007.

The storage capacities of PGNiG's facilities are managed by Operator Systemu Magazynowania Sp. z o.o. (OSM).

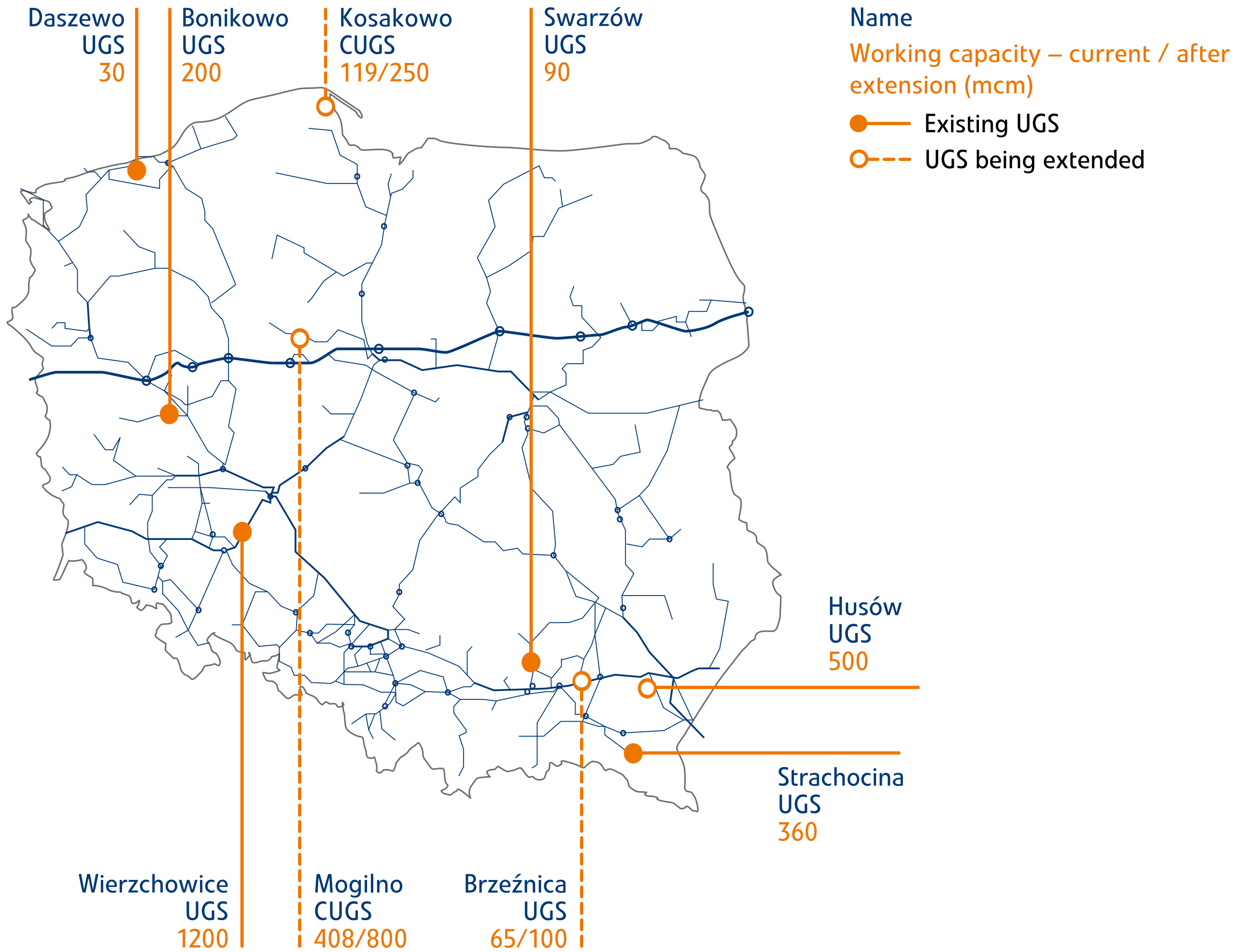
In 2014 the parameters of the individual underground gas storage facilities were as follows:

	Working capacity 2009 (mcm)	Working capacity 2014 (mcm)	Maximum injection capacity (mcm/d)	Maximum withdrawal capacity (mcm/d)
Brzeźnica UGS	65	65	1.10	0.93
Husów UGS[1]	350	500	4.15	5.76
Mogilno CUGS	378	408	9.60	18.00
Kosakowo CUGS[2]	0	119	2.40	9.60
Strachocina UGS	150	360	2.64	3.36
Swarzów UGS	90	90	1.00	1.00
Wierzchowice UGS	575	1,200	6.00	9.60
Daszewo UGS (Ls) – E&P segment	30	30	0.24	0.38
Bonikowo UGS (Lw) – E&P segment	0	200	1.68	2.40
Total	1,638	2,972		

1) On 30 December 2014 the project involving the extension of the Husów underground gas storage facility to bring its working capacity from 350 million to 500 million cubic metres was completed; the new storage capacities of the Husów facility are to be made available to OSM after the end of the 2014/2015 winter season.

2) On 22 December 2014 two new caverns with a total working capacity of 51.2 m m3 were completed at the Kosakowo underground gas storage cavern facility; the new storage capacities of the Kosakowo facility are to be made available to OSM after the end of the 2014/2015 winter season.

Location of underground gas storage facilities



Tariff

Until 16 July 2014 OSM carried out settlements relating to storage services based on the rates provided for in the amendment to Gas Fuel Storage Tariff No 1/2012 of 17 December 2012. On 2 July 2014, the President of the Energy Regulatory Office approved Gas Fuel Storage Tariff No 1/2014. The new tariff, effective from 17 July 2014 until 31 March 2015, takes account of the new storage capacities made available at the Kosakowo cavern facility, as well as expanded capacities of the Wierzchowice and Strachocina facilities. Furthermore, the tariff provides for making settlements with customers in energy units starting from 1 August 2014.

Storage services

In accordance with its licence for gas fuel storage, OSM provides its services at the Brzeźnica UGS, Husów UGS, Mogilno UGSC, Wierzchowice UGS, Strachocina UGS and Swarzów UGS facilities.

As at 31 December 2014, the PGNiG Group made available a total of 2,523.5 m m3 of working storage capacity for third party access (TPA) and to OGP Gaz-System SA; of this volume, 2,502.0 m m3 was made available under long-term agreements and 21.5 million cubic metres – under short-term agreements. 0.6 m m3 is the technical reserve capacity.

EU programmes

EU co-financing was secured for the following underground storage facility construction/extension projects carried out in 2014:

- Husów underground gas storage facility – maximum EU contribution: PLN 35.1m,
- Kosakowo underground gas storage cavern facility – maximum EU contribution: PLN 115.4m,
- Wierzchowice underground gas storage facility – maximum EU contribution: PLN 491.2m.

These projects are co-financed by the European Union from the European Regional Development Fund under the Infrastructure and Environment Operational Programme 2007–2013, Measure 10.1: Development of transmission systems for electricity, natural gas and crude oil, as well as the construction and reconstruction of natural gas storage facilities, Priority X: Energy security, including the diversification of energy sources.

Capital expenditure in 2014

In 2014, the following investment projects were completed:

- the extension of the Husów underground gas storage facility from 350 m m^3 to 500 m m^3 of working capacity,;
- the construction of two new caverns with a total working capacity of 57.8 m m^3 at the Kosakowo underground gas storage cavern facility.

Planned activities

The following capex activities on underground gas storage facilities are planned for 2015:

- completion of three caverns with a total working capacity of approximately 190 m m^3 at the Mogilno underground gas storage cavern facility (Z-15, Z-16 and Z-17),
- continuation of the construction of the K-5 cavern with a working capacity of not less than 25 m m^3 at the Kosakowo underground gas storage cavern facility (project completion scheduled for 2016),
- continuation of the extension of the Brzeźnica underground gas storage facility from 65 million to 100 m m^3 of working capacity (project completion scheduled for 2016).

In addition to the above projects, projects related to the extension of the Mogilno underground gas storage cavern facility up to a working capacity of approximately 800 m m^3 (project completion scheduled for 2024) and the construction of the Kosakowo underground gas storage cavern facility with a working capacity of not less than 250 m m^3 (project completion scheduled for 2021) are planned for 2015 and subsequent years.

Extension plans

	Working capacity present (m m^3)	Working capacity planned (m m^3)	Planned year of completion of construction/extension
Brzeźnica UGS	65	100	2016
Mogilno CUGS	408	ok. 800	2024
Kosakowo CUGS	119	at least 250	2021

ROUND 3: DISTRIBUTION

Distribution

The segment's principal business activity consists in the transmission of high-methane and nitrogen-rich gas, as well as of small amounts of propane-butane and coke-oven gas, over the distribution network. In addition, the segment is engaged in extending and upgrading the gas network and connecting new customers to the existing network and to new sections of the network.

Gas distribution services are rendered by Polska Spółka Gazownictwa Sp. z o.o. (PSG). As the Distribution System Operator, the company conducts its business activities in the provinces of: Poznań, Szczecin, Gdańsk, Bydgoszcz, Warsaw, Łódź, Białystok, Kraków, Rzeszów, Kielce, Lublin, Katowice, Opole, Wrocław, Zielona Góra and, partially, in the province of Olsztyn. The company holds a dominant share in the market, supplying gas to customers all over the country. For the time being, there are no circumstances that could adversely affect the company's competitive position and performance.

Analysis of financial performance in 2014

The Distribution segment's operating result (EBIT) rose by 54% year on year, to PLN 1,138m, while its EBITDA came in at PLN 2,002m, up by PLN 406m on the year before. The segment's improved operating performance was attributable to a PLN 366m decrease in operating expenses relative to 2013, which was caused by:

- employee benefit expenses being lower by PLN 229m (17%), chiefly as a result of reversing the provision for annual bonuses and lower costs following a change in liabilities under length-of-service awards; costs recognised under this item in 2013 were high due to changes in the pension system and revision of other actuarial assumptions,
- cost of services being lower by PLN 108m (12%), which was chiefly attributable to lower transmission costs due to lower volumes of transmitted gas.

DISTRIBUTION
PLNm

	2014	2013	2012	2011	2010	2009
Segment's total revenue	4,283	4,250	3,583	3,471	3,538	3,040
Segment's total expenses	-3,145	-3,511	-2,705	-2,687	-2,047	-1,995
EBIT	1,138	739	878	784	1,491	1,045
Segment's assets	14,142	14,067	13,089	12,420	12,228	11,039
Segment's liabilities	2,638	2,879	2,234	1,915	1,932	1,872

Segment's figures

m m^3	2014	2013	2012	2011	2010	2009
Volume of gas transmitted via the distribution system in natural units	9,586	10,129	9,923	9,451	10,017	9,113
High-methane gas	8,495	8,922	8,816	8,378	8,860	7,915
Nitrogen-rich gas	568	610	578	557	608	779
Coke gas	520	594	527	513	546	416
Propane-butane-air and decompressed propane-butane	2	2	2	3	3	3

	2009	2010	2011	2012	2013	2014
Length of network, excl. connections* (ths km)	114.9	116.3	117.8	119.7	121.6	123.5
Length of network, incl. connections* (ths km)	160.3	162.2	164.4	166.9	169.3	171.6
Number of gas customers** (m)	6.62	6.65	6.69	6.72	6.78	6.82
Number of gas users** (m)	7.36	7.39	7.42	7.46	7.51	7.31

* Own networks
** Customer – anyone receiving or drawing gas fuel under an agreement with a gas supplier; User – anyone using gas for their own needs under an agreement with a utility or without such agreement – applies only to households (including housing communities and cooperatives).

Regulatory environment

The Distribution segment is regulated by a combination of Polish and EU laws. The laws of key importance for the Group's operations in the natural gas distribution segment include:

- the Energy Law,
- the Regulation of the Minister of the Economy of 28 June 2013 on detailed rules for determining and calculating gas fuel tariffs and on settlements in gas fuel trading,
- the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on the Rules to be Followed in the Event of a Threat to National Fuel Security or Disruptions on the Petroleum Market,
- the Regulation of the Minister of the Economy of 2 July 2010 on detailed conditions of operation of the gas system,
- the Regulation of the Council of Ministers of 19 September 2007 on the method and procedure of introducing restrictions on the consumption of natural gas.

As a natural monopoly, the distribution activity is regulated by tariffs, calculated in accordance with the detailed rules specified in the Tariff Regulation. The tariffs are subject to approval by the President of the Energy Regulatory Office.

Until 31 July 2014, all of PSG's settlements with its customers were performed based on Tariff No1 for Gas Fuel Distribution Services and LNG Regasification Services, as approved by the President of the Energy Regulatory Office on 17 December 2013. In connection with the energy-unit-based settlement system implemented as of 1 August 2014, the President of the Energy Regulatory Office, by virtue of a decision of 18 June 2014, approved Tariff No 2 for Gas Fuel Distribution Services and LNG Regasification Services, effective from 1 August to 31 December 2014.

On 17 December 2014 the President of the Energy Regulatory Office approved Tariff No 3 for Gas Fuel Distribution Services and LNG Regasification Services, to be effective from 1 January to 31 December 2015. The new tariff applies to settlements related to distribution services provided in specific conditions and specifies a uniform capacity range, based on which allocation to tariff groups is made for customers in whose case the pressure at the point of fuel offtake exceeds 0.5 MPa. The average rates of distribution service charges have increased by 3%.

The Distribution Grid Code for Polska Spółka Gazownictwa Sp. z o.o., approved on 23 December 2013 by the President of the Energy Regulatory Office, was effective until 31 July 2014.
On 29 July 2014 the President of the Energy Regulatory Office approved a new Distribution Grid Code that has been in effect since 1 August 2014. The new Distribution Grid Code provides for a change in the settlement system.
On 30 September 2014 the company applied to the President of the Energy Regulatory Office for approval of a draft Distribution Grid Code changing the rules of cooperation with operators of other distribution systems.

Risks

Legislation

The complex provisions of the Building Law and regulations governing construction projects impose the obligation to prepare extensive project and legal documentation, which is an integral part of any investment process. The need to prepare such documentation protracts the investment process and thus may slow down the company's growth.

Tariff policy

By setting tariffs, the President of the Energy Regulatory Office limits the growth of regulated revenue, which is the basis for calculation of charge rates. This prevents the company from enjoying the full return on capital employed, leading to lower revenue from the provision of distribution services.

Direct competition

The gas market liberalisation is exposing the segment to intensified competition. Other companies distributing natural gas are progressively expanding their gas networks and attracting new customers. Additionally, companies have emerged that offer LNG distribution services. The market entry barriers are significantly lower here, as LNG distribution involves much lower capital expenditure and does not require a connection to the gas system or adequate reserve capacity to be maintained in the transmission and distribution networks. However, the risk of PSG losing its dominant market position is low.

Claims raised by property owners

More and more frequently, the PGNiG Group is facing excessive financial claims raised by owners of land where the gas network was developed in the past. A transmission easement serves as a basis for determining the extent of use of third-party property by a transmission company, for which relevant consideration is due to the owner. The owners' claims give rise to additional, frequently considerable costs, and thus may adversely affect the financial performance of the segment.

Sources of gas supply for the distribution system

PSG's distribution network is connected to the transmission system operated by OGP Gaz-System SA, which is its main source of gas supplies. The transmission system's limited capacity in terms of the volume and pressure of supplied gas hinders or sometimes prevents the further development of the gas grid within the company's key areas of operation.

Operations in 2014

In 2014 PSG continued 18 projects involving the construction, extension and modernisation of its distribution networks for which agreements for EU co-financing under the Infrastructure and Environment Operational Programme had been signed. In 2014 PSG was also implementing ten investment projects under the Regional Operational Programmes; eight of them have been completed. In addition, in 2014 there were projects financed directly by PSG.

It also connected new customers to the gas grid. In 2014, there were 80 thousand newly connected customers.

The company also executed projects of local network roll-out using the LNG technology and switch-over of customers from propane-butane-air to natural gas supplied from PGNiG's LNG regasification stations. A total of 17 thousand customers were switched over to natural gas.

Planned activities in 2015 and beyond

In 2015, PSG will continue working on projects for which EU co-financing agreements have been signed and projects financed with its own funds.

In the following years, the company will focus on:
- new customer connections and infrastructure extension,
- network upgrade,
- deployment of integrated IT systems.

Infrastructure extension to enable new connections is a vital factor in the Company's operations. In some areas, upfront investments are needed to eliminate certain infrastructure inadequacies before new customers can be connected to the network, particularly in the provinces of Warsaw, Białystok and Łódź, where the company plans its major capacity expansion projects. Plans are also in place to extend the distribution network into unserved areas.

The majority of the company's network assets are over 40 years old. The degree of physical obsolescence is a particular issue in the case of key sections of the high-pressure gas network, which should be in good technical condition as it enables the supply of gas to large areas of the country. Therefore, the company plans to increase the share of upgrade projects in its capex budget.

Furthermore, steps are being taken to extend the functionality of the existing gas infrastructure to enable the transmission of other gases, notably hydrogen; these steps pertain to both technical and regulatory issues. After this gas network upgrade is completed, the company will be able to launch new services and connect new customers from the power generation, automotive and other industrial sectors where hydrogen is used in production processes.

The implementation of integrated IT systems will facilitate the management of the company's nationwide operations. Changes to the rules governing the European gas market necessitate investment in systems for automated network balancing, settlement of distributed gas volumes and change of gas suppliers.

ROUND 4: POWER GENERATION

Generation

The segment's principal business activity is the generation of heat and electricity. Its business also includes the execution of major natural gas-fired projects in the power sector.

PGNiG TERMIKA SA is involved in the generation, distribution and sale of heat and electricity. The company also serves as the Group's competence centre for heat and electricity generation and the execution of heat and power projects. Its main revenue sources are sales of heat, electricity, system services, and certificates of origin for energy. With the installed capacity of its generating assets at 4.8 GW of achieved thermal power and 1 GW of achieved electrical power, PGNiG TERMIKA SA satisfies approximately 70% of the heat demand on the Warsaw metropolitan market.

PGNiG TERMIKA SA is also a producer and supplier of heat, and the owner of heat sources and heat networks in Pruszków, Komorów and Piastów, as well as the owner of a 7 MW gas-fired heating plant and a distribution network supplying heat to the Regaty residential estate in the Warsaw district of Białołęka.

Analysis of financial performance in 2014

The Generation segment's revenue was PLN 1,943m, down ca. 6% on the previous year. Operating expenses were down 7%, which, despite lower revenue, translated into a PLN 18m (13%) increase in the segment's operating profit relative to 2013. The revenue decline was attributable to higher average air temperatures (up by 0.9oC), which resulted in lower volumes of heat sold (down 9%) than in the year before. The decline in revenue from heat sales was offset by a higher heat tariff (up by ca. 6%), effective as of 1 August 2014. As a result, revenue from heat sales remained relatively flat year on year. Lower volumes of heat sold translated into lower volumes of cogenerated electricity (down by 6%, i.e. 217 GWh, year on year), which drove down revenue from electricity sales by 13%.

GENERATION
PLNm

	2014	2013	2012
Segment's total revenue	1,943	2,063	1,957
Segment's total expenses	-1,781	-1,919	-1,942
EBIT	162	144	15
Segment's assets	4,184	4,124	4,345
Segment's liabilities	2,049	1,943	2,870

Segment's figures

Achievable capacity per licence

Generating unit	Heat [MW]	Electricity [MW]
PGNiG TERMIKA SA	4,782	1,015
Siekierki CHP plant	2,078	620
Żerań CHP plant	1,580	386
Pruszków CHP plant	186	9
Kawęczyn heating plant	465	-
Wola heating plant	465	-
Regaty heating plant	8	-

PGNiG TERMIKA – sales volume (own generation)

	2014	2013	2012	2011
Production of heat, net (sales) (TJ)	36,617	40,175	40,214	38,660
Production of electricity, net, secondary generation (for sale) (GWh)	3,555	3,772	3,719	3,685

Generation

Regulatory environment

The legal framework for the generation business is defined mainly by:

- the Energy Law,
- the Regulation of the Minister of the Economy of 17 September 2010 on the detailed rules for determining and calculating tariffs and on settlements in heat supply.

Licences

The business of electricity and heat generation requires a licence. PGNiG TERMIKA SA holds an electricity trading licence valid until 31 December 2030, as well as the following licences, each valid until 31 December 2025:

- for the production of heat,
- for the transmission and distribution of heat,
- for the production of electricity.

Tariffs

A tariff applicable to PGNiG TERMIKA SA's sales of heat generated at the Żerań CHP, Siekierki CHP, Pruszków CHP, Wola heating plant and Kawęczyn heating plant and to the transmission and distribution of heat via the heating network supplied from the Pruszków CHP plant was effective until 31 July 2014. On 8 July 2014, the President of the Energy Regulatory Office approved a new tariff, effective since 1 August 2014.

Until 31 December 2014 the company was required to apply the following tariffs for the transmission of heat through the heating network in the areas of Marsa Park, Annopol, Marynarska, Chełmżyńska, Jana Kazimierza. On 18 November 2014 the President of the Energy Regulatory Office approved new heat transmission tariffs for the following areas: Marsa Park, Annopol, Marynarska, Chełmżyńska and Jana Kazimierza. The new tariffs will be in effect from 1 January 2015 to 31 July 2016.

Until 30 April 2015, the company is also required to apply the tariff for the production of heat at the Regaty heating plant and the transmission of heat through the heating network in the Regaty residential estate.

Support for cogeneration

The amended Energy Law, effective as of 30 April 2014, has reintroduced the support system for electricity cogeneration until the end of 2018. The obligation to purchase and redeem cogeneration certificates for a given calendar year may be settled only with certificates obtained for the cogeneration of electricity in the same year. The above limitation, as well as the sufficiently high obligation thresholds, should solve the problem of certificates oversupply, ensuring that certificate prices are kept at a level similar to the buy-out price. Proceeds from the sale of certificates of origin will add to the revenue of PGNiG TERMIKA SA, which will be able to use the extra funds to continue the upgrade of its existing assets.

EU regulations

The conclusions from the European Council meeting, adopted on 23-24 October 2014, set out the objectives of the energy and climate policy for 2020–2030. The new targets provide for a 40% reduction in greenhouse gas emissions by 2030 (relative to 1990), a 27% increase in the share of energy from RES (EU binding target), as well as a 27% improvement in energy efficiency (indicative target).

The European Commission began to work on a new Energy and Climate Package, which also includes the EU ETS Market Stability Reserve. The purpose of the Market Stability Reserve is to regulate the supply of emission allowances on the market, and help maintain their prices at a level supporting decisions to invest in low-carbon technologies and renewable energy sources. Work is also in progress on the IAS and its early implementation in 2017, so as to ensure that emission allowances withdrawn through backloading are not reintroduced on the market, but are transferred to the Market Stability Reserve. The framework of the new climate and energy policy should be conducive to the development of gas-fired cogeneration units.

Allocation of free-of-charge emission allowances

Despite delays in the work on amendments to the Act on Trading in Greenhouse Gas Emission Allowances, in 2014 the Company received free-of-charge emission allowances for heat generation in 2013 pursuant to the existing Act on Trading in Greenhouse Gas Emission Allowances of 28 April 2011 (J.L. of 2011, No 122, item 695), and for power generation pursuant to the report on the scope and cost of its new build and upgrade projects implemented in 2009–2013, as submitted for the National Investment Plan. The report was developed based on information published by the Ministry of the Environment.

Environmental protection

The implementation into Polish law of the Industrial Emissions Directive (IED) as well as the BAT conclusions, which are currently being developed, require the Company to reduce its industrial emissions. These challenges are being met by the Company's long-term capex plan, which addresses the identified requirements of the tightened environmental laws.

Risks

Cogeneration support mechanism

The cogeneration support mechanism currently in place has been as submitted for notification to the European Commission. The Commission has not yet ruled on the compatibility of the state aid with the EU internal market.

Because of the short-term perspective of the cogeneration support mechanism adopted in April last year, work is currently under way to develop a support system for high-efficiency cogeneration units to be applied in the long term, i.e. after 2018. The newly developed system should be compliant with the European Union's new state aid rules.

More stringent gas and dust emission standards

Furthermore, in order to meet more stringent gas and dust emission standards to be implemented as of 2016, producers have to thoroughly modernise their power and CHP plants and may be forced to shut down a number of generating units (a total of some 4-6 thousand MWe by 2020) where it is not economically viable to install expensive flue gas treatment systems. In order to meet the more stringent emission requirements, PGNiG TERMIKA SA has gradually been modernising its generating assets under its Long-Term Capex Plan.

Maintaining share in the municipal heat market

Marketing efforts conducted jointly with Dalkia Warszawa SA, and the connection of further western districts of Warsaw to the municipal heating network, should significantly reduce a potential future decline in the volume of energy produced at PGNiG TERMIKA SA's generating plants. To maintain its share in the municipal heat market, the company will also offer 'green' heat generated at biomass-fired units, and will continue to sell energy at competitive prices.

Activity in the energy sector

PGNiG TERMIKA SA has entered into contracts for coal supplies and electricity sales, closing its portfolios for 2015. Other fuels as well as heat sales are contracted on an ongoing basis. The situation in the Polish coal mining sector may pose a threat to PGNiG TERMIKA.

In an extreme scenario of supplies being discontinued (due to bankruptcy or strikes), PGNiG TERMIKA will be forced to purchase coal from other sources, which could adversely affect its bottom line.

Operations in 2014

Production

PGNiG TERMIKA's key products are heat and electricity. In 2014 100% of total electricity output was cogenerated with heat.

The company also provided Network Constrained Generation services under an agreement with PSE Operator SA, pursuant to which the company maintains a long-term plant margin and keeps a specific number of generating units available, so as to overcome limitations in the operation of power sources in the national power system and to ensure Warsaw's energy security. PGNiG TERMIKA SA is required to generate electricity whenever instructed to do so by the Transmission System Operator. In performance of the agreement, by 31 December 2014 the company had generated 199.4 GWh of electricity.

The fluctuations in heat output from year to year are caused by fluctuations in outdoor temperatures: in 2009 the average outdoor temperature for the months of the heating season was 3.2oC and was equal to the 10-year average. In 2014, the average outdoor temperature was 4.6oC and was higher by 1.4oC compared with the long-term average, which resulted in a 6% lower heat output compared with the figure for 2009. In fact, 2014 was the warmest year on record. The percentage of heat output produced in cogeneration in 2014 was 89.8% and was equal to the average for the years 2009–2014. Electricity output in 2014 was down by only 1.1% on the 2009 figure, despite the unavailability of installations undergoing upgrades in 2014, such as boiler No 1 at the Siekierki CHP plant – the conversion to biomass combustion, and the fluidised bed boiler B at the Żerań CHP plant – the replacement of electrostatic precipitators with bag filters. The upgrades were designed to adapt the installations to the requirements of the Industrial Emissions Directive coming into force after 2016 (new emission standards).

Sales

In 2014 PGNiG TERMIKA SA sold 36,617 TJ of heat, mainly to Dalkia Warszawa SA, which purchased 94.6% of the heat generated by the company. In 2014 Dalkia Warszawa SA contracted 3.6 GW of PGNiG TERMIKA's heat generation capacity. The balance of the produced heat was sold to local customers, mainly in Pruszków and the surrounding areas.

The key customer for electricity generated at PGNiG TERMIKA's plants was PGNiG, with an aggregate share in the company's electricity sales volume reaching 99% in 2014. The company also sold electricity to smaller customers.

Construction of a CCGT unit in Stalowa Wola

The project for the construction and future operation of a 449.16 MW gas-fired CHP plant is being carried out jointly by the PGNiG Group and the TAURON Group, each holding a 50% interest. The CHP plant will produce heat in the form of hot water for the city's residents and process steam for nearby industrial facilities. It will be the largest unit of its kind in Poland. According to the agreement between the project partners, revenue from sale of electricity will be shared pro rata to their interests in the Stalowa Wola CHP plant. It is estimated that the Stalowa Wola unit will generate approximately 3,500 GWh of electricity per year, while burning approximately 600 m m3 of gas. At the same time, it will produce low carbon dioxide, SOx and NOx emissions, in line with the EU's energy and climate policy.

In 2014 key components were delivered and the installation of the steam and gas turbines began on site of the 'Construction of a CCGT Unit in Stalowa Wola' project. Some of the auxiliary equipment was installed, including pumps, exchangers, ejectors, and turbine lubrication systems. In the period under review, the acceptance of stage I work on the San River weir took place, and work on stage II of the project commenced.

The CCGT plant is scheduled to come online in late 2015/early 2016.

CCGT unit at the Żerań CHP plant

Following its completion, the CCGT project will modernise the generation profile of the Żerań CHP plant in Warsaw. The worn out coal-fired boilers will be retired, and the new unit with an installed capacity of ca. 450 MWe will allow the plant to increase power output by 50%. The technical parameters of the unit will meet the requirements of the Industrial Emissions Directive (IED) and BAT (Best Available Techniques). The project will also contribute to power security in the Warsaw metropolitan area and to further air quality improvement.

Work on the tender documentation had been completed, and on 25 November 2014 a public tender for the construction of a CCGT unit at the Żerań CHP plant was announced, which is to be conducted by way of competitive negotiations involving a contract notice. The company obtained a building permit for the unit's construction, as well as a final building permit for the construction of a water discharge pipeline and upgrade of the cooling water system. Preparatory work is under way for the construction of a gas pipeline from the Rembelszczyzna Gas Compressor Station to the Żerań CHP plant. Amendments to the grid connection agreement with Polskie Sieci Energetyczne were drafted whereby the commencement of work by PSE is to depend on PGNiG TERMIKA executing a construction contract for the CCGT unit. The tender documentation is being drafted for switching over the equipment at the Żerań CHP plant to the new switchgear station.

The unit is expected to come online in 2018.

Conversion of the K1 boiler and construction of a biomass storage unit

On 11 October 2013, an agreement was signed with Andritz Energy & Environment GmbH (consortium leader) for the conversion of boiler No 1 into a biomass-fuelled one, along with the construction of biomass unloading, storage and feeder systems at the Siekierki CHP plant. Following the completion of the project, the unit's capacity will be raised to 185 t/h, with a thermal input of 146.6 MWt. In this way, PGNiG TERMIKA will diversify its fuel mix and ensure that the unit's operation accommodates the heat demand in the Warsaw metropolitan area. The conversion of a coal-fired boiler into a biomass-fuelled one will eliminate the need to install an FGD and deNox unit to comply with the Industrial Emissions Directive. In 2014, the planning permission documentation was prepared and a final building permit was obtained. Work related to dismantling the boiler's auxiliary equipment was completed. The installation of the pressurised section was also completed and a superheater was replaced. Work is in progress on the installation of the boiler's auxiliary equipment. The foundations were laid for the wet biomass unloading stations, separation buildings and wet biomass storage facility, as well as for the fly ash, bottom ash and sand containers and dry biomass silos. Assembly work is in progress on the biomass facilities.

The company plans to complete the project in the third quarter of 2015.

Reconstruction of the Pruszków CHP Plant

In 2013 a decision was made to modify the Pruszków CHP plant to increase its cogeneration capacity based on gas engines, and to reduce its coal consumption by reconstructing the water boilers and modifying them to meet future, more stringent environmental requirements. In the same year a gas network connection agreement with Polska Spółka Gazownictwa was signed to secure gas supplies and a request was submitted to PGE Dystrybucja to specify the grid connection conditions for reception of the plant's electricity output. In 2014 an agreement was signed and work related to the construction of a water treatment station commenced.

The whole project is scheduled for completion in 2016.

Environmental protection

Carbon emissions trading scheme

In 2014 PGNiG TERMIKA SA's Siekierki, Żerań and Pruszków CHP plants, along with Kawęczyn and Wola heating plants, were covered by the carbon dioxide emission trading scheme (ETS). In 2014 emissions from these installations were 5.6 m Mg CO_2. In 2014 the PGNiG Group reviewed annual reports on its carbon dioxide emissions for 2013. Carbon emissions from the installations covered by the EU ETS scheme in 2013 totalled 6.0 m Mg. After reconciling its CO_2 emissions with emission rights held, and after redeeming the allowances allocated for 2013, a deficit of 2,054.8 m Mg CO_2 free emission units was identified. The deficit was covered with reserve allowances accumulated in the accounts of the Group's installations (unused free allocations from previous years) and with allowances purchased on the Intercontinental Exchange Futures Europe.

In the current trading period (2013-2020), the free allocation of CO_2 emission allowances covers only part of the actual emissions. The free allocations will be phased out, reaching zero in 2027.

In 2014 PGNiG TERMIKA plants emitted:

- 13.4 thousand tonnes of SO_2
- 6.8 thousand tonnes of NO_x
- 0.8 thousand tonnes of dust.

In 2014 the level of biomass co-combustion at the Siekierki and Żerań CHP plants reached 41.7 thousand tonnes, reducing CO_2 emissions by 59.9 thousand tonnes.

Reclamation of the fuel ash landfill site

PGNiG TERMIKA is carrying out the reclamation of the Myśliborska fuel ash landfill site for the Żerań CHP plant. The project will involve the reclamation of the land as green areas (Cells No 1 and 2) and for residential and commercial development (Cell No 3). In 2014 the company completed the technical reclamation of Cell No 2 and the transport of soil to fill Cell No 3. Work was carried out on dismantling the technical infrastructure between the Żerań CHP plant and the landfill site, and macrolevelling and soil compaction commenced in Cell No 3. The full scope of the reclamation work is scheduled for completion in 2016.

Fulfilment of the requirements of the Industrial Emissions Directive

In 2014, in an effort to meet the environmental standards provided for in Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (IED), PGNiG TERMIKA accounted for the project it completed in 2013 involving the construction of NO_x selective catalytic reduction (SCR) units for four unit boilers at the Siekierki CHP Plant. Capital expenditure on the project amounted to PLN 180m, of which PLN 52m came from the Infrastructure and Environment Operational Programme of the National Environmental Protection and Water Management Fund. Thanks to this project, annual NO_x emissions from the boilers' SCR units will be reduced by 70%, i.e. 2 thousand tonnes of NO_x per year.

Moreover, the company embarked on new projects aimed at reducing the emissions of gases and particulate matter into the atmosphere, i.e.:

- The conversion of coal-fired boiler No 1 at the Siekierki CHP plant into a biomass-fired unit; the converted boiler is to be placed in service late in 2015; the expected annual reduction of pollutants into the atmosphere comprises: reduction of CO_2 emissions by 227 thousand tonnes, SO_2 emissions – by 780 tonnes, NO_x emissions – by 260 tonnes and particulate matter emissions –by 20 tonnes,
- The provision of the fluidised bed boilers at the Żerań CHP plant with high efficiency dust collectors (bag filters) and thus enhancing the desulphurisation process; the project is scheduled for completion late in 2015,
- The conversion of mazout-fired water boilers at the Siekierki CHP plant and the Wola heating plant into light oil units, including the modernisation of their burners; the project is scheduled for completion by the end of 2015.

Noise reduction project at the Siekierki CHP plant

In 2014, noise barrier walls were built along the plant's eastern boundary and around the coal unloading points located at the hump tracks on the plant's premises. The purpose of the project was to reduce the risk of exceeding the permitted noise levels during the execution of future projects at the Siekierki CHP plant. The total cost was PLN 3.8m.

Biomass supplies

In order to fulfil the requirements of Directive 2009/28/EC on the promotion of the use of energy from renewable sources and use of biomass other than forest biomass, i.e. biomass from plantations and energy plant crops at commercial power plants (Regulation of the Minister of the Economy dated 18 October 2012), PGNiG TERMIKA procures fuel under long-term contracts for the supply of biomass from energy willow plantations.

Currently, the company procures biomass from plantations with a total area of ca. 386 ha. Thanks to the use of biomass as a fuel, CO_2 emissions were reduced by 59.9 thousand Mg in 2014.

Generation

Planned activities in 2015 and beyond

The objectives PGNiG TERMIKA wants to pursue on its existing markets in 2015 is to expand its heat distribution network and increase heat sales volumes.

In 2015 the electricity portfolio and commercial balancing for PGNiG TERMIKA will be managed through PGNiG Energia, which enters into dated power purchase contracts on the Commodity Derivatives Market. In addition, PGNiG will be the key customer for electricity generated at PGNiG TERMIKA's plants.

In the following years, PGNiG TERMIKA plans to scale up its power and heat generation operations in the Warsaw area and beyond. Projects will be implemented independently or with business partners. The company intends to focus on projects based on gas-fired or biomass-fired generation sources, to gradually reduce its coal consumption and increase the share of low- and zero-emission fuels in its energy mix.

On 30 April 2014 the amended Energy Law came into force, reintroducing the support system for electricity cogeneration by reinstating the obligation to hold and redeem red certificates (23.2% of the portfolio of electricity supplied to end users) and yellow certificates until the end of 2018. Certificates are issued for the generation of electricity using high-efficiency cogeneration technology. Proceeds from the sale of certificates of origin will add to the revenue of PGNiG TERMIKA, which will be able to use the extra funds to continue the upgrade of its existing assets. This will increase the efficiency of cogeneration, which in turn will improve the company's competitive position.

On 5 September 2014 a new Act Amending the Environmental Protection Law and Certain Other Acts came into force. PGNiG TERMIKA is at an advanced stage of work on adjusting its existing assets to the tighter environmental standards. At the Siekierki CHP plant desulphurisation and nitrogen rejection systems were installed, and at the Żerań CHP plant a CCGT unit and a new gas- and oil-fired boiler house are to be built. In addition, the Wola heating plant will be converted to light oil combustion, generating lower quantities of noxious substances, while the Kawęczyn heating plant will begin to use a high-quality grade of coal with a sulphur content of less than 0.4%.

ROUND 5: OTHER ACTIVITIES

Other Activities

Other Activities

Matrix

The PGNiG Group's current structure results from the specific conditions in which it operates, its history and transformations. The objective behind the equity structure review is to assess the economic rationale for maintaining interests in certain companies supplementary to the Group's core operations. Furthermore, the PGNiG Group's assets include a number of non-core properties (land, buildings and other spaces), which generate costs. Given the scale of this problem and the costs incurred by the Group, systematic action must be taken to optimise the maintenance costs of such properties and intensify their sale.

To address these issues, on 15 April 2014 the PGNiG Management Board passed a resolution launching the Matrix Project, which had been put into motion by Waldemar Wójcik, Vice-President of the Management Board.

The Project's business objective is to limit PGNiG's involvement in operations unconnected with the Group's strategy, thus freeing resources for its core activities. The scope of the Matrix Project covers two areas:
- the sale of non-core or rarely used property of the PGNiG Group companies,
- the optimisation of PGNiG's equity involvement in companies unrelated directly to the Group's core operations.

The involvement of qualified PGNiG Group staff is crucial for the implementation of the Matrix Project's objectives – such employees will join project teams and materially contribute to their work.

The Matrix Project is related to the PGNiG Group Efficiency Improvement Programme launched in June 2014, particularly to its item 15, 'Divestment of Assets and Equity Interests'.

Steps taken with respect to property

As regards property, the following steps have been taken:
- a preliminary list was made of non-core property assets owned by PGNiG and its subsidiaries;
- at the current stage of the review, the team identified 481 properties not used by the Group for its core operations, including 167 properties classified as assets with high or medium sale potential.

Given the effects of the economic slowdown, as well as the current trends and outlook for the property market, it is vital that PGNiG adopt an appropriate sale model.

Based on a request for information (RFI) drafted by the project team, a procurement procedure was launched for advisory services consisting in the development of a sale strategy for non-core properties.

As part of the Matrix Project, the Group will:
- identify, classify and define action plans concerning non-core properties of the PGNiG Group,
- define and prepare an itemised list of non-core properties,
- develop action plans for individual groups of properties and specific steps with respect to priority properties,
- develop a Non-Core Property Management Strategy for the PGNiG Group and implement a sale model for non-core properties,
- develop an optimal sale model for non-core properties,
- set up a team responsible for managing the sale of non-core properties of the PGNiG Group.

Steps taken with respect to equity interests in companies

On 5 August 2014, the PGNiG Management Board passed a resolution approving a list of 24 Group companies to be reviewed in the course of the Matrix Project. The list comprises PGNiG's subsidiaries, associates and minority interests, i.e.: Exalo Drilling, GEOFIZYKA Kraków, GEOFIZYKA Toruń, Geovita, PGNiG Technologie, PGNiG Serwis, Gazoprojekt, NYSAGAZ Sp. z o.o., PFK GASKON SA, ZRUG Sp. z o.o. of Poznań, ZWUG INTERGAZ Sp. z o.o., Polski Serwis Płynów Wiertniczych Sp. z o.o., Walcownia Rur Jedność Sp. z o.o., Agencja Rynku Energii SA, Zakłady Metalowe Dezamet SA, INTAKUS SA, Regnon SA, PI GAZOTECH Sp. z o.o., Huta Stalowa Wola SA, GAZ Sp. z o.o., Powiśle Park Sp. z o.o., Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o., GEOTERMIA Sp. z o.o. and Zakład Gospodarki Mieszkaniowej Sp. z o.o.

As part of the Matrix Project, the Group will review whether its equity involvement in each of these companies is justified. In the case of companies singled out for divestment, an optimum sale strategy will be developed. The other companies will remain within the PGNiG Group, but their target roles and relevant cooperation models will be redefined. Once the analyses are completed, recommendations for individual companies and timelines for implementing these recommendations will be defined. To this end, the Group has launched procurement procedures concerning advisory services.

Given the specific nature of certain Group companies and their materiality, the terms of the contract for advisory services have been defined in consultation with employees of the companies concerned and with experts from the PGNiG Geology and Hydrocarbon Production Branch.

In the course of the Project, the Group has:
- collected historical reports from external advisors concerning the Group companies,
- prepared data sheets containing material information on minority interests,
- implemented a monthly questionnaire-based system for reporting each company's financial, economic and market standing.

By implementing the Matrix Project, the Group expects to improve its economic efficiency and achieve an optimum target structure.

Employees

TEAM: EMPLOYEES

Employees

Employees are the Group's most valuable asset – it is thanks to their experience that we remain the market leader. Their commitment drives our growth, enhances the quality of our services, and gives us new areas of business expertise.

The PGNiG Group is one of the largest employers in Poland. It employs individuals with extensive experience and high qualifications, but is also the first employer for many young people.

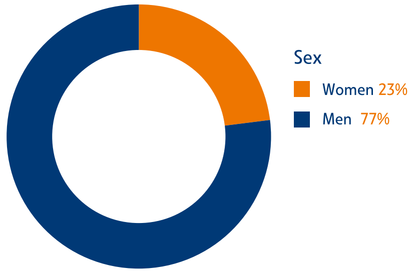
This kind of human capital is our most valuable asset, as it is through our employees that we can provide our customers with the highest quality service, achieve international success and pursue a broad range of investment programmes.

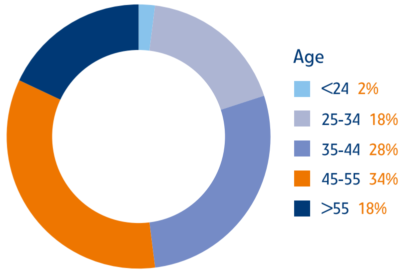
In 2014 the PGNiG Group's headcount stood at 28,996. This represents a slight fall of 1,934 in employment levels from the Group's 2013 headcount of 30,930.

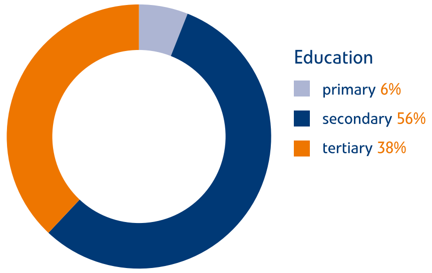
Group's headcount as at the year's end, by segment

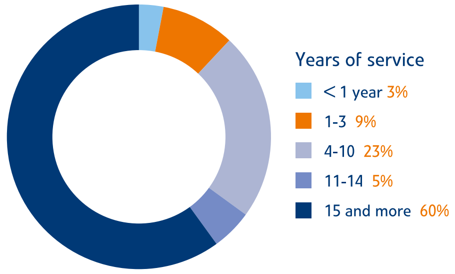
	2014	2013	2012	2011	2010
PGNiG Head Office	689	606	617	838	840
Exploration and Production	10,221	10,754	10,990	12,054	11,592
Trade and Storage	3,240	3,464	3,780	3,841	3,809
Distribution	12,173	13,050	13,255	13,865	13,881
Generation	1,068	1,066	1,069	-	-
Other Activities	1,605	1,990	2,327	2,185	2,296
Total	28,996	30,930	32,038	32,783	32,418

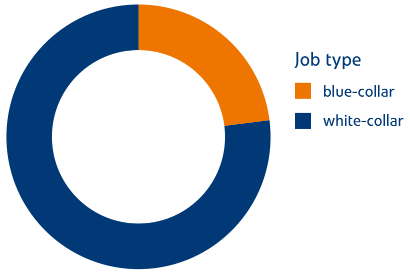
Group's headcount as at the end of 2014











PGNiG Group – the largest employer

The PGNiG Group takes utmost care to fulfil its obligations towards employees and their families. These obligations, related chiefly to social welfare and healthcare, include:

- Organisation and co-financing of holidays for employees and their children,
- Financial assistance and material support for families experiencing economic hardship and health problems,
- Repayable housing assistance,
- Organisation and co-financing of a wide variety of recreation activities (sports, leisure and cultural activities),
- Subsidies of private healthcare services for employees and their family members.

Professional advancement

Investment in human resources furthers PGNiG's plans, but also supports the personal ambitions of employees. As the PGNiG Group's subsidiaries are engaged in a wide range of business activities, it is up to each of them to determine the type and extent of their staff training.

The training management system plays a vital role in developing human resources. Our employees are given opportunities to improve their professional qualifications through a range of training programmes, postgraduate studies, trade conferences, seminars and symposia, and also through occupational training.

Depending on their respective responsibilities and individual needs, employees can participate in a variety of training courses in all aspects of modern business, including risk management, legal environment analysis and customer service. Training courses that focus on soft skills, such as communication, teamwork, team management and task management, are also an important part of the process.

In addition, courses are conducted to enable the acquisition and development of employees' practical skills, and the progression of their skills in project and human resources management.

In 2014 the Group ran the second edition of its Project Management Academy. The Project Management Academy was initially designed (2013) to provide general training in project management to a limited group of PGNiG employees. In its second edition, it was meant to raise the project management awareness of PGNiG employees. The initiative was related to another project, consisting in the implementation of a Group-wide management system. In 2014 the second Project Management Academy offered training to 20 employees of the Project Management Office, 40 Project Leaders and 150 project team members. The initiative proved a success, as confirmed by its participants, who claim to have developed a better understanding of team-based project management.

The development of our exploration and production activities will require PGNiG employees to possess skills in conducting discussions and negotiations, and also in establishing long-term relations with local authorities and communities. The training we give our employees is designed to prepare them for such roles.

It is extensive, and furthers the development and enhancement of their professional qualifications, with subsequent benefits to the Group from higher productivity levels. The development of human resources translates into the higher value of the PGNiG Group, which is viewed positively by investors and customers. In turn, it also makes us a more desirable employer to potential newcomers.

Employment restructuring

From January 2009 to 31 December 2014 the Group operated the 'Programme for Workforce Streamlining and Redundancy Payments to PGNiG Group Employees for 2009–2011 (Stage 3).' The Programme was operated on a stand-by basis. It could be implemented in extraordinary circumstances and required all companies across the Group to follow a uniform procedure. The redundancy payments under the Programme were financed from PGNiG's Central Restructuring Fund capital reserve, or other funds established by PGNiG Group companies.

In 2014 the Programme was implemented in one of the group companies, BUD-GAZ P.P.U.H Sp. z o.o. w likwidacji (in liquidation), covering 15 employees. The one-off payments to employees who were made redundant came from PGNiG's Central Restructuring Fund.

Performance assessment

In 2011 we launched the PGNiG Performance Assessment System, which was developed as part of a broader initiative, the 'Implementation of the New Group Management Model', under the 'PGNiG Group's Value Based Management (VBM) Programme for 2009-2015.' In 2012 the Performance Assessment System was modified to bring it more into line with the dynamic situation in the current marketplace. Revisions were made both to the principles of assessment and the software supporting the assessment process, to more effectively support managers in achieving their strategic objectives. An assessment of every Company employee is conducted on a quarterly basis, based on a set of standardised criteria across all branches. In the process, particular emphasis is placed on targets assigned to individual employees, which are also linked to the strategic objectives of the organisation as a whole. During the assessment process, the manager and employee discuss these goals and expectations, and identify areas to work on with the support of a supervisor. This allows employees to discuss the needs and challenges associated with their positions, and is a source of feedback on both their achievements and potential issues in their professional development. Key features of the system implemented at PGNiG are clarity and the transparency of its criteria, simplicity and universality, and the cyclical nature of the assessment process.

In 2013 the Performance Assessment System was again revised. The frequency of assessment was modified and the requirement to assign tasks to additional employees was lifted. At present, the assessment takes place twice a year.

PGNiG's Performance Assessment System complements its Management By Objectives (MBO) programme for management staff. A comprehensive assessment of how the organisation's strategic objectives are implemented is also the basis of how employees involved in this process are assessed and remunerated. The System is designed to reinforce a sense of responsibility for the PGNiG Group's performance among its employees.

Work placements and internships

PGNiG conducts a programme under which it annually offers work placement and internship opportunities to winners of the Grasz o Staż (Win a Work Placement) competition and the Akademia Energii (Energy Academy) project. Since 2015 the PGNiG programme is also addressed to students of the Cracow University of Economics.

In 2012 the Group also launched a training programme for students from technical universities interested in the oil and gas industry. It involves a number of initiatives, including work placements in exploration and production.

While being an attractive way to gain professional experience and new skills and to learn more about working in the industry, the internships offered by PGNiG are also a chance to gain employment with the PGNiG Group. Companies of the PGNiG Group also provide apprenticeships to students and graduates from across Poland.

Recruitment

PGNiG gives preference to internal recruitment, which allows us to make full use of our employees' potential, and also motivates them to work more productively and develop their skills. External recruitment is carried out only when specialist expertise is needed that is not available in-house.

Recruitment is split into the following stages:

1. Applicant selection – at this stage, the recruitment specialists review submitted job applications to ensure they comply with the requirements of the listed job vacancy.
2. Assessment testing – candidates with suitable professional profiles are then invited to take an assessment test, whose nature depends on the skills required for a given position.

Typical tests include:
- competency check,
- on-the-job assessment tasks,
- language assessment,
- analytical thinking and logical reasoning,
- problem-solving.

3. Job interview – candidates who perform well in the testing phase are invited for interview. The interviewers typically question candidates on professional contexts where they have previously used the relevant skills and expertise. This stage is also used to appraise the candidate's soft skills required in the job. Our competency and behaviour tests are a very useful tool in the assessment process. The interview is also a chance to get to know the candidate, and gives the interviewee the chance to ask questions or clarify doubts related to the future position.
4. Interview with a manager – candidates who reach this stage attend an interview with the manager of the team offering the vacancy. Following this, a final decision is made on one of the candidates.
5. Recruitment closing – all candidates getting to the second and further stages of the recruitment process receive feedback on their performance.

Occupational safety

An employer who conscientiously invests in occupational health and safety knows that by doing so it not only prevents accidents, work-related diseases and major industrial incidents, but also enhances the company's image with a positive impact on its success.

An employer has a duty to protect the life and health of its employees using the latest in science and technology, in areas such as ergonomics, sociology, psychology, occupational health and general good practice.

The issue of occupational health and safety is a humanitarian as well as an economic one. In the course of their work, employees are exposed to risks arising not only from the work itself, but also from the environment in which they operate. Consequently, better working conditions create the feeling among employees that their work is less arduous, making the working day a more productive one.

However, the most important thing is to assess the gravity of risks to health and life occurring at the workplace and to determine whether sufficient measures are in place to prevent them. For this purpose, we have the tool of workplace risk assessment.

On the basis of the assessment, both protective and preventive measures are taken, ranging from collective and personal protection, the modernisation of plant and equipment, renovation and the modernisation of premises, to specialist training, staff health checkups, the implementation of occupational health and safety management systems, to the development of instructions and procedures, and all for the purpose of eliminating or mitigating risks.

In economic terms, OHS solutions implemented following a risk assessment have a positive effect on diverse elements, such as productivity, output, insurance premiums and workplace accident costs.

Furthermore, OHS activities are not only subject to basic internal regulations, but also to specific laws such as the Geological and Mining Law, the Building Law and also the Act on Mine Rescue Operations, as well as legislation on fire safety, environmental protection and others. Knowledge of these can ensure the best possible working conditions and their continuous improvement.

All these laws and regulations are reflected in the OHS policy work carried out at the PGNiG Group by both the Management Board and individual employees.

In addition, to meet the highest international standards in winning new contracts and business partners, and improving Company ties with foreign entities, the Company has in place the HSE (Health, Safety and Environment) Operator System. The system safeguards the health of workers, ensures safe working conditions, and helps protect the environment. Although there is no legal obligation to implement the HSE System, PGNiG has done so voluntarily beyond its obligations and duties. In 2014 PGNiG took another step in this direction by starting work on a Company-wide uniform and integrated Quality, Health, Safety and Environment (QHSE) Management System, with a view to maintaining the highest level of safety of the employees, local communities and the environment through carrying out its operations in a safe manner and with all risks minimised. The relevant proposal was to be discussed at a meeting of the PGNiG Management Board in December 2014.

Code of Ethics and activities of the Ethics Officer

The values we recognised as fundamental when developing the Code of Ethics for PGNiG Employees several years ago included credibility, accountability, partnership and quality. These values have always been cherished by PGNiG's employees, as they form an integral part of the miners' ethos that has shaped our tradition and continues to be a valued part of PGNiG's activities. The Code of Ethics, forming an element of a wider ethics programme, defines specific rules of conduct to be followed by employees; rules that are implied by the values we have embraced and follow the industry's global best practice.

As a result of consultations, we also developed the Code of Responsible Gas and Oil Production, promoting dialogue with local communities in areas where we begin or intend to begin our exploration and production projects.

Several years ago, we put in place the Ethics Programme Management System and appointed the Ethics Committee consisting of key department heads involved in the implementation of standards of ethical conduct. Meetings of the Ethics Committee are held at least twice a year. The PGNiG Group companies have also adopted their own codes and appointed their ethics officers.

The 'ethics hotline', operated by the Ethics Officer, is a platform for reporting violations and clarifying doubts as to the adopted rules and standards of conduct. Apart from the dedicated telephone line, every employee may submit reports to an email box, also anonymously. The ethics programme provides for detailed organisational solutions and procedures. A number of instruments supporting the ethics infrastructure have also been implemented. In addition, employees are offered such tools for discussion as a blog, where new entries on ethical issues are regularly added.

The Ethics Programme Management System is an important element of the process of building a sustainable and competitive business, ensuring market success as well as personal development and the satisfaction of employees.

Sports and recreation activities

For the last eleven years, the Sportgas Oil and Gas Association for Sport and Tourism has been actively involved in initiatives to promote sports and physical activity. Comprising a growing number of disciplines (including tennis, football, badminton, shooting, volleyball, bridge, basketball, squash and running), the Association organises professional games and tournaments, as well as special shows. What is more, the Association is open not only to PGNiG Group employees, but to other people working in the energy sector, which makes the sports rivalry more exciting.

In 2014 over 300 Sportgas members were able to develop their skills and interests through a number of initiatives promoting a healthy lifestyle and fair play. Along the way, its members and teams won various sports competitions, including the prestigious tennis business league, as well as the highest individual and team trophies in the Gas Industry Tennis Championships of Poland. They also proudly represented Sportgas and won other important contests in badminton, bridge, football and running. For more information see www.sportgas.pl.

Internal communications

The goal of internal communications at the PGNiG Group is to foster a sense of true identification with the Group's strategic objectives among the employees, satisfaction with their work for the Group and active participation in pursuing the Group's objectives. Team spirit and cooperation between PGNiG Group employees are essential for the productivity and quality of their work.

The everyday work of the Group's employees is supported by both traditional and electronic means of communication. As part of our communication initiatives, employees receive a daily online newsletter highlighting the most important developments in the PGNiG Group, as well as 'MAGAZYN', a bi-monthly internal bulletin devoted to key Group developments and investments, organised into thematic sections.

For a couple of years now, an information system has been in place based on 'communicators' – individuals responsible for disseminating information to employees across the Group.

Further, an annual CSR Report is published, providing a complete overview of the Group's initiatives in the area of corporate social responsibility.

Our intranet site – PGNiG Info – is always up-to-date on Company matters and is an essential source of data and services for personnel using the PGNiG network. Through our corporate intranet, employees can communicate with each other on different authorisation levels and access important information on their work. PGNiG's intranet also features Outlook – an instant messaging service for the rapid exchange of information. Outlook means users can communicate with each other in real time across the whole network. It is a tool for use in group meetings, conference calls and collaborative projects in teams working together around the Company. The intranet also has its own search engine speeding access to information and providing a search facility on corporate website documents and data, and on the Web as a whole. Interestingly, employees can, according to need and preference, use dedicated online tools to access their branch portals or the Outlook email, view the Company calendar and access the Outlook platform. There is also a bulletin board that can be used, for example, to announce any items the employees wish to buy, sell or exchange. The system of internal communications within the Group, including the intranet, is undergoing constant upgrades.

Environmental protection

FAIR PLAY: ENVIRONMENTAL PROTECTION

Environmental protection

The PGNiG Group's operations affect the ecological balance. The operation of natural gas and crude oil fields along with the distribution of these fossil fuels have an impact on the natural environment. On the other hand, the use of natural gas helps reduce air pollutant emissions below levels recorded for the other fossil fuels.

All the companies of the PGNiG Group seek to minimise the negative impact of their operations. To this end, the companies follow both the applicable regulations of Polish and EU law, as well as their own internal standards and instructions. The implementation and certification of environmental management systems at most of the PGNiG branches and Group companies has delivered a number of notable environmental benefits. Our efforts are primarily geared towards limiting our negative environmental impact and monitoring the processes on an ongoing basis.

These rules are observed by the Group companies not only in their operations in Poland, but also in exploratory work abroad. Environment-oriented projects are undertaken across all areas of the PGNiG Group's business – from hydrocarbon production to distribution to storage.

Following the provisions of the Environmental Protection Act, the PGNiG Group companies conduct evaluation and land reclamation work in areas contaminated in the course of their past operations (including those related to traditional gas production), with a view to restoring them to the condition prescribed by the environmental quality standards.

In addition, PGNiG strives to educate its employees in environmental protection, by organising training courses and conferences at which key issues related to environmental protection are discussed. Such courses and conferences are also aimed at defining a common range of tasks to be implemented in the future, primarily those relating to the CSR Strategy goals for the Group.

Environmental protection

Environmental Management System

The Environmental Management System operates on the basis of significant environmental aspects that directly affect other elements of the system – environmental policy, tasks and objectives, monitoring and measurement, as well as operational control.

Most PGNiG Group companies have implemented, certificated and maintain the PN-EN ISO 14001 -based Environmental Management System (EMS), which is frequently integrated with other systems, such as quality assurance, OHS, information security management, and the HSE Operator System.

The PGNiG Head Office has commenced work on general guidelines for the operation of the OHS, fire protection, HSE and environmental management units, with a view to developing and implementing the QHSE Quality, Health, Safety, Environment Management System at PGNiG. The system, which is compliant with ISO 9001, 14001 and OHSAS 18001 standards, as well as the HSE guidelines, will cover all organisational units of PGNiG. In Q1 2014 PGNiG completed the implementation of the Environmental Management System at its trading divisions. Full ISO 14001-compliant system documentation was prepared, including operational control procedures and guidelines. All system documents are compatible with the structure of the newly established PGNiG Retail, and may be easily adjusted for implementation at that company.

For more information on environmental protection, see Exploration and Production (page no. 70) and Generation (page no. 105).

PGNiG SUPER LEAGUE: GAS INDUSTRY LEADER

Sponsorship

Since 2010 PGNiG has been the Polish Handball Team's Strategic Sponsor. For five years running, PGNiG has provided its support to Poland's men's and women's handball teams, both senior and junior, in addition to being the titular sponsor of the Handball Super League and the Polish Cup in Men's and Women's Handball. We are convinced that our commitment fosters the growth of this wonderful sport and contributes to promoting healthy lifestyle choices.

As a socially responsible business, PGNiG is actively involved in a number of handball-related initiatives. In 2014 the PGNiG Ignacy Łukasiewicz Foundation launched the PGNiG Little Champions Academy. The aim of the project is to make sports accessible to the widest possible group of school children, sparking their interest in handball. The project's training sessions are run by qualified coaches under an innovative training regimen based on the best Danish and German models.

For the past two years PGNiG has also helped organise the qualifying rounds for the Polish Beach Handball Championships. This spectacular sport is becoming increasingly popular among Polish audiences and recreational athletes. In 2017 beach handball will be one of the events during the 2017 Wrocław World Games.

PGNiG is also a generous supporter of a range of artistic and cultural events, either nationwide or of local community interest. The Company is a patron of the Polonia Theatre, Och Theatre, the Old Theatre of Lublin and the 6th Floor Theatre.

In addition, we are deeply committed to education, especially of young people, as such initiatives contribute to developing qualified workforce for many branches of industry, including petroleum production and power generation. PGNiG takes active part in congresses, conferences, symposia and other academic events fostering transfer of knowledge. We work with higher education institutions, such as the AGH University of Science and Technology in Kraków, the Warsaw University of Technology and the University of Gdańsk.

We seek to combine business with social outreach in an effort to best meet our customers' expectations and fulfil the needs of our social environment.

In 2014 the PGNiG Management Board adopted a new PGNiG Group Sponsorship Strategy for 2015-2016, and the Sponsorship Management Policy, which provide a consistent framework for all sponsorship activities of the PGNiG Group.

Friendly Match Poland - Denmark, 20 June 2015, Kraków, foto Grzegorz Trzpil

Visit of children from the orphanage in Wola Gałęzowska in the Gas Museum in Warsaw. Author: Marek Wisniewski (Puls Biznesu).

„Play it again, Sam" performed at the Teatr 6.piętro. Photo: Rafał Latoszek

RULES: CORPORATE GOVERNANCE

Corporate governance

The PGNiG Group takes care to comply with corporate governance standards. The Group is honest and fair to its shareholders, treats them all on equal terms and makes every effort to establish and maintain the best possible relations between its investors and governing bodies.

General Meeting

The General Meeting is PGNiG's supreme governing body, through which shareholders exercise their corporate rights, including the examination and approval of the Management Board Report, and the adoption of decisions on the amount, form and payment date of the dividend. The General Meeting grants its vote of approval to members of the other governing bodies of PGNiG, appoints members of the Supervisory Board and makes decisions concerning the Company's assets.

Supervisory Board

The Supervisory Board exercises continuous supervision over all areas of the Company's activities, in accordance with the Rules of Procedure for the Supervisory Board. It is composed of five to nine members (including one independent member) appointed by the General Meeting of PGNiG for a joint three-year term. The State Treasury is entitled to appoint and remove one member of the Supervisory Board, as long as it remains a shareholder of PGNiG. On a Supervisory Board composed of up to six members, two of them are elected by PGNiG employees. Where the Supervisory Board comprises seven to nine members, there are three members elected in this way.

Management Board

The Management Board is the executive body managing the affairs of PGNiG and representing it in all matters in and out of court. The Management Board is composed of between two to seven members, with the number defined by the Supervisory Board. Members of the Management Board are appointed for a joint three-year term. The powers of the Management Board include all matters connected with the management of the affairs of PGNiG, where such matters are not explicitly reserved for other governing bodies by applicable laws or provisions of the Articles of Association. The Management Board operates in accordance with applicable laws and regulations, including in particular 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.

Audit Committee

The Audit Committee has operated as a standing body of the Supervisory Board since 27 November 2008. It is composed of at least three members of the Supervisory Board, including at least one member independent from PGNiG or any entity significantly affiliated with PGNiG and appointed by the General Meeting pursuant to PGNiG's Articles of Association. This person must be competent in accounting and finance matters. Members of the Audit Committee are appointed by the Supervisory Board.

The powers and the manner of operation of the Company's governing bodies are described in detail in the Articles of Association and the Rules of Procedure for the General Meeting, the Supervisory Board (including the Rules of Procedure for the Audit Committee) and the Management Board. The documents are available at www.pgnig.pl in the 'Corporate Governance' section.

Best practices

The Management Board of PGNiG is strongly committed to compliance with corporate governance standards. Since its stock-exchange debut in 2005, the Company has followed the relevant recommendations of the Warsaw Stock Exchange, as set out in the Code of Best Practice for WSE Listed Companies. Reports on PGNiG's compliance with the principles of corporate governance are published online at www.pgnig.pl in the Corporate Governance section.

Special control rights

In accordance with the Articles of Association, as long as the State Treasury holds an equity interest in the Company, the State Treasury, represented by the minister responsible for the State Treasury, acting in consultation with the minister responsible for economic affairs, has the right to appoint and remove one member of the Supervisory Board.

Additionally, pursuant to the Articles of Association, the State Treasury (as a shareholder) approves in writing: (i) any amendments to material provisions of existing trade agreements for the import of natural gas to Poland and the execution of such agreements, and (ii) the implementation of any strategic investment projects by the Company or its involvement in investment projects that, permanently or temporarily, impair the economic efficiency of the Company's business activities, but which are necessary to ensure Poland's energy security.

Irrespective of the State Treasury's percentage share in the Company's share capital, the State Treasury has the right to demand that a General Meeting be convened, and that particular matters be placed on the agenda.

Limitations of voting rights

On 31 December 2012 the amendments to the Articles of Association of PGNiG introduced under a resolution of the Company's Extraordinary General Meeting dated 6 December 2012 were entered in the Commercial Register. Under the amended Articles of Association, the voting rights of Company shareholders are limited so that at the General Meeting no shareholder can exercise more than 10% of total voting rights at the Company as at the date of the General Meeting, with the proviso that the restriction of voting rights is deemed non-existent for the purpose of determining the obligations of buyers of major holdings of shares.

The voting rights restrictions do not apply to shareholders who were holders of shares conferring more than 10% of total voting rights at the Company on the date of the General Meeting's resolution imposing the restrictions, and to shareholders acting together with shareholders holding shares conferring more than 10% of total voting rights under agreements on voting in concert.

For the purpose of the voting rights restriction, votes of shareholders bound by a parent-subsidiary relationship are aggregated, and if the aggregated number of votes exceeds 10% of total voting rights at the Company, it is subject to reduction.

Amendments to the Company's Articles of Association

Pursuant to the Commercial Companies Code and the Company's Articles of Association, amendments to the Articles of Association are introduced by virtue of resolutions passed by the General Meeting with the required majority of votes, whereupon they must be entered in the Commercial Register. Any amendment to the Articles of Association must be submitted by the Management Board to the Registry Court within three months from the date on which the General Meeting passed the resolution introducing the amendment. The consolidated text of the Articles of Association is drawn up by the Management Board and then approved by the Supervisory Board.

Appointment and removal of Management Board members

Pursuant to the Articles of Association, individual members of the Management Board or the entire Management Board are appointed and removed by the Supervisory Board. A member of the Management Board is appointed following a qualification procedure carried out pursuant to the Regulation of the Polish Council of Ministers of 18 March 2003 concerning qualification procedures for members of management boards of certain commercial-law companies (J.L. No 55, item 476, as amended). This procedure does not apply to Management Board members elected by employees.

As long as the State Treasury remains a shareholder of the Company and the Company's annual average headcount exceeds 500, the Supervisory Board appoints to the Management Board one person elected by the employees, to serve for the Management Board's term of office. A person is considered to be a Management Board candidate elected by the employees if, during the election, 50% of valid votes plus one were cast in favour of that person, with the reservation that the election results are binding on the Supervisory Board if at least 50% of the Company's employees participated in the election.

Management Board members are appointed for a joint term of three years. A member of the Management Board may resign from his or her position by delivering a notice to that effect to the Supervisory Board, with a copy to the State Treasury (represented by the minister responsible for the State Treasury). To be valid, the resignation must be submitted in written form, or will be ineffective towards the Company.

The Management Board member elected by the employees may also be removed upon a written request submitted by at least 15% of the Company's employees. The vote is ordered by the Supervisory Board, and its results are binding on the Supervisory Board if at least 50% of the Company's employees participate in the vote and the percentage of votes cast in favour of the removal is not lower than the majority required for the election of a member of the Management Board by the employees.

Information for Shareholders concerning the General Meetings

A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Meeting. Any such request should be sent to the Company, in Polish, in writing, or in electronic form to the following email address: wz@pgnig.pl. The request should contain grounds or a draft resolution concerning the proposed agenda item, and should be submitted to the Company's Management Board not later than 21 days before the scheduled date of the General Meeting. The shareholder or shareholders should prove that they are entitled to exercise this right by submitting relevant documents in writing.

Any shareholder or shareholders representing at least one-twentieth of the Company's share capital may, before the date of the General Meeting, submit to the Company draft resolutions concerning items that have been or are to be placed on the General Meeting's agenda, in writing or in electronic form to the email address: wz@pgnig.pl. Any such draft resolutions should be in Polish, in the form of a Word file. The shareholders should prove their eligibility to exercise this right by submitting relevant documents in writing. During the Company's General Meeting, each shareholder may submit draft resolutions for the items on the agenda. Such draft resolutions should be in Polish.

Shareholders may participate in the General Meeting in person or by proxy. Pursuant to Article 4121.2 of the Commercial Companies Code, powers of proxy for participation in a General Meeting of a public company and exercise of voting rights must be granted in writing. Powers of proxy should be granted in writing or in electronic form, and should be in Polish. They may be sent to the Company prior to the General Meeting in electronic form as a PDF file (scanned document) to the email address: wz@pgnig.pl. While at the General Meeting, all shareholders and proxies should carry valid identity documents.

Given that the Company does not provide for the possibility of participating in the General Meeting by electronic means (including taking the floor at the General Meeting using means of electronic communication) or exercising voting rights by postal ballot or by electronic means, no proxy ballot forms will be published.

Representatives of legal entities should have on them the original or a copy (certified by a notary public) of an excerpt from the relevant register (issued within the last three months), and if their right to represent the legal entity does not follow from the relevant register entry – they should have on them written powers of proxy (the original or a copy certified by a notary public) along with the original or a copy (certified by a notary public) of the excerpt from the relevant register, which must be valid as at the date of granting the powers of proxy.

The General Meeting may be attended only by persons who are Company shareholders on the record date, i.e. 16 days prior to the General Meeting.

Persons entitled to participate in the General Meeting may obtain the full text of documents to be submitted to the General Meeting, along with draft resolutions and comments of the Management and Supervisory Boards, from the Company's registered office. Such persons may obtain copies of the Directors' Report on the Company's operations and of the Company's financial statements, as well as a copy of the Supervisory Board's report and the auditor's opinion, no later than 15 days prior to the General Meeting, while copies of recommendations and proposals concerning other items of the agenda begin to be distributed a week before the General Meeting.

In accordance with Article 407.1 of the Commercial Companies Code, the list of shareholders entitled to participate at the General Meeting is available for inspection at the Company's registered office in Warsaw, ul. Marcina Kasprzaka 25, for three weekdays prior to the date of the General Meeting.

Information concerning the General Meeting is available on the Company's website at: www.pgnig.pl in the 'General Meeting – Information for shareholders' section.

FINAL RANKING:
CONSOLIDATED FINANCIAL STATEMENT FOR 2014

Consolidated financial statements for 2014

In 2014 the Group posted EBITDA of over PLN 6.3bn. The year-on-year improvement in EBITDA and net profit, up by over PLN 700m and PLN 900m, respectively, is a major achievement for the Group, given the volatile macroeconomic environment and the ongoing gas market deregulation in Poland.

The Group's gas sales volumes totalled 18.6 bn m^3, up 15% year on year, with shifts in the sales structure attributable to the exchange sale requirement and mild winter. The marked increase in sales volumes was accompanied by a rise in cost of gas of just 7% (to PLN 18.8bn), which translated into a lower unit cost of gas. The falling costs were mainly attributable to import contracts linked to exchange prices. The average annual gas contract prices on the TFF were down 18% year on year.

With lower interest expense and partial reversal of the impairment loss on shares in EuRoPol GAZ, the strong operating performance translated into a substantial increase in the Group's net profit – to over PLN 2.8bn. PGNiG posted a non-consolidated net profit of PLN 1.9bn.

The shares of individual segments in the 2014 EBITDA changed relative to 2013. The Exploration and Production segment's share in EBITDA decreased noticeably, from 60% to 50% year on year, on the back of higher impairment losses and lower revenue from crude oil sales. Both Distribution and Trade and Storage delivered stronger results. The Trade and Storage segment's EBITDA significantly improved thanks to lower gas purchase prices coupled with stable tariff prices. The more than PLN 400m increase in EBITDA posted by the Distribution segment is attributable to a lower impact of one-off items – in 2013 the segment's earnings were reduced by the recalculation of actuarial provisions, the higher cost of system balancing, a provision for bonuses from profit, as well as the mitigation of manageable expenses. The Generation segment's performance deteriorated slightly on lower sales volumes attributable to warmer air temperatures.

The PGNiG Group's financial standing remains strong. At the end of December, the Group reported close to PLN 3bn in cash, with the net debt to EBITDA ratio at below 0.5. Net debt was down from PLN 3.4bn to PLN 2.9bn quarter on quarter.

The low debt level is a good starting point for investments under the 2014–2022 Strategy, as it should facilitate the financing of new growth areas, including acquisitions of new production assets, and dividend payments.

Opinion of the independent auditor

To the Shareholders and Supervisory Board of

Polskie Górnictwo Naftowe i Gazownictwo SA

We have audited the accompanying consolidated financial statements of Capital Group PGNiG, with its registered office in Warsaw at ul. M. Kasprzaka 24 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management Board's and Supervisory Board's Responsibility

The Management Board of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by European Union the requirements for issuers of securities admitted to trading on an official stock-exchange listing market and other applicable regulations and preparation of the Report on the Group's activities. The Management Board of the Parent Entity is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (J.L. of 2013, No 330 as amended) ("the Accounting Act"), the Management Board of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the Report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by the Polish National Council of Certified Auditors and in matters not regulated by the national standards on auditing, when determining the detailed methodology for the planning and performing the audit and if in doubt – International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and the accounting records from which they are derived are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of PGNiG Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and its cash flows for the year then ending, in accordance with International Accounting Standards, International Financial Reporting Standards as adopted by the European Union and related interpretations issued in form of regulation of European Commission and to the extent not regulated by those standards – in accordance the Accounting Act and related bylaws, the requirements for issuers of securities admitted to trading on an official stock-exchange listing market, are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act, we also state that the Report on the Group's activities includes, in all material respects, the information required by Article 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (J.L. of 2014, item 133) and that the information is consistent with the consolidated financial statements.

Mariusz Kuciński

Certified Auditor No 9802
Key Certified Auditor, On behalf of PKF Consult Sp. z o.o. registration number 477
ul. Orzycka 6, lok. 1B, 02-695 Warsaw
Warsaw, 19 February 2015

Report on the audit of consolidated financial statements for the financial year ended 31 December 2014

1. General

1.1. General information about the Group

1.1.1. Name of the Group

Capital Group PGNiG

1.1.2. Registered office of the Parent Company of the Group

ul. M. Kasprzaka 25, Warsaw

1.1.3. Registration of the Parent Company in the National Court Register

Registration court: District Court in Warsaw, XII Commercial Department of the National Court Register

Date: 14 November 2001

Registration number: KRS 59492

REGON: 012216736

NIP: 525-000-80-28

1.1.4. Share capital structure of the Parent Company

At 31 December 2014 the share capital of the Parent Company in amount of PLN 5,900,000,000 was divided as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal Value PLN '000	Percentage of share (%)
State Treasury	4,271,717,836	72.40%	4,271,717.84	72.40%
Others < 5%	1,628,282,164	27.60%	1,628,282.16	27.60%
	5,900,000,000	100.0%	5,900,000.00	100.0%

The share capital is consistent with the National Court Register.

1.1.5. Information about the companies comprising the Group

1.1.5.1. Companies included in the consolidated financial statements

As at 31 December 2014 the following companies were consolidated by the Group:

Parent Company:
- Polskie Górnictwo Naftowe i Gazownictwo SA.

Subsidiaries consolidated on a full consolidation basis:
- Biuro Studiów i Projektów Gazownictwa Gazoprojekt SA,
- Exalo Drilling SA,
- GEOFIZYKA Kraków SA,
- GEOFIZYKA Toruń SA,
- Geovita SA,
- Operator Systemu Magazynowania Sp. z o.o.,
- PGNiG Obrót Detaliczny Sp. z o.o.
- PGNiG Serwis Sp. z o.o.,
- PGNiG Technologie SA,
- PGNiG Termika SA,
- Polska Spółka Gazownictwa Sp. z o.o.,
- PGNiG Finance AB,
- PGNiG Sales & Trading GmbH,
- PGNiG Upstream International AS,
- Polish Oil And Gas Company Libya B.V.

Indirect subsidiaries included in the consolidation:
- Gaz Sp. z o.o. (subsidiary of Polska Spółka Gazownictwa Sp. z o.o.),
- Powiśle Park Sp. z o.o. (subsidiary of Polska Spółka Gazownictwa Sp. z o.o.),
- Oil Tech International F.Z.E. (subsidiary of Exalo Drilling SA),
- Poltava Services LLC (subsidiary of Exalo Drilling SA),
- XOOL GmbH, (subsidiary of PGNiG Sales&Trading GmbH).

Joint ventures and associates valued with the equity method:
- GAS – TRADING SA,
- SGT EUROPOL GAZ SA.

1.1.5.2. Entities excluded from consolidation

As at 31 December 2014 the following subsidiaries of the Group were not consolidated:
- Direct subsidiaries:
  - PGNiG SPV 5 Sp. z o.o.,
  - PGNiG SPV 6 Sp. z o.o.,
  - PGNiG SPV 7 Sp. z o.o.,
  - BUD-GAZ P.P.U.H. Sp. z o.o. in liquidation,
  - Polskie Elektrownie Gazowe Sp. z o.o. in liquidation,
  - NYSAGAZ Sp. z o.o.
- Indirect subsidiaries:
  - CHEMKOP Sp. z o.o. Kraków,
  - Zakład Gospodarki Mieszkaniowej Sp. z o.o.,
  - Zakład Separacji Popiołów Siekierki Sp. z o.o.,
  - Gas Assets Management Sp. z o.o. in formation.

The subsidiaries listed above, whose financial statements are immaterial for the reliable and fair presentation of financial position and financial performance of the Group, have been excluded from consolidation.

1.1.6. Management of the Parent Company

The Management Board is responsible for the management of the Parent Company. At 31 December 2014 the Management Board of the Company was comprised of the following members:
- Mariusz Zawisza – President of the Management Board,
- Jarosław Bauc – Vice-President of the Management Board,
- Zbigniew Skrzypkiewicz – Vice- President of the Management Board,
- Waldemar Wójcik – Vice- President of the Management Board.

Changes in the Management Board during the reporting period to the date of this opinion are described in the notes to the consolidated financial statements, see Note 1.6.

1.2. Auditor information

1.2.1. Key certified auditor information:

Name and surname: Mariusz Kuciński

Registration number: 9802

1.2.2. Authorised auditor information:

Name: PKF Consult Sp. z o.o.
Address: ul. Orzycka 6/1B, 02-695 Warsaw
Registration number: KRS 0000034774
Registration court: District Court for the City Warsaw in Warsaw, XIII Commercial Department of the National Court Register
Share capital: PLN 128,050
NIP number: 521-05-27-710
PKF Consult Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 477.

The consolidated financial statements have been audited in accordance with the contract dated 5 February 2013, concluded on the basis of a resolution of the Supervisory Board dated 23 January 2013 on the appointment of the auditor.

We audited the consolidated financial statements in the Parent's head office during the period from 12 January 2015 to 19 February 2015.

Key certified auditor and PKF Consult Sp. z o.o. fulfill independence requirements as described in Article 56 points 3 and 4 of the Act on Certified Auditors and their Government, Audit Firms and Public Oversight dated 7 May 2009 (J.L. No 77, item 649 as amended).

1.3. Prior period consolidated financial statements

The consolidated financial statements as at and for the year ended 31 December 2013 were audited by PKF Consult Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the Shareholders' Meeting of PGNiG on 15 May 2014.

The consolidated financial statements were submitted to the Registry Court on 22 May 2014.

1.4. Audit scope and responsibilities

This report was prepared for the Shareholders and the Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo SA with its registered office in Warsaw at ul. M. Kasprzaka 25 and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The Parent Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of the General Meeting dated 15 December 2006.

We conducted the audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors, and in matters not regulated by the national standards on auditing, by determining the detailed methodology for the planning and performing the audit, and if in doubt, the International Standards on Auditing.

The Management Board of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements for issuers of securities admitted to trading on an official stock-exchange listing market and with other applicable regulations and preparation of the Report on the Company's activities.

Our responsibility is to express an opinion and to prepare a supplementing report on the consolidated financial statements based on our audit.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters that could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report were fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of PKF Consult Sp. z o.o.

1.5. Information on audits of the financial statements of the consolidated companies

The audited consolidated financial statements of the Group consist of the separate financial statements of the Parent Company and subsidiaries as at 31 December 2014, which were audited and given an opinion:

Entity's name	Authorised auditor	Type of auditor's opinion	Method of consolidation
BSiPG Gazoprojekt SA	PKF Consult Sp. z o.o.	Unqualified opinion	Full
GK Exalo Drilling SA	PKF Consult Sp. z o.o.	Unqualified opinion	Full
GEOFIZYKA Kraków SA	PKF Consult Sp. z o.o.	Unqualified opinion	Full
GEOFIZYKA Toruń SA	PKF Consult Sp. z o.o.	Unqualified opinion	Full
Geovita SA	PKF Consult Sp. z o.o.	Unqualified opinion	Full
Operator Systemu Magazynowania Sp. z o.o.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
PGNiG Obrót Detaliczny Sp. z o.o.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
PGNiG Serwis Sp. z o.o.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
PGNiG Technologie SA	PKF Consult Sp. z o.o.	Unqualified opinion	Full
PGNiG Termika SA	PKF Consult Sp. z o.o.	Unqualified opinion	Full
GK Polska Spółka Gazownictwa Sp. z o.o.	PKF Consult Sp. z o.o.	Unqualified opinion(**)	Full
PGNiG Finance AB	Deloitte AB	Unqualified opinion	Full
GK PGNiG Sales&Trading GmbH	PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprufungesellschaft	Unqualified opinion(*)	Full
PGNiG Upstream International AS	Deloitte AS	Unqualified opinion	Full
Polish Oil And Gas Company – Libya BV	Deloitte Accountants B.V.	No opinion (***)	Full
GAS – TRADING SA	MS Rewident	No opinion	Equity method
SGT EUROPOL GAZ SA	PricewaterhouseCoopers Sp. z o.o.	No opinion	Equity method

(*) unqualified opinion from audit on the consolidated package of PGNiG Sales & Trading GmbH.
(**) an unqualified audit opinion was issued on the stand-alone financial statement of Polska Spółka Gazownictwa Sp. z o.o. and an unqualified review report was issued on the consolidation package of the Group Polska Spółka Gazownictwa.
(***) the assets of Polish Oil And Gas Company – Libya B.V. , except for cash, are written down.

2. Financial analysis of the Company

2.1. Consolidated statement of financial position

ASSETS	2014-12-31 mln PLN	% of total	2013-12-31 mln PLN	% of total	The change in % (BZ-BO)/BO
NON-CURRENT ASSETS					
Property, plant and equipment	33,528	68.53%	33,033	68.27%	1.50%
Investment property	9	0.02%	9	0.02%	0.00%
Intangible assets	1,113	2.27%	1,164	2.41%	-4.38%
Shares	856	1.75%	727	1.50%	17.74%
Other financial assets	243	0.50%	242	0.50%	0.41%
Deferred tax assets	1,783	3.64%	2,233	4.62%	-20.15%
Other non-current assets	160	0.33%	71	0.15%	125.35%
	37,692	**77.04%**	**37,479**	**77.46%**	**0.57%**
CURRENT ASSETS					
Inventories	3,189	6.52%	3,378	6.98%	-5.60%
Trade and other receivables	4,236	8.66%	4,086	8.44%	3.67%
Other assets	5	0.01%	48	0.10%	-89.58%
Current financial assets	132	0.27%	171	0.35%	-22.81%
Derivative financial instrument assets	567	1.16%	307	0.63%	84.69%
Cash and cash equivalents	2,958	6.05%	2,827	5.84%	4.63%
Assets held for sale	147	0.30%	88	0.18%	67.05%
	11,234	**22.96%**	**10,905**	**22.54%**	**3.02%**
TOTAL ASSETS	**48,926**	**100,00%**	**48,384**	**100,00%**	**1.12%**

LIABILITIES AND EQUITY	2014-12-31 mln PLN	% of total	2013-12-31 mln PLN	% of total	The change in % (BZ–BO)/BO
EQUITY					
Share capital	5,900	12.06%	5,900	12.19%	0.00%
Share premium	1,740	3.56%	1,740	3.60%	0.00%
Accumulated other comprehensive income	-270	-0.55%	-49	-0.10%	451.02%
Retained earnings/(deficit)	22,794	46.59%	20,856	43.11%	9.29%
Equity attributable to owners of the parent	30,164	61.65%	28,447	58.79%	6.04%
Equity attributable to non-controlling interests	5	0.01%	6	0.01%	-16.67%
	30,169	**61.66%**	**28,453**	**58.81%**	**6.03%**
NON-CURRENT LIABILITIES					
Borrowings and other debt instruments	5,069	10.36%	5,385	11.13%	-5.87%
Employee benefit obligations	604	1.23%	502	1.04%	20.32%
Provisions	1,803	3.69%	1,405	2.90%	28.33%
Deferred income	1,581	3.23%	1,533	3.17%	3.13%
Deferred tax liabilities	3,250	6.64%	3,210	6.63%	1.25%
Other non-current liabilities	77	0.16%	58	0.12%	32.76%
	12,384	**25.31%**	**12,093**	**24.99%**	**2.41%**
CURRENT LIABILITIES					
Trade and other payables	3,589	7.34%	4,033	8.34%	-11.01%
Borrowings and other debt instruments	769	1.57%	2,276	4.70%	-66.21%
Derivative financial instrument liabilities	593	1.21%	124	0.26%	378.23%
Current tax liabilities	191	0.39%	184	0.38%	3.80%
Employee benefit obligations	284	0.58%	375	0.78%	-24.27%
Provisions	720	1.47%	645	1.33%	11.63%
Deferred income	227	0.46%	186	0.38%	22.04%
Liabilities related to assets held for sale	-	-	15	0.38%	-
	6,373	**13.03%**	**7,838**	**16.20%**	**-18.69%**
TOTAL LIABILITIES AND EQUITY	**48,926**	**100.00%**	**48,384**	**100.00%**	**1.12%**

2.2. Consolidated statement of comprehensive income

	2014 mln PLN	% of total sales	2013 mln PLN	% of total sales	The change in % (BO–BZ)/BO
Revenue	**34,304**	**100.00%**	**32,044**	**100.00%**	**7.05%**
Raw material and consumables used	-21,229	-61.88%	-19,873	-62.02%	6.82%
Employee benefits expense	-2,827	-8.24%	-3,214	-10.03%	-12.04%
Depreciation and amortisation expense	-2,502	-7.29%	-2,463	-7.69%	1.58%
Services	-2,843	-8.29%	-2,808	-8.76%	1.25%
Work performed by the entity and capitalised	980	2.86%	983	3.07%	-0.31%
Other income and expenses	-2,040	-5.95%	-1,520	-4.74%	34.21%
Total operating expenses	**-30,461**	**-88.80%**	**-28,895**	**-90.17%**	**5.42%**
Operating profit/(loss)	**3,843**	**11.20%**	**3,149**	**9.83%**	**22.04%**
Finance income	86	0.25%	69	0.22%	24.64%
Finance costs	-432	-1.26%	-465	-1.45%	-7.10%
Share in net profit/loss of equity-accounted entities	129	0.38%	-44	-0.14%	-393.18%
Profit/(loss) before tax	**3,626**	**10.57%**	**2,709**	**8.45%**	**33.85%**
Income tax	-804	-2.34%	-789	-2.46%	1.90%
Net profit/(loss)	**2,822**	**8.23%**	**1,920**	**5.99%**	**46.98%**

	2014 mln PLN	% of total sales	2013 mln PLN	% of total sales	The change in % (BO–BZ)/BO
Net profit/(loss)	**2,822**	**8.23%**	**1,920**	**5.99%**	**46.98%**
Other comprehensive income that will be reclassified to profit or loss once specific conditions are met, relating to:	**-197**	**-0.57%**	**5**	**0.02%**	**-4040.00%**
Exchange differences on translating foreign operations	18	0.05%	-53	-0.17%	-133.96%
Hedge accounting	-265	-0.77%	72	0.22%	-468.06%
Deferred tax	50	0.15%	-14	-0.04%	-457.14%
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**-24**	**-0.07%**	**98**	**0.31%**	**-124.49%**
Actuarial gains/(losses) on employee benefits	-32	-0.09%	117	0.37%	-127.35%
Deferred tax	8	0.02%	-19	-0.06%	-142.11%
Other comprehensive income, net	**-221**	**-0.64%**	**103**	**0.32%**	**-314.56%**
Total comprehensive income	**2,601**	**7.58%**	**2,023**	**6.31%**	**28.57%**

2.3. Selected financial ratios

		2014	2013	2012
1. **Return on sales** (result on sale / net revenues) ×100	%	8.2%	6.0%	7.8%
2. **Return on equity** (net result / average equity) ×100	%	9.4%	6.7%	8.2%
3. **Debtor's days** (average trade receivables net *365 days) / net revenues	number of days	45	41	60
4. **Debt ratio** (liabilities and provisions for liabilities / total equity and liabilities) ×100	%	38.3%	41.2%	43.3%
5. **Current ratio** (current assets / current liabilities)		1.7	1.4	1.1

3. Detailed report

3.1. Accounting principles, method of consolidation, correctness of the documentation for consolidation

The method of calculating goodwill arising on consolidation is described in the introduction to the consolidated financial statements.

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company, to the extent required by Article 10 of the Accounting Act.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared completely and correctly, in accordance with the requirements of the Decree of the Ministry of Finance dated 25 September 2009 on the principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (J.L. of 2009, No 169, item 1327).

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with other applicable regulations. The accounting principles were presented in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company, for consolidation purposes.

3.2. Introduction and supplementary information and explanations to the consolidated financial statements

All information included in the introduction and the supplementary information and explanations to the consolidated financial statements is, in all material respects, presented correctly and completely. The introduction and supplementary information and explanations should be read in conjunction with the consolidated financial statements.

3.3. Report on the Group's activities

The Report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Article 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (J.L. of 2014, item 133) and the information is consistent with the consolidated financial statements.

3.4. Consolidation of equity and calculation of minority interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements, in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the balance sheet date, to the corresponding positions of the equity of the Parent Company. Only equity of the subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Minority interests in subsidiaries included in the consolidated financial statements were determined based on the minority shareholders' share in the subsidiaries' equity as at the balance sheet date.

3.5. Consolidation eliminations

Intercompany balances within the Group, sales between entities and other intercompany operating revenues and expenses, financial revenues and expenses, unrealised profits that were capitalised, dividends and the results of sales of all or part of shares in subsidiaries were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Polskie Górnictwo Naftowe i Gazownictwo SA and agreed with information received from the subsidiaries.

3.6. Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2014, we have issued an unqualified opinion.

Mariusz Kuciński
Certified Auditor No 9802
Key Certified Auditor
On behalf of PKF Consult Sp. z o.o.
registration number 477
ul. Orzycka 6/1B
02-695 Warsaw

Warsaw, 19 February 2015.

Financial highlights

for the year ended 31 December 2014

	PLNm		EURm	
	Year ended 31 Dec 2014	Year ended 31 Dec 2013	Year ended 31 Dec 2014	Year ended 31 Dec 2013
Revenue	34,304	32,044	8,188	7,610
Operating profit/(loss)	3,843	3,149	917	748
Profit/(loss) before tax	3,626	2,709	866	643
Net profit/(loss) attributable to owners of the parent	2,823	1,918	674	455
Net profit/(loss)	2,822	1,920	674	456
Comprehensive income attributable to owners of the parent	2,602	2,021	621	480
Total comprehensive income	2,601	2,023	621	480
Net cash generated by operating activities	6,979	7,813	1,666	1,855
Net cash (used in)/generated by investing activities	(3,680)	(3,060)	(878)	(727)
Net cash used in/(generated by) financing activities	(3,169)	(3,874)	(756)	(920)
Net increase/(decrease) in cash and cash equivalents	130	879	31	209
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (in PLN and EUR)	0.48	0.33	0.11	0.08

	As at 31 Dec 2014	As at 31 Dec 2013	As at 31 Dec 2014	As at 31 Dec 2013
Total assets	48,926	48,384	11,479	11,667
Total liabilities	18,757	19,931	4,401	4,806
Total non-current liabilities	12,384	12,093	2,905	2,916
Total current liabilities	6,373	7,838	1,496	1,890
Total equity	30,169	28,453	7,078	6,861
Share capital	5,900	5,900	1,384	1,423
Weighted average number of shares (million)	5,900	5,900	5,900	5,900
Book value per share and diluted book value per share (in PLN and EUR)	5.11	4.82	1.20	1.16
Dividend per share declared or paid (in PLN and EUR, respectively)	0.15	0.13	0.04	0.03

The items of the statement of profit and loss, the statement of comprehensive income and the statement of cash flows were translated at the EUR/PLN exchange rate computed as the arithmetic mean of mid-rates quoted by the National Bank of Poland (NBP) for the last day of each calendar month in a given reporting period. The items of the statement of financial position were translated at the average EUR/PLN exchange rate quoted by the NBP at the end of a given period.

Average EUR/PLN exchange rates quoted by the NBP

	31 Dec 2014	31 Dec 2013
Average exchange rate in the period	4.1893	4.2110
Exchange rate at end of the period	4.2623	4.1472

Consolidated financial statements for 2014

Consolidated statement of profit and loss

for the year ended 31 December 2014

	3 months ended 31 Dec 2014	Year ended 31 Dec 2014	3 months ended 31 Dec 2013	Year ended 31 Dec 2013
			restated	restated
	audited	audited	audited	audited
Revenue	**11,485**	**34,304**	**9,101**	**32 044**
Raw materials and consumables used	(7,943)	(21,229)	(5,495)	(19,873)
Employee benefits expense	(823)	(2,827)	(1,099)	(3,214)
Depreciation and amortisation expense	(600)	(2,502)	(710)	(2,463)
Services	(818)	(2,843)	(916)	(2,808)
Work performed by the entity and capitalised	313	980	319	983
Other income and expenses	(855)	(2,040)	(1,106)	(1,520)
Total operating expenses	**(10,726)**	**(30,461)**	**(9,007)**	**(28,895)**
Operating profit/(loss)	**759**	**3,843**	**94**	**3,149**
Finance income	18	86	(7)	69
Finance costs	(149)	(432)	(79)	(465)
Share in net profit/(loss) of equity-accounted entities	129	129	(8)	(44)
Profit/(loss) before tax	**757**	**3 626**	**-**	**2,709**
Income tax	(71)	(804)	(162)	(789)
Net profit/(loss)	**686**	**2,822**	**(162)**	**1,920**
Attributable to:				
Owners of the parent	688	2,823	(161)	1,918
Non-controlling interests	(2)	(1)	(1)	2
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (PLN)	**0.12**	**0.48**	**(0.03)**	**0.33**

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	3 months ended 31 Dec 2014	Year ended 31 Dec 2014	3 months ended 31 Dec 2013	Year ended 31 Dec 2013
			restated	restated
	audited	audited	audited	audited
Net profit/(loss)	**686**	**2,822**	**(162)**	**1,920**
Other comprehensive income that will be reclassified to profit or loss if specific conditions are met, relating to:	**(193)**	**(197)**	**(29)**	**5**
Exchange differences on translating foreign operations	(34)	18	(47)	(53)
Hedge accounting	(196)	(265)	22	72
Deferred tax	37	50	(4)	(14)
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**(13)**	**(24)**	**104**	**98**
Actuarial gains/(losses) on employee benefits	(19)	(32)	124	117
Deferred tax	6	8	(20)	(19)
Other comprehensive income, net	**(206)**	**(221)**	**75**	**103**
Total comprehensive income	**480**	**2,601**	**(87)**	**2,023**
Attributable to:				
Owners of the parent	482	2,602	(86)	2,021
Non-controlling interests	(2)	(1)	(1)	2

Consolidated statement of financial position

as at 31 December 2014

ASSETS	As at 31 Dec 2014 audited	As at 31 Dec 2013 restated audited	As at 1 Jan 2013 restated audited
Non-current assets			
Property, plant and equipment	33,528	33,033	33,784
Investment property	9	9	11
Intangible assets	1,113	1,164	1,146
Investments in equity-accounted entities	856	727	771
Other financial assets	243	242	172
Deferred tax assets	1,783	2,233	2,383
Other non-current assets	160	71	76
Total non-current assets	**37,692**	**37,479**	**38,343**
Current assets			
Inventories	3,189	3,378	3,064
Trade and other receivables	4,236	4,086	5,374
Current tax assets	5	48	150
Other assets	132	171	84
Derivative financial instrument assets	567	307	105
Cash and cash equivalents	2,958	2,827	1,948
Assets held for sale	147	88	108
Total current assets	**11,234**	**10,905**	**10,833**
Total assets	**48,926**	**48,384**	**49,176**

Consolidated financial statements for 2014

EQUITY AND LIABILITIES	As at 31 Dec 2014 audited	As at 31 Dec 2013 restated audited	As at 1 Jan 2013 restated audited
Equity			
Share capital	5,900	5,900	5,900
Share premium	1,740	1,740	1,740
Accumulated other comprehensive income	(270)	(49)	(152)
Retained earnings/(deficit)	22,794	20,856	19,705
Equity attributable to owners of the parent	**30,164**	**28,447**	**27,193**
Equity attributable to non-controlling interests	5	6	4
Total equity	**30 169**	**28 453**	**27 197**
Non-current liabilities			
Borrowings and other debt instruments	5,069	5,385	5,509
Employee benefit obligations	604	502	381
Provisions	1,803	1,405	1,792
Deferred revenue	1,581	1,533	1,448
Deferred tax liabilities	3,250	3,210	3,183
Other non-current liabilities	77	58	53
Total non-current liabilities	**12,384**	**12,093**	**12,366**
Current liabilities			
Trade and other payables	3,589	4,033	3,667
Borrowings and other debt instruments	769	2,276	4,702
Derivative financial instrument liabilities	593	124	393
Current tax liabilities	191	184	24
Employee benefit obligations	284	375	356
Provisions	720	645	350
Deferred revenue	227	186	101
Liabilities associated with assets held for sale	-	15	20
Total current liabilities	**6,373**	**7,838**	**9,613**
Total liabilities	**18,757**	**19,931**	**21,979**
Total equity and liabilities	**48,926**	**48,384**	**49,176**

Consolidated statement of cash flows

for the year ended 31 December 2014

	Year ended 31 Dec 2014	Year ended 31 Dec 2013
		restated
	audited	audited
Cash flows from operating activities		
Net profit/(loss)	2,822	1,920
Adjustments:		
Share in net profit/(loss) of equity-accounted entities	(129)	44
Depreciation and amortisation expense	2,502	2,463
Net foreign exchange gains/(losses)	201	169
Net interest and dividend	127	207
Gain/(loss) on investing activities	739	568
Current tax expense	804	789
Other items, net	910	430
Income tax paid	(677)	(495)
Cash flows from operating activities before movements in working capital	**7,299**	**6,095**
Movements in working capital:		
Increase/(decrease) in trade and other receivables	(128)	1,310
(Increase)/decrease in inventories	189	(321)
(Decrease)/increase in employee benefit obligations	11	140
Increase/(decrease) in provisions	130	299
Decrease/(increase) in current liabilities	(477)	394
(Increase)/decrease in other assets	(31)	(89)
(Decrease)/increase in deferred revenue	(14)	(15)
Net cash generated by operating activities	**6,979**	**7,813**
Cash flows from investing activities		
Proceeds from the disposal of property, plant and equipment and intangible assets	30	130
Proceeds from the disposal of shares in non-related entities	1	1
Payments for property, plant and equipment and intangible assets	(3,781)	(3,290)
Payments for shares in related entities	(1)	(2)
Interest received	4	1
Dividends received	3	3
Other items, net	64	97
Net cash (used in)/generated by investing activities	**(3,680)**	**(3,060)**
Cash flows from financing activities		
Proceeds from borrowings	152	763
Proceeds from the issue of debt securities	377	1,475
Repayment of borrowings	(1,096)	(696)
Repayment of debt securities	(1,429)	(4,273)
Payment of finance lease liabilities	(50)	(53)
Proceeds from derivative financial instruments	84	83
Payment for derivative financial instruments	(98)	(116)
Dividends paid	(885)	(767)
Interest paid	(218)	(265)
Other items, net	(6)	(25)
Net cash used in/(generated by) financing activities	**(3,169)**	**(3,874)**
Net increase/(decrease) in cash and cash equivalents	**130**	**879**
Effects of exchange rate changes on the balance of cash held in foreign currencies	1	-
Cash and cash equivalents at beginning of the period	**2,826**	**1,947**
Cash and cash equivalents at end of the period	**2,956**	**2,826**

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Equity (attributable to owners of the parent)							Equity (attributable to non--controlling interests)	Total equity
	Share capital	Share premium	Accumulated other comprehensive income, including:			Retained earnings/(deficit)	Total		
			Exchange differences in translating foreign operations	Hedging reserve	Actuarial gains/(losses) on employee benefits				
As at 1 Jan 2014 (audited)	**5,900**	**1,740**	**(84)**	**(1)**	**36**	**20,856**	**28,447**	**6**	**28,453**
Transferred	-	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	(885)	**(885)**	-	(885)
Total comprehensive income	**-**	**-**	**18**	**(215)**	**(24)**	**2,823**	**2,602**	**(1)**	**2,601**
Net profit/(loss)	-	-	-	-	-	2,823	**2,823**	(1)	2,822
Other comprehensive income, net	-	-	18	(215)	(24)	-	**(221)**	-	(221)
As at 31 Dec 2014 (audited)	**5,900**	**1,740**	**(66)**	**(216)**	**12**	**22,794**	**30,164**	**5**	**30,169**
As at 1 Jan 2013 (audited)	**5,900**	**1,740**	**(31)**	**(59)**	**(62)**	**19,705**	**27,193**	**4**	**27,197**
Dividend	-	-	-	-	-	(767)	**(767)**		(767)
Total comprehensive income	**-**	**-**	**(53)**	**58**	**98**	**1,918**	**2,021**	**2**	**2,023**
Net profit/(loss)	-	-	-	-	-	1,918	**1,918**	2	1,920
Other comprehensive income, net	-	-	(53)	58	98	-	**103**	-	103
As at 31 Dec 2013 (audited)	**5,900**	**1,740**	**(84)**	**(1)**	**36**	**20,856**	**28,447**	**6**	**28,453**

Operating segments

Year ended 31 December 2014	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Eliminations	Total
Statement of profit and loss							
Sales to third-party customers	4,346	28,367	280	1,149	162	-	34,304
Inter-segment sales	1,725	458	4,003	794	163	(7,143)	-
Segment's total revenue	6,071	28,825	4,283	1,943	325	(7,143)	34,304
Depreciation and amortisation expense	(1,137)	(181)	(864)	(301)	(20)	1	(2,502)
Other costs	(2,928)	(28,061)	(2,281)	(1,480)	(373)	7,164	(27,959)
Segment's total costs	(4,065)	(28,242)	(3,145)	(1,781)	(393)	7,165	(30,461)
Operating profit/(loss)	**2,006**	**583**	**1,138**	**162**	**(68)**	**22**	**3,843**
Net finance costs							
Share in net profit/(loss) of equity-accounted entities		129					129
Profit/(loss) before tax							**3,626**
Income tax							(804)
Net profit/(loss)							**2,822**
Statement of financial position							
Segment's assets	15,442	18,299	14,142	4,184	387	(6,780)	45,674
Investments in equity-accounted entities		856					856
Unallocated assets							613
Deferred tax assets							1,783
Total assets							**48,926**
Total equity							30,169
Segment's liabilities	5,531	4,873	2,638	2,049	219	(6,427)	8,883
Unallocated liabilities							6,624
Deferred tax liabilities							3,250
Total equity and liabilities							**48,926**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(2,063)	(269)	(1,091)	(285)	(10)	(63)	(3,781)
Impairment losses on assets	(2,381)	(1,590)	(112)	(26)	(22)	-	(4,131)
Impairment losses on unallocated assets							(46)

Year ended 31 December 2013	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Eliminations	Total
Statement of profit and loss							
Sales to third-party customers	4,580	25,341	165	1,658	300	-	32,044
Inter-segment sales	1,605	318	4,085	405	124	(6,537)	-
Segment's total revenue	6,185	25,659	4,250	2,063	424	(6,537)	32,044
Depreciation and amortisation expense	(1,050)	(177)	(857)	(359)	(20)	-	(2,463)
Other costs	(2,804)	(25,490)	(2,654)	(1,560)	(469)	6,545	(26,432)
Segment's total costs	(3,854)	(25,667)	(3,511)	(1,919)	(489)	6,545	(28,895)
Operating profit/(loss)	**2,331**	**(8)**	**739**	**144**	**(65)**	**8**	**3,149**
Net finance costs							(396)
Share in net profit/(loss) of equity-accounted entities		(44)					(44)
Profit/(loss) before tax							**2,709**
Income tax							(789)
Net profit/(loss)							**1,920**
Statement of financial position							
Segment's assets	15,364	17,344	14,067	4,124	411	(6,244)	45,066
Investments in equity-accounted entities		727					727
Unallocated assets							358
Deferred tax assets							2,233
Total assets							**48 384**
Total equity							28,453
Segment's liabilities	4,954	4,634	2,879	1,943	187	(5,847)	8,750
Unallocated liabilities							7,971
Deferred tax liabilities							3,210
Total equity and liabilities							**48,384**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(1,630)	(341)	(1,110)	(203)	(13)	7	(3,290)
Impairment losses on assets	(1,642)	(1,479)	(115)	(34)	(20)	-	(3,290)
Impairment losses on unallocated assets							(45)

Glossary, conversion factors and contact details

INSTRUCTION: GLOSSARY, CONVERSION FACTORS AND CONTACT DETAILS

Glossary

PGNiG	Polskie Górnictwo Naftowe i Gazownictwo SA
Group	PGNiG Group
E&P	Exploration and Production
T&S	Trade and Storage
OGP Gaz-System SA	Operator Gazociągów Przesyłowych GAZ-SYSTEM SA
OSM	Operator Systemu Magazynowania Sp. z o.o.
PSG	Polska Spółka Gazownictwa Sp. z o.o.
PGNiG Retail	PGNiG Obrót Detaliczny Sp. z o.o.
PPE	Polish Power Exchange
TTF	Title Transfer Facility; Dutch Power Exchange
NCG	Natural Converted Gas
Gaspool	German Energy Exchange
GM	General Meeting
URE	Urząd Regulacji Energetyki; Energy Regulatory Office
CNG	Compressed Natural Gas
LNG	Liquefied Natural Gas
WACC	Weighted average cost of capital
Upstream	Exploration and production of mineral deposits
R&D	Research and development
EIP	Efficiency Improvement Programme
EBIT	Operating profit
EBITDA	Operating profit before depreciation and amortisation
UGS	Underground gas storage facility
CUGS	Underground gas storage cavern facility
Boe	Barrel of oil equivalent (one barrel is ca 0.136 tonnes)

Conversion factors

	1 bcm of natural gas	1 bcf of natural gas	1m tonnes of oil	1m tonnes of LNG	1m tonnes of hard coal	1 trillion Btu	1 PJ	1m boe	1 TWh
1 bcm natural gas	1	35.3	0.90	0.73	1.35	36	38	6.45	10.97
1 bcf of natural gas	0.028	1	0.026	0.021	0.038	1.03	1.08	0.18	0.29
1m tonnes of oil	1.113	39.2	1	0.81	1.52	40.4	42.7	7.33	11.65
1m tonnes of LNG	1.38	48.7	1.23	1	1.86	52	55	8.68	14.34
1m tonnes of hard coal	0.74	26.1	0.66	0.54	1	26.7	28.1	4.66	8.14
1 trillion Btu	0.028	0.98	0.025	0.02	0.038	1	1.06	0.17	0.29
1 PJ	0.026	0.93	0.23	0.019	0.036	0.95	1	0.17	0.28
1m boe	0.16	5.61	0.14	0.12	0.21	5.8	6.04	1	1.70
1 TWh	0.091	3.41	0.086	0.07	0.123	3.41	3.6	0.59	1

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