Financial Performance of PGNiG Group
H1 2009

August 31st, 2009

Financial highlights

PGNiG Group (PLNm)	H1 2008	H1 2009	*change*	Q2 2008	Q2 2009	*change*
Sales revenue	9,260	10,254	*11%*	3,929	3,875	*(1%)*
Operating expenses	(7,967)	(10,933)	*37%*	(3,584)	(4,097)	*14%*
EBITDA	2,014	83	*(96%)*	716	171	*(76%)*
EBIT	1,293	(679)	*(153%)*	345	(222)	*(164%)*
Result on financing activities	77	103	*33%*	46	79	*70%*
Net result	1,059	(493)	*(147%)*	280	(94)	*(134%)*

- The loss incurred by the PGNiG Group in Q2 2009 is mainly attributable to:
  - 19% higher cost of purchase of natural gas (with a 16% decline in the volume of natural gas imports);
  - higher valuation allowances, including a PLN 162m valuation allowance for assets used directly in mining;
  - deterioration of Distribution segment's performance, resulting from, among others, 14% decline in the volume of distributed gas in Q2 2009 y-o-y.
- In Q2 2009, the margin on sale of high-methane gas was minus 8% (compared with plus 7% a year earlier). For the entire H1 2009, the margin was minus 18%, against plus 9% in H1 2008;
- The considerable increase in the result on financial activity is the effect of reversal of a valuation allowance for the loan extended to EuRoPol GAZ SA;
- Despite the negative data in H1 2009, there is no serious threat that the PGNiG Group would not achieve the performance targets assumed in the annual business plans.

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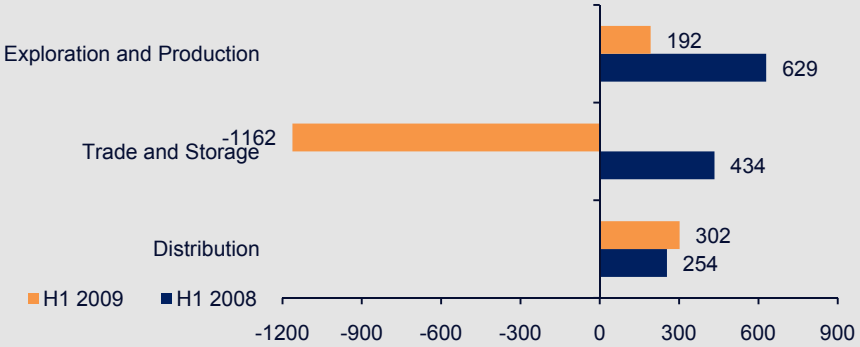
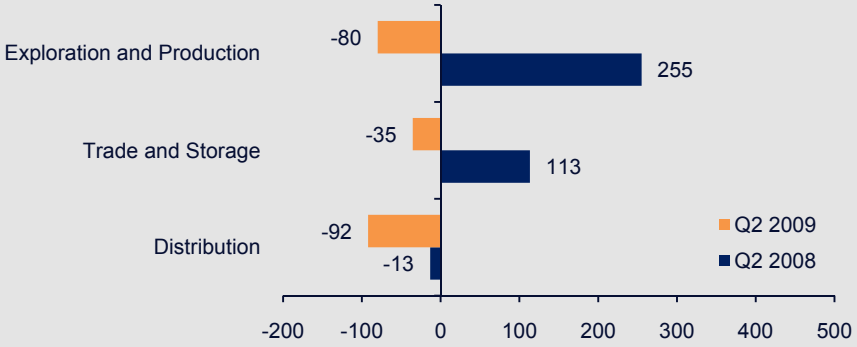
Operating profit by segments

Operating results by segments in H1 2008 and H1 2009 (PLNm)



Operating results by segments in Q2 2008 and Q2 2009 (PLNm)



- In H1 2009, operating profit in the Exploration and Production segment amounted to PLN 192m, 69% down year on year. The decline followed mainly from the increase in valuation allowances for mining assets (in Q2 2009 a PLN 162m valuation allowance was recognised), lower revenue from geophysical and geological services, and lower profitability of crude sales;
- The 19% year-on-year increase in EBIT in the Distribution segment in H1 2009 was a result of introduction at the end of April 2008 and as of June 1st 2009 of new tariffs for the Gas Companies, with concurrent smaller volumes of transmitted gas;

- The weak operating performance in the Trading and Storage segment was a result of high prices of natural gas and tariffs which fail to reflect the changing market conditions. The losses on sale of imported gas were not offset by the high profits derived from gas sales from the company's own production;
- Poorer operating performance in the Distribution segment in Q2 2009 came on the back of the segment's lower revenues (down by PLN 38m due to a 14% decline in the volume of distributed gas), as well as higher costs (up by PLN 40m) mainly following the 2008 profit distribution to employees by five Gas Companies in June (there was no such profit distribution in 2008).

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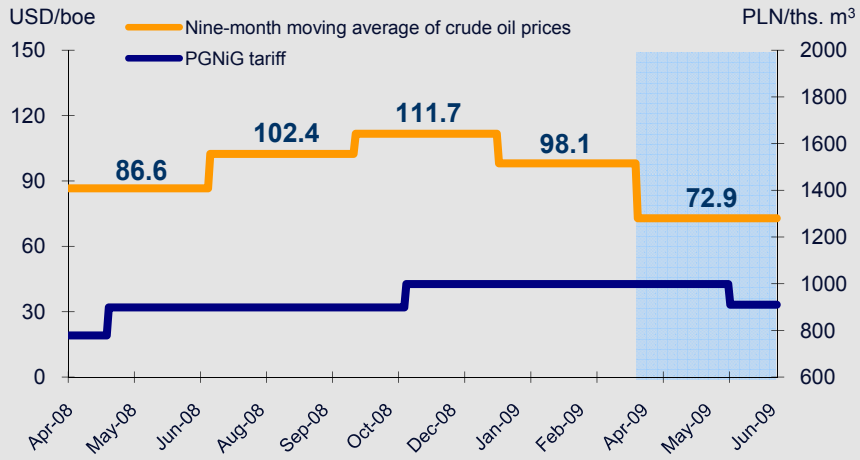
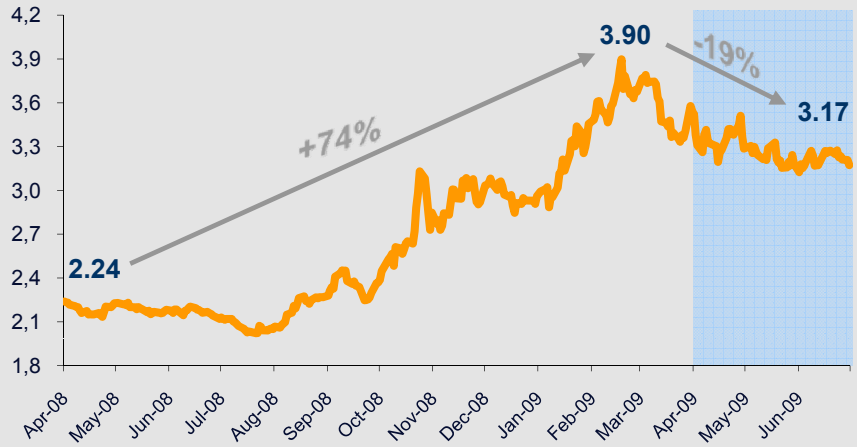
Financial performance drivers

Crude oil quoted prices* vs. tariff price



- The price of imported gas is linked to the oil price;
- The formula used to calculate the price of imported gas is based on a 9-month average price of oil derivative products, which has an almost 100% co-relation with crude oil prices;
- In Q2 2008, the 9-month average price of oil derivative products was USD 87/bbl. During the year it decreased by 16% and reached USD 73/bbl in Q2 2009.

USD/PLN exchange rate**



- During H1 2009 the USD/PLN exchange rate rose by 7%, from 2.96 to 3.17. This had an adverse effect on the price of imported natural gas, especially in Q1 2009 when the exchange rate came close to 4 zloty per 1 dollar. However, Q2 2009 saw strengthening of the Polish currency by 10%;
- Taking into account the average USD/PLN exchange rate, in Q2 2009 the nine-month average price of crude oil expressed in the Polish currency went up by 26% compared with its level in Q2 2008.

* European Dated Brent Forties Oseberg (BFO), source: Bloomberg.
** Source: National Bank of Poland.

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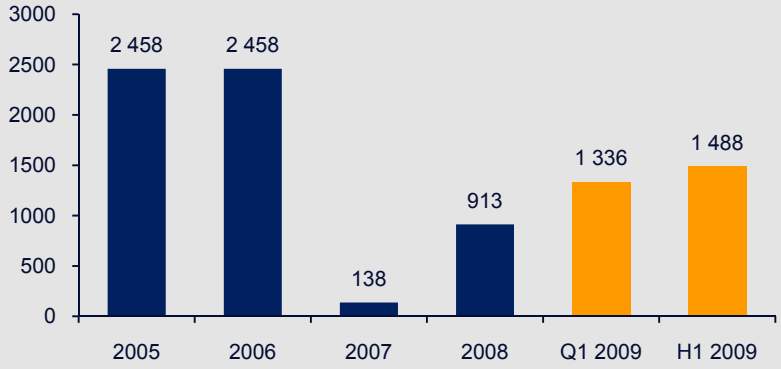
Financial risk management

- PGNiG is exposed to significant foreign exchange and interest rate volatility risk inherent in agreements and contracts concluded as part of the Company's ordinary business and financing activities;
- In order to hedge against the currency risk, PGNiG enters into derivative transactions, which meet the hedge accounting requirements:
  - purchase of an European call option;
  - zero-cost symmetric option strategies; risk reversal.
- Gains on derivative transactions and currency-translation differences in H1 2009 was PLN 57m;
- Foreign exchange and currency risk exposure under the loan extended to PGNiG Norway was hedged with a series of Cross Currency Interest Rate Swap transactions.

Debt in PGNiG Group (PLNm)



- At the end of H1 2009 the PGNiG Group's total debt was PLN 1.5bn, i.e. PLN 576m higher than at the end of 2008. In Q2 2009 alone, the debt increased by PLN 152m;
- By 2008, the PGNiG Group's debt had been significantly reduced. The current debt comes as a result of implementation of the PGNiG's investment plans and the necessity to cover operating losses incurred during the period;
- Total credit facilities currently available amount to approximately PLN 3bn.

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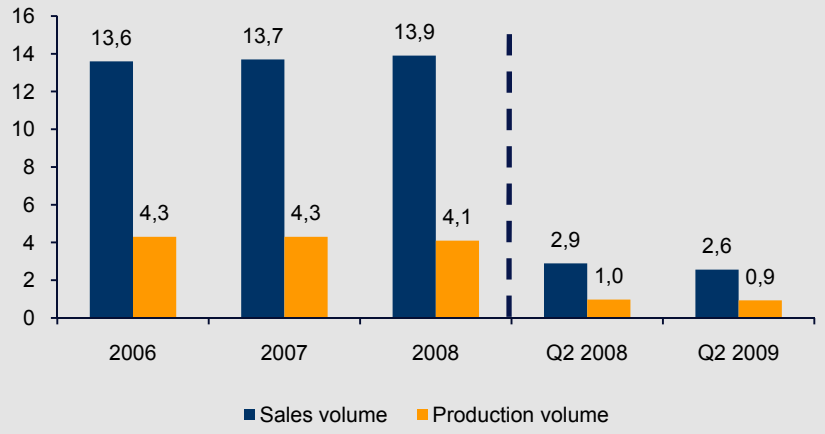
Natural gas

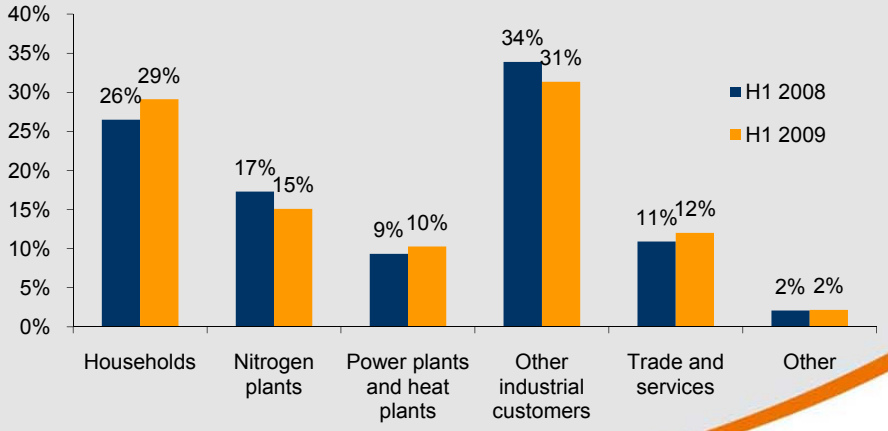
PGNiG Group, IFRS	H1 2008	H1 2009	*change*
Production volume* (million m^3)	2,114	2,025	*(4%)*
Sales volume** (million m^3)	7,437	7,093	*(5%)*
Gas sales revenue (PLNm)	8,191	9,372	*14%*
High-methane gas (E)	7,482	8,618	*15%*
Nitrogen-rich gas (Ls, Lw)	709	754	*6%*

- The smaller volume of natural gas sales in H1 2009 was an effect of weaker demand for natural gas from industrial customers, nitrogen plants in particular (sales to this customer group fell by 17% y-o-y). In Q2 2009 alone, the volume of natural gas sales fell by 11% (in Q1 the sales were roughly flat year on year) and the decline was seen nearly across all customer groups;
- A 14% increase in revenue on sales of natural gas in H1 2009 and a 2% increase in Q2 2009, with lower sales volumes, were a result of higher gas tariffs.

Gas sales and production volumes (bn m^3)**



Customers' percentage share in the gas sales volume in H1 2008 and H1 2009

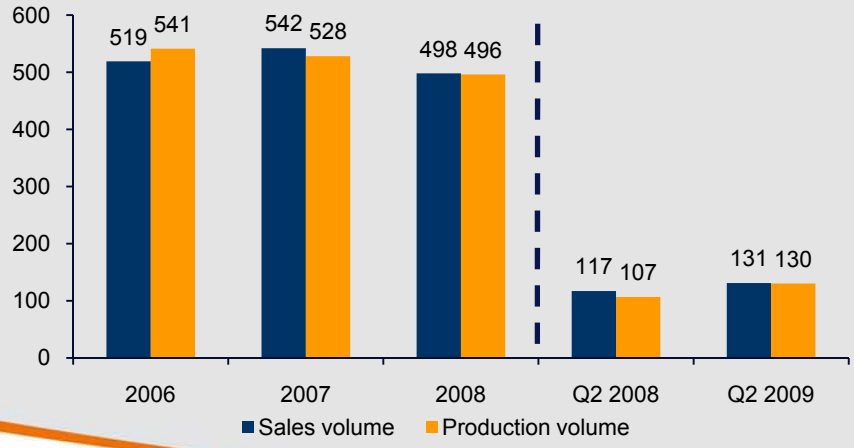


* Data includes the production of the PGNiG Branch in Odolanów.
** Measured as high-methane gas equivalent (E).

Crude oil

PGNiG Group, IFRS*	H1 2008	H1 2009	*change*
Production volume (ths. t)	252	268	*6%*
Sales volume (ths. t)	258	267	*3%*
Sales revenue (PLN m)	451	319	*(29%)*
Oil unit price (PLN/t)	1,745	1,194	*(32%)*
Average price of Brent Dated oil for the period (USD/bbl)	109	52	*(52%)*

Oil sales and production volume (ths. t)*



- The significant difference in crude production between Q2 2008 and Q2 2009 (a rise by 22%) is attributable to the scheduled overhaul shutdown of PGNiG's largest oil and gas mine in Dębno - in 2008 the shutdown continued throughout June, whereas in 2009 it has been planned to take place from mid-July to mid-August;
- A comparison of revenue on crude sales in H1 2008 vs. H1 2009 clearly reflects the vast difference between crude prices on the global markets in these two periods. In H1 2009, average crude prices fell by 52% y-o-y, which was reflected in the revenue drop, offset by the depreciation of the zloty against the dollar;
- In H1 2009, PGNiG sold 267 thousand tonnes of crude and condensate, of which 57% was purchased by domestic customers and the balance (43%) – by foreign customers.

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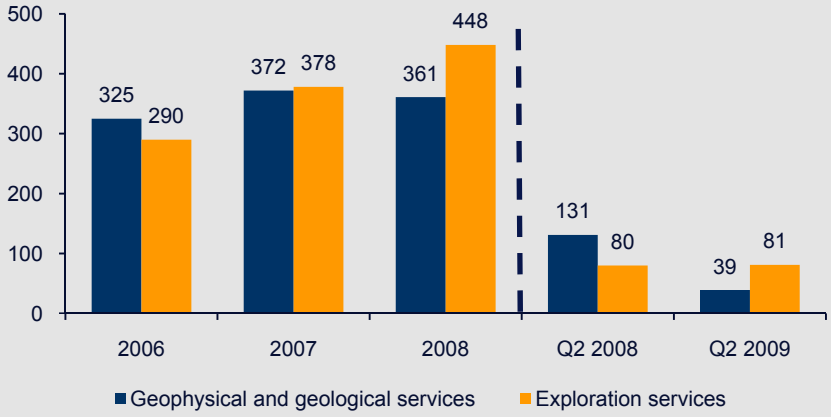
* For crude and condensate.

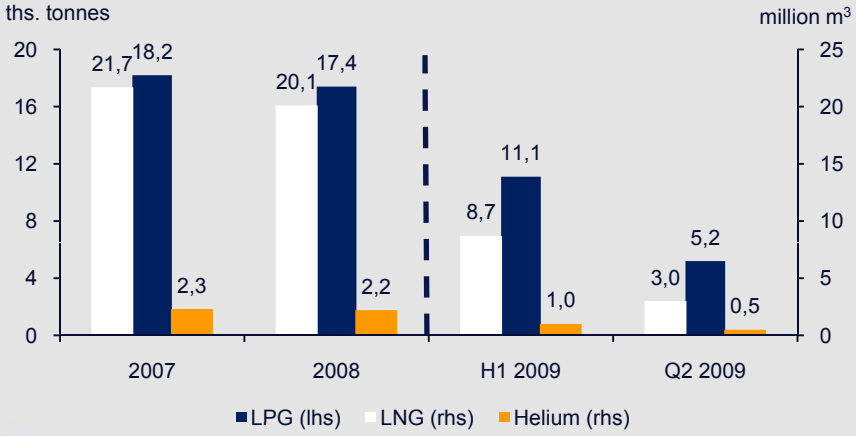
Other sales

Sales revenue PGNiG Group (PLNm)	H1 2008	H1 2009	*change*
Helium	13.4	15.7	*17%*
Propane-butane gas (LPG)	22.4	17.6	*(21%)*
LNG	9.6	10.1	*6%*
Geophysical and geological services	200.8	124.0	*(38%)*
Exploration services	184.6	191.1	*3%*
Other products and services	178.5	194.7	*9%*

Revenues from exploration and geophysical and geological services (PLNm)



Production volume of other products



- In Q2 2009, revenue from geophysical and geological services fell by 70% relative to Q2 2008. This was largely attributable to the fact that the work conducted by the geophysical companies in India, which is one of the areas where PGNiG's geophysical companies are most active, had to stop earlier than planned due to unfavourable weather;
- Revenue from exploration services remains stable – in Q1 2009 it rose by 3%, and in Q2 2009 alone – by 1% y-o-y.

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Operating expenses

PGNiG Group, IFRS (PLNm)	H1 2008	H1 2009	*change*	Q2 2008	Q2 2009	*change*
Total operating expenses	**7,967**	**10,933**	***37%***	**3,584**	**4,097**	***14%***
Cost of gas sold	4,600	7,310	*59%*	1,830	2,169	*19%*
Other raw materials and consumables used	294	300	*2%*	165	163	*(1%)*
Employee benefits	1,036	1,228	*19%*	572	706	*23%*
Depreciation and amortisation	721	762	*6%*	371	393	*6%*
OGP GAZ-SYSTEM transmission services	724	679	*(6%)*	308	304	*(1%)*
Other contracted services	615	669	*9%*	342	332	*(3%)*
Other operating expenses net	284	343	*21%*	181	230	*27%*
Cost of products and services for own needs	(308)	(360)	*17%*	(185)	(201)	*8%*

- In H1 2009, operating expenses were affected the most by the cost of natural gas purchases, which amounted to PLN 7.3bn and was PLN 2.7bn higher year on year. In Q2 2009 alone, the cost of natural gas purchases was PLN 2.2bn, which accounts for 53% of the total expenses in the quarter;
- The unit cost of imported gas in H1 2009 rose by 73% year on year; in Q2 2009 it was by 37% higher than in Q2 2008;
- Employee benefits rose by around 20% both between respective quarters and between respective semi-annual periods. This is attributable to the change in the time of payment of quarterly bonuses in PGNiG SA and payment by the gas companies of the 2008 annual profit distribution to employees (which was not paid out in 2008). Another factor which contributed to the increase was the 11% pay rise consumed in Q4 2008;
- The increase in other operating expenses net was chiefly a result of the change in net valuation allowances. The most significant impact came from the PLN 162m valuation allowance for direct mining assets, which was the effect of revision of assumptions concerning the oil and gas prices.

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Third party access to gas storage services

Milestones in the preparation to opening third-party access to gas storage services

- May 2009 – a survey was conducted to gauge market demand for gas fuel storage services – enquiries were sent to 14 entities;
- June 2009 - public consultation regarding rules of provision of the storage services;
- June 16th 2009 - the President of Energy Regulatory Authority (URE) approved the gas fuel tariff for PGNiG S.A. (part B; Tariff for gas fuel storage services No. 1/2009);
- The tariff came into force on July 1st 2009 and will remain in effect until October 31st 2010;
- July 1st 2009 – publication of Rules of Provision of Gas Fuel Storage Services;
- July 1st –31st 2009 – time for submission of applications for providing access to gas fuel storage services;
- August 14th 2009 – preliminary allocation of gas fuel storage services;
- September 1st 2009 – final allocation of gas fuel storage services.

Capacity allocated as part of gas fuel storage services

- In total, PGNiG has allocated 627 storage service packages, which correspond to total working capacity of 627 million cubic meters.

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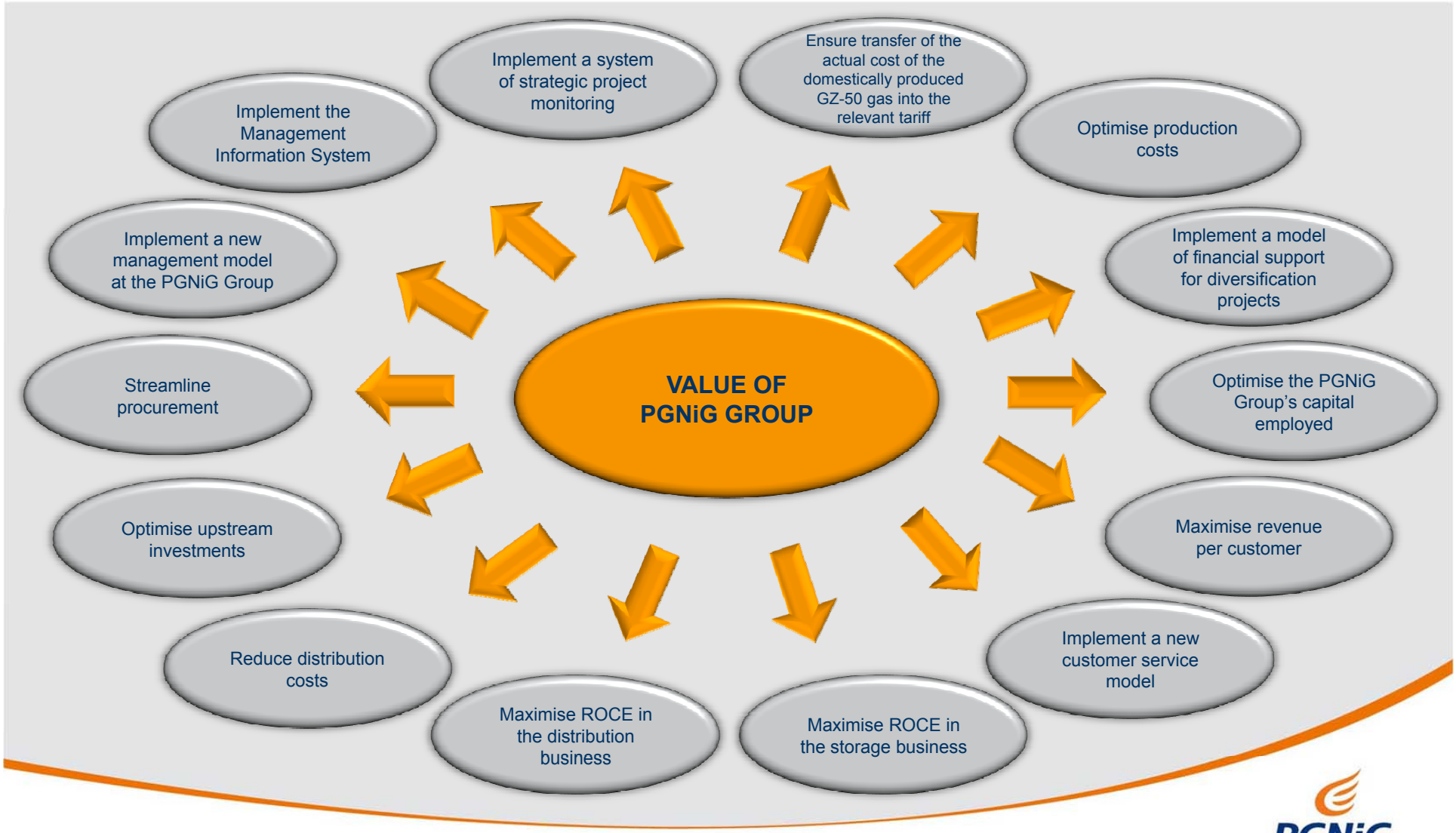
PGNiG Group value creation



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Conclusions

- The loss incurred in H1 2009 was caused by high cost of imported natural gas, which rose by nearly 60% relative to H1 2008. Such a high cost was an effect of high crude prices, but also of the depreciation of the zloty against the dollar and the euro;

- The negative net earnings in Q2 2009 alone were in turn caused – apart from the high cost of natural gas purchases – by higher costs connected with employee benefits and by the increase in valuation allowances for direct mining assets;

- The consistently pursued policy of financial risk management yielded very good results in the analysed period. In H1 2009, PGNiG reported gain on settlement of derivative transactions and currency-translation differences of PLN 57m;

- Large corporate customers are becoming increasingly indebted, which is negatively affecting the company's liquidity;

- Despite the loss incurred in H1 2009, there is no serious threat that the financial targets assumed in the Group's annual business plan would not be achieved.

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i Gazownictwo SA

Thank you