PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

DIRECTORS' REPORT
ON PGNiG SA'S OPERATIONS
IN 2009

Warsaw, March 3rd 2010

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Chapter I: General Information on the Company

1. Establishment of the Company

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (PGNiG SA), with registered office in Warsaw, ul. Marcina Kasprzaka 25, was established as a result of transformation of the state-owned enterprise under the name Polskie Górnictwo Naftowe i Gazownictwo into a state-owned stock company. The Deed of Transformation, together with the Company's Articles of Association, were executed in the form of a notarial deed dated October 21st 1996 (Rep. A No. 18871/96).

The Minister of State Treasury executed the Deed of Transformation pursuant to the Regulation of the President of the Polish Council of Ministers of September 30th 1996 on transformation of the state-owned enterprise Polskie Górnictwo Naftowe i Gazownictwo of Warsaw into a state-owned stock company.

On October 30th 1996, the Company was entered in the commercial register under the name Polskie Górnictwo Naftowe i Gazownictwo SA of Warsaw under entry No. RHB 48382. As of the registration date, the Company acquired legal personality. On November 14th 2001, the Company was entered into the Register of Entrepreneurs of the National Court Register under entry No. 0000059492.

With a view to implementing the Restructuring and Privatisation Programme for PGNiG adopted by the Polish Council of Ministers on October 5th 2004, by virtue of a decision issued by the Polish Securities and Exchange Commission, PGNiG SA shares were admitted to public trading on May 24th 2005.

On October 6th 2005, the District Court for the Capital City of Warsaw registered a share capital increase at PGNiG SA Following the increase, the Company's share capital amounts to PLN 5.9bn and is divided into 5,900,000,000 shares, including:

- 4,250,000,000 Series A bearer shares with an aggregate par value of PLN 4,250m,
- 750,000,000 Series A1 bearer shares with an aggregate par value of PLN 750m,
- 900,000,000 Series B bearer shares with an aggregate par value of PLN 900m.

The Company's debut on the Warsaw Stock Exchange took place on September 23rd 2005. PGNiG SA shares have been listed on the WSE since October 20th 2005.

2. Core Business

PGNiG SA is the largest company in Poland dealing with exploration, production and trade in natural gas. PGNiG SA is the leader across all areas of the domestic gas sector, i.e. natural gas imports, exploration work, production of crude oil and natural gas, storage of gaseous fuels and sale of natural gas.

Pursuant to its Articles of Association, the Company engages in production, service and trade activities. The scope of the Company's core business is as follows:

- exploration, management and exploitation of crude oil and natural gas deposits as well as sulphur-containing minerals;
- production and processing of refined petroleum products;
- production and distribution of gaseous fuels;
- wholesale and retail sale of fuels;
- test drilling and boring;

- geological and exploration activities, geodetic and cartographic activities;
- generation, transmission and distribution of electricity;
- lease, management, purchase and sale of real estate;
- lease of particular items of the Company's property used for electricity and gas transmission;
- distribution of gaseous fuels through mains.

Pursuant to its Articles of Association, the Company performs activities aimed at ensuring energy security of Poland. These relate in particular to the following:

- ensuring continuity of gas supplies to consumers and maintaining necessary reserves;
- ensuring safe operation of gas networks;
- ensuring gaseous fuels balance, managing operations and capacity of power equipment connected to the common gas distribution network;
- engaging in gas production.

3. Organisational Structure

PGNiG SA has a number of branches. As at December 31st 2009, the organisational structure contained the Head Office and fifteen branches. The table below presents the core activities by individual units.

Business profiles of PGNiG SA organisational units

Organisational unit	Core activity
Head Office, Warsaw	Corporate supervision Supervision over the PGNiG Group as part of ownership supervision
Sanok Branch	Production of natural gas and crude oil Maintenance of underground gas storage facilities Direct sale of off-system natural gas and other products and services Exploration
Zielona Góra Branch	Production of natural gas and crude oil Maintenance of underground gas storage facilities Direct sale of off-system natural gas and other products and services Exploration
Odolanów Branch	Conversion of nitrogen-rich natural gas into high-methane gas

Business profiles of PGNiG SA organisational units – continued

Branch	Core activity
Operating Branch in Pakistan	Exploration of and production from hydrocarbon deposits in the licence areas in Pakistan
Branch in Egypt	Exploration of and production from hydrocarbon deposits in the licence areas in Egypt
Branch in Denmark	Exploration of and production from hydrocarbon deposits in the licence areas in Denmark
Branch in Algieria	Exploration of and production from hydrocarbon deposits in the licence areas in Algieria
Lower Silesian Gas Trading Division in Wrocław	Comprehensive support of sales of natural gas and other products and services
Upper Silesian Gas Trading Division in Zabrze	
Carpathian Gas Trading Division in Tarnów	
Mazovian Gas Trading Division in Warsaw	
Pomeranian Gas Trading Division in Gdańsk	
Greater Poland Gas Trading Division in Poznań	
Storage System Operator in Warsaw	Storage of gaseous fuel
Central Measurement and Research Lab in Warsaw	Provision of services to ensure accurate and reliable measurements related to natural gas

As at December 31st 2009, PGNiG SA had foreign representative offices in Moscow (Russia), Brussels (Belgium), Kiev (Ukraine) and Vysokoye (Belarus).

On October 20th 2009, the representative office in Yemen was closed. The Management Board of PGNIG SA resigned from the idea of an organisational unit in Yemen due to local requirements pertaining to representative office's organisation.

In 2009, there were no changes in the Company's or the Group's key management policies.

4. Equity Links

PGNiG SA holds shares and equity interests in production and service companies. As at December 31st 2009, PGNiG SA had 41 related companies, of which:

- 27 were subsidiary companies
- 14 were other related companies.

Total par value of PGNiG SA's equity interests in the related companies was PLN 7.567m as at December 31st 2009. The related companies of PGNiG SA are listed in the table below.

PGNiG SA's related companies

		Share capital (PLN)	Shareholding of PGNiG SA (PLN)	% of share capital held by PGNiG SA	% of the total vote held by PGNiG SA
	Subsidiaries				
1	Poszukiwania Nafty i Gazu Jasło Sp. z o.o.	100,000,000.00	100,000,000.00	100.00%	100.00%
2	Poszukiwania Nafty i Gazu Kraków Sp. z o.o.	105,231,000.00	105,231,000.00	100.00%	100.00%
3	Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.	60,000,000.00	60,000,000.00	100.00%	100.00%
4	GEOFIZYKA Kraków Sp. z o.o.	64,400,000.00	64,400,000.00	100.00%	100.00%
5	GEOFIZYKA Toruń Sp. z o.o.	66,000,000.00	66,000,000.00	100.00%	100.00%
6	Poszukiwania Naftowe Diament Sp. z o.o.	62,000,000.00	62,000,000.00	100.00%	100.00%
7	Zakład Robót Górniczych Krosno Sp. z o.o.	26,903,000.00	26,903,000.00	100.00%	100.00%
8	PGNiG Norway AS (NOK)[1)]	951,327,000.00	951,327,000.00	100.00%	100.00%
9	Polish Oil and Gas Company - Libya B.V. (EUR)[1)]	20,000.00	20,000.00	100.00%	100.00%
10	INVESTGAS S.A.	502,250.00	502,250.00	100.00%	100.00%
11	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000.00	658,384,000.00	100.00%	100.00%
12	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000.00	1,300,338,000.00	100.00%	100.00%
13	Karpacka Spółka Gazownictwa Sp z o.o.	1,484,953,000.00	1,484,953,000.00	100.00%	100.00%
14	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000.00	1,255,800,000.00	100.00%	100.00%
15	Pomorska Spółka Gazownictwa Sp. z o.o.	614,696,000.00	614,696,000.00	100.00%	100.00%
16	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000.00	1,033,186,000.00	100.00%	100.00%
17	B.S. i P.G. Gazoprojekt S.A.	4,000,000.00	3,000,000.00	75.00%	75.00%
18	BUG Gazobudowa Sp. z o.o.	39,220,000.00	39,220,000.00	100.00%	100.00%
19	Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	23,500,000.00	23,500,000.00	100.00%	100.00%
20	Geovita Sp. z o.o.	86,139,000.00	86,139,000.00	100.00%	100.00%
21	Budownictwo Naftowe Naftomontaż Sp. z o.o.	44,751,000.00	39,751,000.00	88.83%	88.83%
22	PGNiG Energia S.A.	5,000,000.00	5,000,000.00	100.00%	100.00%
23	Górnictwo Naftowe Sp. z o.o.	50,000.00	50,000.00	100.00%	100.00%
24	NYSAGAZ Sp. z o.o.	6,800,000.00	3,468,000.00	51.00%	51.00%
25	ZRUG Sp. z o.o. (Pogórska Wola)	4,300,000.00	4,300,000.00	100.00%	100.00%
26	BUD-GAZ PPUH Sp. z o.o.	51,760.00	51,760.00	100.00%	100.00%
27	PPUiH TURGAZ Sp. z o.o. in liquidation	176,000.00	90,000.00	51.14%	51.14%

PGNiG's related companies – continued

		Share capital (PLN)	Shareholding of PGNiG SA (PLN)	% of share capital held by PGNiG SA	% of the total vote held by PGNiG SA
	Other related companies				
28	System Gazociągów Tranzytowych EUROPOL GAZ S.A.	80,000,000.00	38,400,000.00	48.00%	48.00%
29	GAS-TRADING S.A.	2,975,000.00	1,291,350.00	43.41%	43.41%
30	InterTransGas GmbH (EUR)[1)]	200,000.00	100,000.00	50.00%	50.00%
31	Polskie Elektrownie Gazowe Sp. z o.o. in liquidation	2,500,000.00	1,212,000.00	48.48%	48.48%
32	Dewon Z.S.A. (UAH)[1)]	11,146,800.00	4,055,205.84	36.38%	36.38%
33	Przedsiębiorstwo Inwestycyjne GAZOTECH Sp. z o.o.	1,203,800.00	65,000.00	69.44%	46.30%
34	Sahara Petroleum Technology llc in liquidation (OMR)[1)]	150,000.00	73,500.00	49.00%	49.00%
35	PFK GASKON S.A.	13,061,325.00	6,000,000.00	45.94%	45.94%
36	GAZOMONTAŻ S.A.	1,498,850.00	677,200.00	45.18%	45.18%
37	ZRUG Sp. z o.o. (Poznań)	3,781,800.00	1,515,000.00	40.06%	41.71%
38	ZWUG INTERGAZ Sp. z o.o.	4,700,000.00	1,800,000.00	38.30%	38.30%
39	ZRUG TORUŃ S.A.	4,150,000.00	1,300,000.00	31.33%	31.33%
40	TE-MA WOC Małaszewicze Terespol Sp. z o.o. in liquidation	262,300.00	55,000.00	20.97%	21.32%
41	H.S. Szczakowa S.A. in bankruptcy	16,334,989.44	5,439,494.72	33.30%	33.30%

[1)] Figures shown in foreign currencies.

5. Changes in Equity Interests

The following changes took place in 2009:

- On April 22nd 2009, the Extraordinary General Shareholders Meeting of PPUiH TURGAZ Sp. z o.o. resolved to dissolve the company and commence the process of its liquidation.
- On June 7th 2009, the General Shareholders Meeting of Sahara Petroleum Technology llc resolved to dissolve the company and commence the process of its liquidation.
- Pursuant to the court's decision of August 31st 2009, TeNET 7 Sp. z o.o. in liquidation was removed from the Register of Entrepreneurs.
- On December 7th 2009, a new company under the name PGNiG Energia SA was incorporated; the company's share capital amounts to PLN 5,000,000 and is divided into 50,000 shares with a par value of PLN 100 per share. All the shares were acquired by PGNiG SA PGNiG Energia SA was entered in the National Court Register on January 11th 2010.

The following share capital increases were effected in 2009:

- Registration of share capital increase at Wielkopolska Spółka Gazownictwa Sp. z o.o. by PLN 54,899,000, to PLN 1,033,186,000; the increase was registered on January 22nd 2009;
- Share capital increase at Mazowiecka Spółka Gazownictwa Sp. z o.o. by PLN 4,062,000, to PLN 1,255,800,000; the newly issued shares were acquired by PGNiG SA in exchange for a contribution of perpetual usufruct rights to land along with ownership rights to the buildings and structures erected on the land; the share capital increase was registered with the National Court Register on May 11th 2009;
- Share capital increase at Dolnośląska Spółka Gazownictwa Sp. z o.o. by PLN 3,321,000, to PLN 658,384,000; the newly issued shares were acquired by PGNiG SA in exchange for a contribution

of perpetual usufruct rights to land along with ownership rights to the buildings and structures erected on the land; the share capital increase was registered with the National Court Register on May 12th 2009;

- Registration of share capital increase at Górnośląska Spółka Gazownictwa Sp. z o.o. by PLN 10,808,000, to PLN 1,299,488,000; the increase was registered on June 22nd 2009; share capital increase by PLN 850,000, to PLN 1,300,338,000; the newly issued shares were acquired by PGNiG SA in exchange for a contribution of perpetual usufruct rights to land along with ownership rights to the buildings and structures erected on the land; the share capital increase was registered with the National Court Register on January 4th 2010;
- Share capital increase at NYSAGAZ Sp. z o.o. by PLN 3,100,000, to PLN 6,800,000; as part of the transaction, PGNiG SA acquired shares worth PLN 1,581,000; the share capital increase was registered with the National Court Register on September 16th 2009;
- Share capital increase at PGNiG Norway AS by NOK 454,000,000 NOK, to NOK 951,327,000; the increase was registered with a competent court on November 5th 2009.

Investments Outside the Group of Related Companies

As at the end of 2009, the nominal value of PGNiG SA's capital exposure outside the group of related companies was PLN 43.6m. In the financial year, PGNIG SA did not make any equity investments outside the group of related companies.

6. Employment

The table below presents the employment as at December 31st 2009, by segments. PGNiG SA's Head Office provides services to all segments. Accordingly, it is disclosed separately.

Employment by segments (no. of staff)

	2009	2008
Head Office	833	837
Exploration and Production	4,300	4,223
Trade and Storage	3,730	3,702
Other activities	37	37
Total	8,900	8,799

On December 11th 2008, the Extraordinary General Shareholders Meeting of PGNiG SA adopted the Programme for Employment Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3). The programme became effective in January 2009. Unlike previous employment restructuring programmes, this scheme is based on the "stand-by" principle. It may be implemented in extraordinary circumstances and requires all the companies to follow a procedure which is uniform across the Group. A decision to implement the programme may only be made where it is justified by the scope of planned restructuring involving workforce downsizing and/or liquidation of jobs.

In 2009, ZUN Naftomet Sp. z o.o. included 26 employees in the Programme. In November 2009, by virtue of a resolution of the Extraordinary General Shareholders Meeting of PGNiG SA, PLN 1,088,214.80 was used from the capital reserve designated as Central Restructuring Fund to provide one-off protection benefits for the employees made redundant.

7. Sale and Acquisition of Natural Gas

PGNiG SA recorded sales revenue of PLN 18.6bn, with 95% of that figure derived from sales of natural gas.

Sales revenue (PLNm)

	2009	2008
Natural gas, including:	17,655.0	16,962.1
- high-methane gas	16,371.0	15,568.9
- nitrogen-rich gas	1,284.0	1,393.2
Crude oil	661.6	775.6
Condensate	2.7	3.0
Helium	37.1	27.6
Propane-butane	37.2	42.6
Geophysical and geological services	26.9	64.9
Other sales	157.8	163.0
Total	18,578.3	18,038.8

In 2009, PGNiG SA sold 13.3bn m^3 of natural gas, with 95% of that figure accounted for by revenues from the transmission and distribution systems and the balance – by direct sales of natural gas from fields.

Natural gas sales volume (million m^3)

	2009	2008
Trade and Storage	12,644.0	13,250.8
Exploration and Production	640.0	611.3
Total	13,284.0	13,862.1

In 2009, the volume of natural gas acquired by PGNiG SA reached 13.3bn m^3, with 68.7% of that amount sourced from imports, mostly from Russia. Natural gas production from domestic reserves represented 30.9% of the total volume acquired. The table below sets forth the structure of natural gas supplies measured as high-methane gas equivalent.

Acquisition of natural gas (million m^3)

	2009	2008
Imports	9,135.9	10,264.3
Domestic production	4,105.2	4,073.9
Domestic suppliers	58.1	22.1
Total	13,299.2	14,360.3

Chapter II: Company's Governing Bodies

1. Management Board

Pursuant to the Company's Articles of Association, the Management Board of PGNiG SA is composed of two to seven members. The number of Management Board members is determined by the Supervisory Board. Members of the Management Board are appointed for a joint three-year term of office. Individual members of the Management Board or entire Management Board are appointed by the Supervisory Board. A member of the Management Board is appointed following a qualification procedure carried out under Regulation of the Polish Council of Ministers of March 18th 2003 concerning qualification procedures for members of management boards of certain commercial-law companies (Dz. U. No. 55, item 476). The Regulation does not apply in the case of the Management Board members elected by employees. Each Management Board member may be removed from office or suspended by the Supervisory Board or the General Shareholders Meeting. As long as the State Treasury remains a shareholder of the Company and the Company's annualised average employment number exceeds 500, the Supervisory Board appoints as a Management Board member one person elected by the Company's employees, to serve for the Management Board's term of office.

As at January 1st 2009, the composition of the Management Board of PGNiG SA was as follows:

- Michał Szubski – President
- Mirosław Dobrut – Vice-President of the Management Board for Gas and Trade
- Sławomir Hinc – Vice-President of the Management Board, Chief Financial Officer
- Radosław Dudziński – Vice-President of the Management Board for Strategy
- Mirosław Szkałuba – Vice-President of the Management Board for Social Dialogue and Assets

On January 28th 2009, the Supervisory Board of PGNiG SA appointed Waldemar Wójcik as Vice-President of the Management Board for Oil Mining.

As at December 31st 2009, the composition of the Management Board of PGNiG SA was as follows:

- Michał Szubski – President
- Mirosław Dobrut – Vice-President of the Management Board for Gas and Trade
- Sławomir Hinc – Vice-President of the Management Board, Chief Financial Officer
- Radosław Dudziński – Vice-President of the Management Board for Strategy
- Mirosław Szkałuba – Vice-President of the Management Board for Social Dialogue and Assets
- Waldemar Wójcik – Vice-President of the Management Board for Oil Mining

<u>Agreements Concluded with Management Board Members</u>

The employment contracts concluded with all Management Board Members contain a clause in Par. 8, which reads: "In the event of removal from office or termination of the employment contract for reasons other than breach of basic responsibilities related to employment, the employee may be granted severance pay equal to three times monthly salary."

In 2009, non-competition agreements concluded with all Management Board Members were still in force. The non-competition agreements continue in force for 12 months from the date of termination of the employment relation. In return for compliance with the non-competition agreement during its term, Management Board member is entitled to monthly compensation of 100% of the average gross remuneration for the last three months, received under employment contracts.

2. Supervisory Board

Pursuant to the Company's Articles of Association, PGNiG SA's Supervisory Board is composed of five to nine members appointed by the General Shareholders Meeting for a joint three-year term of office. As long as the State Treasury remains a shareholder of the Company, the State Treasury, represented by the minister competent for matters pertaining to the State Treasury, acting in this respect in agreement with the minister competent for economy, has the right to appoint and remove one member of the Supervisory Board. In accordance with the Articles of Association, the General Shareholders Meeting appoints one independent member of the Supervisory Board. Pursuant to Par. 36.3 of the Company's Articles of Association, the independent Supervisory Board member is elected in a separate vote. Written proposals of candidates for the post of an independent Supervisory Board member may be submitted to the Chairman of the General Shareholders Meeting by the shareholders present at the General Shareholders Meeting whose agenda includes the election of such Supervisory Board member. Such written proposal is submitted along with a written representation by a given candidate to the effect that the candidate agrees to stand for election and meets the criteria for an independent member of the Supervisory Board. If there are no such candidates proposed by the shareholders, candidates to the Supervisory Board are proposed by the Supervisory Board. If the Supervisory Board is composed of up to six members – two members are appointed from among the candidates elected by the Company's employees. If the Supervisory Board is composed of seven to nine members – three members are appointed from among the candidates elected by the Company's employees.

As at January 1st 2009, the Supervisory Board of PGNiG SA was composed of:

- Stanisław Rychlicki – Chairman of the Supervisory Board
- Marcin Moryń – Deputy Chairman of the Supervisory Board
- Mieczysław Kawecki – Secretary of the Supervisory Board
- Grzegorz Banaszek – Member of the Supervisory Board
- Agnieszka Chmielarz – Member of the Supervisory Board
- Marek Karabuła – Member of the Supervisory Board
- Maciej Kaliski – Member of the Supervisory Board
- Mieczysław Puławski – Member of the Supervisory Board
- Jolanta Siergiej – Member of the Supervisory Board

On June 16th 2009, Maciej Kaliski resigned from his position as Member of the Supervisory Board of PGNiG SA.

As at December 31st 2009, the Supervisory Board was composed of eight persons:

- Stanisław Rychlicki – Chairman of the Supervisory Board
- Marcin Moryń – Deputy Chairman of the Supervisory Board
- Mieczysław Kawecki – Secretary of the Supervisory Board
- Grzegorz Banaszek – Member of the Supervisory Board
- Agnieszka Chmielarz – Member of the Supervisory Board
- Marek Karabuła – Member of the Supervisory Board
- Mieczysław Puławski – Member of the Supervisory Board
- Jolanta Siergiej – Member of the Supervisory Board

Remuneration of Members of the Management and Supervisory Boards

For information on the remuneration paid to the Members of the Management Board and Supervisory Board, see the Annual Separate Financial Statements for the year ended December 31st 2009 (Note 37.4).

Chapter III: Shareholder Structure

As at December 31st 2009, PGNiG's share capital amounted to PLN 5,900,000,000 and was divided into 5,900,000,000 shares with a par value of PLN 1 per share. The State Treasury remains the only shareholder directly holding a large block of PGNiG shares. The shares of all series, that is Series A, A1 and B, are ordinary bearer shares, and each confers the right to one vote at the General Shareholders Meeting. The shareholder structure as at December 31st 2009 is shown in the table below:

Shareholder structure

Shareholder	Number of shares as at Dec 31 2009	% of share capital as at Dec 31 2009	Number of votes conferred by shares	% of total vote at GM as at Dec 31 2009
State Treasury	4,303,686,368	72.94%	4,303,686,368	72.94%
Others	1,596,313,632	27.06%	1,596,313,632	27.06%
Total	5,900,000,000	100.00%	5,900,000,000	100.00%

PGNiG Shares and Shares in the Related Undertakings of PGNiG SA Held by the Management and Supervisory Personnel

The number of shares in PGNiG SA held by the management and supervisory personnel as at December 31st 2009 is shown in the table below.

PGNiG shares held by the management and supervisory personnel

Name	Title	Number of shares	Par value per share (PLN)
Michał Szubski	President of the Management Board	6,825	6,825
Mirosław Dobrut	Vice-President of the Management Board	19,500	19,500
Mirosław Szkałuba	Vice-President of the Management Board	9,425	9,425
Waldemar Wójcik	Vice-President of the Management Board	19,500	19,500
Stanisław Rychlicki	Chairman of the Supervisory Board	9,897	9,897
Mieczysław Kawecki	Secretary of the Supervisory Board	19,500	19,500
Jolanta Siergiej	Supervisory Board Member	9,425	9,425

Agreements which May Give Rise to Future Changes in the Number of Shares Held by the Existing Shareholders and Bondholders

On June 25th 2008, the Ministry of State Treasury disposed of one share in PGNiG SA. The transaction was concluded on market terms. The settlement of the transaction with the National Depository of Securities, and thus transfer of the title to the shares, took place on June 30th 2009. Pursuant to the Commercialisation and Privatisation Act, dated August 30th 1996, eligible employees or their heirs gained the right to acquire the Company shares free of charge as of October 1st 2008. The right will expire on October 1st 2010. The eligible persons have the right to acquire, free of

charge, up to 15% of the shares acquired by the State Treasury on the Company registration date, that is up to 750,000,000 Series A1 bearer shares with a par value of PLN 1 per share.

Control of Employee Stock Option Plans

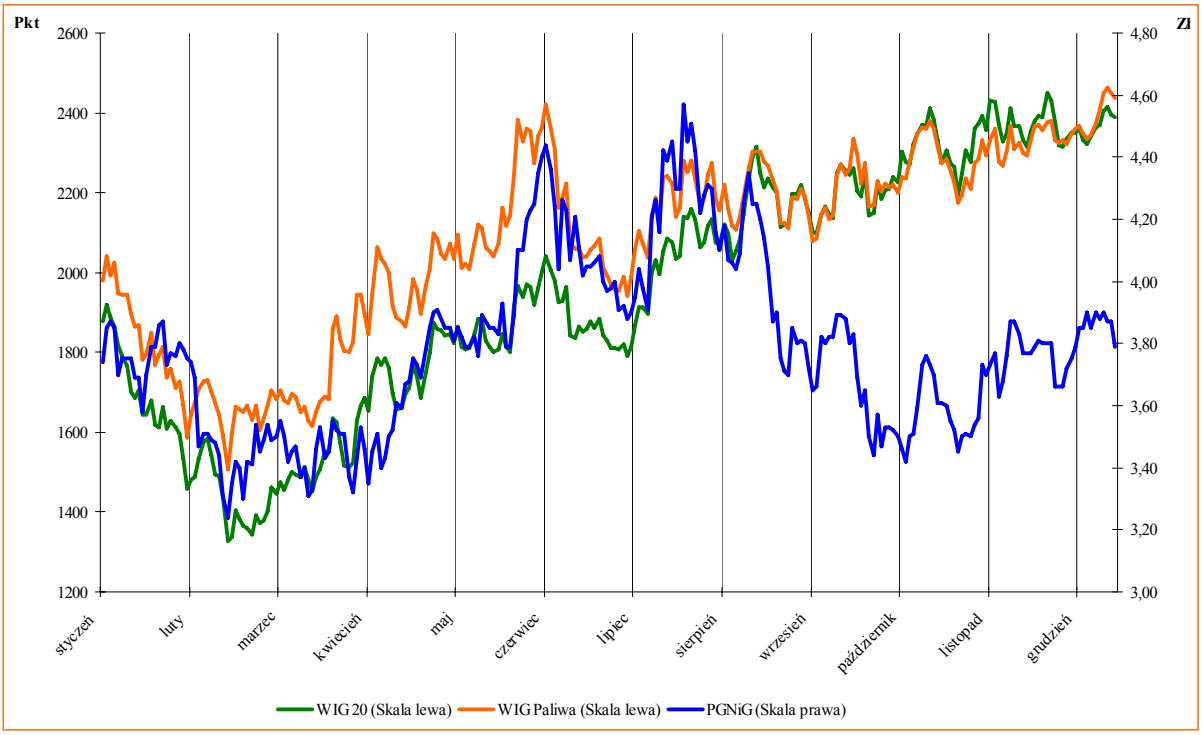
The process of concluding agreements on free-of-charge disposal of PGNiG shares to eligible employees or their heirs commenced on April 6th 2009. The eligible persons have the right to acquire, free of charge, up to 15% of the shares acquired by the State Treasury on the Company registration date, that is up to 750,000,000 Series A1 bearer shares with a par value of PLN 1 per share. The Company shares acquired free of charge by eligible employees or their heirs cannot be traded before July 1st 2010, and the shares acquired free of charge by members of the Company's Management Board cannot be traded before July 1st 2011. To enable all eligible persons to enter in agreements on free-of-charge acquisition of the shares, the Company has opened temporary service desks at the Group companies where the eligible persons may conclude the agreements with the State Treasury, and open securities accounts at Centralny Dom Maklerski Pekao SA, which assists in the share disposal. The acquisition of shares free of charge will result in a decrease of the State Treasury's share of the total vote from 84.75% to 72.03%. As at December 31st 2009, 55,796 eligible persons acquired 696,313,631 shares, representing approximately 93% of the total number of shares which may be acquired free of charge, and 11.8% of the Company's share capital.

Performance of the PGNiG Stock

PGNiG shares have been listed on the Warsaw Stock Exchange since September 23rd 2005. The Company is included in the WIG20 Index comprising twenty largest Polish enterprises. In 2009, the rate of return on PGNiG stock was 5.3% (or 7.8%, when taking into account dividend paid). From the first listing until December 31st 2009, the rate of return on PGNiG stock is -0.5%. Investors who acquired PGNiG shares at the WSE issue price earned a 27.2% return on their money.

The following figure compares PGNiG stock price performance vs. WIG 20 and WIG Paliwa. The table below shows the values of the WSE indices and PGNiG share price in 2009.

PGNiG share price compared with the WIG 20 and WIG Paliwa Indices



WSE Indices and the PGNiG share price

	Value/price as at Dec 31 2008	2009 high	2009 low	Value/price as at Dec 31 2009	PGNiG's weight in the index as at Dec 31 2009
WIG	27,229	40,853	21,274	39,986	2.1%
WIG20	1,790	2,448	1,328	2,389	3.8%
WIG-Paliwa	1,889	2,462	1,507	2,435	17.7%
PGNiG SA (PLN)	3.60	4.57	3.24	3.79	-

Source: WSE

Chapter IV: Regulatory Environment

The key laws regulating the activities of PGNiG SA's are:

- Polish Energy Law of April 10th 1997 (consolidated text: Dz.U. of May 30th 2006, No. 89, item 624, as amended) – with respect to the activities in the area of trade in gaseous fuels, gas distribution and storage of gaseous fuels.
- Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as Rules of procedure to be followed when the state's fuel security is threatened or the petroleum market is disturbed, dated February 16th 2007 (Dz.U. of March 23rd 2007, No. 52, item 343, as amended) – with respect to the activities in the area of international trade in natural gas.
- Polish Geological and Mining Law of February 4th 1994 (Dz.U. of March 1st 1994, No. 27, item 96, as amended) – with respect to production activities and related sales of gas.

1. Polish Energy Law

The activities of PGNiG SA in the area of trade in and storage of gaseous fuels are regulated and require a licence granted and tariff approved by the President of the Energy Regulatory Office. The tariff specifies prices of gaseous fuels.

2009 saw continuation of the work on further changes to the Polish Energy Law and the Regulation of the Minister of Economy and Labour on detailed rules for functioning of the gas system. On February 8th 2010, amendments to the Energy Law became effective. The amendments concern primarily the power sector.

1.1. Licences

May 15th 2009 saw the expiry of the licence for transmission and distribution of gaseous fuels, dated April 30th 1999.

As at December 31st 2009, the Company held the following licences granted by the President of the Polish Energy Regulatory Office under the Energy Law:

- one licence for trade in gaseous fuels;
- one licence for international trade in natural gas;
- one licence for storage of gaseous fuels;
- one licence for trade in liquid fuels;
- one licence for electricity production.

On August 17th 2009, PGNiG SA filed a request with the President of the Energy Regulatory Office to approve a change in the scope of licence for gaseous fuels storage. The licence scope is changed to reflect exclusion of working capacities of the storage facilities which are used by PGNiG SA in production or by the Transmission System Operator, as well as changes in the working capacities of the Mogilno and Husów Underground Storage Facilities, resulting from technical conditions of operation. By the date of this Report, the proceedings before the President of the Energy Regulatory Office had not been concluded.

1.2. Tariff Policy

The crucial factor determining PGNiG SA's regulated business is the dependence of revenue on tariffs subject to approval by the President of the Energy Regulatory Office. Tariff prices are crucial for the Company's ability to generate revenue that can cover the incurred justified costs plus return on capital employed. The gas prices are directly connected with the applied tariff preparation methodology.

The tariff preparation methodology is based on the determination of prices and charge rates against forecast costs and gas sales targets. In accordance with the guidelines issued by the regulatory authority (the President of the Energy Regulatory Office), calculation of prices of gaseous fuels included the cost of acquisition of natural gas from all sources, that is of both imported and domestically produced gas. In practice this means that both international trade and domestic production are subject to regulated pricing. Given that the current prices of imported gas are higher than those of domestically produced gas, the inclusion of production cost for gas from domestic sources in the cost basket, taken into account in pricing, resulted in a situation where the tariff prices (applicable in settlements with customers) were determined below the level that would have been set based on the cost of acquisition of imported gas.

The settlements with customers with which PGNiG SA had concluded sale agreements were regulated by the settlement rules and charge rates specified in subsequent tariffs approved by the President of the Energy Regulatory Office.

At present, the Company provides comprehensive services to its customers. The Regulation of the Minister of Economy on detailed rules for preparing and calculating tariffs for gaseous fuels and on settlements in gaseous fuels trade provides for the possibility of calculating a tariff which would be applicable to resellers interested in purchasing gaseous fuels, however, with no guarantee of supply. In the course of approval proceedings concerning Tariff No. 2/2009 for gaseous fuels, PGNiG SA submitted the proposed provisions regulating the sale of gaseous fuels to resellers, but the President of the Energy Regulatory Office did not consent to their inclusion in the Tariff.

1.3. Changes in Tariffs

Until May 31st 2009, settlements with customers were made according to Tariff No. 1 for Gaseous Fuels, approved by virtue of the decision issued by the President of the Energy Regulatory Office on April 10th 2008, whose part relating to the price for gaseous fuels was changed by the President of the Energy Regulatory Office by virtue of the decision dated October 17th 2008.

On February 13th 2009, PGNiG SA filed a request to the President of the Energy Regulatory Office for approval of Tariff No. 1/2009 for Gaseous Fuels (renamed as Tariff No. 2/2009 for Gaseous Fuels in the course of the proceedings). The Tariff was divided into two parts: Part A and Part B.

On May 7th 2009, by virtue of the decision issued of the President of the Energy Regulatory Office, Tariff No. 2/2009 for Gaseous Fuels designated as Part A was approved, which became effective for settlements with customers as of June 1st 2009.

Since January 1st 2009 PGNiG SA has acted as the Storage System Operator and will continue to act in this capacity until December 31st 2025. On May 25th 2009, PGNiG SA filed a request to the President of the Energy Regulatory Office for approval of the Gaseous Fuels Tariff designated as Part B ("Tariff No. 1/2009 for storage of gaseous fuels"). Tariff No. 1/2009 for storage of gaseous fuels was approved by virtue of the decision of the President of the Energy Regulatory Office dated June 16th 2009. The tariff became effective for settlements with customers as of July 1st 2009.

The following table shows a summary of average tariffs (PLN/m^3) used in settlements with customers purchasing gaseous fuels, by fuel type and place of receipt.

1. Area covered by Dolnośląska Spółka Gazownictwa Sp. z o.o.

	2009	2008	Change (in %)
W-1	2.3598	2.3773	-0.7%
W-2	1.8066	1.8367	-1.6%
W-3	1.6341	1.6591	-1.5%
W-4	1.5175	1.5486	-2.0%
W-5 –W-7B	1.3802	1.4258	-3.2%
W-8 – W-10	1.1322	1.2012	-5.7%

	2009	2008	Change (in %)
S-1	1.6291	1.6307	-0.1%
S-2	1.2132	1.2170	-0.3%
S-3	1.1333	1.1330	0.0%
S-4	1.0045	1.0079	-0.3%
S-5 –S-7B	0.9806	0.9909	-1.0%
S-8 – S-10	0.8390	0.8638	-2.9%

	2009	2008	Change (in %)
Z-1	1.3539	1.3640	-0.7%
Z-2	1.1399	1.1401	0.0%
Z-3	1.0321	1.0324	0.0%
Z-4	0.9115	0.9141	-0.3%
Z-5 –Z-7B	0.9273	0.9367	-1.0%

2. Area covered by Górnośląska Spółka Gazownictwa Sp. z o.o.

	2009	2008	Change (in %)
W-1	2.3161	2.3164	0.0%
W-2	1.8858	1.8852	0.0%
W-3	1.6172	1.6166	0.0%
W-4	1.5335	1.5332	0.0%
W-5 –W-7B	1.4017	1.4212	-1.4%
W-8 – W-10	1.1354	1.1952	-5.0%

3. Area covered by Karpacka Spółka Gazownictwa Sp. z o.o.

	2009	2008	Change (in %)
W-1	2.1597	2.1701	-0.5%
W-2	1.8153	1.8211	-0.3%
W-3	1.5656	1.5735	-0.5%
W-4	1.4618	1.4747	-0.9%
W-5 –W-7B	1.3680	1.3960	-2.0%
W-8 – W-10	1.1002	1.1655	-5.6%

4. Area covered by Mazowiecka Spółka Gazownictwa Sp. z o.o.

	2009	2008	Change (in %)
W-1	2.5416	2.5734	-1.2%
W-2	1.7423	1.7764	-1.9%
W-3	1.5212	1.5529	-2.0%
W-4	1.4772	1.5001	-1.5%
W-5 –W-7B	1.3603	1.4001	-2.8%
W-8 – W-10	1.0399	1.1180	-7.0%

5. Area covered by Pomorska Spółka Gazownictwa Sp. z o.o.

	2009	2008	Change (in %)
W-1	2.4357	2.4382	-0.1%
W-2	1.8422	1.8418	0.0%
W-3	1.6120	1.6117	0.0%
W-4	1.5356	1.5507	-1.0%
W-5 –W-7B	1.4130	1.4266	-1.0%
W-8 – W-10	1.1384	1.1862	-4.0%

6. Area covered by Wielkopolska Spółka Gazownictwa Sp. z o.o.

	2009	2008	Change (in %)
W-1	2.3860	2.3865	0.0%
W-2	1.7745	1.8045	-1.7%
W-3	1.6140	1.6162	-0.1%
W-4	1.5189	1.5197	-0.1%
W-5 –W-7B	1.3568	1.3870	-2.2%
W-8 – W-10	1.0835	1.1468	-5.5%

	2009	2008	Change (in %)
S-1	1.6576	1.6572	0.0%
S-2	1.2702	1.2700	0.0%
S-3	1.1364	1.1375	-0.1%
S-4	1.0352	1.0354	0.0%
S-5 –S-7B	1.0070	1.0158	-0.9%

	2009	2008	Change (in %)
Z-1	1.6685	1.6690	0.0%
Z-2	1.1359	1.1387	-0.2%
Z-3	0.9926	0.9991	-0.6%
Z-4	0.9210	0.9247	-0.4%
Z-5 –Z-7B	0.8487	0.8672	-2.1%

7. Customers connected to the transmission grid of OGP GAZ-SYSTEM S.A.

Tariff group	2009	2008	Change (in %)
E-1A – E-4B	1.0439	1.1207	-6.9%
Lw-1 – Lw-4	0.7658	0.8001	-4.3%
Ls-1 – Ls-4	0.7236	0.7692	-5.9%

On February 12th 2010, PGNiG SA filed a request to the President of the Energy Regulatory Office for approval of the Tariff for the supply, storage and sale of gaseous fuels. By the date of this Report, no decision had been issued by the President of the Energy Regulatory Office regarding the tariff.

2. Act on Stocks of Crude Oil, Petroleum Products and Natural Gas

The Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as Rules of procedure to be followed when the national fuel security is threatened or the petroleum market is disturbed regulates the issues related to ensuring the national fuel security, including the rules for creating, maintaining, and financing the stocks of natural gas by those energy companies whose business involves international trade in natural gas or which are importing gas for their own needs. The Act introduced certain changes with respect to the business activity conducted by PGNiG SA:

- it sets the timetable for creation of mandatory stocks of natural gas; it stipulates that as of October 1st 2012, the volume of mandatory stocks will cover 30 days' average daily imports of gas;
- it provides for return on capital employed in storage activity of at least 6%;
- it stipulates that the cost related to maintaining, releasing and supplementing the stocks is justified operating cost within the meaning of Art. 3.21 of the Polish Energy Law.

3. Polish Geological and Mining Law

The Polish Geological and Mining Law of February 4th 1994 (Dz.U. 05.228.1947) defines the rules and conditions for:

- carrying out geological work;
- extracting minerals from deposits;
- storing waste matter in rock mass, including in worked-out caverns;
- protection of mineral deposits, underground waters and other environmental resources in connection with geological works and extraction of minerals.

The provisions of the Geological and Mining Law also govern business activities in the field of tankless storage of substances in rock mass, including in worked-out caverns.

Business activities involving exploration for and appraisal of mineral deposits, extraction of minerals from deposits, tankless storage of substances and storage of waste matter in rock mass, including in worked-out caverns require licences.

Geological and mining activities are subject to the supervision of competent geological administration and mining supervision authorities. The Geological and Mining Law provides for criminal sanctions in case of failure to comply with its regulations and specifies the upper and lower limits of mining fees.

In 2009, the Ministry of Natural Environment granted PGNiG SA seven licences for exploration for and appraisal of crude oil and natural gas deposits, and extended the term of eight licences. The Company also obtained one licence for appraisal of the Goleniów salt deposit to be used as an underground gas storage facility. In 2009, four licences for crude oil and natural gas production were obtained, while six licences expired. In addition, during the year one licence for waste matter storage expired. No changes occurred with respect to licences for underground gas storage.

As at December 31st 2009, PGNiG SA held the following licences, granted on the basis of the Geological and Mining Law:

- 82 licences for exploration for and appraisal of crude oil and natural gas deposits;
- 1 licence for appraisal of a salt deposit;

- 215 licences for production of crude oil and natural gas from deposits;
- 9 licences for underground gas storage;
- 3 licences for waste matter storage.

4. Regulatory Risks

Energy Law

2010 should see further changes in the laws governing the operation of gas sector companies, in particular the Energy Law. The changes may be required to reflect the adoption of the Third Energy Package by the European Parliament, which includes the Directive of the European Parliament and of the Council concerning common rules for the internal market in natural gas, repealing Directive 2003/55/EC. Furthermore, drafting of another regulation, crucial for the operation of the gas market and outlining detailed terms of the gas system operation, has been at the drafting stage since 2007. Once the amended laws become effective, the tariff regulation will need to be amended.
Legal changes, including delays in amendments to legal acts, create risks stemming from uncertainty as to the scope of regulatory changes and shorter the time for adaptation to such changes, which might adversely affect the PGNiG Group's financial results and growth prospects.

Draft Law on Energy Efficiency

In 2009, a draft law on energy efficiency, implementing Directive 2006/32/EC of the European Parliament and of the Council of April 5th 2006 on energy end-use efficiency and energy services into the Polish law, was being prepared. Under certain provisions contained in the draft law, the power sector is given favourable treatment, which may lead to a situation where electricity providers are subsidised at the expense of other energy sectors (including the gas sector) and where the competitive balance among particular energy carriers is disrupted. Upon its enactment, the law will also require PGNiG SA, as a gas trading company, to purchase white certificates or, alternatively, to pay the non-compliance penalty. This in turn will drive up the cost of regulated activities and, consequently, inflate the price paid by customers. Furthermore, after it is implemented, the law is bound to hinder the development of the Polish gas market, thus undermining a fundamental assumption of *Poland's Energy Policy Until 2030*.

Tariff Calculation

PGNiG SA's ability to cover costs of its core operating activities depends on the prices approved by the President of the Energy Regulatory Office. While approving tariffs for a given period, the President of the Energy Regulatory Office considers other external factors which are beyond PGNiG SA's control. In an attempt to protect weaker customers, while verifying costs of operating activities the President of the Energy Regulatory Office may consider certain cost unjustified. Moreover, the President of the Energy Regulatory Office does not always accept the assumptions adopted by PGNiG SA with respect to main drivers of cost changes and profit targets allowing for business risk. Consequently, the Energy Regulatory Office frequently refuses to accept tariff prices and charge rates applied for by PGNiG SA Lower tariff prices and charges might adversely affect PGNiG SA's profitability.

Demand for Natural Gas

The current methodology for calculation of prices and charge rates is based on forecast values; accordingly, revenue is encumbered with forecasting risk. Inaccurate estimates of demand affecting the accuracy of forecast purchase and supply volumes, as well as the value of costs on which the determinations of prices and charge rates are based may adversely affect financial results. An increase in demand above the forecast level would necessitate additional purchases under all existing contracts (in numerous cases, at prices higher than forecast).

Purchase Price of Imported Gas

Prices of imported gas are determined in USD or EUR and are based on indexation formulae reflecting the prices of petroleum products. Changes in foreign exchange rates and prices of petroleum products materially affect acquisition cost of imported gas. Material changes in fuel prices on the international markets affect the prices of imported gas. Each, even accurate forecast of changes of natural gas prices is encumbered with a high error risk. There can be no assurance that despite the legal possibility of adjusting prices approved for a tariff term an increase in the price of imported gas may not be fully passed on customers or the changes in selling prices may lag behind the changes in import prices.

Licences for Exploration for and Appraisal of Deposits

In recent years, the increase in prices of fuels on global markets has led to increased interest in exploration activities. There is a risk of competition from other companies active on the Polish market seeking licences for exploration for and appraisal of deposits or the implementation of a strategy providing for acquiring access to own hydrocarbon reserves. At present, competition in the domestic market is limited. However, after having been granted relevant licences, PGNiG SA's competitors will enter the Polish market. A strong competitive edge may be gained especially by large companies which enjoy established positions on the international markets and have access to much greater financial resources compared with PGNiG SA, helping them to accept the high risk of exploration activities in Poland.

Chapter VI: Exploration and Production

The segment's key activity is the extraction of hydrocarbons from deposits and preparation of products for sale. The segment covers the entire process of exploration for and production of natural gas and crude oil, starting from geological analyses, through geophysical studies and drilling, to the development and production of reserves. For its own purposes, the segment also uses the capacity of the Brzeźnica, Daszewo, Strachocina and Swarzów Underground Storage Facilities.

1. Exploration

In 2009, PGNiG SA conducted exploration work in Poland, in the Carpathian mountains, Carpathian Foothills and Polish Lowlands. Drilling work covered 27 wells, including 19 exploration wells and eight appraisal wells. The work on seven of the wells started in 2008. Domestically, PGNiG SA performed 58.823 m of drilling work, including 4,434 m of drillings in cooperation with FX Energy Poland Sp. z o.o. Abroad, PGNiG SA conducted work in Pakistan, where boreholes of 2,820 m were drilled.

From among the 25 wells for which deposit characteristics are already known (18 exploration wells and 7 appraisal wells), 11 were classified as positive (nine gas wells and two crude oil wells), while 14 other wells were classified as negative. The gas boreholes are located in the Carpathian Foreland and Polish Lowlands, while the oil boreholes – in the Polish Lowlands.
In 2009, PGNiG SA conducted geophysical research in the Carpathian Mountains, the Carpathian Foreland and Polish Lowlands, where a total of 1,328.9 km of 2D seismic field works, and 3D seismic field works were performed on an area of 513.6 km^2.

The amount of PLN 792.8m was spent on exploration and prospecting work in 2009.

As at December 31st 2009, the volume of reserves approved by the Minister of Environment was:
- 97.9bn m^3 of natural gas, measured as high-methane gas equivalent;
- 20.9m tonnes of crude oil.

<u>Joint Ventures in Poland</u>

In 2009, PGNiG SA cooperated with FX Energy Poland Sp. z o.o. in the following areas covered by licences awarded to PGNiG SA:

- "Płotki" – under the Agreement for Joint Operations dated May 12th 2000 (PGNiG SA – 51%, FX Energy – 49%);
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under the Operating Agreement of Mining Users dated October 26th 2005 (PGNiG SA – 51%, FX Energy – 24.5%, CalEnergy – 24.5%);
- "Poznań" – under the Agreement for Joint Operations dated June 1st 2005 (PGNiG SA – 51%, FX Energy – 49%);

and the areas covered by licences awarded to FX Energy Poland Sp. z o.o.:

- Block 255 – under the Agreement for Joint Operations dated October 29th 1999 (FX Energy – 81.82%, PGNiG SA – 18.18%)
- "Ostrowiec" – under the Agreement for Joint Operations dated February 27th 2009, covering licence block nos. 163 and 164 (FX Energy – 51%, PGNiG SA – 49%).

In 2009, the Minister of Environment approved the division of mining usufruct among the parties to the agreements for joint operations in proportion consistent with their shares in the agreements regarding: the Roszków gas deposit (the "Płotki" area), the Zaniemyśl gas deposit (the "Płotki"-"PTZ" area), the Wilga (Block 255) gas deposit, Blocks nos. 163 and 164 (the "Ostrowiec" area) and licenses for natural gas and oil exploration regarding Kórnik-Środa, Pyzdry and Jarocin-Grabina (the "Poznań" area).

Under the Agreement on Settlement of Payments for Natural Gas Produced from the "Klęka-11" Borehole, PGNiG extracted gas from the Klęka deposit. Furthermore, the reprocessing and reinterpretation of seismic data were completed in the "Płotki" area.

In 2009, in the "Poznań" area, reprocessing and interpretation of 3D seismic surveys of Żerków-Pleszew were continued, while drilling work was completed on the Kromolice-2 borehole (classified as positive); additionally, reprocessing and interpretation of 2D seismic surveys of Lutynia-Taczanów were completed. Production of gas from the Zaniemyśl natural gas deposit was continued in the "Płotki" – PTZ area.

In H2 2009, PGNiG SA finished production of gas from the Wilga deposit (Block 255) and completed drilling of exploratory borehole Ostrowiec-1 (the "Ostrowiec" area). The well was decommissioned for lack of evidence of hydrocarbons.

In 2009, PGNiG SA, under the Bieszczady Joint Operations Agreement of June 1st 2007, in cooperation with Eurogas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o., PGNiG SA completed 2D seismic surveys on Kostarowce-Zahutyń in the Carpathian Mountains area and commenced processing and interpretation of the seismic surveys. The licences and mining usage right with respect to exploration and prospecting of crude oil and natural gas deposits in that area are held by PGNiG SA.

On June 22nd 2009, the Company and Orlen Upstream Sp. z o.o. entered into an agreement regarding development of crude oil deposits in the Sieraków field, in the area covered by a licence held by PGNiG SA. PGNiG SA has a 51% interest in the project, while Orlen Upstream Sp. z o.o. holds the remaining stake of 49%. In 2009, workover the Sieraków-4 well commenced.

On December 17th 2009, PGNiG SA and Energia Karpaty Zachodnie Sp. z o.o. Sp. k. entered into Agreement for Joint Operations with respect to the West Carpathian Mountains area. Energia Karpaty Zachodnie Sp. z o.o. Sp. k. acts as the Operator and holds a 60% interest in the project, while PGNiG SA holds a 40% interest.

On December 17th 2009, the Company and Energia Karpaty Wschodnie Sp. z o.o. Sp. k. entered into Agreement for Joint Operations with respect to the East Carpathian Mountains area. Energia Karpaty Wschodnie Sp. z o.o. Sp. k. acts as the Operator and holds an 80% interest in the project, while PGNiG SA holds a 20% interest.

Exploration Abroad

PGNiG SA conducts exploratory work in Pakistan under an agreement between PGNiG SA and the Pakistani government dated May 18th 2005, concerning exploration and production of hydrocarbons in the area covered by the Kirthar licence. Exploratory work in the Kirthar block area is conducted in cooperation with Pakistan Petroleum Ltd. (interests/project cost participation: PGNiG SA – 70%; PPL – 30 %). In H2 2009, the first exploration well (Rehman-1) was drilled with positive results, and tests began to determine the likely performance of the well. The tests will continue into 2010.

Following the execution of an interest assignment agreement in 2007, PGNiG SA commenced exploratory work in the area of licence 1/05 in Denmark. In March 2009, PGNiG SA purchased a 40% interest in licence 1/05 from the existing holder, i.e. Odin Energi A/S. The interests currently held in

the licence are as follows: PGNiG SA (operator) – 80%, Nordsofonden – 20%. In H2 2009, 2D and 3D seismic shooting and processing of seismic data began. In early 2010, 2D and 3D seismic shots were completed; the processing of the seismic data will continue into 2010.

In Egypt, PGNiG SA conducts exploration under the Bahariya licence (Block 3) on the basis of Exploration and Production Sharing Agreement (EPSA) signed with the Egyptian government, dated May 17th 2009. The Company holds a 100% interest in the licence. In H2 2009, preliminaries began with respect to reprocessing of 1,450 km of 2D seismic data and gravimetric analysis. The work is scheduled to commence in 2010.

2. Production

Two of PGNiG SA's branches, the Zielona Góra Branch and the Sanok Branch, carry out production of natural gas and crude oil in Poland. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 21 mines (including 13 gas mines, and 8 oil and gas mines), while the Sanok Branch produces high-methane and nitrogen-rich natural gas and crude oil at 46 mines (including 26 gas mines, and 20 oil mines and oil and gas mines).

In 2009, PGNiG SA produced a total of 4.1bn m^3 of natural gas (high-methane gas equivalent). Following technical difficulties during the process start-up of the Grodzisk Denitriding Plant in Grodzisk Wielkopolski, and reduced demand for nitrogen-rich gas from customers, the production volume came slightly short of the forecast (4.3bn m^3). The crude oil production volume totalled 491.6 thousand tonnes. The table below sets forth PGNiG SA's production in 2009.

Production structure

		Unit	2009	2008
1	Natural gas, including:	million m^3*	4,105.2	4,073.9
a	high-methane, including	million m^3	1,633.9	1,695.3
	- Zielona Góra Branch	million m^3	0.0	0.0
	- Sanok Branch	million m^3	1,633.9	1,695.3
b	nitrogen-rich, including	million m^3*	2,471.3	2,378.6
	- Zielona Góra Branch	million m^3*	2,391.9	2,297.4
	- Sanok Branch	million m^3*	79.4	81.2
2	Crude oil	thousand tonnes	491.6	487.4
	- Zielona Góra Branch	thousand tonnes	446.3	442.5
	- Sanok Branch	thousand tonnes	45.3	44.9

* Measured as high-methane gas equivalent.

In 2009, 17 new wells were put into operation. Nine of them are located in the Sanok Branch area, on the following fields: Łukowa, Chałupki Dębniańskie, Pilzno and Żołynia, whereas eight are located in the Zielona Góra Branch area, on the Nowy Tomyśl, Kaleje, Kaleje E, Roszków, Radlin, Wysocko Małe E and Górzyca fields. The new wells increased the natural gas production capacity by ca 54 thousand m^3/min. Furthermore, 2009 saw the putting into operation of the Kaleje gas mine in the Zielona Góra Branch area.

In 2009, PGNiG SA was engaged in various activities aimed at keeping gas and oil production from the fields in production at a sustainable level. The drilling of three production wells was completed on the Trzebownisko, Palikówka and Góra Ropczycka fields and 42 old wells (whose technical conditions made further production impossible) were repaired to counteract natural decline in the production yields. Additionally, enhanced recovery techniques were applied in 16 oil wells and 80 gas

wells, in order to sustain or increase the rates of recovery and to improve absorption rates in injectors. In connection with a pressure decrease on the Jodłówka field in 2009, compressor assembly work was commenced.

The nitrogen-rich gas from the mine operated by the Zielona Góra Branch is processed by the Odolanów Branch, where helium and LNG are produced in cryogenic nitrogen removal process. May 2009 saw the process start-up of the denitriding plant in Grodzisk Wielkopolski, whose products also include LNG. The processing of crude oil generates commercial products such as crude-oil condensate, sulphur and propane-butane.

The table below sets forth off-tariff sales of natural gas (including LNG), crude oil and other products to external customers by volume. The key natural gas customers were industrial customers, accounting for 85.8% of the total sales volume.

Sales structure of key products

		Unit	2009	2008
1	Natural gas, including:	million m^3	640.0	611.3
	- high-methane gas	million m^3	46.8	47.3
	- nitrogen-rich gas*	million m^3	593.2	564.0
2	Crude oil	thousand tonnes	503.7	497.2
3	Condensate	thousand tonnes	1.9	1.2
4	Helium	million m^3	2.5	2.2
5	Propane-butane	thousand tonnes	20.2	17.4
6	Nitrogen	thousand kg	1,338.3	1,246.0
7	Sulphur	thousand tonnes	24.6	20.3

* Measured as high-methane gas equivalent.

On December 21st 2009, PGNiG SA signed annex No. 2 to the agreement concluded on May 15th 2008 with Rafineria Trzebinia SA, which provided for sale and railway delivery of crude oil.

On December 30th 2009, a crude oil sale agreement between PGNiG SA and TOTSA Total Oil Trading S.A. was executed. Under the agreement, crude oil will be delivered to the delivery point in Germany via a pipeline owned by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych Przyjaźń S.A.

In 2009, PGNiG SA's foreign customers accounted for 42% of total sales in the case of crude oil, and for 87% in the case of helium. Crude oil was sold to German refineries (and transported through the Druzhba pipeline), whereas most of the helium volume was sold in a liquid state to a foreign wholesale customer, who resells the product in European countries.

Underground Storage Facilities

The Exploration and Production segment uses the working capacities of high-methane gas underground storage facilities in Brzeźnica, Strachocina and Swarzów, as well as a nitrogen-rich gas storage facility in Daszewo. The facilities used to store the produced gas are excluded from the definition of storage facilities within the meaning of the Polish Energy Law. The chief objective of underground gas storage is to secure the necessary storage capacity to handle the produced gas during the low-demand periods. Besides, they enable optimum production from domestic reserves during the year and provide tools for rational management of natural gas reserves. The table below sets forth the working capacities of the underground storage facilities used to store the produced gas as at December 31st 2009.

Working capacities of the underground storage facilities used by the Exploration and Production segment (million m^3)

High-methane gas	2009	2008
Brzeźnica (E)	65.0	65.0
Strachocina (E)	150.0	150.0
Swarzów (E)	90.0	90.0

Nitrogen-rich gas		
Daszewo (Ls)	30.0	–

In 2009, PGNiG SA completed the construction of and placed into service a nitrogen-rich (Ls) gas storage facility in Daszewo, with a working capacity of 30m m^3. Furthermore, the Company continued the extension of the existing high-methane gas underground storage facility in Strachocina as well as the construction of the surface infrastructure of a new nitrogen-rich (Lw) gas storage facility in Bonikowo.

3. Investment Projects in the Exploration and Production Segment

The expenditure incurred by PGNiG SA in 2009 on investments in property, plant and equipment and intangible assets in the Exploration and Production segment amounted to PLN 1,143.0m. Below are described the major projects in the segment.

Exploration

In the area of exploration, capital expenditure totalled PLN 428.5m, including PLN 238.6m incurred on wells which have not been completed yet, 11 wells drilled with positive results, and work abroad. The remaining expenditure was incurred on 14 wells which proved to be negative, and was charged to costs of the current reporting period.

Lubiatów-Międzychód-Grotów Project

The objective of the project is to develop the Lubiatów-Międzychód-Grotów fields of crude oil and natural gas and to facilitate transport, storage and sale of crude oil, natural gas, liquid sulphur and propane-butane from the LMG Crude Oil and Natural Gas Mine. The LMG project involves:

- construction of the LMG Central Facility to serve as a hub for collection, distribution and treatment of reservoir fluids;
- construction of the Dispatch Terminal in Wierzbno to support collection and shipment of crude oil in rail tank cars and handle the pumping of crude oil collected from the LMG Crude Oil and Natural Gas Mine to the PERN Druzhba Pipeline;
- construction of a gas pipeline to the Grodzisk Denitriding Plant to support the transmission of surplus gas from the LMG Mine to Grodzisk Denitriding Plant.

2009 saw the completion of design work and start of preliminaries for the Central Facility construction under the investment sub-project "LMG Project – Central Facility, well areas and other infrastructure". The expenditure incurred in 2009 was PLN 258m. The total value of the project is estimated at approximately PLN 1.6bn.

The Grodzisk Project

The objective of this project is to support the sale of gas from nitrogen-rich reserves after it is processed to achieve parameters of high-methane gas (cryogenic nitrogen removal). The Grodzisk Denitriding Plant has been constructed with a view to increasing nitrogen-rich gas production volume at the existing mines and from deposits earmarked for development. The project provides for the development of the Wielichowo, Ruchocice and Paproć W fields, connection of the Elżbieciny Jabłonna and Łęki wells, development of the Nowy Tomyśl 2k well, modernisation of the Paproć Natural Gas Mine (KGZ Paproć), extension of the KGZ Paproć-Cicha Góra Natural Gas Mine, construction of the Przyłęk-KGZ Paproć gas pipeline, and construction of the Grodzisk Denitriding Plant. In 2009, the development of the Nowy Tomyśl 2k borehole and construction of the Grodzisk

Denitriding Plant were completed. The process start-up of the Denitriding Plant took place in May 2009. The target capacity of the Denitriding Plant will be ca. 35,000 m³/h. The expenditure incurred in 2009 was PLN 92.6m. The completion of the Grodzisk project is planned for 2011. The total value of the project is estimated at PLN 463m.

Gas Pipeline to KGHM

The project involves the construction of a high-pressure gas pipeline and optic-fibre cable along with infrastructure, from the Kościan Natural Gas Mine (KGZ Kościan) to KGHM Polkowice/Żukowice, in order to enable the Company to sell natural gas directly to KGHM Polkowice/Żukowice. The pipeline construction continued in 2009. The expenditure incurred in 2009 was PLN 33.3m. The total cost of the project is estimated at approximately PLN 220m.

Other Investment Projects in the Production Segment

Other projects involve the development of reserves, including those already in production, maintenance and restoration of production capacity, or are related to the functioning of the production segment. Key investment tasks included:

- modernisation and extension of the existing natural gas mines;
- development of the Góra Ropczycka gas field;
- development of the Rylowa-Rajsko gas field;
- development of the Łukowa gas field (completed in 2009);
- development of the Kaleje gas field (completed in 2009);
- development of the Palikówka, Rudka, Sarzyna and Zalesie wells;
- development of the Żołynia wells (completed in 2009);
- upgrade of production installations at the Odolanów denitriding plant;
- purchases of ready-to-use investment assets as well as backup facilities and infrastructure.

Underground Gas Storage Facilities

The expenditure incurred on underground storage facilities of the Exploration and Production segment totalled PLN 171.8m. Major work included:

- completion of the drilling of six horizontal wells, beginning of the drilling of two new wells, and start of the surface infrastructure construction
- start of the surface infrastructure construction for the storage facility in Bonikowo
- completion of the nitrogen-rich gas storage facility in Daszewo.

4. Planned Exploratory Work

Exploration in Poland

In 2010, PGNiG SA plans to conduct geophysical and drilling work at exploration wells (including work conducted in cooperation with foreign companies) in the Carpathians, Carpathian Foothills, the Fore-Sudetic Monocline, the Lublin basin, the Peri-Baltic Syneclise and the Pomeranian anticlinorium. Two exploration wells and research boreholes, Tymonowa-1 and Pławce-2, are scheduled for a drilling start.

Exploration Abroad

In 2009, PGNiG SA took a number of steps to acquire new sites for exploration and new licence areas in such countries as Algeria, Iraq, Iran and Morocco. All those efforts will be continued in 2010. Furthermore, PGNiG SA plans to carry on the exploratory work in the licence areas in Denmark, Egypt and Pakistan.

Underground Gas Storage Facilities

In 2010, PGNiG SA plans to complete the Bonikowo Underground Storage Facility, with a working capacity of 200m m^3, and continue to extend the surface infrastructure of the Strachocina Underground Storage Facility. Extension of the Strachocina storage facility, designed to increase its working capacity to 330m m^3, is scheduled to be completed in 2011.

Natural Gas Production

PGNiG SA is implementing an investment programme aimed at increasing, in a long-term perspective, the natural gas production capacity. As part of the programme, the Company plans to develop new deposits and wells, modernise and expand the existing natural gas mines, and build new underground gas storage facilities and expand the existing ones. Moreover, PGNiG SA will take steps to maintain the volume of hydrocarbons output from the fields in production at the current levels.

The plans for 2010 assume a natural gas production volume of 4.3bn m^3 annually (high-methane gas equivalent), with a calorific value of 39.5 MJ/m^3. In order to improve the production volume to approximately 4.5bn m^3, in the next few years PGNiG SA intends to develop and commence production from a number of gas reserves, including in Wielichowo, Ruchocice and Międzychód (nitrogen-rich gas deposits in western Poland) as well as in Jasionka – Phase II, Kupno, Pilzno – Phase II and Rudka – Phase II (high-methane gas deposits in the Province of Rzeszów).

Crude Oil Production

In 2009, preliminaries for the sub-project "LMG Project – Central Facility, well areas, and other infrastructure" commenced. The development of the Lubiatów-Międzychód-Grotów (LMG) field aims at increasing PGNiG SA's crude oil production output. The production target for 2010 has been set at over 500 thousand tonnes. A significant increase, to approximately 0.9m tonnes annually, is expected in 2013, after the development of the LMG field is completed and production starts, and after production wells on the BMB deposit are developed.

5. Risks Related to Exploration and Production

Resource Discoveries and Estimates

The main risk inherent in exploration activity is the risk of failure to discover reserves, i.e. the exploratory risk. This means that not all the identified potential deposit sites have deposits of hydrocarbons which can qualify as an accumulation. Whether or not such deposits exist depends on a number of geological factors. Furthermore, the actual quantity and quality of the accumulated hydrocarbons may differ from estimates. When the results of successful exploration activity, in the form of new reserves, do not offset the production from the existing reserves, PGNiG SA's recoverable reserves will decrease pro rata to the current production volumes.

The size of reserves and production projections may be erroneous due to flaws in the measurement equipment and technology, which affect the quality of the acquired information concerning the geological factors and the characteristics of the deposit site. Irrespective of the methods applied, data on commercial reserves of crude oil and natural gas is always an estimate. The actual production, income and expenses relating to a given deposit may significantly differ from the estimates. The weight of this risk is further increased by the fact that the full business cycle from the commencement of exploration to the launch of production from a developed field takes six to eight years, while the hydrocarbon production cycle lasts from 10 to 40 years. Formation parameters established in the course of preparing the relevant documentation are reviewed after the production starts. Each downgrade of the size of the reserves or production quantities may lead to a lower revenue and adversely impact PGNiG SA's financial performance.

Competition

Both on the Polish market and abroad there is a risk of competition from other companies with respect to acquisition of licences for exploration for and appraisal of deposits, that is implementation of a strategy providing for gaining access to own hydrocarbon resources. Certain competitors of PGNiG SA, especially those active globally, enjoy strong market positions and have financial resources larger than those of PGNiG SA. Thus it is probable that such companies would submit their bids in tender procedures and be able to acquire promising licences. Competitors are also able to define, value, offer and purchase numbers of fields (including the operation thereof and underlying licences) larger than it would be possible in the case of PGNiG SA's, given the Company's financial and human resources. This competitive edge of other market players is particularly important on the international market.

Delayed Work

Under the currently binding Polish legal regulations, obtaining a licence for exploration for and appraisal of crude oil and natural gas deposits lasts from one to one and a half year. As regards business activity on foreign markets, it may take even two years from the time that the tender for licence is awarded until the relevant contract is ratified. Moreover, prior to the commencement of field work, the Company is obliged to make numerous 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 protection of archaeological sites, and abiding by the regulations governing tenders held to select a contractor. Under the currently binding regulations, another several months pass before an agreement with the contractor is signed. In addition, companies must frequently wait for a very long time before their imported equipment receives customs clearance. These factors create the risk of delayed exploratory work.

Formal and legal issues beyond PGNiG SA's control include:

- local governments' failure to adopt local land development plans (MPZPs);
- obstacles in incorporating investment projects into the MPZPs;

- need to obtain and comply with administrative or other formal and legal decisions, including environmental decisions;
- amendments to the current planning and development concept;
- obstacles in obtaining permission from land owners to enter the site.

These factors significantly delay implementation of investment projects and commencement of on-site construction work. Concurrently, PGNiG SA's obligation to comply with the Public Procurement Law frequently prolongs the tender procedure. Notices of appeal and complaints submitted by bidders lead to lengthy court proceedings and, consequently, to delays in implementing an entire investment project. A protracted investment process exacerbates the risk related to estimation of capital expenditure.

Cost of Exploratory Work

Exploratory work is capital consuming, given the prices of energy carriers and materials. Cost of exploratory work is especially sensitive to steel prices, which are passed on prices of casing pipes and lifting casing that is used in drilling. An increase in prices of energy and materials translates into an increase in the cost of exploratory work. Moreover, profitability of foreign exploratory projects will to a significant extent depend on the movements in prices of oil derivative products and in exchange rates.

Legal Regulations Concerning Safety, Environmental Protection and Health

Ensuring compliance with environmental law in Poland and abroad might significantly increase the PGNiG SA's costs of operations. Currently, PGNiG SA incurs significant capital expenditure and costs on harmonising its operations with ever more complex and stringent regulations concerning safety and health at work, as well as environmental protection. The act of May 18th 2005 amending the Natural Environment Protection Law and certain other acts (Dz.U. No. 113, item 954 of June 27th 2005) rendered the regulations governing the execution of projects which might affect the Natura 2000 sites more stringent and enhanced the environmental protection-related requirements in the scope of entering the areas of the occurrence of protected plant species and habitats of protected animals. The tendency to tighten up the environmental protection regulations is present also in other countries where PGNiG SA conducts exploratory activity.

Qualified Personnel

The presence of foreign companies on the Polish market intensified the companies' takeover of highly qualified employees with extensive professional experience. This risk is especially high with respect to professionals specialised in the exploration for natural gas and crude oil deposits. In countries where PGNiG SA operates highly qualified staff is difficult to recruit.

Unpredictable Events

Hydrocarbon deposits developed by PGNiG SA are usually located at great depth, which is accompanied by extremely high pressures, and many of them include hydrogen sulphide in its chemical composition. Consequently, there exists a high risk of an explosion, eruption or hydrocarbon leakage, which in turn may pose a threat to people (workers and local inhabitants), natural environment and also production equipment.

Changes in Laws and Regulations

The laws and regulations in some countries change frequently and unexpectedly, causing problems to entities conducting exploratory activity. This may be a particular threat in countries where law changes depend on the decisions of authoritarian governments.

Political and Economic Situation

Some countries where PGNiG SA carries out exploratory activity face the risk of armed conflicts or terrorist attacks, which may result in limitation, suspension or discontinuation of the exploration and production business there.

In some areas of PGNiG SA's operations there is a risk of social and political destabilisation. Changes of governments may bring to a halt the processes of state administration issuing permits to conduct business activity related to oil. Additionally, these countries are at risk of internal conflicts and social unrest caused by poor social and demographic conditions in which their inhabitants live. The risks specified above may lead to limitation, suspension or discontinuation of PGNiG SA's operations.

In certain countries, the operations of exploration companies may be hindered by lack of adequate infrastructure, which may be an obstacle in transporting equipment, staff and materials to the sites. There may also arise problems in providing supplies and ensuring appropriate health care. These risks may lead to limitation or suspension of the Company's exploratory activity.

Chapter VII: Trade and Storage

The segment sells natural gas imported from other countries and produced domestically. Imported natural gas is purchased chiefly from eastern markets. The sale of natural gas through the distribution and transmission network is regulated by the Polish Energy Law, while gas prices are determined based on the tariffs approved by the President of the Polish Energy Regulatory Office. For the segment's purposes, three underground gas storage facilities are used: in Mogilno, Wierzchowice and Husów.

1. Purchases

In 2009, PGNiG SA. derived natural gas from imports and, to a limited extent, from domestic suppliers. PGNiG SA imported natural gas mainly under the agreements and contracts specified below, i.e. the long- and short-term contracts with Gazprom Export as well as the medium- and short-term agreements for gas supplies from VNG-Verbundnetz GAS AG:

- contract for sales of Russian natural gas to the Republic of Poland, executed with Gazprom Export, dated September 25th 1996, which will remain in force until 2022;
- agreement on sale of the Lasów natural gas executed with VNG-Verbundnetz GAS AG, dated August 17th 2006, which will remain in force until October 1st 2016;
- agreement on sale of the Lasów 2008 natural gas executed with VNG-Verbundnetz GAS AG, dated September 29th 2008, in force from October 1st 2008 to October 1st 2011;
- contract for summer supplies of natural gas to Poland, executed with Gazprom Export on June 1st 2009, in force until September 30th 2009.

The table below presents the natural gas supply structure measured as high-methane gas equivalent.

Structure of natural gas supplies by supply sources (million m^3)

	2009	%	2008	%
Imports, including:	9,135.9	99.4%	10,264.3	99.8%
- Gazprom Export	8,137.2	89.1%	7,056.7	68.7%
- ROSUKRENERGO AG	0.0	0.0%	2,377.2	23.2%
- VNG AG	938.0	10.3%	585.4	5.7%
- VNG AG/E.ON Ruhrgas	0.0	0.0%	240.0	2.4%
- Other foreign suppliers	60.7	0.6%	5.0	0.0%
Domestic suppliers	58.1	0.6%	22.1	0.2%
Total	9,194.0	100.0%	10,286.4	100.0%

In 2009, supplies of gas from the eastern markets were disrupted as a result of the conflict between Russia and Ukraine. Furthermore, gas supplies from ROSUKRENERGO AG stopped in January 2009, although the relevant agreement remained in force until January 1st 2010. As a result of reducing and then finally discontinuing gas supplies delivered through the Drozdovitse cross-border point, gas supply routes were changed and additional gas quantities from Gazprom Export were delivered through the Vysokoye cross-border point. Gas supplies delivered through Drozdovitse were resumed, but gas volumes were lower, as a result of the failure of deliveries under the ROSUKRENERGO AG agreement. In order to secure a sufficient level of gas supplies to its customers, PGNiG S.A. increased the withdrawal of gas held in storage facilities and temporary increased in the volume of gas collected

under the effective agreement with Gazprom Export. Furthermore, PGNiG S.A. signed with Gazprom Export a short-term contract providing for supplies of natural gas in the summer.

New Agreements

Given the non-delivery of gas under the agreement on sales of natural gas executed with ROSUKRENERGO AG on November 17th 2006, in force until January 1st 2010 and providing for possible extension until January 1st 2012, on June 1st 2009 PGNiG S.A. entered into an agreement with Gazprom Export on summer supplies of natural gas in the period from June 2009 to September 30th 2009.

On June 24th 2009, PGNiG S.A. executed an agreement with RWE Supply & Trading on supplies of natural gas in the period from July 1st to October 1st 2009. The price of gas under the agreement was based on its exchange quotes.

On June 29th 2009, PGNiG S.A. executed an agreement with Qatargas Operating Company Ltd. on LNG supply. Under the agreement, approximately 1 million tonnes of LNG per year will be supplied for a period of twenty years, starting from 2014.

In 2009, PGNiG S.A. took part in the Procedure for Offering an LNG Terminal in Świnoujście on the Open Season Basis, announced on June 23rd 2009 by Polskie LNG S.A. After having agreed the contents of the regasification agreement, on February 9th 2010 PGNiG S.A. delivered the signed agreement to Polskie LNG S.A. Under the regasification agreement PGNiG S.A. will be performing its obligations connected with already contracted and new LNG supplies to Poland.

On July 28th 2009, PGNiG and VNG-Verbundnetz Gas AG concluded a Framework Agreement for Sale and Purchase of Natural Gas. Under the agreement, two individual contracts were executed on September 30th 2009:

- Individual Contract on Gas Purchases at the Gubin terminal in the period from October 1st 2009 to October 1st 2011;
- Individual Contract on Gas Sales at the Kamminke terminal in the period from October 1st 2009 to October 1st 2011.

Furthermore, on September 30th 2009 PGNiG S.A. signed a Framework Agreement with Vitol S.A. Under this agreement an Individual Contract was concluded providing for gas purchases at the Lasów terminal in the period from October 1st 2009 to October 1st 2011.

On October 29th 2009, PGNiG S.A. and OAO Gazprom adopted a package of arrangements constituting the basis for the execution of an annex to the Yamal Contract. At the same time, execution of the annex requires relevant amendments to be made to the Agreement between the Governments of the Republic of Poland and the Russian Federation concerning Construction of a Gas Pipeline System for Transmission of the Russian Gas across the Territory of Poland, dated August 25th 1993, as amended.

On January 27th 2010, a trilateral Memorandum of Understanding was signed between PGNiG S.A., OAO Gazprom, Gazprom Export and SGT EUROPOL GAZ S.A. The Memorandum of Understanding provides for extending the existing contract for the supply of natural gas from the Russian Federation to Poland until December 31st 2037, with an option to further extend it until December 31st 2045, and increasing the volume of natural gas supplies under the contract. The Memorandum of Understanding also provides for extending the term of the contract for the transit of natural gas through the Polish territory via the SGT EUROPOL GAZ S.A.'s pipeline, with other terms and conditions of the contract remaining unchanged. The arrangements made in the Memorandum of Understanding will enter into force once relevant documents are signed by the governments of the Republic of Poland and of the Russian Federation.

The Baltic Pipe Project

The objective of the project was to create a direct pipeline for the supply of natural gas from Denmark to Poland and also, in future, from Poland to Denmark. On January 29th 2009, the Extraordinary General Shareholders Meeting of PGNiG S.A. decided to sell the documentation related to the implementation of the Baltic Pipe project to OGP GAZ-SYSTEM S.A. OGP GAZ-SYSTEM S.A. will be executing the project going forward.

The Skanled Project

The Skanled consortium was established for the purpose of constructing the Skanled gas pipeline to connect a gas terminal on the Norwegian Continental Shelf with Sweden and Denmark. PGNiG S.A. acquired a 15% stake in the project and became one of its 15 shareholders.

On April 29th 2009, the members of the Skanled Consortium decided to suspend the implementation of the Skanled gas pipeline project as a result of changed macroeconomic conditions, withdrawal of most Scandinavian companies from the consortium, and inability to ensure supplies of natural gas which was to be transmitted through the gas pipeline.

2. Sales

Pursuant to the requirements of the Polish Energy Law, in 2009 PGNiG SA continued the replacement of commercial agreements with comprehensive agreements.

In 2009, PGNiG SA signed comprehensive agreements for the supply of gaseous fuel from the transmission and distribution systems to 92.5 thousand new customers.

In 2009, PGNiG SA concluded an agreement with Zakłady Chemiczne POLICE S.A., under which ZCh POLICE S.A. agreed to repay the amount due for the supplied gaseous fuel. As ZCh POLICE S.A. did not repay its debt to the Company, on November 18th PGNiG SA terminated the agreement for the sale of high-methane natural gas. In the following weeks, the parties negotiated the terms of debt repayment by ZCh POLICE S.A. and on December 17th PGNiG SA executed a new comprehensive agreement for gaseous fuel sale until December 31st 2010.

The key products sold by the Trade and Storage segment are high-methane gas and nitrogen-rich gas. In 2009, the sales of natural gas dropped by approximately 5% (or 606.8m m^3) year on year. The decrease in the sales volume was due to lower demand for gaseous fuel from PGNiG SA's customers caused by the global economic crisis. PGNiG SA sold gas both in Poland and on international markets. The structure of 2009 sales by the Trade and Storage segment is presented in the table below.

Sales structure of key products

		Unit	2009	2008
1	Natural gas, including:	million m^3	12,644.0	13,250.8
	- high-methane gas	million m^3	12,001.5	12,437.8
	- nitrogen-rich gas*	million m^3	642.5	813.0
2	Propane-butane	thousand tonnes	2.1	2.1

*Measured as high-methane gas equivalent.

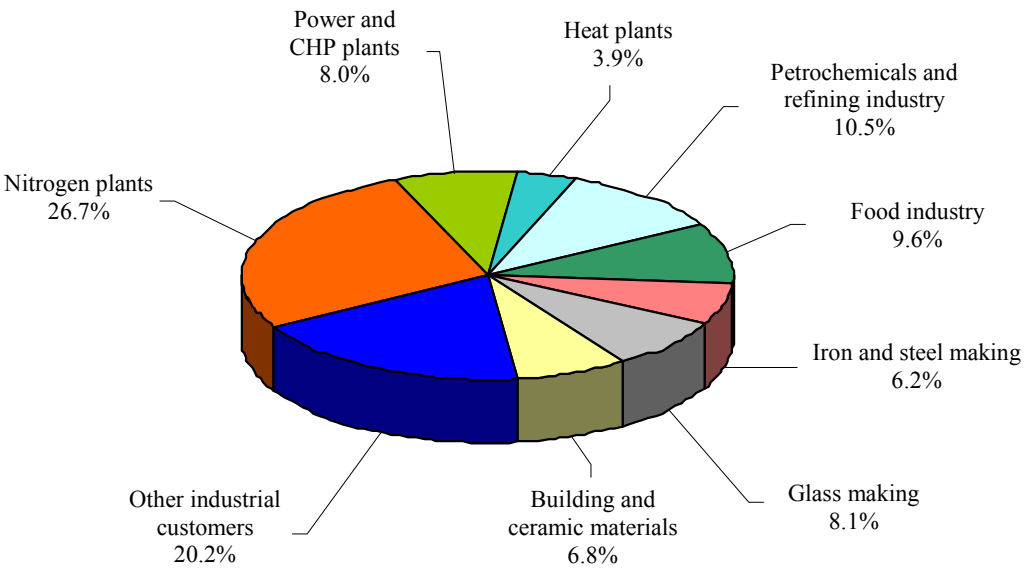
The Company's main customers which purchased natural gas included companies from the chemicals, steel and power sectors, as well as households. Households make up the largest group of customers purchasing natural gas, accounting for 97% of the entire customer base (approximately 6.4m). Their

share in the sales volume is 30%. The most prominent share in the natural gas sales was claimed by industrial customers (58%). The table below presents the structure of natural gas sales measured as high-methane gas equivalent broken down by major customers.

Sales of natural gas supplied via the transmission grid (million m^3)

	2009	%	2008	%
Industrial customers	7,313.3	57.8%	8,064.5	60.9%
Trade and services	1,425.1	11.3%	1,390.8	10.5%
Households	3,724.3	29.5%	3,622.4	27.3%
Wholesale customers	142.4	1.1%	136.5	1.0%
Exports	38.9	0.3%	36.6	0.3%
Total	12,644.0	100.0%	13,250.8	100.0%

Sales of natural gas
to industrial customers in 2009



In 2009, PGNiG SA and Wielkopolska Spółka Gazownictwa Sp. z o.o. completed the process of switching Poznań and the East Poznań Province from less calorific nitrogen-rich gas to high-calorific high-methane gas, which covered approximately 266 thousand customers from 1–4 tariff groups. The change will improve the security and throughput capacity of the distribution network and increase the number of executed connection agreements, which in turn will lead to higher volume of high-methane gas sales.

In 2009, PGNiG SA and Mazowiecka Spółka Gazownictwa Sp. z o.o. launched an investment project to switch the customers in Pisz in the Province of Olsztyn which receive propane-butane-air gas to LNG-based high-methane gas (E). On September 4th 2009, PGNiG SA entered into an agreement with gr4 GASENERGIA IBERICA S.A. for the design and construction of an LNG regasification plant and a pressure reduction and metering station. Completion of the investment project will increase the sales volume of high-methane gas in Pisz.

3. Storage

Parts of the working capacities of the Wierzchowice Underground Gas Storage Facility, the Husów Underground Gas Storage Facility and the Mogilno Underground Gas Storage Cavern Facility are used by the Trade and Storage segment for its own needs. The Wierzchowice and Husów Underground Gas Storage Facilities are also used for production needs of PGNiG SA, whereas part of the working capacity of the Mogilno Underground Gas Storage Cavern Facility was made available to OGP GAZ-SYSTEM S.A. Working capacity utilised for OGP GAZ-SYSTEM S.A.'s production needs and in the company's operations are excluded from the definition of storage facilities within the meaning of the Polish Energy Law.

Short-term fluctuations in the demand for natural gas are balanced out with the supplies from the Mogilno Underground Gas Storage Cavern Facility located in worked-out salt caverns, which is operating at full capacity. The capacities of the Wierzchowice Underground Storage Facility and the Husów Underground Storage Facility are used to minimise the effect of an uneven demand for natural gas in summer and winter seasons, to meet the obligations under the take-or-pay contracts for imports, to safeguard the continuity and security of natural gas supplies and to meet the obligations under sales agreements providing for the delivery of natural gas to customers' premises.

In addition, the capacities of the Wierzchowice Underground Storage Facility, the Husów Underground Storage Facility and the Mogilno Underground Gas Storage Cavern Facility help the Company comply with the 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 a Disruption on the Petroleum Market, dated February 16th 2007.

On January 1st 2009, PGNiG SA was appointed as the Storage System Operator. Detailed terms of providing gaseous fuels storage services (working capacity, injection capacity, withdrawal capacity) and sale of storage services are compiled in the "Rules of Provision of Storage Services", which took effect on July 1st 2009. Pursuant to the Rules, PGNiG SA made available a total of 627m m^3 of working storage capacity as part of bundled services provided on a continuous or interrupted basis.

In 2009, PGNiG SA continued the expansion of working capacity of the existing Mogilno Underground Gas Storage Cavern Facility and Wierzchowice Underground Gas Storage Facility (high-methane gas storage facilities). Moreover, the Company conducted work related to the construction of a new high-methane gas storage facility, namely the Kosakowo Underground Gas Storage Cavern Facility. The table below presents working capacities of the facilities.

Working capacities of the storage facilities in the Trade and Storage segment (million m^3)

	2009	2008
Husów	350.0	400.0
Mogilno	370.0	380.2
Wierzchowice	575.0	575.0

The reduction in working capacities of the Husów Underground Storage Facility and Mogilno Underground Gas Storage Cavern Facility results from technical conditions of their operation.

4. Investment Projects in the Trade and Storage Segment

The amount of capital expenditure incurred in the Trade and Storage segment for property, plant and equipment and intangible assets was PLN 789.1m. The most important investment projects included:

- extension of the working capacity of the Mogilno Underground Gas Storage Cavern Facility (a high-methane gas storage facility), work related to the construction of the surface installations of the Wierzchowice Underground Gas Storage Facility, modernisation of the Husów Underground Gas Storage Facility, and drilling work for the new high-methane gas storage facility, the Kosakowo Underground Gas Storage Cavern Facility (PLN 623.9m);
- projects involving transmission assets – in line with the investment plan of OGP GAZ-SYSTEM S.A. and the procedures specified in the agreement for the technical preparation and execution of projects for the purposes of the transmission grid, PGNiG SA carried out projects involving transmission assets, which are subsequently entered in the register of property, plant and equipment under lease agreements (PLN 34.1m);
- purchase of land and real property, purchase of property, plant and equipment representing the assets of OGP GAZ-SYSTEM S.A. transferred to the Distribution System Operators and the settlement of the ownership title to and purchase of high-pressure gas pipelines (PLN 9.7m);
- telecommunications and data transmission projects and purchase of ready-to-use investment assets, vehicles, technical equipment, tools and machinery (PLN 28.9m);
- extension of the CNG fuelling station, expansion of the coverage of the gas-supply system in new regions, construction of connections to end-users and tasks related to the diversification of gas supply sources (PLN 10.7m).

5. Planned Activities in Trade and Storage Segment

The Boernicke-Police Interconnection

The Boernicke-Police interconnection linking Poland and Germany is constructed to support trade with the German market. In 2009, the Company received a permit to construct the final section of the gas pipeline in the territory of Poland, namely Tanowo-Trzeszczyn (Police). Moreover, the Company selected the route of the 14-kilometers gas pipeline from Tanowo to Dobieszczyn.

Connection with the Gas System in the Czech Republic

On September 18th 2009, PGNiG SA took part in a procedure whereby OGP GAZ-SYSTEM S.A. offered transmission capacity in the Podbeskidzie region. The companies entered into an agreement under which OGP GAZ-SYSTEM S.A. is obliged to provide gaseous fuel transmission services from the entry point in Cieszyn to specified exit points from the transmission system through an interconnection gas pipeline designed by OGP GAZ-SYSTEM S.A.

Natural Gas Purchase

In 2010, PGNiG SA does not plan any material changes in the structure of natural gas supply sources compared with the previous periods. In 2009, PGNiG SA entered into negotiations with OAO Gazprom to extend the existing agreement on natural gas supply and increase the supply volume. An annex to the agreement is expected to be signed in H1 2010. The Company also took a number of steps aimed at diversifying gas supply sources.

Electricity and Heat Generation

In 2009, PGNiG SA carried out activities aimed at creating a new operating segment, namely power sector operations. As part of those activities, the Company conducted negotiations with its partners on the possibility of constructing gas cogeneration units. The implementation of these projects will allow the Company to introduce a new offering of heat and electricity sale and supplies to end users.

In addition, the Company initiated work on constructing gas-fired electricity sources at its facilities, which will help optimise the purchases of electricity and heat for PGNiG SA's own purposes. The commissioning of first gas-fired electricity sources is scheduled for 2011–2012.

LNG Market

PGNiG SA engaged in activities aimed at developing the gas market using liquefied natural gas. The sale of LNG will allow the Company to supply gas to areas which have not yet been covered with the gas-supply system and will enhance PGNiG SA's competitiveness.

Underground Gas Storage Facilities

In 2010, PGNiG SA will continue the extension of the Wierzchowice Underground Gas Storage Facility and the Mogilno Underground Gas Storage Cavern Facility. The target working capacity of the facility in Mogilno is 800m m^3. The first stage of the extension of the Wierzchowice Underground Gas Storage Facility from the existing working capacity of 575m m^3 to 1,200m m^3 is planned to be completed at the end of 2011, and the capacity is expected to be made available in 2012. In addition, the Company will continue the construction of a new high-methane gas storage facility, namely the Kosakowo Underground Gas Storage Cavern Facility, which is to consist in ten underground caverns with a total working capacity of 250m m^3.

6. Risks Related to Trade and Storage

Substitution

The major risk factor posing a threat to gas market growth is the price of natural gas, which is high relative to the prices of alternative energy sources, especially coal. A surge in fuel prices may translate into lower gaseous fuel consumption owing to cost-saving by customers and their transition to alternative fuels. As a result of the economic slowdown in Poland there exists a threat that some PGNiG SA's customers may start to actively seek alternative energy sources or other suppliers. This situation may particularly be applicable to energy-intensive branches, where the price of natural gas is a significant cost driver.

Competition

At present, PGNiG SA is the largest supplier of natural gas in Poland. PGNiG SA's share in the gas market is estimated at approximately 98%, the remaining 2% is represented by suppliers from outside the PGNiG Group which usually purchase gas from PGNiG SA. Suppliers from outside the PGNiG Group which trade in natural gas operate mostly in the areas which have not been covered by the gas pipeline networks. The aforementioned companies include local gas distributors that own transmission infrastructure and offer – in addition to traditional network gas supply – innovative solutions of the natural gas supply involving the use of LNG. An intensified commercial activity of competitors which aims at attracting current and potential customers of PGNiG SA may pose a tangible threat of customer churn.

Reduced Volume of Gaseous Fuel Sales

The effects of the global economic crisis included slower economic growth in Poland, difficulties in selling the production output in many segments of the economy and deterioration of companies' financial standing. This resulted in a reduced demand for gaseous fuel from the Company's customers in 2009. Moreover, the difficulties that the companies are having with raising financing for new investment projects may curb increases in gas sales volumes.

Higher Receivables

In connection with the ongoing economic crisis in Poland, which results in a downturn on the markets of PGNiG SA's customers and a deterioration in the financial standing of customers purchasing gas, some difficulties may occur with timely settlement of payments for the supplied gaseous fuel. Given the above, the Company has intensified collection activities to minimise the risk of uncollectible receivables under sale of gaseous fuel.

Storage

The requirement to increase the level of mandatory stocks of gas from 15 to 20 days of average daily amount of imported gas in the period October 1st 2010 – September 30th 2012, following from the Act on Stocks, may cause the storage capacity necessary to meet the peak demand for gas to be insufficient as soon as during the initial period of gas off-take in 2010/2011. Therefore, it may be necessary to apply for the Minister of Economy's approval to use mandatory stosks of gas stored in the Mogilno Underground Gas Storage Cavern Facility.

Another risk factor is a possibility of a deficit of funding required for the planned capex. If the European Commission refuses to co-finance projects at the Mogilno Underground Gas Storage Cavern Facility, the Kosakowo Underground Gas Storage Cavern Facility, the Strachocina Underground Gas Storage Facility and the Wierzchowice Underground Gas Storage Facility, PGNiG SA will be required to seek additional funding in the amounts requested for the projects.

Chapter VII: Other Activities

PGNiG S.A.'s organisational unit classified as the "Other Activities" segment is the Central Measurement and Research Laboratory Branch which provides services aimed at ensuring accurate and reliable measurements of natural gas, comprising in particular calibration of measurement devices, attestation of gas meters and equipment used for recalculating gas parameters, evaluation of the quality of natural gas, testing of new gas equipment as well as measurement and analytical supervision over process analyser systems and equipment installed in transmission and distribution networks, and in gas storage facilities. The Branch also provides advisory services, issues opinions and provides expert reports. In March 2009, the Branch obtained the status of a notified body, the first one in Poland, with respect to testing of equipment used for recalculating gas parameters.

In 2009, the Branch's main areas of activity included:

- metrologic control of measurement systems on the Yamal-Europe transit gas pipeline (Polish section),
- metrologic control of measurement systems on metering stations of industrial customers (46 facilities)
- verification of natural gas measurement systems for the purpose of evaluation of CO_2 emissions by large industrial emitters
- measurement supervision of the process analyser systems for the evaluation of the quality of natural gases in the transmission and distribution networks, mines and storage facilities
- validations and measurement supervision of the field laboratories controlling the quality of natural gases,
- cooperation with the Laboratory of Gas Standards of the Central Office of Measures (*Laboratorium Wzorców Gazowych Głównego Urzędu Miar*) on the project providing for the creation of the national quality standard for type E and type L natural gases
- organisation and coordination of inter-laboratory comparative tests with respect to quality control of E type natural gases.

The Branch provided its services mainly to EUROPOL GAZ S.A., the companies of the PGNiG Group and OGP GAZ-SYSTEM S.A.

Planned activities

The Branch intends to maintain and strengthen its leading position in the area of metrologic control of measurement systems and devices, gas meters attestation, testing of equipment used for recalculating gas parameters, quality assessment of natural gases of all types (E and L) and forms (NG, LNG, CNG, biogas), as well as evaluation of measurement and process analyser systems used to estimate CO_2 emissions.

Risks

Liberalisation of the gas market poses a risk that competitive foreign laboratories will enter the domestic market of natural gas measurement and analysis services.

Prospective changes in legal regulations and standards introducing the requirement of preference of accredited laboratories which are totally independent of gas suppliers may result in lower competitiveness and partial loss of the market share by the CMRL Branch.

Chapter VIII: Environmental Protection

Liquidation of Boreholes

Pursuant to the Polish Geological and Mining Law, PGNiG S.A. is required to liquidate worked-out mining caverns, eliminate the danger and damage caused by mining activities, and restore land to its original condition. Liquidation of boreholes and mining pits prevents leakages of crude oil and natural gas to the surface and to watercourses. In addition, if gas boreholes remain unliquidated, there is a risk that escaping gas may accumulate in them, posing a fire hazard. Consequently, PGNiG S.A. liquidated 53 worked-out boreholes and mining pits in 2009. The liquidated boreholes included drilling holes which were tens of years old and mining pits which dated back to the 19th century.

Carbon Credit Trade System

In 2009, in the National Plan for the Distribution of Carbon Credits for 2008–2012 (KPRU II) the facilities of PGNiG S.A. were allowed the total of 99,982 Mg CO_2 per annum. In the 2008–2012 settlement period, the following facilities were included in the system: the Odolanów Branch, Zielona Góra Branch and the Mogilno Underground Gas Cavern Storage Facility.

Under the existing carbon credit trading system (CCTS), in 2010 PGNiG S.A. reviewed the annual reports on carbon dioxide emissions for 2009 and reconciled the volumes of carbon dioxide emission with the permit held. Following the cancellation of the carbon credits used in 2009, 23,622 Mg CO_2 credit units were retained.

Environmental Management System

In 2009, the Company implemented the Environmental Management System at the head office. As part of the system, staff training was continued, internal audits were performed, and the system was reviewed. Following completion of the internal audit, the Company's head office obtained a certificate of the system's compliance with Standard PN-EN ISO 14001. The system has been deployed at the Zielona Góra, Sanok and Odolanów Branches.

Methane Emissions

In 2009, the Company continued work on defining standardised methane emission indicators and unifying the methods for calculating the volume of methane emissions. The volume specified for the hydrocarbons production sector in 2008 was 2.1 Gg per annum, a figure almost ten-fold lower relative to the 2008 emissions reported by the Polish National Atmosperic Emissions Inventory. Standardised and reliable methane emission indicators will help reduce the cost of environmental fees and charges.

Land Reclamation and Research Concerning Non-Productive Assets

Pursuant to the Environmental Protection Law, PGNiG S.A. conducts research work and land reclamation in the areas which became polluted due to past activities (including traditional activities related to gas) with a view to restoring them to the condition required under environmental quality standards. In 2009, the Company completed reclamation work on a property in Sławno, which was later approved without reservations by the County Governor Office. The work was performed in 2006–2009 and comprised liquidation of tar pits, purification of soil and ground on bioremediation fields and purification of underground water with the use of a treatment facility. In addition, a non-public procurement procedure was prepared in order to award contracts for reclamation of properties located in Wrocław, Świdnica, Jugowice, Lądek Zdrój and Ziębice. The land reclamation work will be completed in the first six months of 2010. The total area of the properties amounts to over 60 thousand square metres.

In 2009, PGNiG S.A. carried out reclamation work at the areas of the Lipinki Crude Oil Mine, the Buk Crude Oil and Natural Gas Mine, at the KP-2 waste pit, and along the inoperative KP-2 pipeline. A tar pit at ul. Kasprzaka 25 in Warsaw was closed. Land reclamation was also continued at Jaroszewo, Mozów and Wałowice crude oil distribution centres.

New Environmentally Friendly Technologies

In 2009, expansion turbines were installed in the denitriding unit operated at the Odolanów Branch in order to recover energy from the gas liquefaction process.

Chapter IX: Other Information

Distribution of 2008 Profit

On June 23rd 2009, the Annual General Shareholders Meeting of PGNiG S.A. adopted a resolution on the distribution of the 2008 net profit in the amount of PLN 546.2m. Distributions from the profit were allocated in the following manner:

- PLN 1.4m was allocated to the Company's statutory reserve funds;
- PLN 531.0m was allocated to dividend payments (PLN 0.09 per share), of which PLN 382.5m was distributed as non-cash dividend to the State Treasury in the form of transmission subsystems, along with their constituent and accessory parts which are necessary for the use of such subsystems, with a proviso that additional cash will be distributed to the State Treasury if the value of the non-cash assets is below PLN 382.5m;
- PLN 8.8m was allocated to increase the Company's social benefits fund;
- PLN 5.0m was allocated to increase the Central Restructuring Fund capital reserve

In addition, retained profit of PLN 42.3m was allocated in the following manner:

- PLN 39.8m was allocated to awards for the Company's employees;
- PLN 2.5m was allocated to increase the Company's statutory reserve funds.

The Annual General Shareholders Meeting of PGNiG S.A. set August 26th 2009 as the dividend record date and October 2nd 2009 as the dividend payment date.

Discharge Granted to Management Board and Supervisory Board Members in Respect of Their Duties

On June 23rd 2009, the Annual General Shareholders Meeting of PGNiG S.A. adopted resolutions on the approval of the financial statements and the Director's Report on the operations of PGNiG S.A., on the approval of the consolidated financial statements and the Director's Report on the operations of the PGNiG Group, and on granting discharge to members of the Management and Supervisory Boards of PGNiG S.A. in respect of their duties in the financial year 2008.

Actions Against PI GAZOTECH Sp. z o.o.

- PGNiG S.A.'s action instituted against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of resolutions by the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated April 23rd 2004, including the resolution obliging PGNiG S.A. to pay additional contributions in the amount of PLN 52m. The proceedings have been held before the Regional Court of Warsaw, the Warsaw Court of Appeals and the Supreme Court. In response to a cassation complaint filed by PGNiG S.A., in the ruling of May 14th 2009 the Supreme Court allowed PGNiG S.A.'s objection that the agenda for the General Shareholders Meeting of PI GAZOTECH Sp. z o.o. held on April 23rd 2004 lacked the necessary detail, reversed the ruling issued by the Warsaw Court of Appeals on February 4th 2008, and remanded the case for re-examination by the Court of Appeals. By virtue of its decision of October 13th 2009, the Court of Appeals revoked the ruling passed by the Regional Court on March 7th 2006 and remanded the case for re-examination by the Regional Court.

- The proceedings based on PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated January 19th 2005, whereunder PGNiG S.A. was obliged to pay additional contributions in the amount of PLN 25,999,998, held before the Regional Court of Warsaw were resumed. By virtue of the ruling of October 31st 2008, the Regional Court dismissed PGNiG S.A.'s action. PGNiG S.A. filed an appeal against the ruling. The security for the claim was maintained until the ruling became final. PGNiG S.A. advised the Court of Appeals of the ruling

issued by the Supreme Court on May 14th 2009, which is of relevance for the case. On July 30th 2009, the Court of Appeals reversed the ruling of the first instance and remanded the case for re-examination.

- Proceedings based upon PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated October 6th 2005, whereunder PGNiG S.A. was obliged to pay additional contributions in the amount of PLN 6,552,000, brought before the Regional Court of Warsaw were concluded in the first instance. On May 30th 2008, the Regional Court dismissed the Company's claim and reversed the decision on securing the claim. The proceedings to maintain the security for the claim have been held before the Court of Appeals and the Regional Court of Warsaw since July 22nd 2008. On February 17th 2009, PGNiG S.A. filed a complaint concerning the Regional Court's repeated reversal of the decision on securing the claim. On April 23rd 2009, the Warsaw Court of Appeals once again reversed the Regional Court's decision on reversing the decision concerning security for the claim, and referred the case to the Regional Court of Warsaw. The decision on securing the claim was revoked by the Regional Court again on September 25th 2009. PGNiG S.A. advised the Court of Appeals of the ruling issued by the Supreme Court on May 14th 2009, which is of relevance for the case. PGNiG S.A. lodged an appeal against the Regional Court's decision with the Court of Appeals. On December 21st 2009, the Court of Appeals reversed the Regional Court's ruling of May 30th 2008 (by virtue of which the Company's claim to rescind or declare invalidity of the resolution on additional contributions to equity had been dismissed) and remanded the case for re-examination by the Regional Court.

Dispute with Bartimpex S.A.

On August 9th 2005, in connection with a motion filed by PHZ Bartimpex S.A., the President of the Office of Competition and Consumer Protection ruled that the Company pursued anti-competitive practices through abusing its dominant position on the domestic natural gas transmission market, this being manifested in the refusal to provide the services of transmitting natural gas extracted outside Poland, and imposed a fine on PGNiG S.A. in the amount of PLN 2m along with an order to repay the costs of proceedings for the benefit of PHZ Bartimpex S.A. The President of the Office of Competition and Consumer Protection also stated that the abovementioned practices had ceased on June 2nd 2003.

On August 31st 2005, PGNiG S.A. appealed against the decision. The case was heard succesively by the following courts: the Regional Court of Warsaw, the Warsaw Court of Appeals, and the Supreme Court. In connection with the cassation complaint filed by PGNiG S.A., on July 15th 2009 the Supreme Court revoked the Court of Appeals' decision and remanded the case for re-examination by the Court of Appeals.

By virtue of its ruling of January 5th 2010, the Court of Appeals reversed the decision issued by the President of the Office of Competition and Consumer Protection on August 9th 2005, dismissed PHZ Bartimpex S.A.'s appeal, and ordered the President of the Office of Competition and Consumer Protection to reimburse PGNiG S.A. for the costs of the appeal and cassation proceedings.

Dispute with EMFESZ NG Sp. z o.o.

On March 9th 2006, proceedings before the President of the Energy Regulatory Office were instigated upon a motion filed by EMFESZ NG Polska Sp. z o.o. regarding PGNiG's refusal to execute an agreement on provision of gaseous fuel storage services. On February 25th 2008 the President of the Energy Regulatory Office issued a decision suspending the proceedings until after the European Commission has examined the President of the Energy Regulatory Office's standpoint on PGNiG's request for temporary exemption from the obligation to store gaseous fuels. After having considered the European Commission's position, the President of the Energy Regulatory Office resumed the case, and on November 23rd 2009 issued a decision to discontinue the proceedings. Considering that neither party lodged an appeal, the President of the Energy Regulatory Office's decision is final.

Chapter X: Financial Performance

1. Financial Perfomance in 2009

The 2009 financial statements of PGNiG SA and the 2009 consolidated financial statements of the PGNiG Group have been audited by Deloitte Audyt Sp. z o.o. The agreement with the auditor was concluded on August 16th 2007 for a term of three years (2007–2009). The scope of the auditor's responsibilities includes:

- auditing financial statements for 2007, 2008 and 2009;
- reviewing financial statements for Q1 2008, Q1 2009 and Q1 2010;
- reviewing financial statements for H1 2007, H1 2008 and H1 2009; and
- reviewing financial statements for the first three quarters of 2007, the first three quarters of 2008 and the first three quarters of 2009.

The table below shows the auditor's fees paid or payable for the years 2008–2009:

The auditor's fees (PLN)

	2009	2008
Audit of the annual financial statements	310,000	330,000
Other attestation services, including review of financial statements	510,000	540,000
Tax advisory services	-	-
Other services	124,703	288,124

1.1. Key Business and Financial Information

The 2009 net profit of PGNiG SA stood at PLN 665.9m, up by PLN 119.7m (or 22%) compared with the figure posted in 2008.

Summary information on PGNiG SA's financial standing in 2009, compared with 2008, is presented in the financial statements shown below, prepared in accordance with the International Financial Reporting Standards:

- balance sheet
- income statement
- cash flow statement
- selected financial indicators

Separate balance sheet (PLNm)

ASSETS	Dec 31 2009	Dec 31 2008
Non-current assets	18,772.1	17,194.6
Property, plant and equipment	9,726.9	9,038.7
Investment property	3.8	5.4
Intangible assets	68.9	60.1
Financial assets available for sale	6,219.4	5,690.9
Other financial assets	2,417.6	2,065.6
Deferred tax asset	299.6	301.2
Other non-current assets	35.9	32.7
Current assets	5,411.4	6,245.9
Inventories	1,110.2	1,579.7
Trade and other receivables	3,687.1	3,638.1
Current income tax receivable	161.5	39.6
Prepayments and accrued income	9.4	6.3
Financial assets held for sale	-	-
Derivative financial instrument assets	18.0	174.2
Cash and cash equivalents	425.2	807.9
Non-current assets available for sale	-	0.1
Total assets	24,183.5	23,440.5

Separate balance sheet (PLNm)

EQUITY AND LIABILITIES	Dec 31 2009	Dec 31 2008
Equity	17,339.7	17,181.4
Share capital	5,900.0	5,900.0
Currency-translation differences on foreign-currency undertakings	(2.9)	(0.6)
Share premium account	1,740.1	1,740.1
Other reserve funds	8,983.1	8,953.3
Retained earnings/(deficit)	719.4	588.6
Non-current liabilities	1,638.7	2,023.0
Loans, borrowings and debt securities	2.6	3.8
Provisions	1,084.4	1,248.8
Deferred income	3.9	6.1
Deferred tax liability	531.3	742.0
Other non-current liabilities	16.5	22.3
Current liabilities	5,205.1	4,236.1
Trade and other payables	2,359.7	2,790.7
Loans, borrowings and debt securities	1,904.1	763.2
Liabilities under derivative financial instruments	260.4	16.7
Current income tax receivable	-	-
Provisions	134.6	123.9
Deferred income	546.3	541.6
Total liabilities	6,843.8	6,259.1
Total equity and liabilities	24,183.5	23,440.5

Separate income statement (PLNm)

	2009	2008
Sales revenue	18,578.3	18,038.8
Total operating expenses	(18,205.0)	(17,745.9)
Raw materials and energy used	(10,902.4)	(11,119.3)
Employee benefits	(774.8)	(678.7)
Depreciation and amortisation	(610.1)	(577.1)
Contracted services	(5,484.9)	(5,365.1)
Cost of products and services for own needs	13.7	6.3
Other net operating expenses	(446.5)	(12.0)
Operating profit/(loss)	373.3	292.9
Financial income	699.9	379.8
Financial expenses	(349.9)	(107.8)
Pre-tax profit/(loss)	723.3	564.9
Corporate income tax	(57.4)	(18.7)
Net profit/(loss)	665.9	546.2

Separate cash flow statement (PLNm)

	2009	2008
Net cash provided by/used in operating activities	1,109.7	266.8
Net cash provided by/used in investing activities	(2,412.9)	(1,099.6)
Net cash provided by/used in financing activities	920.2	585.7
Change in net cash	(383.0)	(247.1)
Cash and cash equivalents at beginning of period	808.2	1,055.3
Cash and cash equivalents at end of period	425.2	808.2

Financial Indicators

Profitability indicators

	2009	2008
EBIT (PLNm) operating profit	373.3	292.9
EBITDA (PLNm) operating profit + depreciation/amortisation	983.4	870.0
ROE (Return on Equity) net profit to equity at end of period	3.8%	3.2%
NET MARGIN net profit to sales revenue	3.6%	3.0%
ROA (Return on Assets) net profit to assets at end of period	2.8%	2.3%

Liquidity ratios

	2009	2008
CURRENT RATIO current assets (net of prepayments and accrued income) to current liabilities	1.0	1.5
QUICK RATIO current assets (net of prepayments and accrued income) less inventories to current liabilities	0.8	1.1

Debt ratios

	2009	2008
DEBT RATIO total liabilities to total equity and liabilities	28.3%	26.7%
DEBT/EQUITY RATIO total liabilities to equity	39.5%	36.4%

1.2. Overview of the Financial Performance

PGNiG SA posted a year-on-year increase in operating profit of PLN 80.4m (up by 27%). The strengthening of the Company's financial standing was mainly driven by improved profitability of high-methane gas sales resulting from:

- the selling prices of high-methane gas being higher by ca. 9%;
- the prices of imported gas being higher by 5%;
- a change in the structure of high-methane gas sources.

Despite the fact that by a decision of the President of the Energy Regulatory Office, in June 2009 the gas prices were reduced by 8.8%, the average annualised selling prices for high-methane gas went up on 2008 by ca. 9%. The annual increase in the selling prices outpaced the growth of gas costs, which helped the Company significantly reduce losses on high-methane gas sales.

As compared with 2008, the average annualised prices of gas imports edged up 5% on the back of the higher USD/PLN exchange rate. The increase was offset by a drop in gas prices expressed in the US dollars, which in turn followed from a general decline in prices of crude and oil products on global commodity markets in 2009.

As a consequence of suspended deliveries of gas by ROSUKRENERGO AG and limited possibilities of importing gas from other sources, the volume of gas imports went down by 11%. To cover the demand for gaseous fuel, the Company increased the drawing of gas from its underground storage facilities and intensified production at its two denitriding plants by 60% and 30%, respectively. These changes in the structure of high-methane gas sources contributed to the lower costs of gas and helped improve the profitability of high-methane gas sales.

In 2009, as a result of a weaker demand and the implementation of projects related to the migration of customers to high-methane gas in Poznań and eastern Province of Poznań, the volume of nitrogen-rich gas sales fell by ca. 10%. The decline was offset by a rise in the average annualised selling prices and, as a consequence, the result on sales of nitrogen-rich gas remained unchanged over the previous year.

Exploration and Production

Operating profit in the Exploration and Production segment was PLN 425.1m, down by PLN 378.2m (47%) on the previous year, which was primarily attributable to high impairment losses recognised on production assets and lower margin on sales of crude oil. As a result of low oil prices prevailing on global commodity markets, the Company sold oil at prices 15% lower than in 2008. Moreover, as a result of a test run of the new denitriding plant in Grodzisk Wielkopolski, the production of nitrogen-rich gas went up by ca. 4%. In spite of the lower operating profit in the E&P segment, its production still generated high profits ensuring a sound financial position of the Company.

Trade and Storage

The Trade and Storage segment recorded a decrease of PLN 458.6m in its operating loss compared with 2008. The improvement in the financial condition of the segment was mainly driven by a higher return on sales of high-methane gas.

Financial data of the PGNiG SA's segments for 2009 (PLNm)

	Exploration and Production	Trade and Storage	Other activities	Eliminations	Total
Sales to external customers	1,230.8	17,344.8	2.7	-	18,578.3
Inter-segment sales	1,255.0	-	-	(1,255.0)	-
Segment's total revenue	2,485.8	17,344.8	2.7	(1,255.0)	18,578.3
Segment's cost and expenditure	(2,060.7)	(17,394.2)	(5.1)	1,255.0	(18,205.0)
Operating profit/(loss)	425.1	(49.4)	(2.4)	0.0	373.3
Net financial expenses	-	-	-	-	350.0
Share in profit of undertakings valued with equity method	-	-	-	-	0.0
Pre-tax profit/(loss)					723.3
Corporate income tax	-	-	-	-	(57.4)
Net profit/(loss)					665.9
Capital expenditure on property, plant and equipment and intangible assets	(1,143.0)	(789.1)	(0.4)	-	(1,932.5)

Financial data of the PGNiG SA's segments for 2008 (PLNm)

	Exploration and Production	Trade and Storage	Other activities	Eliminations	Total
Sales to external customers	1,322.0	16,714.6	2.2		18,038.8
Inter-segment sales	1,092.2			(1,092.2)	-
Segment's total revenue	2,414.2	16,714.6	2.2	(1,092.2)	18,038.8
Segment's cost and expenditure	(1,610.9)	(17,222.6)	(4.6)	1,092.2	(17,745.9)
Operating profit/(loss)	803.3	(508.0)	(2.4)	0.0	292.9
Net financial expenses	-	-	-	-	272.0
Share in profit of undertakings valued with equity method	-	-	-	-	0.0
Pre-tax profit/(loss)					564.9
Corporate income tax	-	-	-	-	(18.7)
Net profit/(loss)					546.2
Capital expenditure on property, plant and equipment and intangible assets	(935.0)	(226.7)	(0.2)	-	(1,161.9)

Moreover, the operating result was also significantly shaped by other net operating costs whose value increased by PLN 434.5m year on year. The increase was mainly driven by higher impairment losses on non-financial assets, including primarily E&P assets.

In 2009, net result on financing activities was PLN 350.0m, i.e. PLN 78.0m more compared to the previous year. The result was mainly shaped by an increased income from dividends received and the release of impairment losses on the loan granted to SGT EUROPOL GAZ SA.

The improved net profit (up by PLN 119.7m) had a positive impact on the basic ratios describing the efficiency of the Company's business. The return on equity (ROE) went up from 3.2% to 3.8%, the return on assets (ROA) from 2.3% to 2.8%, and the net margin from 3.0% to 3.6%.

The balance sheet as at December 31st 2009 shows the balance-sheet total of PLN 24,183.5m, up by PLN 743.0m (3%) year on year.

The largest item of assets was property, plant and equipment, which stood at PLN 9,726.9m as at the end of 2009, up by PLN 688.2m (8%) on December 31st 2008. The increase was primarily attributable to the capital expenditure of PGNiG SA, as well as to changes in impairment losses on assets, mainly those of the Exploration and Production segment.

Financial assets available for sale increased by PLN 528.5m (9%) as compared with the value as at December 31st 2008. This significant rise followed mainly from additional contributions to equity of POGC-Libya B.V. and acquisition of new shares in the increased share capital of PGNiG Norway AS.

As at December 31st 2009, the value of other financial assets was up by PLN 352.0m (17%). The increase was caused by the disbursement of the third tranche of the loan granted to PGNiG Norway AS, and the concurrent decrease in long-term receivables arising from the payment of non-cash dividend to the State Treasury and gradual repayment of lease instalments by OGP GAZ-SYSTEM S.A.

As at December 31st 2009, current assets stood at PLN 5,411.4m, down by PLN 834.5m (13%) as compared with the end of 2008.

The change in the value of current assets was primarily attributable to a decrease in the value of inventories by PLN 469.5m (down 30%). The inventories recognised in the balance sheet comprised mainly gas stored in the underground gas storage facilities. The inventories were depleted mainly through increased drawing of gas from the storage facilities as a result of suspended deliveries under the contract with ROSUKRENERGO AG and limited opportunities to buy gas from other foreign sources.

The value of trade and other receivables as at December 31st 2009 stood at PLN 3,687.1m and was by PLN 49.0m (1%) higher than in the previous year. Its increase would have been larger but for high impairment losses on receivables under gas deliveries. The total increase in trade receivables resulted mainly from increased average gas sale prices (by 9%).

The cash and cash equivalents amounted to PLN 425.2m, down by PLN 382.7m (47%) on the balance reported as at the end of 2008, mainly due to a disbursement of the third tranche of the loan granted to PGNiG Norway AS and the acquisition of new shares in that entity, as well as the operating loss recorded in H1 2009. To maintain its current liquidity, the Company significantly increased its short-term debt by drawing on the available credit facilities.

The decrease in cash and the higher debt had a negative impact on the liquidity ratios. The current ratio declined from 1.5 to 1.0, whereas the quick ratio was down from 1.1 to 0.8. In spite of the lower liquidity ratios, the value and structure of current assets continue to ensure that the Company is capable of timely payment of its liabilities.

The primary source of financing of the Company's assets is equity, whose value, as compared to the previous year, increased by PLN 158.3m (1%). The change in equity was mainly influenced by the net profit generated in the period (PLN 665.9m) and the payment of non-cash and cash dividend as a result of the distribution of profit for the previous year (PLN 531.0m).

The value of non-current liabilities was down by PLN 384.3m (19%) as compared to the end of 2008. The change was caused primarily by lower provisions (down by PLN 164.4m), mainly due to a decrease in the provision for well decommissioning costs and in the deferred tax liability by PLN 210.7m.

Current liabilities were up by PLN 969.0m (23%) as compared with the end of 2008, mainly driven by a PLN 1,140.9m increase in loans and borrowings. PGNiG SA needed to increase its external financing significantly in order to raise funds for disbursement of another loan tranche to PGNiG Norway AS and the acquisition of new shares in the company.

The change in the value of current liabilities was also strongly influenced by lower trade and other payables (which decreased by PLN 431.0m, or 15%), brought down mainly by a decrease in payables under gas imports. The lower value of liabilities for the purchased gas was caused by a lower volume and unit costs of gas imports as compared with the previous year.

The increased external financing affected the ratios describing the proportion between equity and liabilities. As compared with the end of 2008, the equity/liabilities ratio increased from 36.4% to 39.5% as at the end of 2009, whereas the liabilities/equity and liabilities ratio went up from 26.7% to 28.3%.

Use of Issue Proceeds until December 31st 2009

As a result of the Public Offering executed in 2005 PGNiG SA obtained issue proceeds totalling PLN 2,682.0m. The proceeds net of the issue costs of PLN 41.9m amounted to PLN 2,640.1m. The aggregate expenditure financed with the funds raised through the public issue of shares totalled PLN 2,283.6m at the end of 2009, which accounted for 86% of the total proceeds. Of this amount PLN 31.8m was spent by the end of 2005, PLN 1,292.3m was spent in 2006, PLN 525.6m in 2007, PLN 308.7m in 2008, and PLN 125.2m in 2009.

The use of the issue proceeds in the individual business segments was as follows:

- upstream – PLN 1,078.5m
- trade, transmission and storage – PLN 627.0m
- distribution – PLN 446.1m
- debt repayment (5% of the issue proceeds) – PLN 132m

The key projects financed with the issue proceeds in 2009 included modernisation and extension of the distribution network carried out by the Gas Companies and increasing the capacities of the underground gas storage facilities.

As at the end of 2007, the total limit set in the Issue Prospectus for expenditure on upstream activities was exhausted. In 2009, the Company fully used the limit of expenditure on trade, storage and transmission operations. The funds which remain available amount to PLN 356.5m.

Feasibility of Investment Projects

The low financial leverage, the positive assessment of the PGNiG SA's credit risk by rating agencies, and the improving situation on the financial markets allow the Company to carry out its investment projects. External financing will be mainly based on debt securities issue programmes.

Transactions Concluded on Terms Deviating from the Market Terms

In 2009, PGNiG SA and its subsidiaries did not enter into any material related party transactions on terms deviating from the market terms.

Explanation of Discrepancies between the Actual Results and Forecasts for 2009

In 2009, the Company did not publish any forecasts.

2. Financial Management

The funds at the disposal of PGNiG SA guarantee timely financing of all current and planned expenses related to the Company's core business and investing activities. However, in order to enhance security the Company has concluded overdraft facility agreements (for a total of PLN 240m), as well as a syndicated loan agreement effective until July 27th 2010 providing for a revolving multi-currency credit facility of EUR 600m. As at December 31st 2009, the debt under the syndicated loan amounted to EUR 468.3m.

2.1. Current Investments

In 2009, free cash was invested in instruments involving minimum credit risk, i.e. treasury securities and bank deposits. Investments in debt securities issued by the State Treasury represented approximately 30% of the transaction volume. The financial investments made in 2009 were current investments, maturing in up to one month, which was consistent with PGNiG SA's financial investment policy and the objectives specified in the Issue Prospectus.

2.2. Loan Agreements

In 2009, PGNiG SA concluded current account overdraft facility agreements totalling PLN 240m. As at December 31st 2009, the Company did not disclose any liabilities under these agreements. The table below presents loan agreements concluded by the Company in 2009.

Loan agreements concluded by PGNiG SA

Bank	Loan amount (PLN million)	Interest rate	Type	Maturity date
PKO BP S.A.	40.0	3M WIBOR + 1.9%	working capital loan	Jul 13 2010
Societe Generale S.A. Oddział w Polsce	40.0	1M WIBOR + 0.4%	working capital loan	Aug 31 2010
Bank Pekao SA	40.0	1M WIBOR + 1.6%	working capital loan	Jul 31 2010
BRE Bank SA	40.0	O/N WIBOR + 1.9%	working capital loan	Sep 10 2010
Bank Millennium S.A.	40.0	1M WIBOR + 1.7%	working capital loan	Dec 18 2010
Bank Handlowy w Warszawie S.A.	40.0	1M WIBOR + 0.7%	working capital loan	Mar 31 2010

In 2009, PGNiG SA did not terminate any loan agreements.

In 2009, PGNiG SA advanced loans only to its related undertakings. The loans totalled PLN 71.8m and were granted to finance investment projects involving construction of gas pipelines with gas connections and measurement systems, purchase of drilling equipment, purchase and replacement of gas meters, and day-to-day operations. The table below contains detailed information on the loans advanced by PGNiG SA to its related undertakings.

Loans advanced by PGNiG SA

Company	Loan amount (PLN million)	Interest rate	Type	Maturity date
Wielkopolska Spółka Gazownictwa Sp. z o.o.	14.0	1M WIBOR + 2.0%	investment loan	Feb 26 2010
ZRUG Sp. z o.o.	10.0	1M WIBOR + 2.0%	investment loan	Jun 30 2019
ZUN Naftomet Sp. z o.o.	0.8	1M WIBOR + 2.0%	investment loan	Dec 31 2014
Poszukiwania Nafty i Gazu Jasło Sp. z o.o.	9.0	1M WIBOR + 3.25%	operating loan	Aug 31 2010
Mazowiecka Spółka Gazownictwa Sp. z o.o.	38.0	1M WIBOR + 3.5%	investment loan	Aug 31 2021

In 2009, PGNiG SA did not contract any loans from entities other than banks and did not terminate any loan agreements with such entities.

2.3. Guarantees and Sureties

In 2009, PGNiG SA provided the following guarantees and sureties:

- guarantee in the amount of EUR 1m (PLN 4.1m) to secure POGC-Libya B.V.'s liabilities towards TMF Nederland B.V. under administrative and accounting services; the guarantee may be extended each year until the liability under the contract expires;
- two sureties with a total value of USD 5.3m (PLN 15.1m) to secure guarantees issued by Societe Generale S.A., Polish Branch, to POGC-Libya B.V. under a performance bond for GEOFIZYKA Kraków Sp. z o.o.'s obligations under a contract on seismic surveys within the Murzuq licence in Libya.

In 2009, PGNiG SA received guarantees for a total amount of PLN 150.2m. The largest of them was the guarantee issued by a consortium comprising PBG SA, Tecnimont S.p.A., Societe Francaise d'Etudes et de Realisations d'Equipements Gaziers SOFREGAZ, Plynostav Pardubice Holding A.S., Plynostav-Regulace Plynu A.S. – PLN 108.9m as performance bond concerning the project named "Construction of the Surface Installations of the Wierzchowice Underground Gas Storage Facility, phase: 3.5bn nm^3, sub-phase: 1.2bn nm^3".

2.4. Financial Risk Management

The main objective of the PGNiG SA's financial risk management policy is to limit the volatility of the cash flows related to the Company's operations to the acceptable levels in the short and mid term and building the firm value in the long term.

The Company limited the volatility of the cash flows resulting from payments under concluded gas purchase agreements by entering into transactions hedging the foreign exchange risk (FX options, option strategies).

In 2009, PGNiG SA used the following financial instruments to manage the price risk:

- purchase of foreign exchange call options;
- option strategies – generally representing combinations of two FX options;
- cross currency interest rate swaps – securing the loan advanced to PGNiG Norway AS.

The following was undertaken by PGNiG SA to mitigate the credit risk:

- investment of free cash in instruments with a minimum credit risk (treasury bills and treasury bonds);
- cooperation with the leading commercial banks;
- conclusion of framework agreements with business partners, which expressly define the rights and obligations of the parties;
- diversification of business partners;
- cooperation with rating agencies to maintain the Company's rating.

The measures undertaken by PGNiG SA to mitigate the risk of cash-flow disruptions included:

- diversification of e-banking systems;
- on-going control of credit/debit transactions in bank accounts;
- gathering information on cash flows at the Company/the Group;
- consolidation of bank accounts;
- conclusion of current account overdraft facility agreements.

To mitigate the risk of losing financial liquidity, the Company undertook measures which included:

- conclusion of current account overdraft facility agreements;
- projections of cash flows at the Company/the Group;
- estimation of the condition and the value of assets available for sale;
- maintenance of highly liquid financial assets;
- cooperation with rating agencies.

Since April 1st 2009, the Company has used cash flow hedge accounting, in line with IAS 39, with respect to transactions hedging payments for gas.

3. Financial Forecasts

The factors of key importance to PGNiG SA's financial situation will include crude oil prices on international markets, the situation on foreign-exchange markets, and position of the President of the Energy Regulatory Office on gaseous fuel tariffs.

In 2009, crude oil prices stabilised and were lower relative to the corresponding period of 2008. However, we have seen a slow upward drift in the oil prices during the 12 months of 2009, which, if continued in 2010, will make the Company benefit from relatively stable USD-denominated prices of gas imports. A global economic recovery may boost worldwide demand for crude oil and thus drive up its prices.

Furthermore, in 2009, we saw a steady decline in foreign exchange rates. Assuming that this trend continues in 2010, the Company can likely expect that the anticipated growth in USD-denominated prices of gas will be partly offset by depreciation of the US currency. However, since the currency market is characterised by substantial price volatility and unpredictability, a possible recurrence of the crisis in the financial markets would shatter favourable prospects for the Company.

Despite stabilisation in the fuel market, crude oil prices have grown significantly since the approval of the current gaseous fuel tariff by the President of the Energy Regulatory Office. Therefore, as rises in the market prices of crude oil are reflected in higher prices of gas, on February 12th 2010, the Company submitted a new tariff application to the President of the Energy Regulatory Office.

The structure of financing of the Company's assets will be modified in 2010, which will be related to the expiry of a multi-currency credit facility in July 2010 and the planned PLN 3bn issue of three-year bonds. Proceeds from the issue will be used to refinance the credit facility. Additionally, in H2 2010, the Company intends to prepare a Eurobond issue programme of approximately PLN 2.5bn. Proceeds from the Eurobond issue will be used to finance investment plans and day-to-day operations. Both bond issues will result in a substantial increase in the Company's debt and higher costs of debt servicing.

Since 2009, PGNiG SA has been in negotiations with OAO Gazprom to extend the existing contract for natural gas supplies until 2037 and increase the volume of supplies under the contract. Execution of the annex to the contract is expected in H1 2010. The annex will enable the Company to fully satisfy internal demand for gaseous fuels in the coming years.

In 2010, the Company intends to maintain a high level of capital expenditure, chiefly on projects aimed at enlarging underground gas storage facilities, expanding production capacity and diversifying gas supply sources, as well as on projects related to exploration for and appraisal of crude oil and natural gas deposits and projects designed to create a new segment of operations, namely the power market segment. In order to finance investment projects, the Company intends to increase its debt through the issue of bonds described above.

Members of the Management Board

President	Michał Szubski	
Vice-President	Mirosław Dobrut	
Vice-President	Radosław Dudziński	
Vice-President	Sławomir Hinc	
Vice-President	Mirosław Szkałuba	
Vice-President	Waldemar Wójcik	