PGNiG

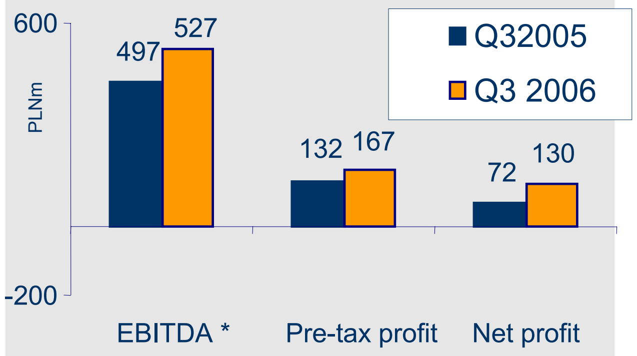
Polskie Górnictwo Naftowe i Gazownictwo SA

PGNiG S.A. Financial Results for the Third Quarter of 2006

Financial Highlights

PGNiG Group – IFRS (PLNm)	Q3 2005	Q3 2006	change	Q1-Q3 2005	Q1-Q3 2006	change
Sales revenue	2,367	2,773	17%	8,545	10,958	28%
Pre-tax profit	132	167	27%	913	1 121	23%
Net profit	72	130	81%	598	862	44%
EBITDA (leasing) *	497	527	6%	2,190	2,247	3%

PGNiG Group Results



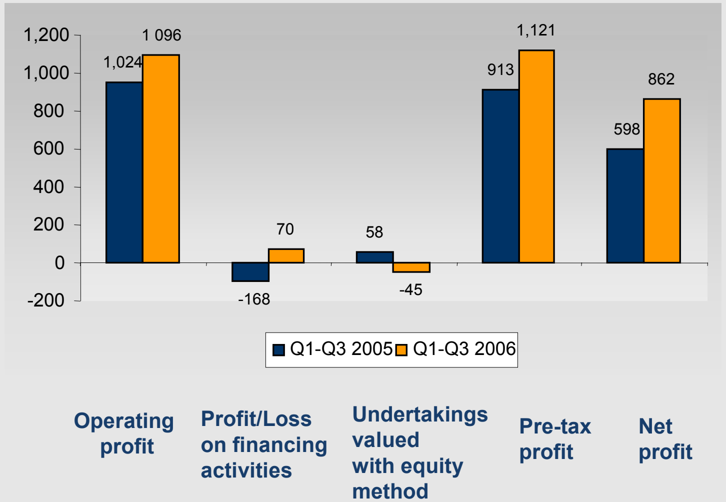
Comments

- The consolidated net profit **grew** by 81% on Q3 2005, reaching **PLN 130m**.
- The net profit increase was driven by two factors: an increase in sales revenue (up by 17%) coupled with high profitability in the non-regulated upstream segment.
- There was an **improvement** in the net margin, which rose from 3.0 to 4.7%.
- Due to organisational changes (the spin-off of the transmission business in July 2005), in order to ensure comparability of the financial results, EBITDA (leasing) was calculated to account for lease payments.

* EBITDA (leasing) = EBITDA + proceeds from a principal payment by OGP Gaz System Sp. z o.o. (recognised in the balance sheet as payment of receivables/interest payments are recognised under other operating expenses (net))

Performance Analysis by Segment

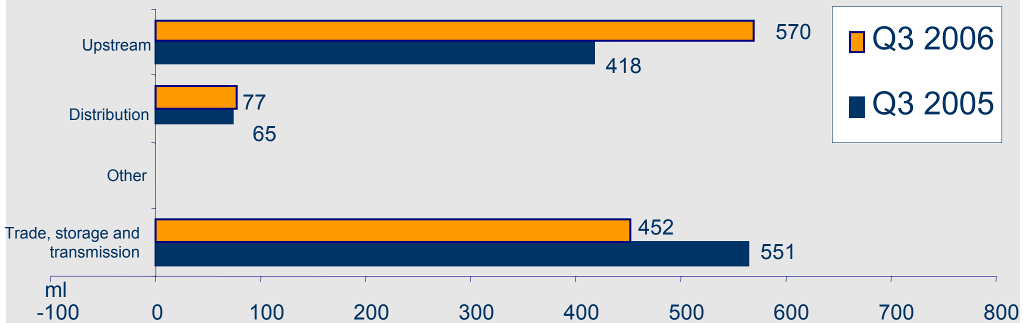
Structure of PGNiG Group results



- A PLN 238m improvement of the result on **financing activities** is attributable to the debt restructuring programme carried out in 2005. At present, PGNiG has secured very good terms of financing.
- PGNiG's strong financial standing is corroborated by the following credit ratings: Baa1 (Moody's) and BBB (Standard&Poor's)

Segment Analysis

- A segment analysis of the operating profit shows a significant improvement of the **upstream** segment (better market conditions).



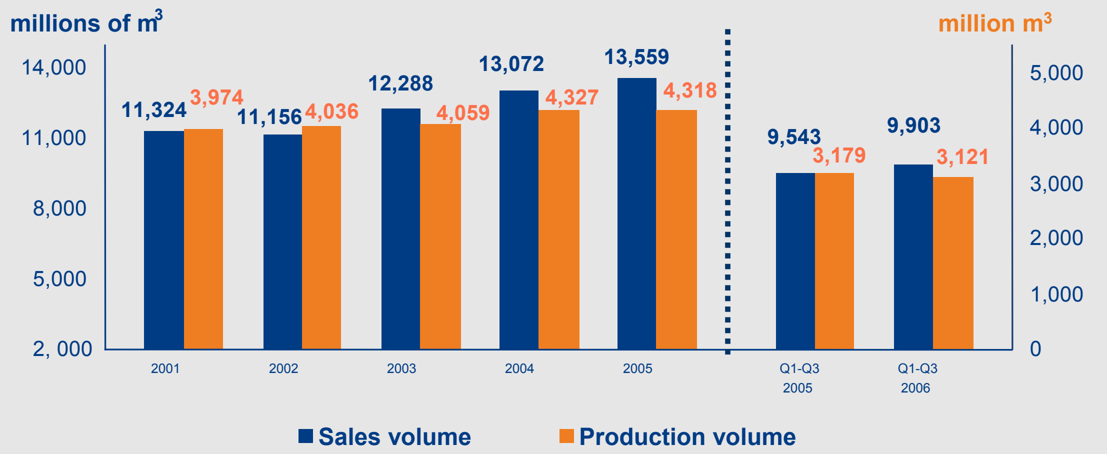
The segments comprise:

Upstream	Crude oil, direct sales of gas, sale of exploration services, other products (helium, LPG, LNG, etc.)
Trade	Interest income on lease agreement, tariff-based gas sales, storage operations, other services
Distribution	Operations of six Distribution Companies within the PGNiG Group

PGNiG Sales Volume and Revenue

PGNiG Group – IFRS	Q1-Q3 2005	Q1-Q3 2006	change
Sales volumes of natural gas (million m^3)	**9,543**	**9,903**	**4%**
Sales revenue (PLNm)	**8,545**	**10,958**	**28%**
- Methane-rich gas (E)	**6,808**	**8,768**	**29%**
- Nitrogen-rich gas (Ls, Lw)	**616**	**792**	**29%**
- Other	1,121	1,398	**25%**

Natural gas sales and production volumes [1]



Comments

- In Q1-Q3 2006, the gas sales volume grew by approx. 4% relative to the previous year. The growth was posted only in Q1, when extremely low temperatures caused gas consumption to reach record highs.
- In Q3 2006, gas sales actually went down by 0.6% (i.e. by approx. 14m m^3) compared with the corresponding period of the previous year.
- The decline was primarily due to the lower gas demand from industrial customers resulting from scheduled maintenance shut-downs during summer, and overall gas demand rationalisation among customers.

PGNiG, consolidated financial statements according to IFRS

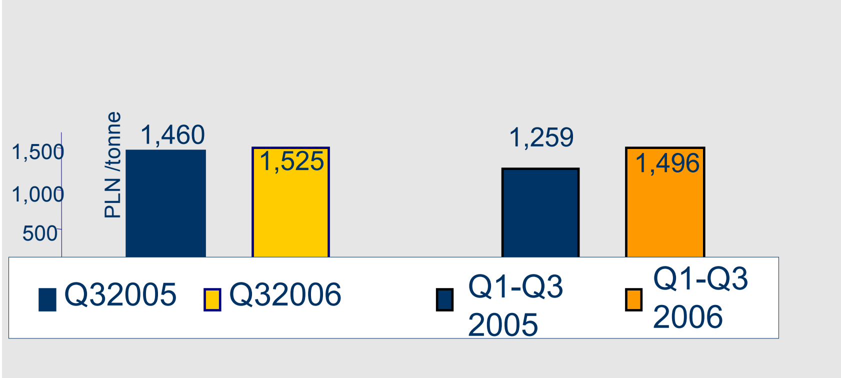
(1) Methane-rich gas equivalent (E)

Crude Oil

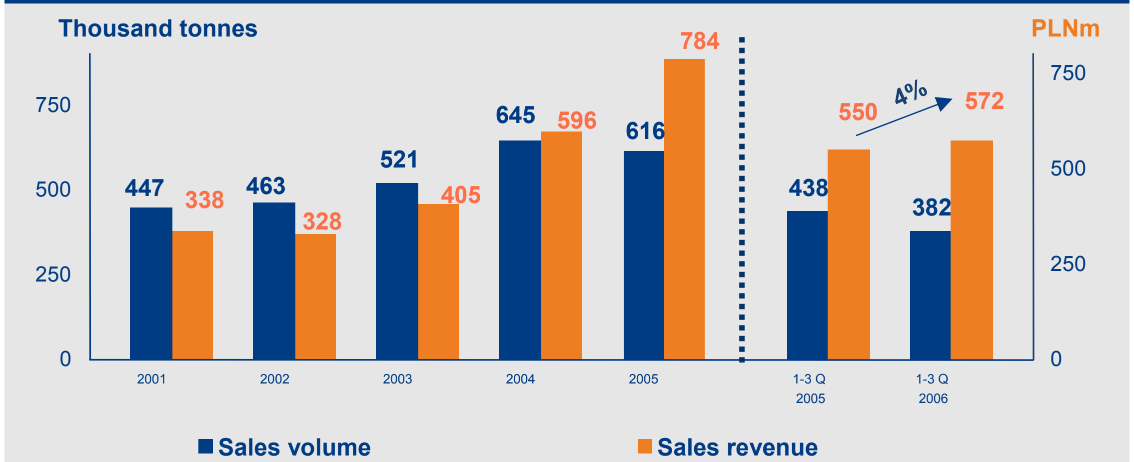
PGNiG Group – IFRS	Q1-Q3 2005	Q1-Q3 2006	change
Crude sales volume (thousand tonnes)	438	382	(13%)
Revenue on crude sales (million)	550	572	4%
Crude production volume (thousand tonnes)	430	381	(11%)
Unit prices of crude oil (PLN/tonne)	1,259	1,496	19%
Unit prices of crude oil (USD/bbl) *	52	63	21%

* bbl – 158.99 litre; average crude oil density = 0.844

Unit prices (PLN / tonne)



Crude sales



Comments

- PGNiG sells crude oil on market terms. In Q3 2006, the average price of crude oil sold by PGNiG S.A. stood at **USD 66/bbl**.
- Despite a drop in the crude oil sales volume, the sales revenue for Q1-Q3 2006 grew by 4%.
- In Q3 2006, the downward trend in the crude sales volume was arrested, mainly through stocks reduction and a launch of ongoing test supplies at the level optimal for the current production requirements.

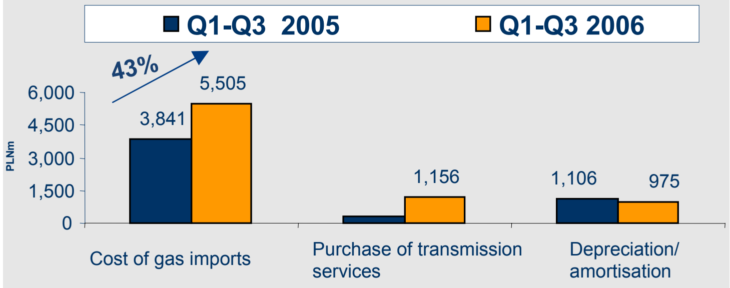
Operating Expenses

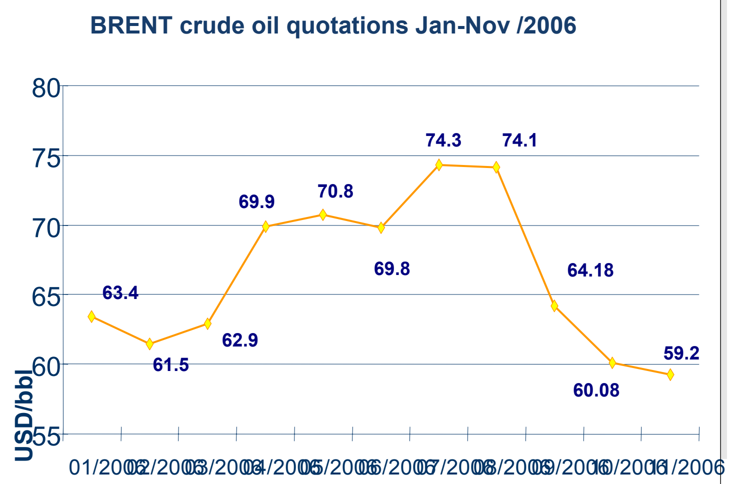
PGNiG Group – IFRS (PLNm)	Q1-Q3 2005	Q1-Q3 2006	change
Total operating expenses	7,594	9,863	30%
- purchase cost of sold gas	3,841	5,505	43%
- consumption of other raw materials and materials	333	350	5%
- employee benefits	1,178	1,247	6%
- depreciation and amortisation	1,106	975	(12%)
- OGP Gaz System transmission services	271	1,156	327%
- other contracted services	760	710	(7%)
- other operating expenses (net)	496	360	(27%)
- change in inventories	(37)	(74)	100%
- costs of products and services for own needs	(354)	(368)	4%

Comments

- Expenses rose primarily due to increased purchase costs of sold gas (up by 43%), driven largely by higher unit costs of gas imports.
- Global gas prices are influenced by the conditions prevailing on the crude oil and oil products market. Gas prices are strongly correlated with the current exchange quotations of crude oil (in Q3 2006, an increase of more than 18% on Q3 2005).
- The cost of contracted services rose in Q3 2006 relative to Q3 2005 in the wake of the launch of OGP Gaz System transmission services on July 8th 2005.

Key cost items

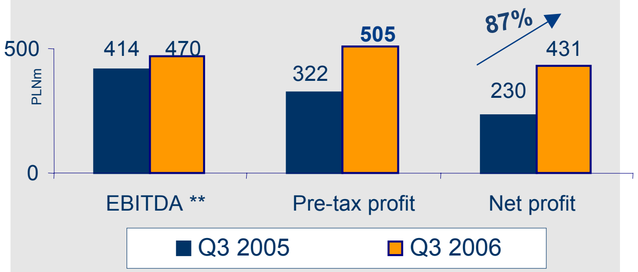




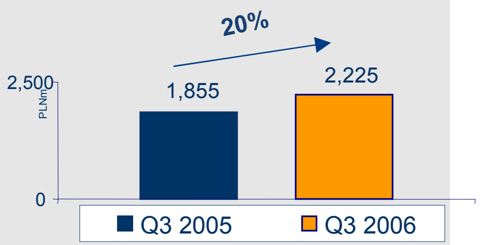
Financial Highlights (PAS)

PGNiG S.A. – PAS (PLNm)*	Q3 2005	Q3 2006	change
Sales revenue	**1,855**	**2,225**	**20%**
Pre-tax profit	**322**	**505**	**57%**
Net profit	**230**	**431**	**87%**
EBITDA (leasing) **	354	413	14%

PGNiG S.A.'s results



Revenue



Comments

- Positive trends observed in PGNiG's financial performance were confirmed by the PAS non-consolidated financial statements, according to which the net profit increased by as much as 87%.

Change in the structure of PGNiG's results

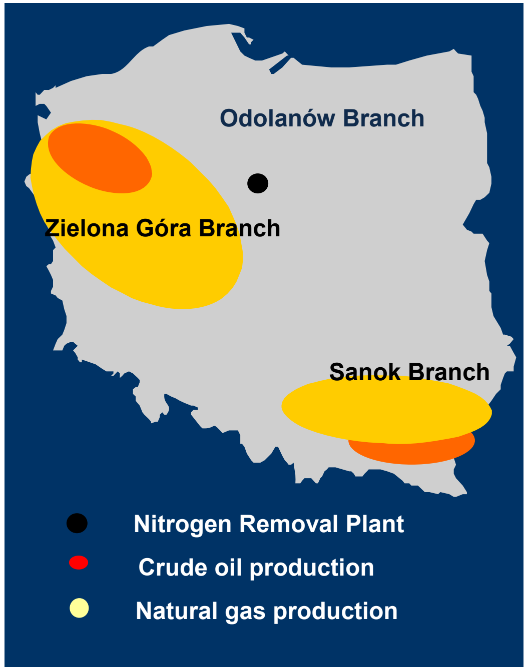
- Due to the spin-off of the transmission operations, starting from H2 2006 PGNiG no longer discloses the margin on this business segment.
- At present, PGNiG purchases transmission services on behalf of its customers and passes the cost of such services on to the customers under comprehensive gas sale agreements.
- After the first three quarters of 2006, PGNiG's revenue under the lease agreement amounted to PLN 389m, of which:
  - PLN 212m was an interest payment
  - PLN 176m was a principal payment
- Revenue under the lease agreement is deemed to offset the lost margin on transmission business.

•The figures are based on non-consolidated financial statements fo PGNiG S.A., which are the basis for payment of dividend to shareholders

Development of the Upstream Segment

Upstream Segment

- PGNiG S.A.
- Group companies
  - Geophysical services
  - Exploration
  - Related services



Geophysical services	Exploration	Related services
Geofizyka Kraków Share capital – PLN 34m	PNiG Jasło Sp. z o.o. Share capital – PLN 100m	PN Diament Share capital – PLN 62m
Geofizyka Toruń Share capital - PLN 33m	PNiG Kraków Sp. z o.o. Share capital – PLN 99m	ZRG Krosno Share capital - PLN 26.8m
	PNiG NAFTA Sp. z o.o. Share capital – PLN 60m	

Upstream Segment Development

The PGNiG Group constantly develops its offshore upstream operations

- **PGNiG** submitted bids for two exploration licence blocks in Egypt in the tender announced by the state-owned Egyptian General Petroleum Corporation (EGPC). The Company seeks to be awarded two licence blocks located in the western part of the Egyptian Desert. The decision on participating in the tender was made following careful examination of the documents made available for inspection in the data room in Cairo.

- **PGNiG** is also one of the short-listed bidders in the tender for licence areas located in Libya. A group of PGNiG's employees were delegated to visit the data room in Tripoli in order to obtain the available geological and geophysical information. The documentation is currently undergoing detailed examination, based on which a decision concerning further participation in the tender will be made in December 2006.

- **Poszukiwania Nafty i Gazu Kraków** Sp. z o.o., member of the PGNiG Group, concluded the following agreements:
  - ✓ an agreement concerning exploratory drilling for natural gas, concluded with Tethys OIL AB (drilling work to be carried out in Denmark, north of Copenhagen);
  - ✓ an agreement for crude oil exploration concluded with Ken-Sary LLP Co. of Kazakhstan;
  - ✓ an agreement for drilling work and provision of related services, concluded with the international concern SASOL Petroleum Temane Limitada.

✓ **Geofizyka Kraków** Sp. z o.o. concluded an agreement with Hydro of Norway for the performance of seismic research in Libya.

✓ **Geofizyka Toruń** Sp. z o.o. concluded an agreement with Oil India for the performance of seismic research in the Indian state of Assam.

Investment Projects Aimed at Improving Security of Natural Gas Supplies

- PGNiG concluded an agreement with Investgas S.A. concerning the construction of two new caverns in the **Underground Gas Storage Facility** (**UGS**) in Mogilno. Following the construction of the caverns, the working capacity of the UGS facility in Mogilno will increase by about 100m cubic metres, to approx. 470-500m cubic metres. Leaching (salt extraction) and first-time gas injection are technically complex and lengthy processes. The project completion has been scheduled for 2012.

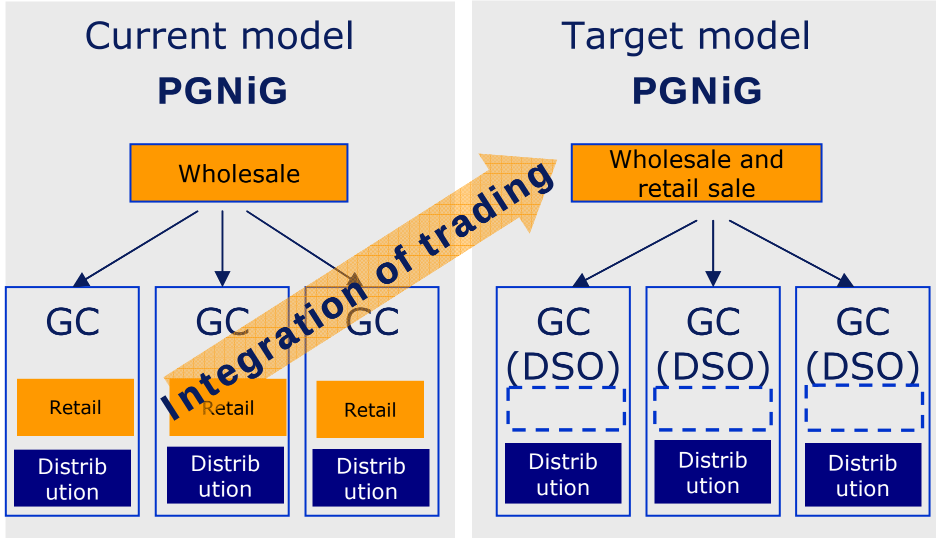
- PGNiG concluded an agreement with PBG S.A. for the construction of the **Grodzisk Nitrogen Removal Plant** – an industrial unit for removal of nitrogen from nitrogen-rich natural gas. The construction of the plant will enable PGNiG S.A. to exploit the reserves of natural gas with high nitrogen content and low calorific value, in particular the Paproć, Paproć W, Wielichowo, Ruchocice, Brońsko, Lubiatów, Międzychód, Grotów and Sowia Góra reserves. The nitrogen removal plant will process up to 500m cubic metres of nitrogen-rich gas annually.

- In the third quarter of 2006 PGNiG concluded an agreement with VNG – Verbundnetz Gas AG, a German gas supplier. Supplies of natural gas to the delivery point in Lasów commenced on October 1st 2006. During the first two years, the supplies are expected to reach 500m cubic metres annually, while in the period from October 1st 2008 to October 1st 2016, the annual volume of gas supplies will be 400m cubic metres. The price formula set forth in the agreement with VNG is based on oil product quotations, as in the case of most gas contracts. The natural gas will come from the supplier's portfolio, which will ensure greater security compared to supplies from a single source.

- Work on the Feasibility Study and Review of the Technical and Economic Assumptions concerning imports of liquefied natural gas (LNG) to Poland is progressing according to the adopted schedule. To date, a substantial part of the work has been completed and thus the Company has already received the first report prepared by the advisory consortium. The scope of work comprises preparation of analyses relating to the demand for gas, as well as the procurement, trade and shipment of LNG. Additionally, the feasibility study contains technical, financial and organisational analyses, as well as analyses focusing on the terminal location.

Integration of Gas Trading Activities within PGNiG

1. The activities comprising gas trading and customer service throughout Poland are transferred to PGNiG S.A., which carries out retail and wholesale activities (as well as upstream and warehousing activities).
2. PGNiG S.A. provides services to all customers – those served to date by the Gas Companies and by PGNiG S.A.
3. The Gas Companies (after the spin-off of the trading business) serve as Distribution System Operators in their respective areas, while retaining the ownership of the network assets.



Advantages of the adopted solution

- Homogenous customer service standards, a single database, possibility of introducing quality certificates at the level of the whole country
- Economies of scale – lower fixed costs per customer
- Facilitated implementation of a uniform sales and tariff strategy
- Maintaining competitive position in gas trading business in the long term – integrating the trading operations in a single large company of considerable financial strength
- Considerable financial strength – a large company generates more free cash, which translates into greater investment potential
- Regulatory transparency of gas trading and distribution operations
- Limited scope of ownership transformations – relatively limited transfer of assets from gas companies (assets and employees)