PGNiG

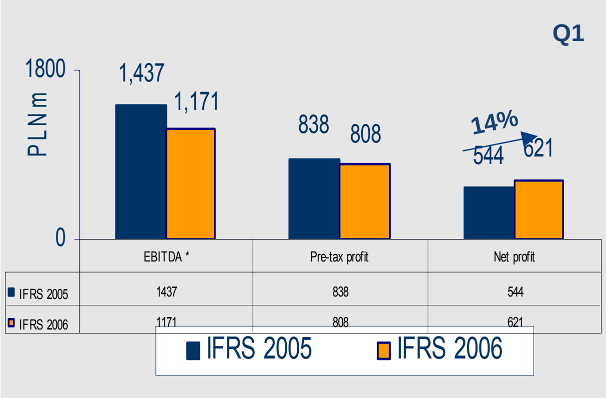
Polskie Górnictwo Naftowe i Gazownictwo SA

PGNiG S.A.
Financial Results for the First Quarter 2006

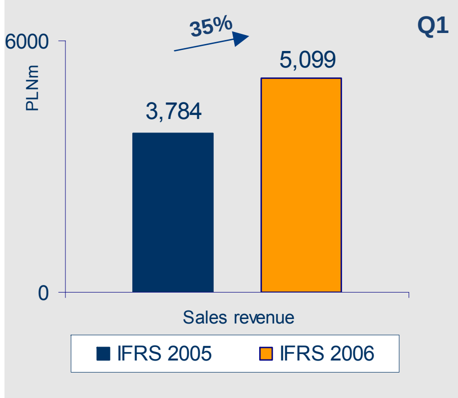
Financial Highlights

PGNiG Group – IFRS (PLNm)	Q1 2005	Q1 2006	change
Sales revenue	**3,784**	**5,099**	**35%**
Pre-tax profit	**838**	**808**	**(4%)**
Net profit	**544**	**621**	**14%**
EBITDA (leasing) *	1,437	1,171	(19%)

PGNiG Group Results



Revenue



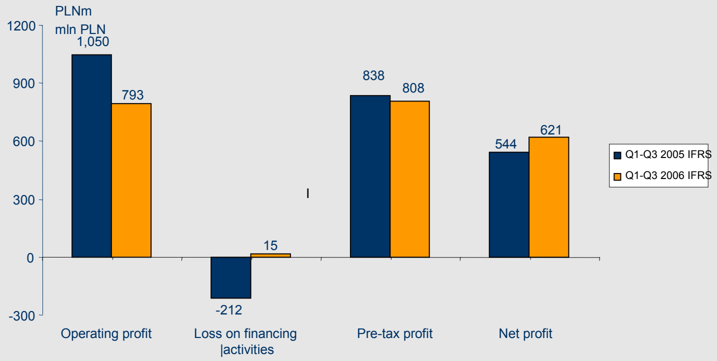
Comments

- The consolidated net profit grew by 14% on Q1 2005, reaching the level of PLN 621m.
- The net profit increase was driven by two factors: an increase in sales revenue (by 35%) coupled with further improvement of profitability in the non-regulated upstream segment.
- The upstream segment benefited from considerably higher prices of raw materials on global markets (the end of 2004 saw the crude prices at USD 40/bbl and over the following year they went up by more than 50%).
- There was a change in the structure of the results. PGNiG no longer generated the transmission margin, which caused a drop in EBITDA.
- EBITDA (leasing) was adjusted to reflect lease payments so as to present a comparable view of the performance.

* EBITDA (leasing) - the sum of EBITDA and the proceeds from a principal payment from OGP Gaz System Sp. z o.o. (recognised in the balance sheet as payment of receivables).

Performance Analysis

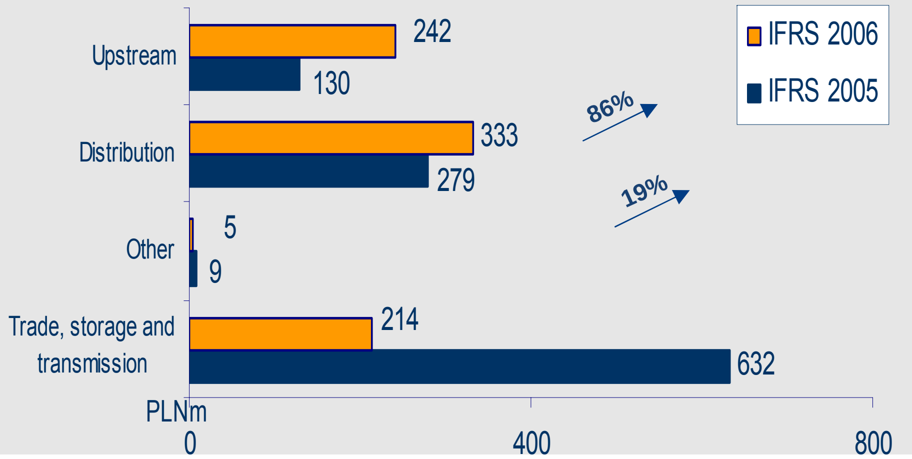
Structure of PGNiG Group results



- The decline in the operating profit was offset by the improved result on financing activities.
- Driven by the loss of transmission margin with a simultaneous inflow of proceeds under lease agreements and a drop in interest expense due to the 2005 debt restructuring.

Segment analysis

- A segment analysis of the operating profit shows that the **upstream** and **distribution** segments are the key drivers of the Group's results.
- The margin in the upstream segment, which generates profits on sales of crude oil, direct sales of natural gas and other products (such as helium, sulphur and LPG), rose sharply by 86%.
- Q1 2006 saw robust performance of the distribution segment driven by significant operating leverage in the segment (a high ratio of fixed costs accompanied by substantial sales volumes in Q1).

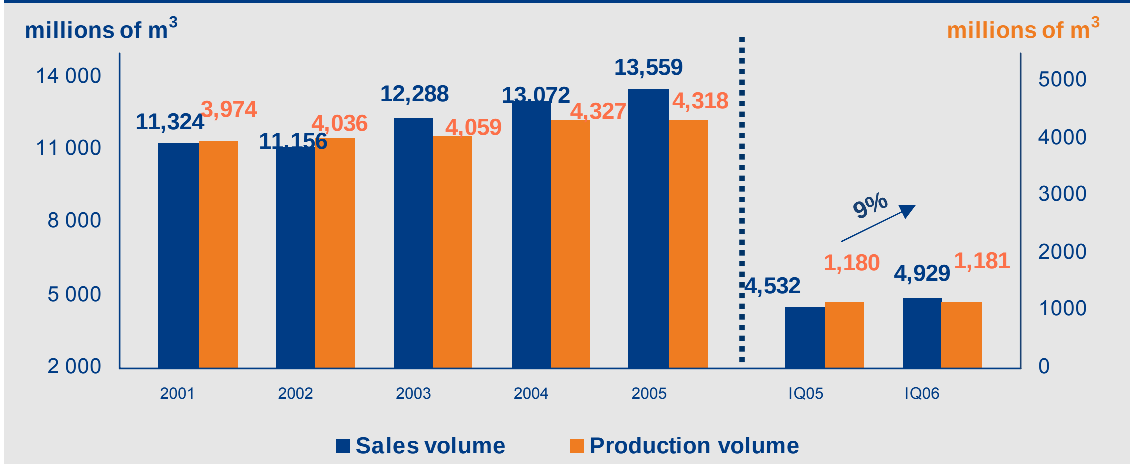


PGNiG, consolidated financial statements prepared in accordance with IFRS.

PGNiG Sales Volume and Revenue

PGNiG Group – IFRS	Q1 2005	Q1 2006	change
Sales volume of natural gas	**4,532**	**4,929**	**9%**
Sales revenue (PLNm)	**3,784**	**5,099**	**35%**
-Methane-rich gas	3,186	4,167	**31%**
-Nitrogen-rich gas	299	403	**35%**
-Other	299	529	**77%**

Natural gas sales and production volumes [1]



PGNiG, consolidated financial statements prepared in accordance with IFRS.
(1) As methane-rich gas equivalent (E).

Comments

- The 9% increase in sales volume of natural gas recorded in Q1 2006 (i.e. 397m cubic metres) was mainly the result of historically low temperatures.
- The sales growth was achieved despite temporary disruptions in gas supplies from the east which occurred in January. Special procedures were implemented whereby interruption in gas supplies affected only industrial customers, whereas individual customers continued to receive the usual quantities. The interruption in gas supplies lasted only a few days, whereupon the supplies stabilised at the levels provided for under commercial contracts,
- The sales growth was posted primarily by the gas companies (approx. 440m cubic metres),
- Growing demand for natural gas was satisfied by an increase in gas imports of approx. 207m cubic metres (an increase of 8%).

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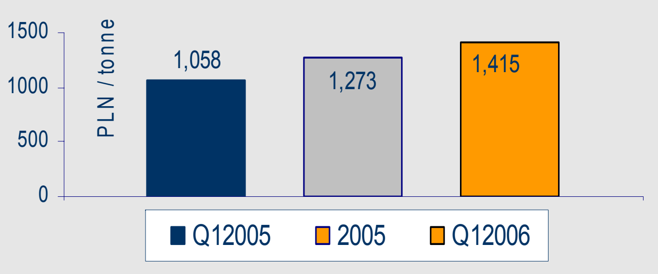
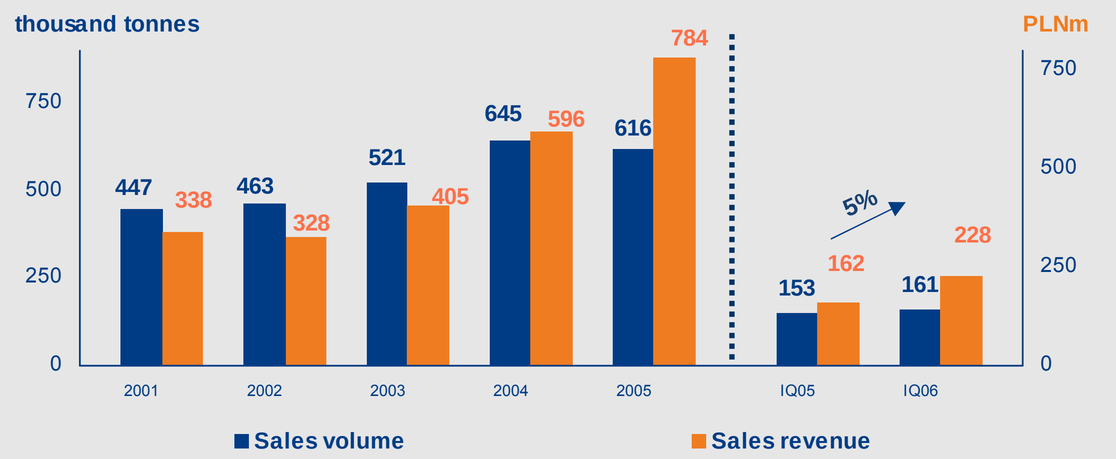
Crude Oil

PGNiG Group – IFRS	Q1 2005	Q1 2006	change
Crude sales volume (thousand tonnes)	**153**	**161**	**5%**
Revenue on crude sales (PLNm)	162	228	**40%**
Unit price of crude oil (PLN/tonne)	1,058	1,415	**34%**

Unit prices



Crude sales [1]



Comments

- The 2005 crude sales margin showed considerable improvement. The high crude quotations in Q1 2006 helped maitain the upturn, thus entailing the growth in unit sales price by 34%.
- Higher production of crude oil at the beginning of 2006 fuelled the sales volume increase on Q1 2005 by some 7.6 thousand tonnes.

PGNiG, consolidated financial statements prepared in accordance with IFRS.
(1) Crude oil figures include sales of condensate.

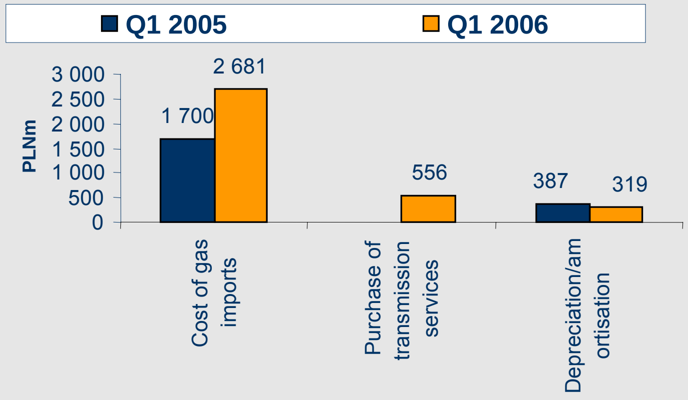
Operating Expenses

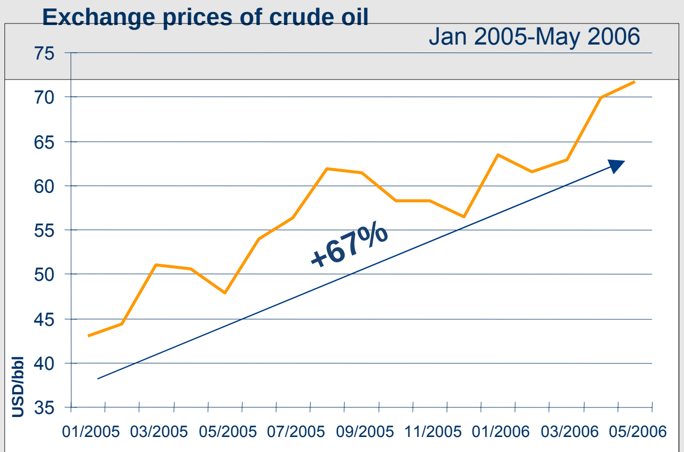
PGNiG Group – IFRS (PLNm)	Q1 2005	Q1 2006	change
Total operating expenses	2,734	4,306	58%
- purchase of natural gas	1,700	2,681	58%
- raw materials and energy used	103	115	11%
- employee benefits	394	376	(5%)
- depreciation and amortisation	387	319	(18%)
- OGP Gaz System transmission services	0	557	-
- other contracted services	191	208	9%
- other net operating expenses	178	390	119%
- change in inventories	-139	-243	76%
- cost of products and services for own needs	-82	-96	16%

Comments

- Expenses rose primarily due to increased import costs.
- Gas prices are influenced by the conditions prevailing on the crude oil and oil products market.
- Spin-off of the transmission business affected the structure of results and brought about incurrence of transmission services cost.

Key cost items

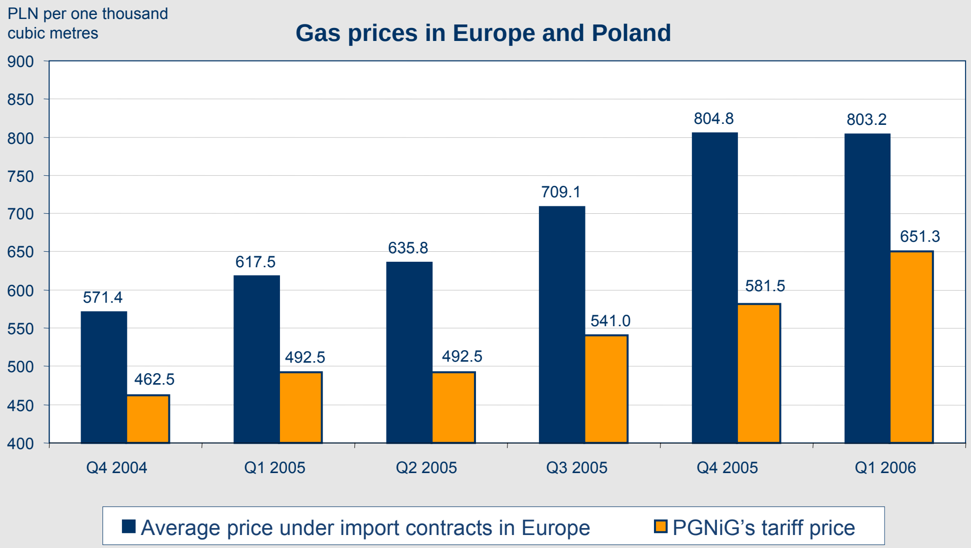




Financial results were driven by rising gas import prices...

Import prices in Europe and PGNiG's tariff price

- According to the European Gas Markets data, the prices under major import contracts in Europe (for such concerns as OMV and Ruhrgas) rose considerably over the last fifteen months (by approx. 58%).
- The prices of imported natural gas under major import contracts in Europe increased from USD 173 per one thousand cubic metres (October 2004) to USD 274 per one thousand cubic metres (February 2006).



Comments

- 2005 saw the widening of the gap between the average prices under import contracts in Europe and PGNiG's tariff price.
- In December 2005, the average import price increased by approx. 48% compared with December 2004. The increase in the gas fuel charges authorised by the President of URE over the same period was only 25.7%.
- The widening gap has an adverse effect on the financial performance of PGNiG.
- The decrease in the profitability of the trading operations was offset by an improvement in the results of the upstream segment (in particular by the improved profitability of crude oil sales).
- At the same time, PGNiG S.A. tried to reflect the increase in the gas import prices in its tariff.

* The prices under major import contracts are quoted after European Gas Markets.
The prices were translated into the złoty at average exchange rates quoted by the National Bank of Poland for each period.

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PGNiG's tariff

Gas fuel tariff

- The main reason for the increase in the gas fuel prices is the prevailing upward trend in prices of gas fuel purchased under import contracts. Such an increase was the reason for the most recent price increase which took effect as of April 1st 2006.

PGNiG's tariff	2004	2005			2006	
Gas price (PLN per cubic meter)	Jan-Dec	Jan-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-
E	0.4625	0.4925	0.5410	0.5815	0.6513	0.7086
Increase (%)		6.5%	9.8%	7.5%	12.0%	8.8%

- PGNiG's tariff applies to large customers, such as nitrogen plants or steelworks. The Distribution Companies of the PGNiG Group, which sell natural gas to smaller customers, set their own tariffs.
- As of April 1st 2006, the Distribution Companies also changed their tariffs. The changes reflected an increase in gas purchase prices paid by the companies (trading operations) and an increase in distribution rates (below).

Average distribution rates (gas E) as of April 1st 2006 (PLN per cubic meter)	DSG	GSG	KSG	MSG	PSG	WSG	Total
	0.3707	0.3946	0.3596	0.4087	0.3977	0.3253	0.3735
Increase (%)	7.0%	7.2%	7.0%	6.9%	7.0%	7.0%	7.0%

Transmission tariff

- As of April 1st 2006, a new transmission tariff of OGP Gaz System Sp. z o.o. took effect.
- In order to facilitate gas deliveries to the location indicated by its customer, PGNiG concluded a transmission agreement with OGP. The costs of the transmission service are passed on by PGNiG to its customers, in the amount resulting from the OGP tariff.
- As of April 1st, also PGNiG introduced new rates to its tariff, which are to cover the costs of gas storage and transmission via the SGT Europolgaz network – previously, such costs were included in the transmission tariff.

PGNiG's tariff		Apr-Dec 2006
Rate resulting from purchase of transmission service from SGT Europolgaz (PLN per cubic meter)		0.0068
Storage rate (PLN per cubic meter)	E1	0.0215
	E2	0.0174
	E3	0.0157
	E4	0.0098

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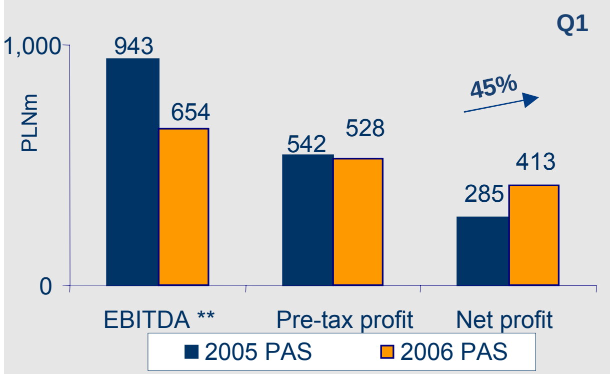
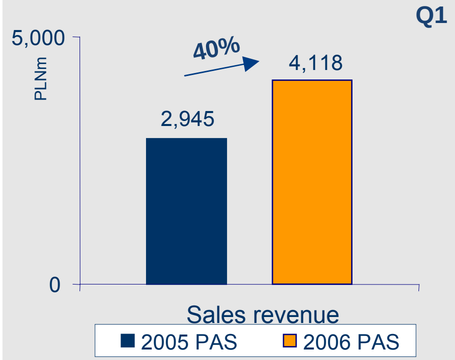
Financial Highlights (PAS)

PGNiG S.A. – PAS (PLNm)*	Q1 2005	Q1 2006	change
Sales revenue	**2,945**	**4,118**	**40%**
Pre-tax profit	**542**	**528**	**(3%)**
Net profit	**285**	**413**	**45%**
EBITDA (leasing) **	943	654	(31%)

PGNiG S.A.'s results



Sales revenue



Changes in transmission

- The decrease in EBITDA results mainly from the spin-off of the transmission operations.
- Due to the structure of the transmisssion charges (40% - fixed rates, 60% - variable rates), most of the transmission revenue and margin were always generated in Q1, when the highest gas transmission volume is recorded (operating leverage with higher fixed costs).
- PGNiG's revenues under a lease agreement in Q1 2006, which were to offset the effects of spinning off the transmission operations, are spread equally over the year (transmission costs are seasonal). Furthermore, the full amount of the lease payment is not recognised in the profit and loss account (in particular, no revenue is recognised on the principal payment, which reduces the balance of accounts receivable under the lease agreement in the balance sheet).

* The figures are based on non-consolidated financial statements of PGNiG S.A., which are the basis for payment of dividend to shareholders
** EBITDA (leasing) = EBITDA + proceeds from a lease payment from OGP Gaz System Sp. z o.o.

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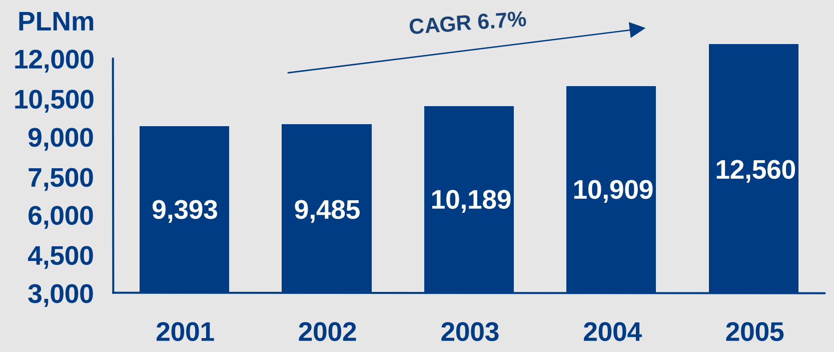
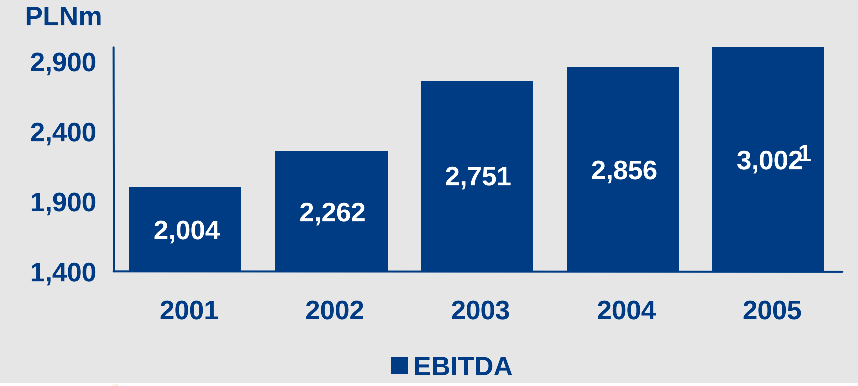
PGNiG's Growth Path

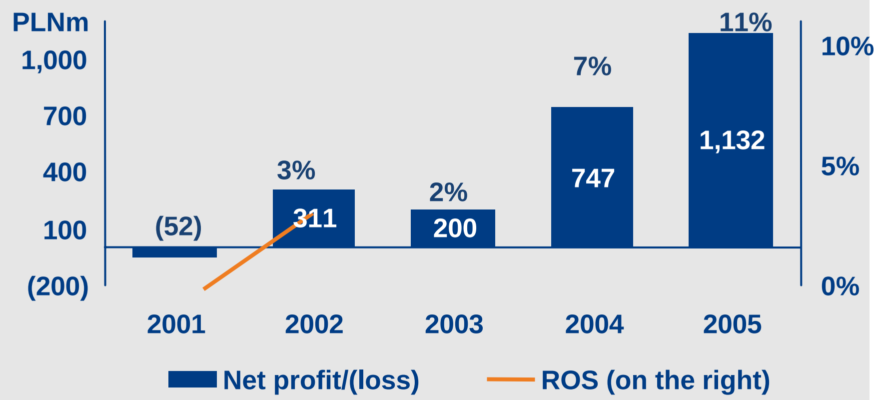
Growth of consolidated sales revenue



Consolidated EBITDA



PGNiG S.A.' net profit and net margin*



* Data derived from non-consolidated financial statements of PGNiG S.A.

- **Continued growth of sales supported by increasing demand for gas.**
- **Improved net profit thanks to stricter cost control, higher margin in the upstream segment and effective tariff policy.**

PGNiG, consolidated financial statements prepared in accordance with PAS (2001-2003) and IFRS (2004-2005).
(1) EBITDA (leasing) = EBITDA plus proceeds under a lease payment received by PGNiG S.A.