PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

Financial Results of PGNiG S.A.
Q4 2006

Analysts' Expectations (Q1–4 2006)

PGNiG GROUP, IFRS (PLNm)	Consensus	Max	Min	PGNiG 1-4Q 2006	Change to consensus
Sales revenue	15,357	16,459	13,479	15,197	(1%)
EBIT	1,435	1,980	1,261	1,314	(8%)
Net profit	1,173	1,574	1,014	1,228	5%
EV/EBITDA	7.8	8.2	6.4	8.5	9%
P/E	19.8	22.6	14.6	19.2	(3%)
ROA (%)	4.0	6.0	3.2	4.0	0%

Analysts' opinions

- Analysts believe that the warm winter should not deteriorate the Company's results, as the PGNiG Group should reduce its sales of imported gas, due to the lower demand,
- Analysts also emphasised that the strengthening of the Polish złoty against the US dollar will have a positive impact on PGNiG's Q4 2006 results,
- Due to decreasing crude oil prices in Q4 2006, analysts forecasted weaker performance in terms of sales of crude oil in the E&P segment.

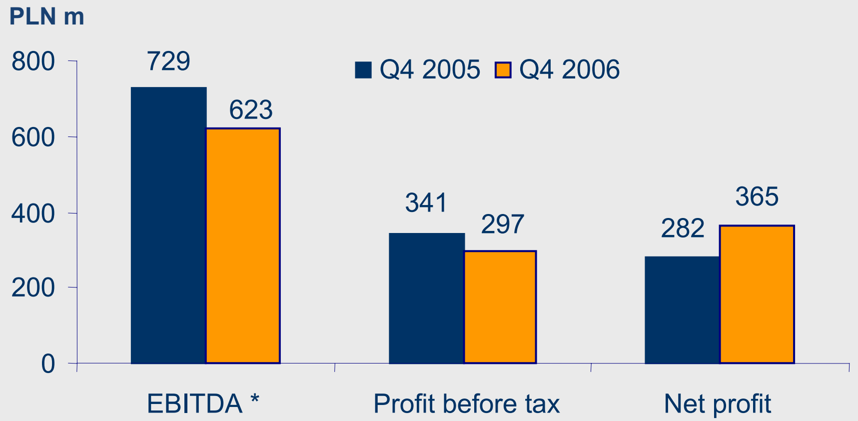
The Company's comments

- Analysts' forecasts of the Company's results for Q4 2006 and the entire 2006 year proved accurate. This confirms that PGNiG is a company whose operating results are predictable and its performance is owed to the core business,
- Lower than estimated operating profit results from the loss on regulated sales of gas in 4Q,
- Besides that, the net profit in 2006 was 5% higher than the market consensus

Financial Highlights

PGNiG Group, IFRS (PLNm)	Q4 2005	Q4 2006	Change	1–4Q 2005	1–4Q 2006	Change
Sales revenue	4,015	4,239	6%	12,560	15,197	21%
Profit before tax	341	297	(13%)	1,254	1,418	13%
Net profit	282	365	29%	881	1,228	39%
EBITDA (lease) *	729	623	(14%)	2 918	2,870	(2%)

Results of the PGNiG S.A. Group



The Company's comments

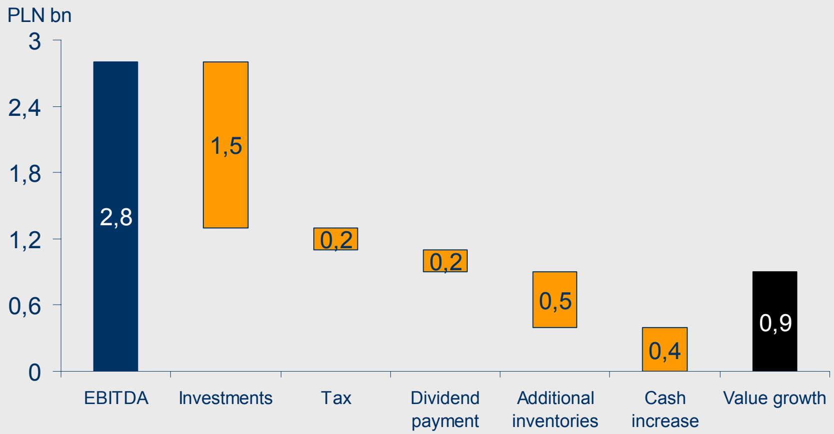
- Consolidated net profit **increased** by **39%** compared with the 2005 result, and reached **PLN 1,228m**.
- The increased profit reflects the high profitability of the non-regulated exploration activity (sales profitability **45%**), in particular sales of the crude oil (PLN 0.5 bn annualy)
- At the same time, in 2006 the decrease was noted on the profitability of the regulated gas sales
- PGNiG's Group net profitability **increased** from 7.0% in 2005 to **8% in 2006**.

* EBITDA (lease) was calculated as EBITDA plus PGNiG S.A's income from a principal payment by OGP Gaz System Sp. z o.o. (disclosed under decrease in receivables in the balance sheet / repayment of interest is disclosed under „Net other operating expenses")

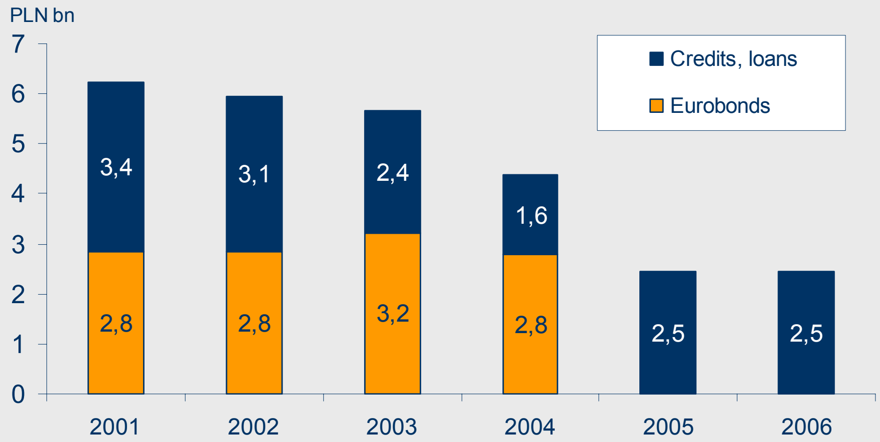
PGNiG

The increase of the company value

EBITDA breakdown in 2006



Debt restructuring in PGNiG



The Company's comments

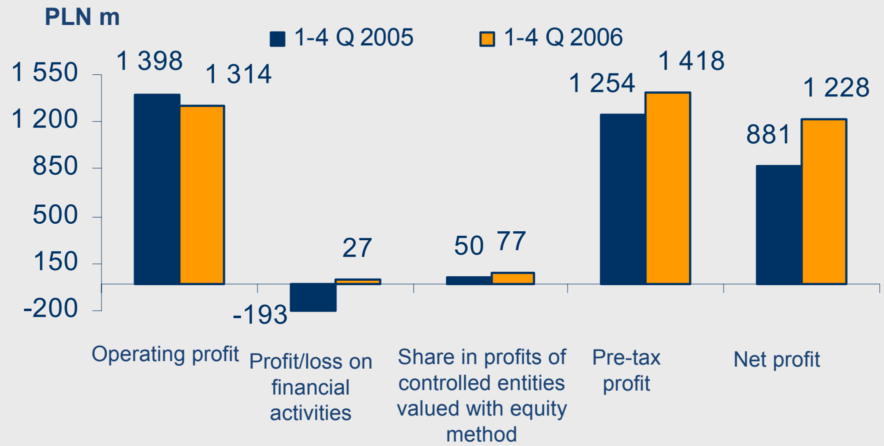
- PGNIG increased in 2006 its investment expenditures to PLN 1.5 bn (PLN bn 1.3 in 2005);
- The company generated profits surplus over expenditures amounted to PLN **0.9 mld bn**:
  - cash and cash equivalents rose by PLN 0.4 bn
  - the value of gas inventories increased by PLN 0.5 bn

Succesful financial strategy

- The constant financial strategy resuted in debt restructuring program thanks to Eurobonds buyout;
- Due to debt repayment PGNiG Group significantly decreased its financial expenses;
- In the end of 2006 the company's net debt amounted to PLN **1.1** bn;
- The long-term level of financial leverage accounts for 30%

The analysis of results by segment

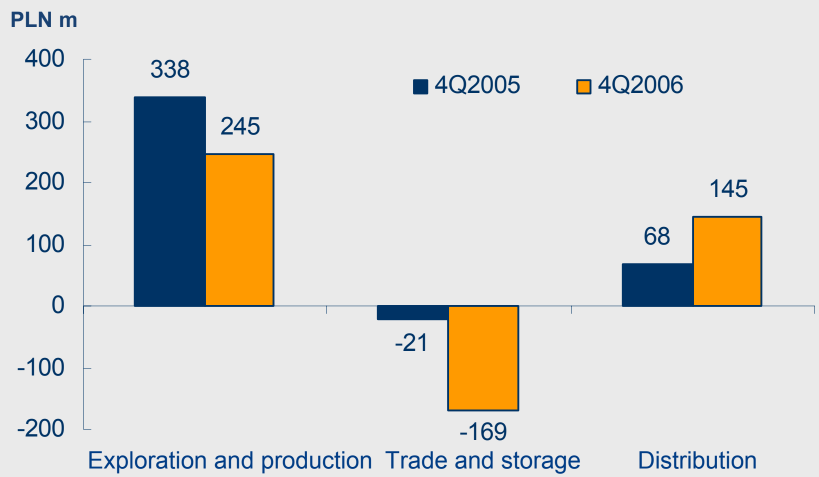
The structure of GK PGNiG S.A.'s results



- The decrease of **operating profit** in 2006 results from the loss on regulated gas sale;
- In non-regulated activity, PGNiG substantially improved its profitability. The upswing also relates to **financial activity**, as the profit increased by PLN 220 m, due to cost decrease on interests, commissions and guarantees **by 75%**;
- In 2006 PGNiG constantly implemented the hedge strategy against exchange rate risk and provided USD 2.2 bn and EUR 0.2 bn for gas purchase.

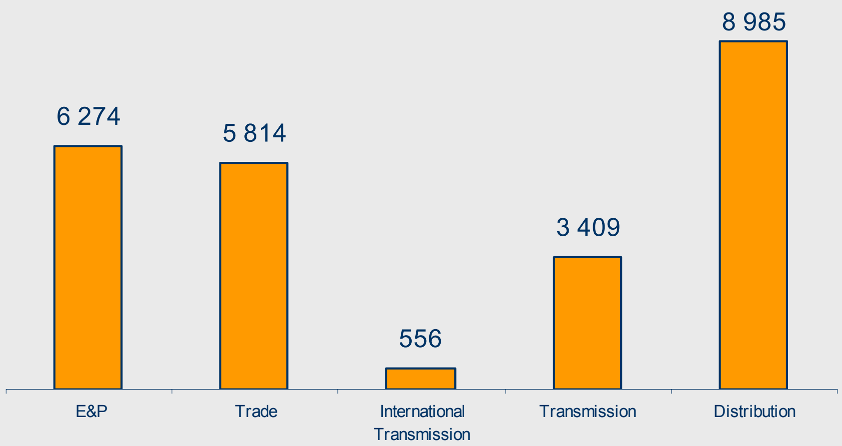
The analysis of operating profit by segment

- In Q4 2006 PGNiG suffered a loss on regulated gas sale of **– PLN 225 m**. Total result on **Trade** (the results of non-regulated activities are included as well) accounted for PLN -169 m;
- **E&P** segment has slightly decreased its profitability due to lower price of crude oil in Q4. Despite of this fact the annual result in this segment was higher by 8% than in 2005;
- The profitability in the **Distribution** segment has been improved as well, due to higher sales volume and improvement of the distribution margin

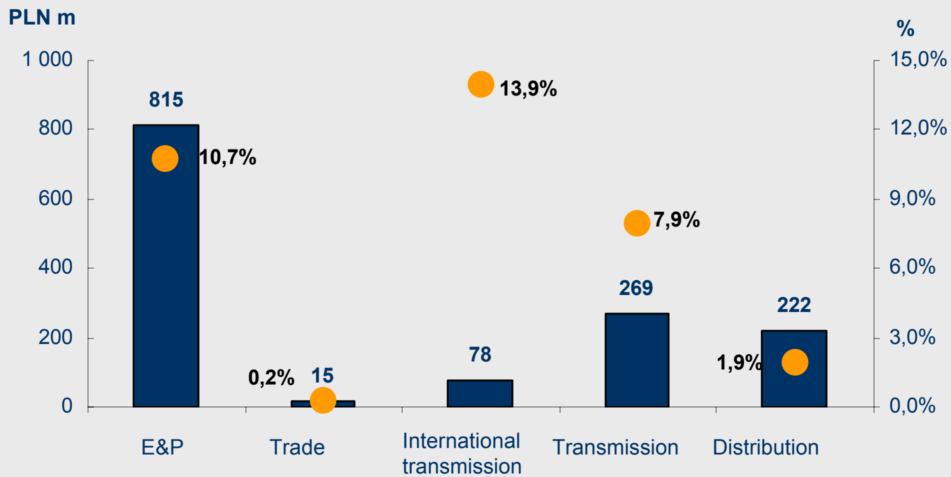


PGNIG by segments

Net Assets by segment (PLN m)



EBIT* and operating margin



The Company's comments

- Assets value of the E&P and Trade segments are similar, whereas the operating results are extremely different;
- The result of the E&P segment amounted to PLN 815m;
- Profits of the Trade segment, which includes revenues from the regulated gas sales, in 2006 amounted to PLN 15m. The profits was generated in the 1 half of the year. In consecutive quarters PGNIG recorded a loss on this activity, hence applied for the price increases.

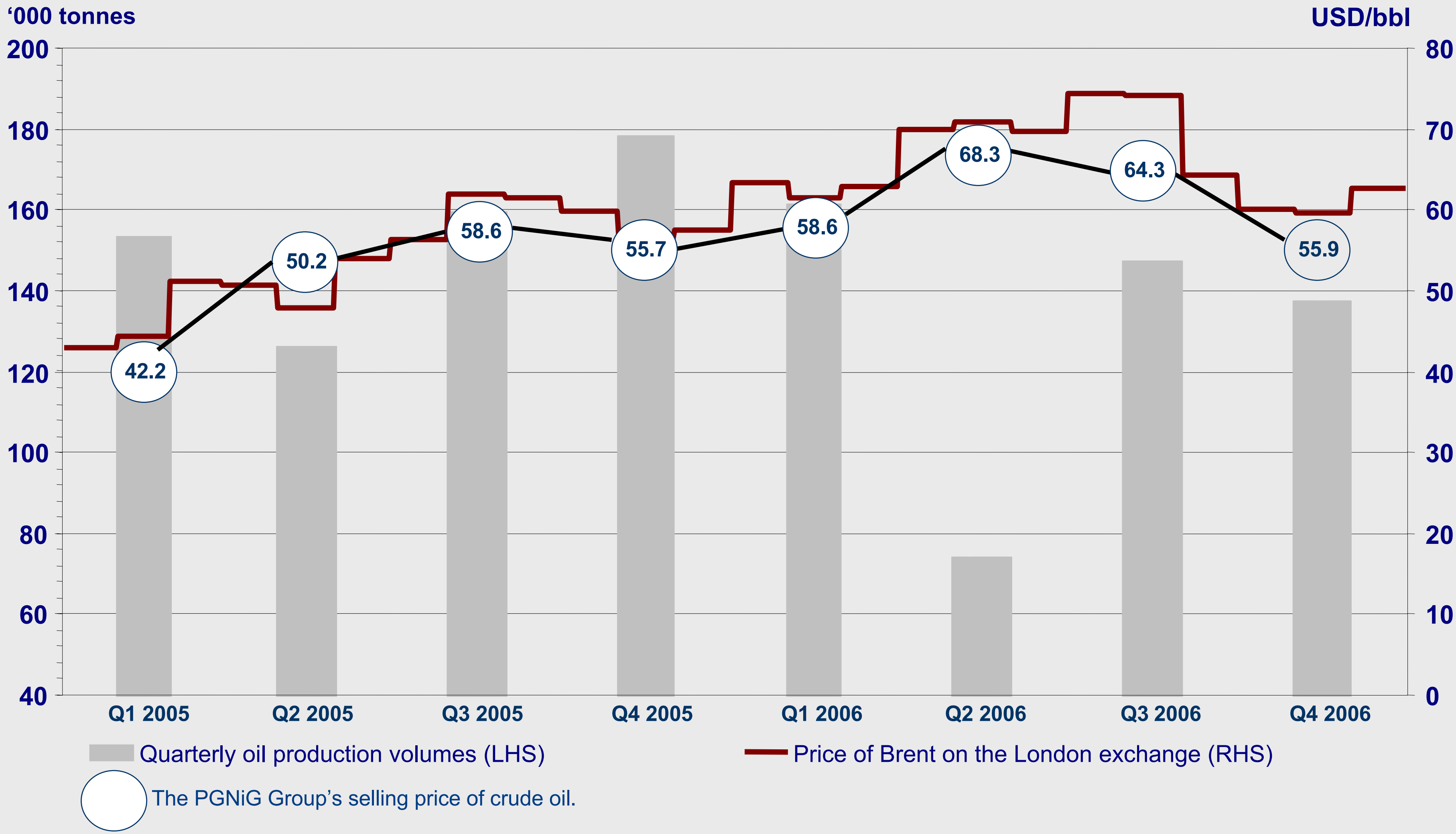
Activity structure

- Out of PLN 1.3 bn of the operating profit, the regulated activity (trade and distribution) generated only PLN 0.2bn.
- In other words – the regulated sales and distribution of gas, which generates **86% of revenues**, delivered for PGNIG Group 18% of profit
- Good results of the Company stems from the high profitability of the non-regulated exploration activity, which although accounts for 12% of revenues, brings 62% of operating profit.

* The international transmission segment includes share profits/(loss) of controlled enitities measured using the equity method

** Lease payment from od OGP Gaz System: Principal payment. PLN 0,23 bn, Leasing interest payment PLN. 0,27 bn, Total payments. PLN 0,5 bn

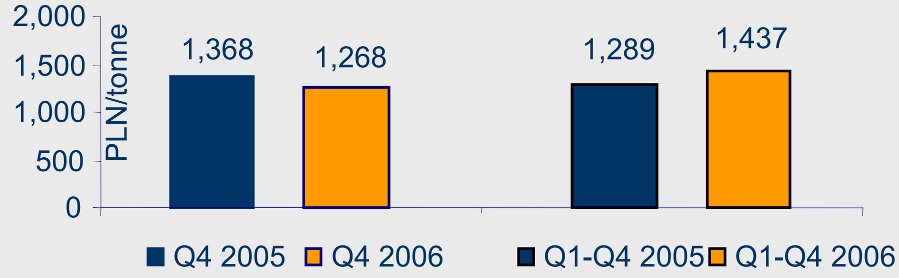
Crude oil price fluctuations



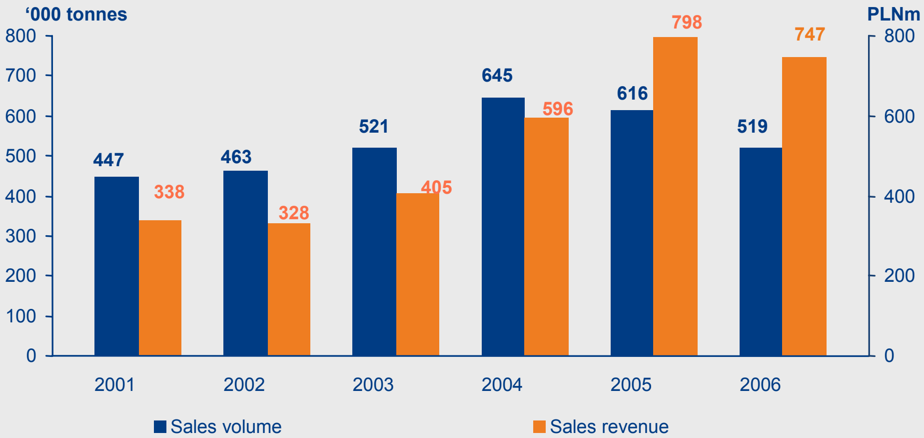
Crude Oil

PGNiG Group – IFRS	1-4Q 2005	1-4Q 2006	Change
Sales volume* ('000 tonnes)	616	519	(16%)
Sales revenue* (PLN m)	798	747	(6%)
Production volume* ('000 tonnes)	619	530	(14%)
Crude oil unit price (PLN/tonne)	1,289	1,437	12%
Crude oil unit price (USD/bbl) *	55	65	19%

Unit prices (PLN/tonne)



Crude sales*



*Inludes crude oil and condensate.

The Company's comments

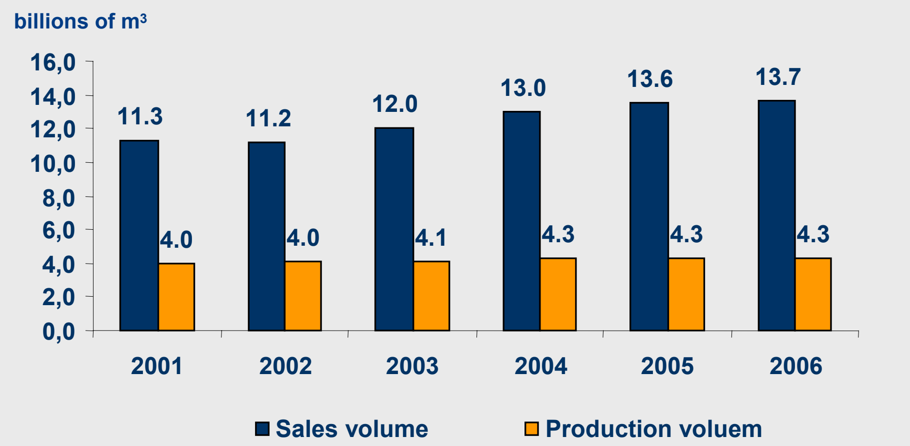
- PGNiG sells crude oil on market terms. In 4Q2006, the average price of crude oil sold by PGNiG was USD 56/bbl.
- Despite a 16% drop in the crude oil sales volume in 2006, the sales revenue declined by 6%.
- The difference in the crude oil production levels in 2005 and 2006 results from natural limitations of the production growth in the reporting period. Crude oil production is subject to fluctuations caused by the development of new reserves and production at the existing ones, which has a significant impact on the difference of production growth rates in the individual years.

PGNiG's sales volume and revenue

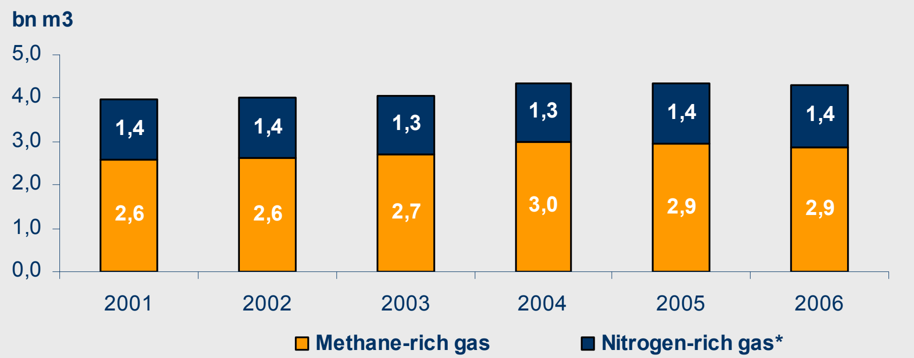
PGNiG Group – IFRS	1-4Q 2005	1- 4Q 2006	Change
Sales volume of natural gas (millions of m³)	13,559	13,662	1%
Production volume (millions of m³)	4,318	4,341	1%
Sales revnue (PLN m)	12,560	15,198	21%
- Methane-rich gas (E)	9,934	12,190	23%
- Nitrogen-rich gas (Ls, Lw)	921	1,109	20%
- Other sales	1,705	1,899	11%

- In 2006, the gas sales volume remained unchanged relative to 2005. The record gas sales in 1Q2006 were offset by the warm winter in 4Q2006.
- The gas sales structure slightly changed, as the use of gas for heating purposes slightly increased.
- The gas production volume increased in 2006 compared with 2001 by 10% and reached 4.3 bn m^3 (methane-rich equivalent).

Natural gas - sales and production volume*



Production volumes**- gases* breakdown



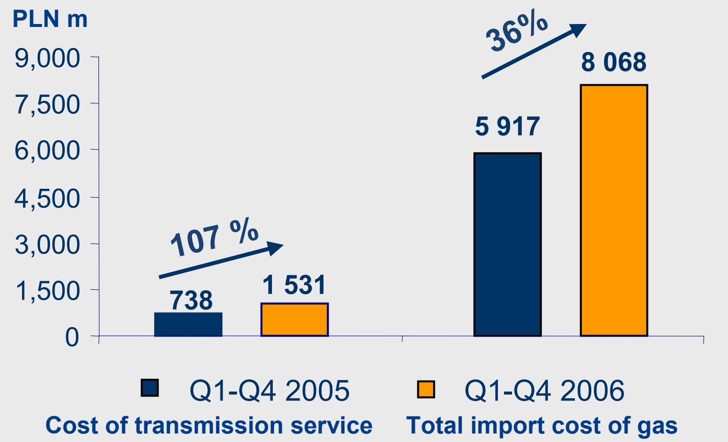
*Methane-rich gas equivalent (E).

**Data includes the production of the KRIO Odolanów

Costs of operating activity

PGNiG Group – IFRS (PLN m)	1-4Q 2005	1-4Q 2006	Change
Total operating costs	**11,162**	**13,884**	**24%**
- Acquisition cost of gas	**5,917**	**8,068**	36%
- Other raw materials used	**522**	**545**	4%
- Employee benefits	**1,646**	**1,769**	7%
- Depreciation and amortisation	**1,402**	**1,331**	(5%)
- OGP Gaz System transmission services	**738**	**1,531**	107%
- Other contracted services	**1,041**	**1,115**	7%
- Other operating expenses (net)	**401**	**100**	(75%)
- Change in inventories	**6**	**10**	67%
- Cost of products and services for own needs	**499**	**565**	13%

Key cost items



The Company's comments

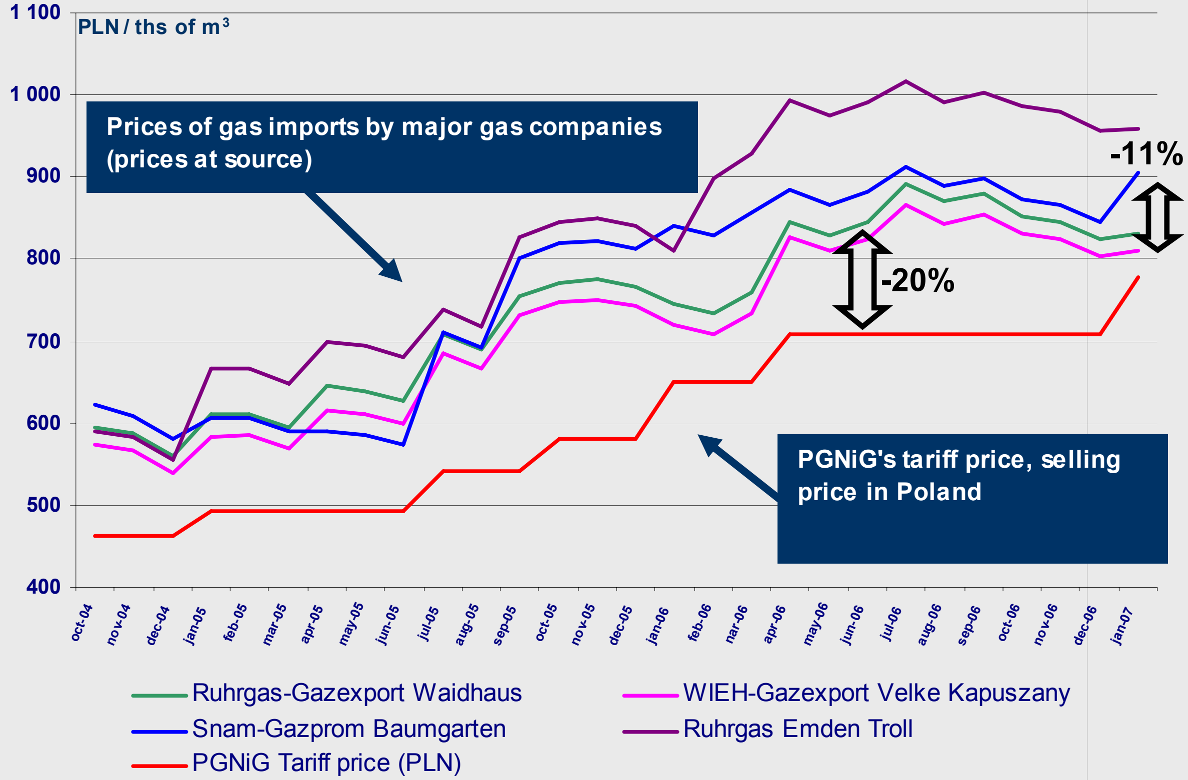
- Operating costs rose primarily due to the increased costs of gas sold (up by **36%** in the period 2006/2005), which was caused by higher costs of gas imports.
- The second reason for the increase in total operating costs is the change in the gas storage structure. In Q4 2006 PGNiG sold mainly the expensive imported gas and at the same time the domestic gas was stored. This caused the increase in the gas inventories as of the year- end, compared to the 4Q2005.
- The costs of contracted services rose in 1-4Q 2006 compared with 1-4Q 2005 as a result of the launch of the OGP Gaz System transmission service on July 8th 2005.

Gas import prices and the PGNiG's tariff price

The Company's comments

- The wide gap between the PGNiG's tariff price and the market price of gas led to a decline in the profitability of the gas trading business in 2006.
- Despite the significant increase in the import prices, President of the URE refused to approve the tariff change.
- Profitability of the gas trading operations has improved since January 1st, 2007, following the 10% increase in the tariff prices.
- Because of that, the negative difference between the import gas prices in Europe and the PGNIG's selling price improved from over 20% to approx.11%.
- Thanks to the gas price increase, PGNIG is able to minimize the loss on regulated gas sales.

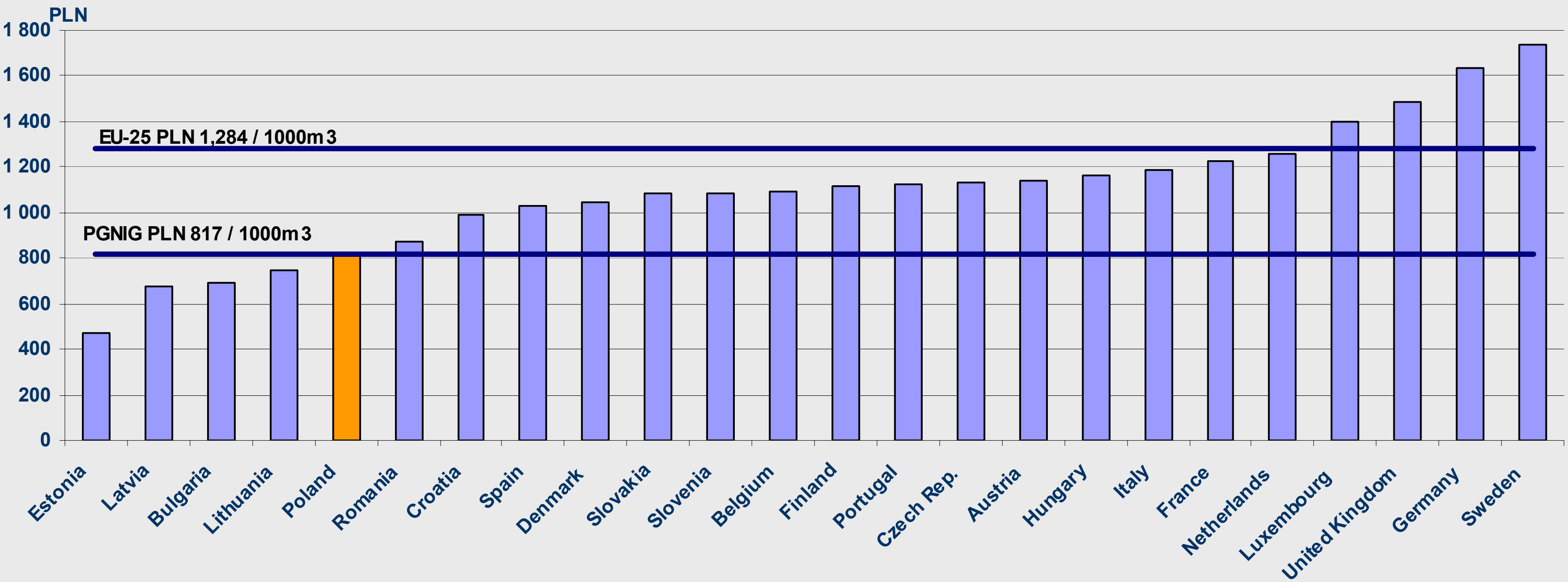
Gas import prices in Europe (according to EGM)* and PGNiG's selling price



* 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.

Prices of gas in Poland and other EU countries

Prices of gas sold to business customers in EU countries (in PLN per 1,000m^3)

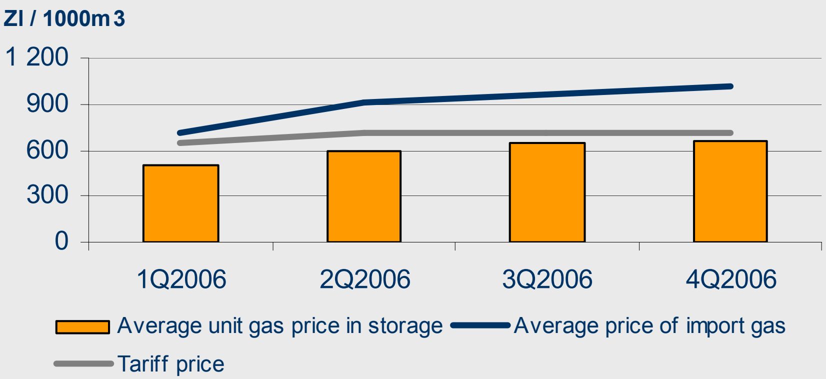


Source: Eurostat, *Gas prices for EU households and industrial consumers on 1 July 2006*.

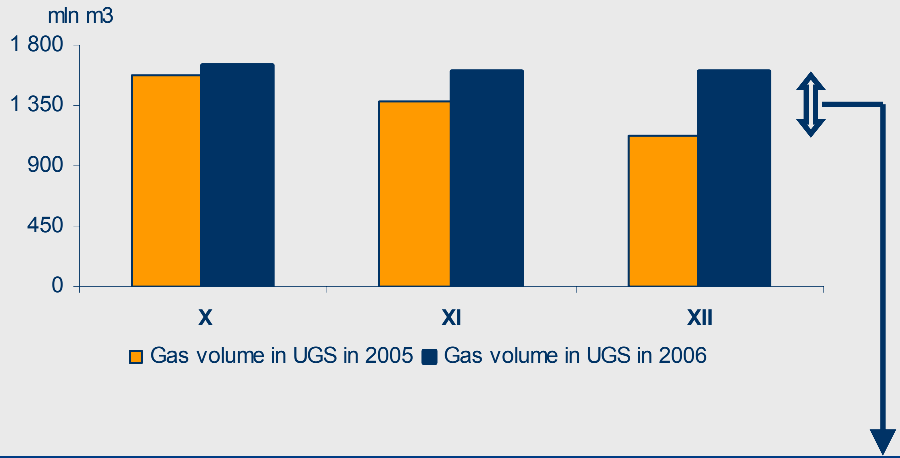
- Despite the increase in the tariff prices in 2Q2006, gas prices in Poland were some of the lowest in the EU.
- Only in the Baltic states and in Bulgaria gas was cheaper than in Poland.
- PGNiG's tariff prices were increased in January 2007, but the price of the gas sold by PGNiG continues to be one of the most competitive in the EU.

The change of gas storage structure

Unit import cost and PGNiG' tariff price



Gas volume level in storages



The Company's comments

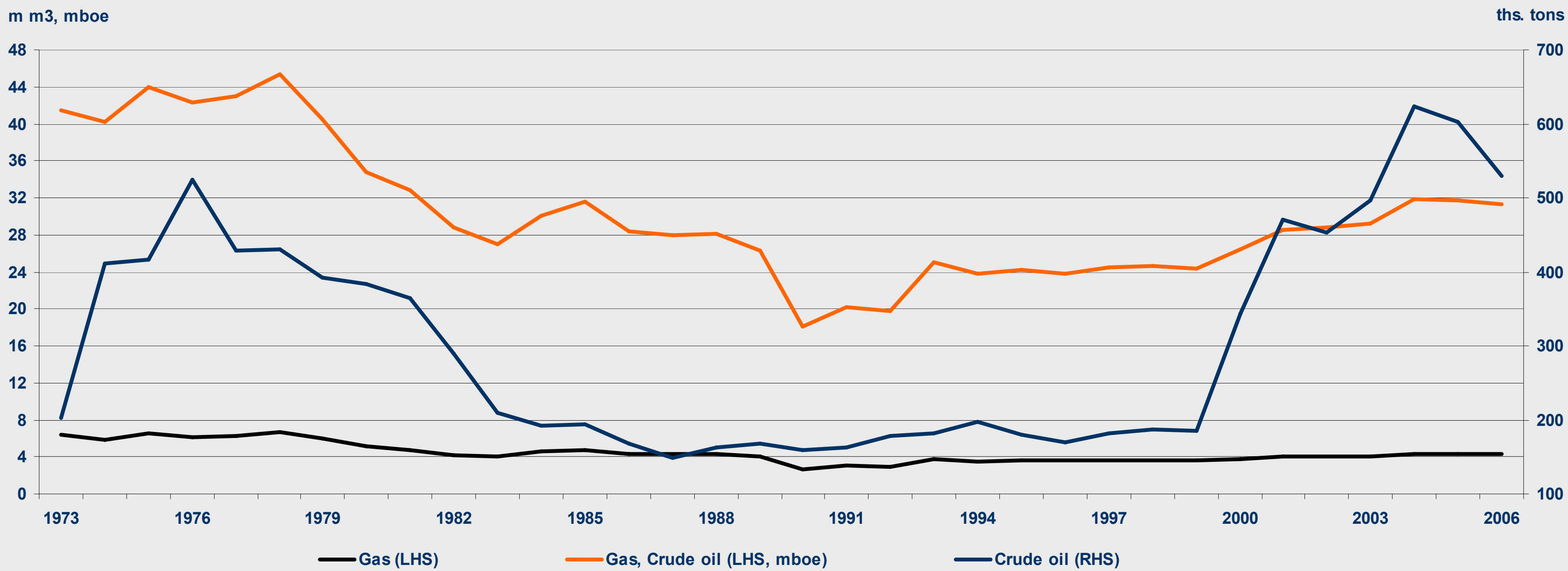
- In 4Q2006 PGNIG did harmly exploit its gas from storages and total demand was met by domestic production and import.
- The maximum use of storage capacity was due to necessity of ensuring safety of gas deliveries for PGNiG 's customers
- Maintenance the maximum inventories was possible thanks to the warm winter.

Financial impact

- PGNIG values its inventories according to FIFO method (.First In, First Out).
- PGNIG in 4Q2006 did not disclose the margin on trade and the price of gas in storages was lower than the tariff price. In order to reduce the loss on the regulated sales of gas, the Company could increase the sales of gas from storages.
- Maintenance of the full gas storages capacity decreased the net result of 4th quarter (by approx. PLN 80m), however this amount will be recovered in the 1Q2007, when PGNIG will sell the relatively cheaper gas from storages.

EXPLORATION AND PRODUCTION SEGMENT

Production of gas and crude oil in PGNIG Group

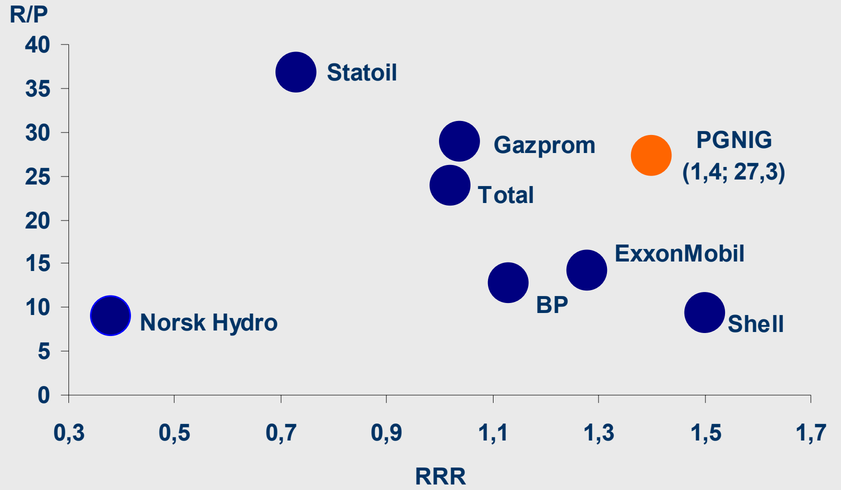


- The annual average growth of gas and crude oil production in boe (barrel of oil equivalent) in last 10 years amounted to 2%. Natural gas was extracted at the same growth rate of production in the previous 10 years, for crude oil the growth rate of production accounted for 12%.
- At the annual level of gas and crude oil production equal to 31.3 m boe for 2006, PGNIG extracted on average 85.7 ths boe per day.

PGNiG

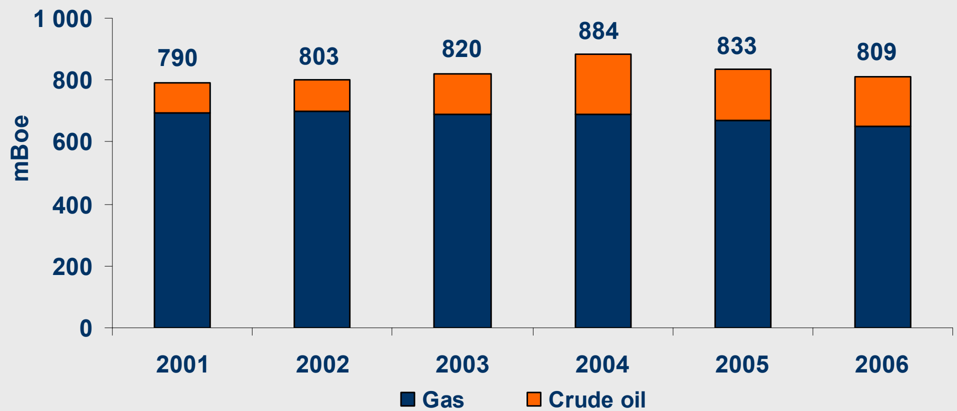
PGNIG’s reserves and its competitive position

RRR i R/P for selected oil and gas companies



- RRR (Reserves Replacement Ratio) –this ratio describes relation between growth of new reserves to production volume in 1 year. For RRR higher than 1, the company discovers more resources, than it produces, so the reserves value increases
- R/P (Reserves to Production) – the ratio of reserves (only proven reserves of the given resource) to production. It describes the amount of years, for which the resources will last, assuming that the current production level would be maintained.

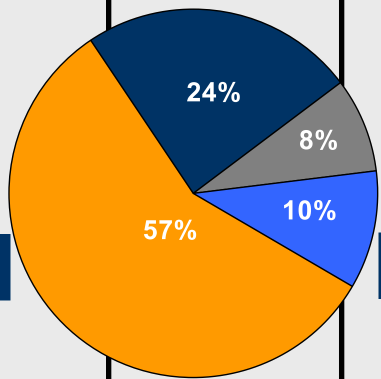
PGNIG Reserves



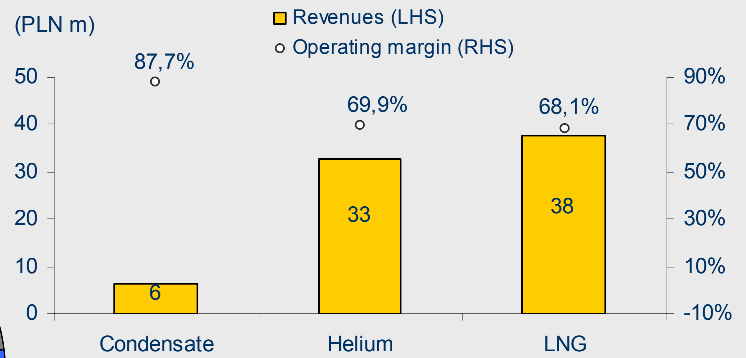
Structure of the operating profit of E&P segment

Gas

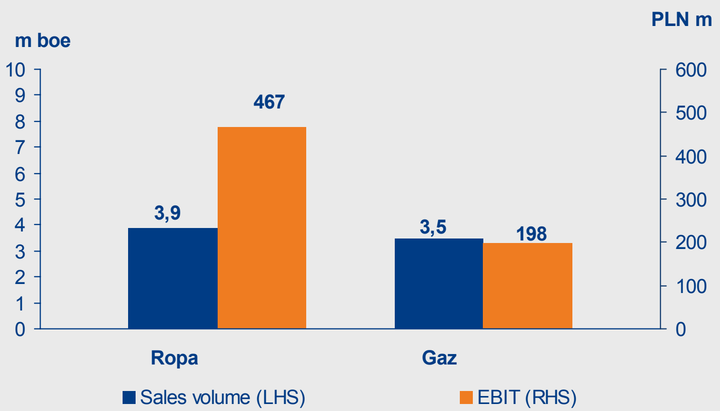
- In theE&P only the profits from **direct sales from gas deposits are included** (for example agreement with heat and power plant - Zielona Góra)
- Profits from the regulated sales of gas (including the gas extracted in Poland) are revealed in the Trading segment (in 2006: PLN 15m)
- Gas sales (regulated and non-regulated) in 2006 delivered total profit for PGNIG in the amount of PLN 213m, 16% of total PGNIG results.



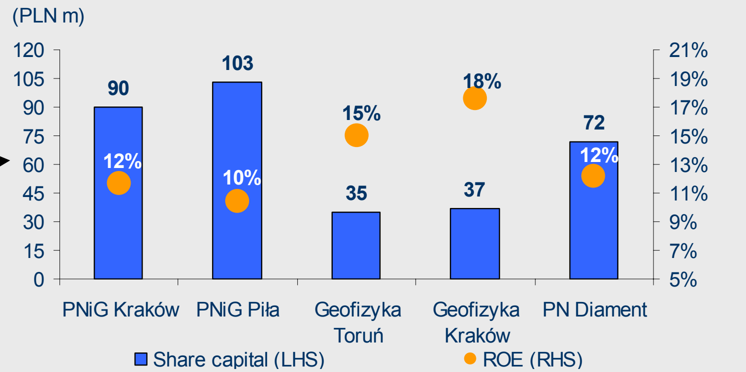
Other products



Profits on non-regulated activity



Exploration and production Companies



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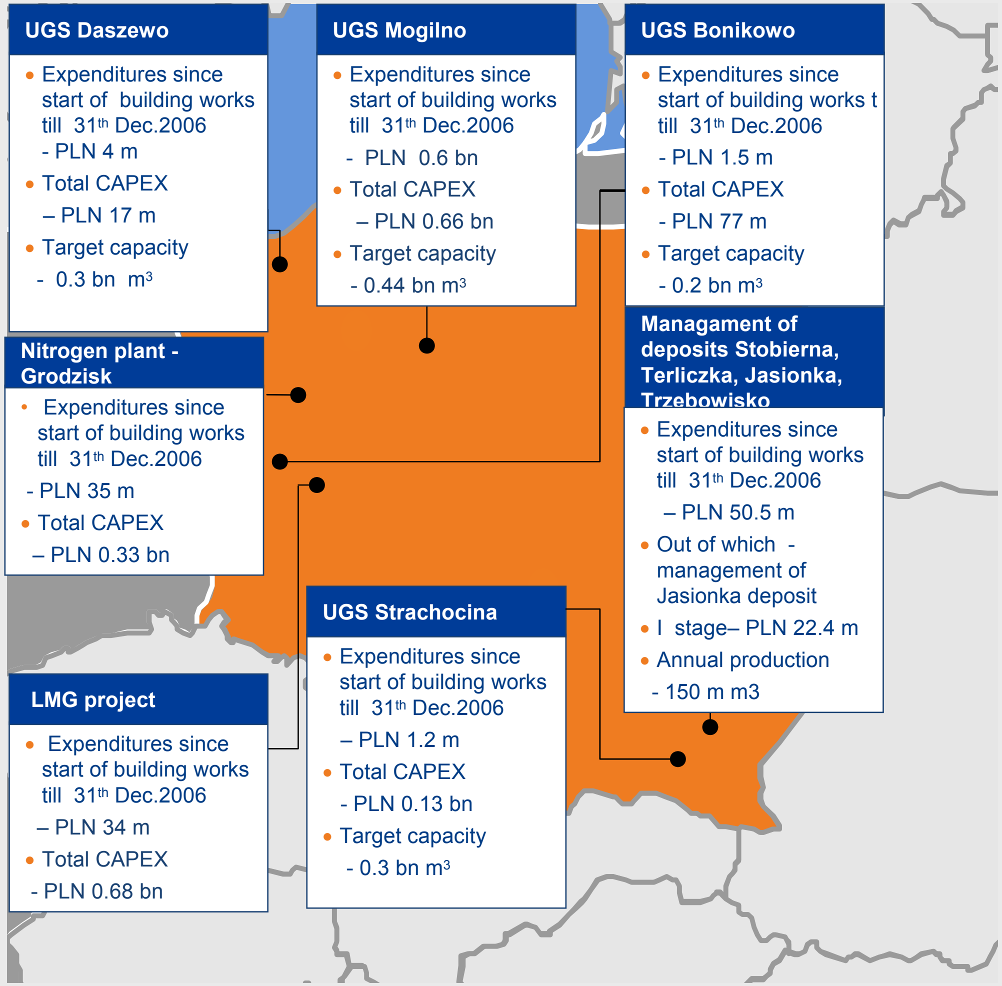
Investments in E&P segment



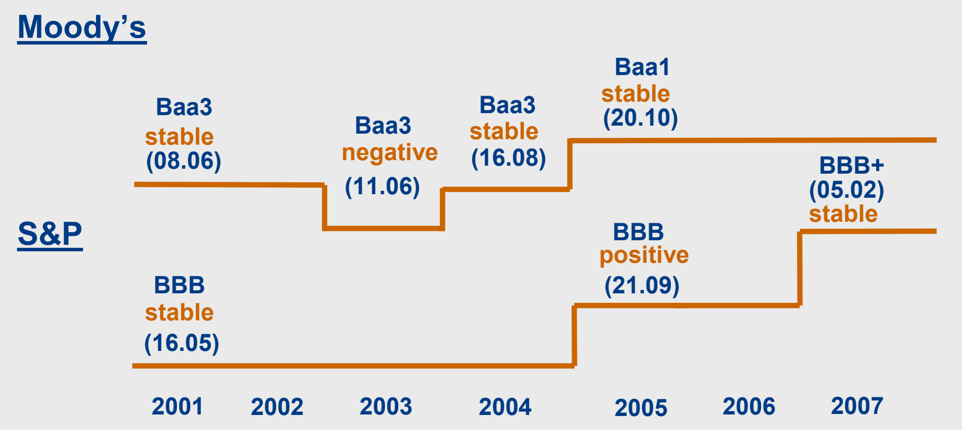
Investments plan in E&P

- LMG (Lubiatów – Międzychód – Grotów), investment is according to the plan of increasing production capacity of crude oil to 1.1 m tonnes annualy.
- Odazotowania Grodzisk – will process nitrogen-rich gas into methane-rich gas. Target capacity amounts to 35 ths. m^3/h and it will start its operations in 2010.
- Expanding capacity of gas storages by 1.2 bn m^3 to 2,85 bn m^3.

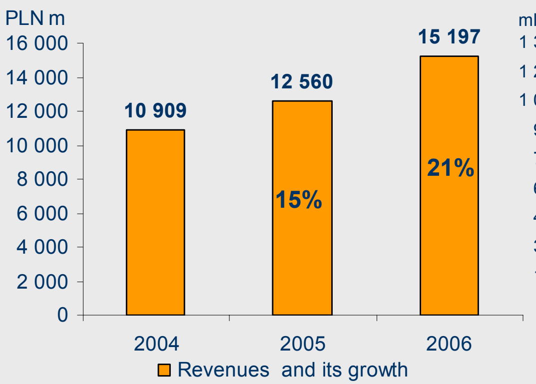
  Total capital expenditures – PLN 1.4 bn.
- Production facility Jasionka – in February 2007 PGNIG put this gas producing facility into operation. The recoverable reserves of the Jasionka amount to 1.75 bn m^3.

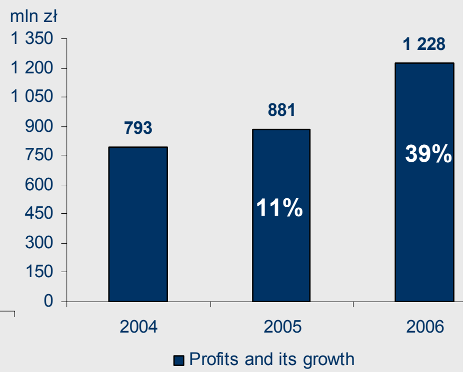
The Growth path

Rating



Growth of revenues and profits





* Since 2004 the data are presented according to the IFRS

- PGNiG has improved its financial results for the last 5 years
- Ratings for selected oil and gas companies
  - Gazprom BBB
  - Dong Energy BBB+
  - MOL BBB-
- Improved EBIDTA thanks to cost control, higher margin in the E&P and efficient tariff policy

PGNiG

PGNIG outlook for the future

- **Exploration & Production Segment**
  - maintaining the stable price level of commodities secures the high profitability of the segment;
  - sales of crude oil and non-regulated gas will be main drivers of income;
  - the leverage of the value growth is the ambitious investment plan and consistently improving results of the exploration companies from the Group.

- **Trade Segment**
  - the tariff increase starting January 1st, 2007 by 9,9% will minimize the loss on imported gas;
  - In 1Q2007 the improvement of the sales margin is expected (the Company will sell stored gas, which is cheaper than the imported one);
  - starting the 2nd half of 2007 the integration of the trade activity within the PGNIG S.A. is expected.

- **Distribution Segment**
  - in the 2nd half of 2007 the organizational change is expected, which is the separation of the gas trade from the gas distribution;
  - we expect further changes in the tariff policy, which will implement the new legal regulations.