PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

Financial Results of PGNiG SA
4th quarter 2007

Financial Highlights

PGNiG Group IFRS (PLN m)	Q4 2006	Q4 2007	Change	FY 2006	FY 2007	Change
Sales revenue	**4,239**	**5,055**	**19%**	**15,198**	**16,630**	**9%**
EBIT	**370**	**(451)**	**(221%)**	**1,470**	**1,302**	**(12%)**
Profit before tax	**447**	**(358)**	**(180%)**	**1,572**	**1,458**	**(7%)**
Net profit	**462**	**(165)**	**(136%)**	**1,328**	**1,252**	**(6%)**
EBITDA (lease) *	**741**	**(61)**	**(108%)**	**2,992**	**2,919**	**(2%)**

Results of the PGNiG Group

* EBITDA (lease) was calculated as EBITDA plus PGNiG'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 "other net operating expenses")

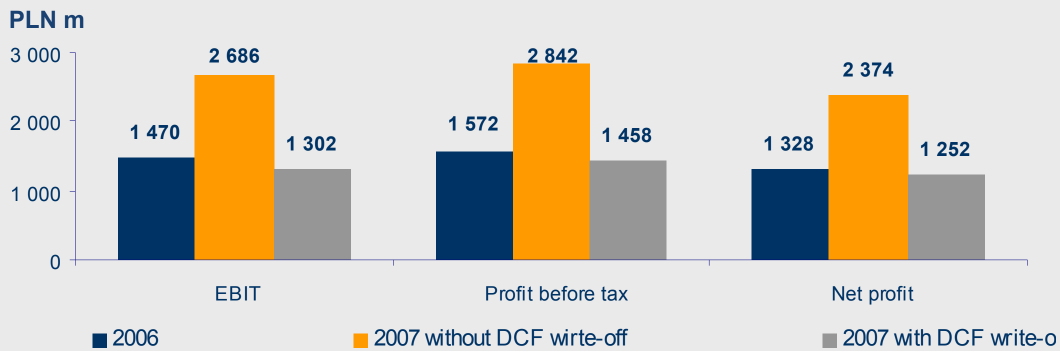
Comments

- In Q4 2007, Distribution System Operators (DSO), PGNiG's subsidiaries, conducted the **tests for impairment of property, plant and equipment,** whose outcome **affected the financial results of the whole Group**;
- A 9% increase in the sales revenue results from a higher gas tariff effective from 1st January 2007, including the increase in unit costs of gas imports;
- The consolidated net profit in 2007 **fell by 6%** compared to 2006 and reached **PLN 1,252m**; in Q4 2007, due to the test for impairment of property, plant and equipment, the net profit **decreased by 136%** compared to Q4 2006;
- PGNiG's net margin **decreased** from **8.8%** in 2006 to **7.5%** in 2007.

Impact of fixed assets impairment on PGNiG's results

PGNiG Group IFRS (PLN m)	Q4 2007	DCF write-off	Q4 2007 after write-off
EBIT	934	(1,384)	(451)
EBITDA	1,285	(1,384)	(99)
Profit before tax	1,026	(1,384)	(358)
Net profit	957	(1,122)	(165)
	FY 2007	**DCF write-off**	**FY 2007 after write-off**
EBIT	2,686	(1,384)	1,302
EBITDA	4,115	(1,384)	2,731
Profit before tax	2,842	(1,384)	1,458
Net profit	2,374	(1,122)	1,252

Change of financial results due to impairment of fixed assets

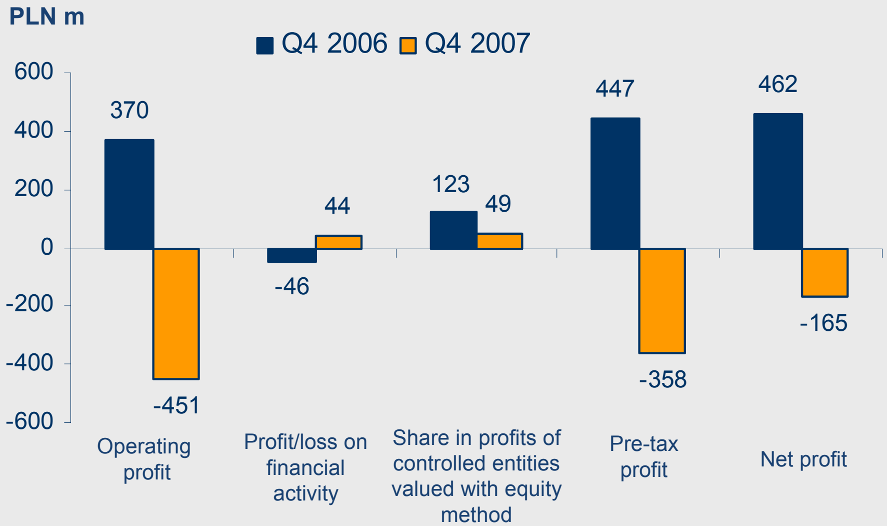


Comments

- In Q4 2007, DSOs conducted **tests for impairment of property, plant and equipment,** whose outcome **affected the financial results of the whole PGNiG Group**;
- The analysis revealed that the estimated present value of forecast cash flows was lower than the net carrying value of property, plant and equipment as disclosed in the financial statements prepared in accordance with the IAS;
- The reduction in the recoverable value of property, plant and equipment resulted from:
  - the value of revenues from the distribution tariff, approved by the Polish Energy Regulatory Authority (URE), which was not sufficient to ensure the required rate of return on distribution assets;
  - the increase in costs of distribution activities, which was higher than projected in the previous years;
  - the amount of asset replacement costs, which was higher than projected in the previous years.
- The impairment of fixed assets of DSOs **reduced** the PGNiG Group's **EBIT by PLN 1.384m** and the **net result by PLN 1.122m**;
- The write-off didn't have any effect on the Group's cash flows or on the non-consolidated financial statements of PGNiG.

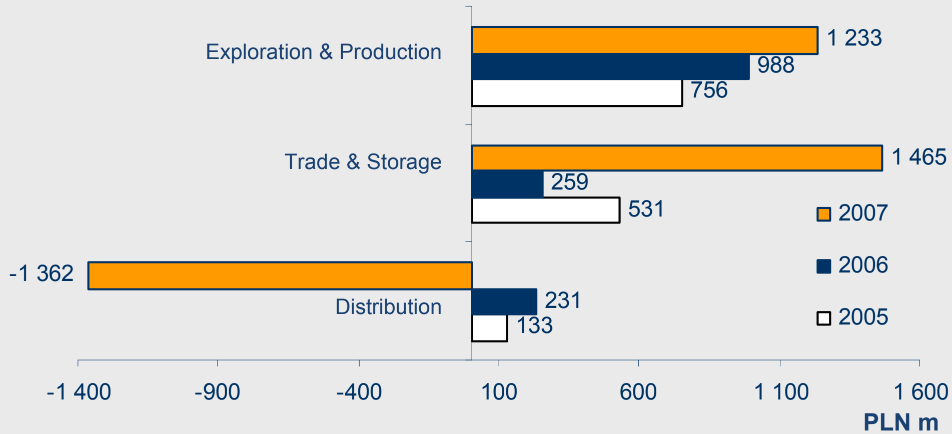
Analysis of PGNiG Group results

Breakdown of PGNiG Group results



- In Q4 2007, the Company generated negative net financial result due to impairment of fixed assets at distribution companies (DSO);
- The Company's **net result** went down in Q4 2007 by 136% compared to Q4 2006, while **EBIT** decreased by 221% in the same period;
- Were it not for the impairment, the Group's financial results in Q4 2007 would be more than two times higher than a year before;
- In Q4 2007, the Company's loss on financial activity decreased by **196%** compared to Q4 2006.

Operating results by segments



- The consolidated operating profit of **PLN 1,302m** was driven by the E&P and Trade & Storage segments, which generated **PLN 1,233m** and **PLN 1,465m**, respectively;
- The **24%** EBIT increase in the **E&P** segment resulted mainly from the increase in direct volume sale of gas;
- Better performance in the **Trade & Storage** segment stems from higher gas tariff effective from 1st January 2007, reflecting the increase in costs of gas which took place at that time, and from transfer of wholesale service from distribution to trade;
- Loss in the **Distribution** segment in 2007 is the result of impairment of property, plant and equipment at DSOs and also of the unbundling of trade from distribution.

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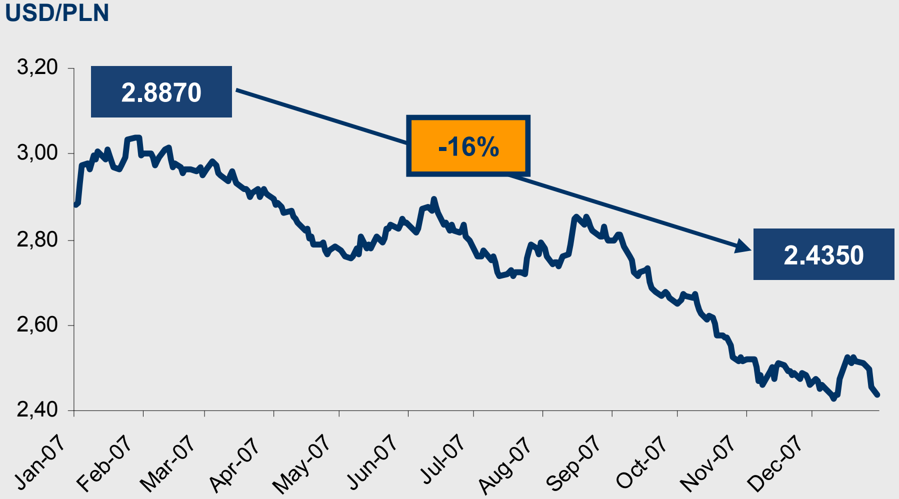
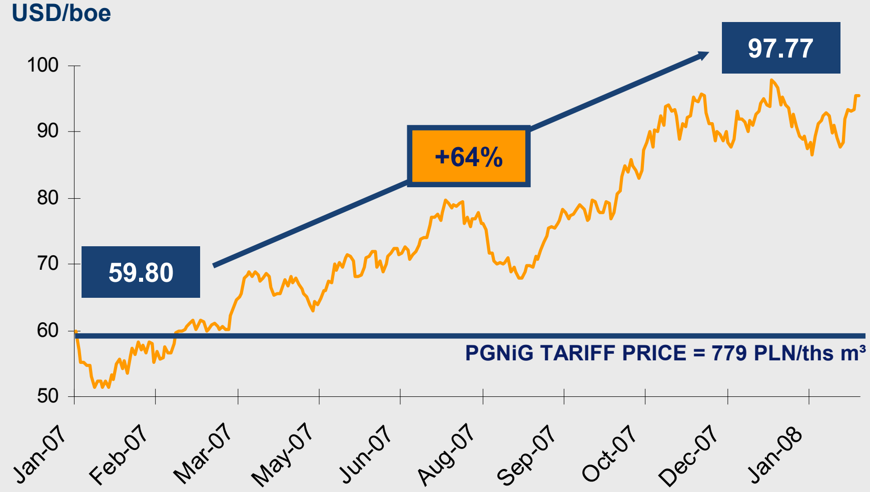
Factors with a bearing on the PGNiG Group's results

USD / PLN *



Crude oil spot price and PGNiG tariff price **



Comments

- PGNiG's import gas price is quoted in USD;
- The USD/PLN average exchange rate in Q4 2007 was PLN 2.5271 and decreased by 15% compared to Q4 2006;
- The USD/PLN average exchange rate in 2007 was PLN 2.7686 and fell by 11%compared to 2006;
- Although the revenues from crude oil sales are mainly quoted in USD, the appreciation of the Polish złoty allows for considerable reduction in gas import costs.

Comments

- The formula for determining imported gas purchase prices is based on a 9-month moving average of crude oil derivative products, whose price is almost 100% correlated with crude oil market price;
- The current tariff price was introduced on **1st January 2007**. Since then, **crude oil prices have risen by 64%**;
- The average crude oil price in 2007 amounted to 72.7 USD/boe and was 11% higher than a year before;
- As a result of the growing market price of crude oil, the 9-month moving average will increase by 7% at the end of Q1 2008 at the assumption that crude oil prices will be at the level of 95 USD/boe.

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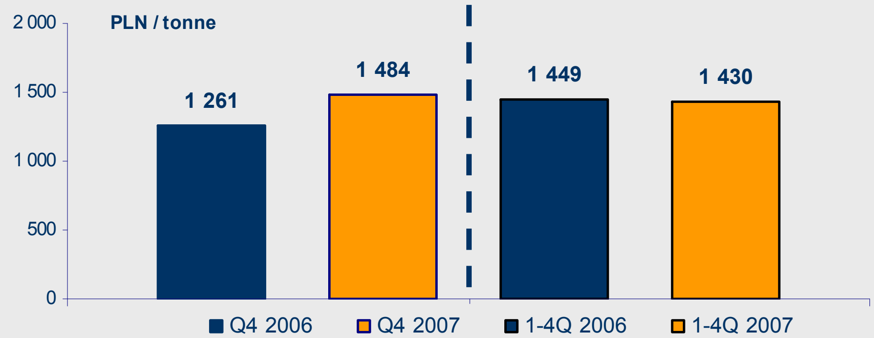
* Source: NBP – National Bank of Poland

** Price of crude oil dated at 02.01.2007 & 02.01.2008 | Source: Bloomberg

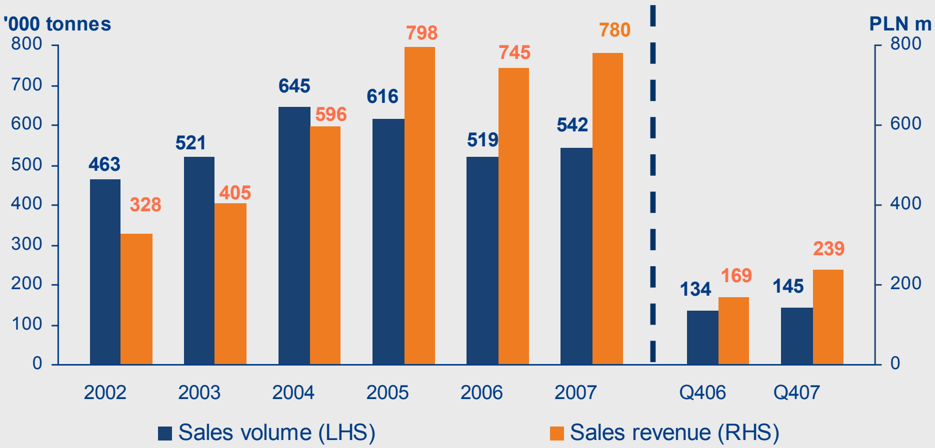
PGNiG's crude oil sales volume and revenues

PGNiG Group – IFRS	FY 2006	FY 2007	Change
Sales volume* ('000 tonnes)	519	542	4%
Sales revenue* (PLN m)	745	780	5%
Production volume* ('000 tonnes)	530	522	(2%)
Crude oil unit price (PLN/tonne)	1,449	1,430	(1%)
Average sales price (USD/bbl)	63	68	9%

Unit price



Crude oil sales*

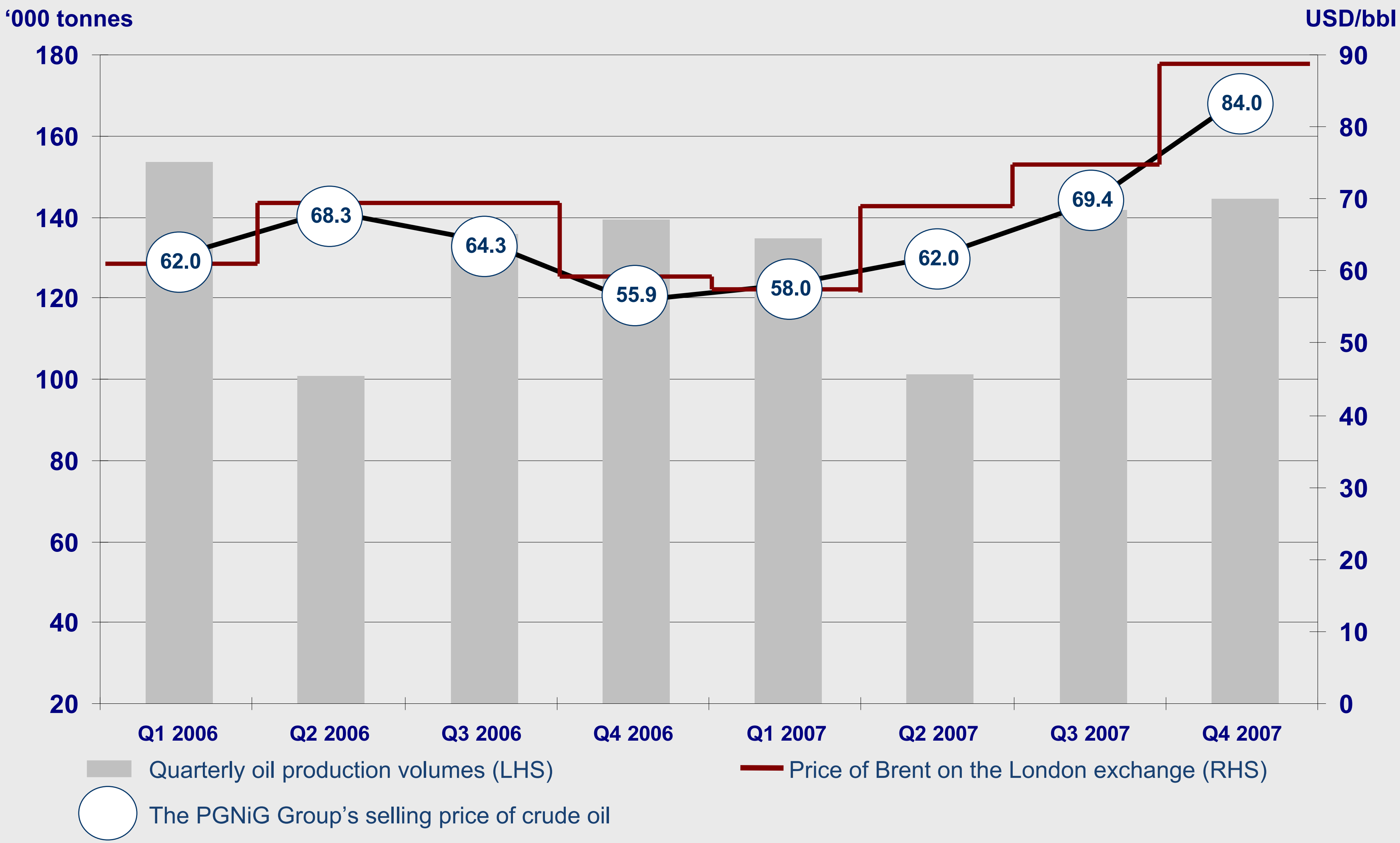


Comments

- PGNiG sells crude oil on market terms; at present crude oil is sold on an ongoing basis;
- **The 4% increase in sales volume in 2007 over 2006** results from the fact that part of production in 2006 was stored and sold in 1H 2007 (thus the difference between the sales and production volume);
- The **5%** rise in crude oil revenues results from a **9%** increase in crude oil market price in 2007 compared to 2006. On the other hand, the increase in revenues would be much higher if it was not for the negative effect of the **15% appreciation of zloty against dollar** in 2007;
- The **2%** decrease in crude oil production level in 2006 compared to 2007 results from natural limitations of the production growth in the reporting period.

* Includes crude oil and condensate without tests

Crude oil price fluctuations



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PGNiG's gas sales volume and revenues

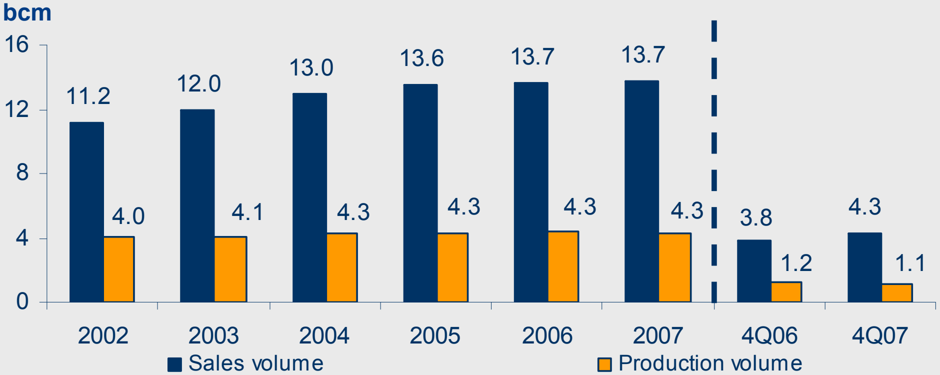
PGNiG Group – IFRS	FY 2006	FY 2007	Change
Sales volume of natural gas* (millions of m^3)	**13,667**	**13,700**	**0%**
Production volume (millions of m^3)**	**4,277**	**4,276**	**0%**

Sales revenue (PLN m)	**13,844**	**15,071**	**9%**
High-methane gas (E)	**12,188**	**13,370**	**10%**
Nitrogen-rich gas (Ls, Lw)	**1,109**	**1,254**	**13%**
Other sales	**547**	**448**	**(18%)**

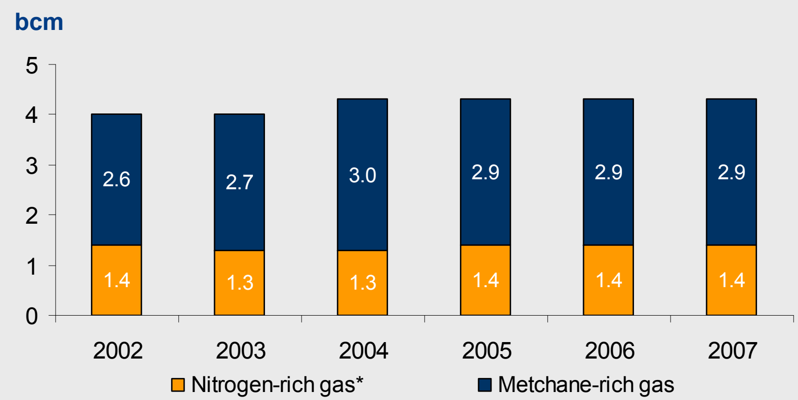
Comments

- In 2007, PGNiG's gas production and sales volumes remained unchanged relative to 2006;
- In 2007, the customer breakdown changed – as a result of higher demand of the industry segment for gas, the sales volume increased by 5%;
- In 2007, **import volume dropped by 7%,** to 9.3 bcm, due to large amounts of gas stored in autumn 2006, which were not sold during the first months of 2007 because of warm winter;
- Although the sales volume in 2007 remained unchanged relative to 2006, the **gas sales revenue increased by 10%*** as a result of the higher tariff price effective from 1st January 2007.

Natural gas - sales and production volume*



Production volumes *** - by gas type**



* Only high-methane and nitrogen-rich gas
** High-methane gas equivalent (E)
*** Data includes the production of KRIO Odolanów nitrogen removal plant

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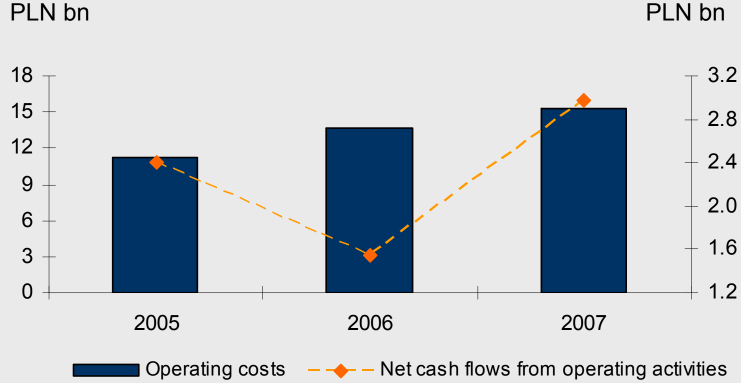
Costs of operating activity

PGNiG Group – IFRS (PLN m)	FY 2006	FY 2007	Change
Total operating costs	**13,728**	**15,328**	**11%**
Acquisition cost of gas	8,068	7,738	(4%)
Other raw materials used	543	604	11%
Employee benefits	1,822	2,028	11%
Depreciation and amortization	1,296	1,429	10%
OGP Gaz System transmission services	1,531	1,454	(5%)
Other contracted services	1,121	1,210	8%
Other operating expenses (net)	(90)	162	281%
Cost of products and services for own needs	(565)	(682)	21%
Asset revaluation at DSOs	-	1,384	-

Operating costs & net cash flow



Comments

- **Operating costs** in 2007 **rose by 11%** compared to 2006, **with** an 82% increase in EBIT before the DCF write-off and a **12% decrease in EBIT** after the DCF write-off;
- In 2007, the event with the **greatest effect** on the cost of operating activity was the **asset revaluation at DSOs**; if the revaluation wasn't taken into account, the cost of operating activity in 2007 would increase by 1% compared to 2006.
- The highest cost item is the gas acquisition cost, which fell by 4% in 2007 compared to 2006. The lower costs result from:
  - 7% import volume decrease in 2007 compared with 2006 due to large amounts of gas stored at the end of 2006 and warm winter;
  - 15% appreciation of zloty against dollar in 2007 compared with 2006;
- The 11% increase of employee benefits results from remuneration rises for the PGNiG Group employees (especially in the E&P segment);
- A PLN 77m decrease in costs of OGP Gaz System's transmission service, attributable to lower import volume in 2007;
- The PLN 252m increase in other operating expenses is a result of exchange rate differences regarding current trade activity.

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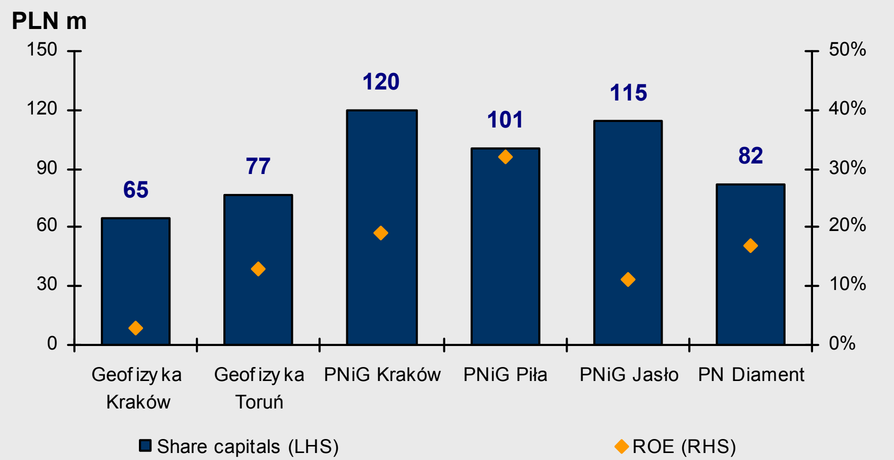
Geophysical & exploration activities

Geophysical activities

- In 2007, PGNiG continued the development of its geophysical activities; **Geofizyka Kraków** signed contracts with DONG Energy (Danish energy consortium) for seismic research of geothermal water, with Merty Energy (Turkish oil company) for 2D seismic record, and with Hawasina LLC Oman Branch (MOL Group) for seismic data processing from Oman;
- The other of PGNiG's geophysical companies – **Geofizyka Toruń** – signed a contract with Cairn Energy India for taking large 2D and 3D seismic photos in India. Another important contract was signed with GeoEnergy GmbH, for the acquisition of 2D/3D seismic data in Germany, and with Shell – for an extensive 2D seismic data acquisition program in Syria;
- In January 2008, Geofizyka Kraków expanded its activities in Libya by establishing a **joint venture** with Libyan partner Barari Co.

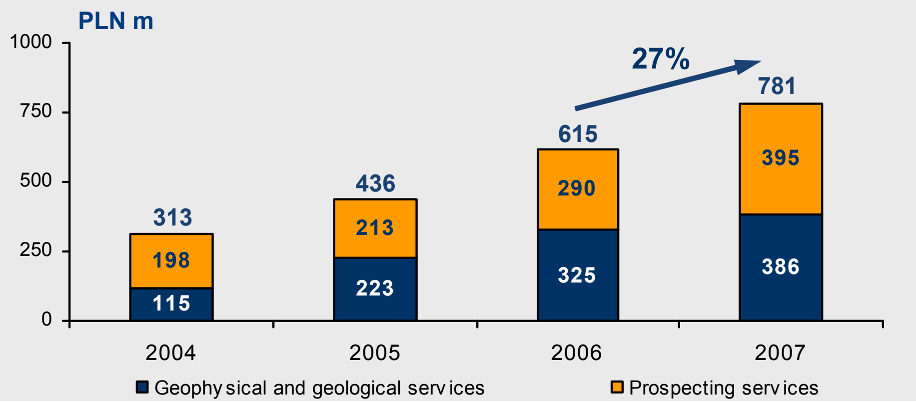
E & P Companies



Exploration activities

- As far as the exploration services are concerned, in 2007 **PNiG Kraków**, signed an agreement with Tullow Oil Plc for drilling works in Uganda and a contract with EmbaJugNieft for maintenance and drilling works in Kazakhstan;
- **PNiG Jasło** signed a contract for geothermal drilling with Bestec of Germany;
- **PNiG Piła** signed a contract for underground gas storage drilling for Hungary's MOL.

Revenues from exploration services



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Thank you for your kind attention