Polskie Górnictwo Naftowe i Gazownictwo SA

Financial Performance of PGNiG S.A.

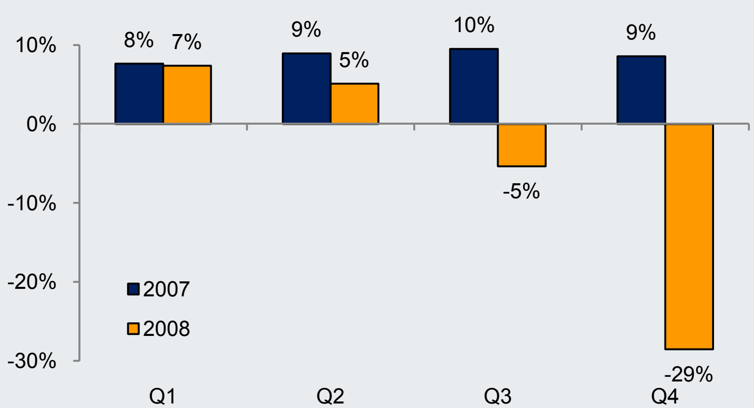
Q4 2008

March 2nd 2009

Financial Highlights

PGNiG Group (PLNm)	Q4 2007	Q4 2008	Change	Q1-Q4 2007	Q1-Q4 2008	Change
Sales revenue	5,077	5,520	9%	16,652	18,433	11%
EBIT	(904)	(603)	33%	861	885	3%
EBITDA	(551)	(237)	57%	2,291	2,309	1%
Net profit	(501)	(310)	38%	916	929	1%
ROE	-	-	-	4.4%	4.5%	11 p.p.
ROA	-	-	-	3.2%	3.1%	(11 p.p.)

High-methane gas sales margin in 2007-2008



- The loss incurred by the PGNiG Group in Q4 2008 was caused by the very high costs of imported gas (a 79% y-o-y increase for comparable volumes), which were not reflected in the applied tariff;
- Additionally, the negative net result posted by the Company was, to a large extent, caused by the significant depreciation of the Polish złoty in Q4 2008;
- A fall in the margin on sales of high-methane gas can be traced mainly to far lower withdrawal of gas from storage facilities in Q4 2008 relative to a year earlier and a 4% decline in natural gas production.

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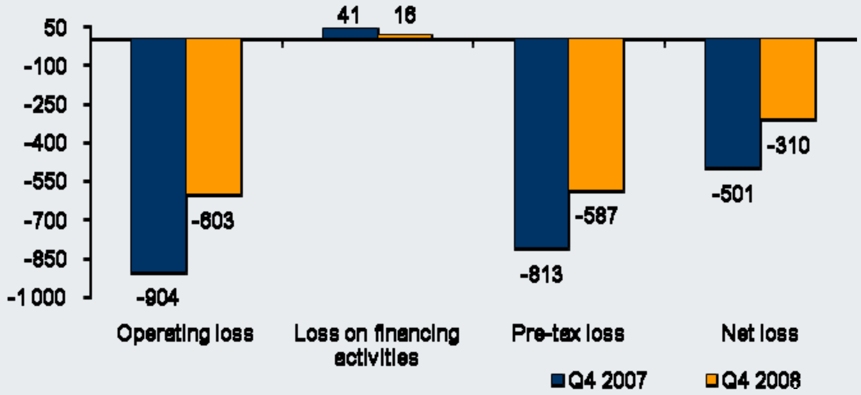
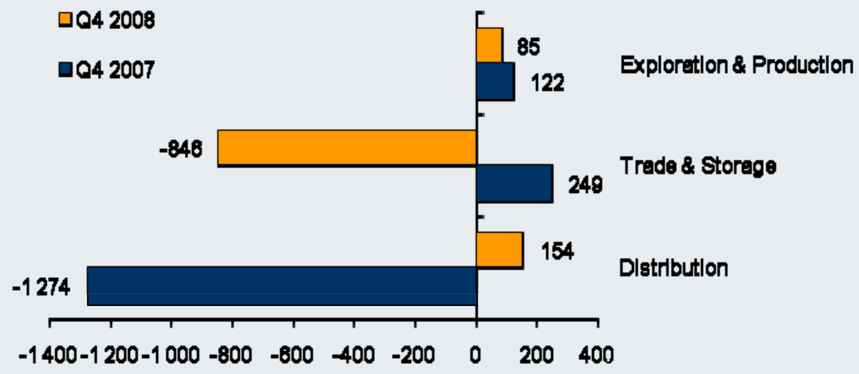
Performance Review

Structure of PGNiG Group's result (PLNm)



Operating results by segments (PLNm)



- In Q4 2007, PGNiG posted losses, driven by the valuation allowance for assets held by the distribution companies, amounting to PLN 1.3bn. On the other hand, the Q4 2008 negative net result was due to a significant increase in operating costs;
- A decrease of the profit on financing activities reported in the Q4 2008 was caused by an investment value actualisation related to determination of allowance for foreign currency loans which reflected the result by minus PLN 20m;
- In Q4 2008, equity value of EuRoPol Gaz, a subsidiary undertaking, did not have any material effect on the PGNiG Group's financial performance.

- Decrease of operating profit of the Exploration & Production segment by 30% was primarily due to a fall in the discount rate used to calculate the provision for liquidation of oil wells, which increased the oparating cost of E&P segment by ca. PLN 111m;
- Operating loss reported in the Trade and Storage segment was caused by exceptionally high natural gas prices and the tariffs' failure to reflect the changing market conditions;
- The significant improvement in EBIT reported in the Distribution segment had its source in a higher margin on distribution services following from introduction of the new tariffs on April 25th 2008. The improvement was also achieved as a result of transferring some costs to the Trade and Storage segment as of Q2 2008.

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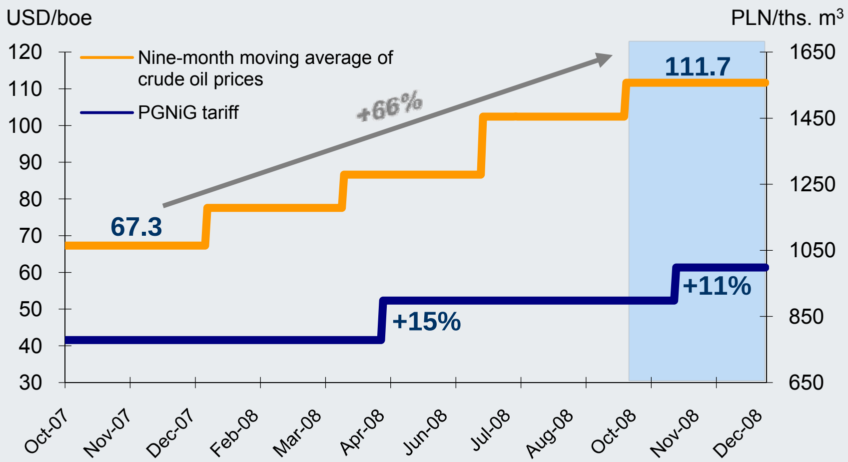
Financial Performance Drivers

Crude oil quoted prices** vs. tariff price



PLN/USD exchange rate*

- The price of imported gas is linked to the oil price;
- The formula used to calculate the price of imported gas is based on a 9-month average price of petroleum products, which has an almost 100% co-relation with crdue prices;
- In Q4 2008, the average crude oil price was USD 56/bbl, compared with USD 89/bbl a year ago, and USD 116/bbl in Q3 2008.

- The price of imported gas is denominated chiefly in the US dollars, just like the price of crude;
- Q4 2008 saw a further weakening of the złoty. During that period, the PLN/USD exchange rate rose by 25%, from 2.37 to 2.96. This had an adverse effect on the price of imported gas;
- Between Q3 and Q4 2008, the average PLN/USD exchange rate went up by 30%, from 2.20 to 2.86.

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* Source: National Bank of Poland.
** European Dated Brent Forties Oseberg (BFO), source: Bloomberg.

Financial Risk Management Policy

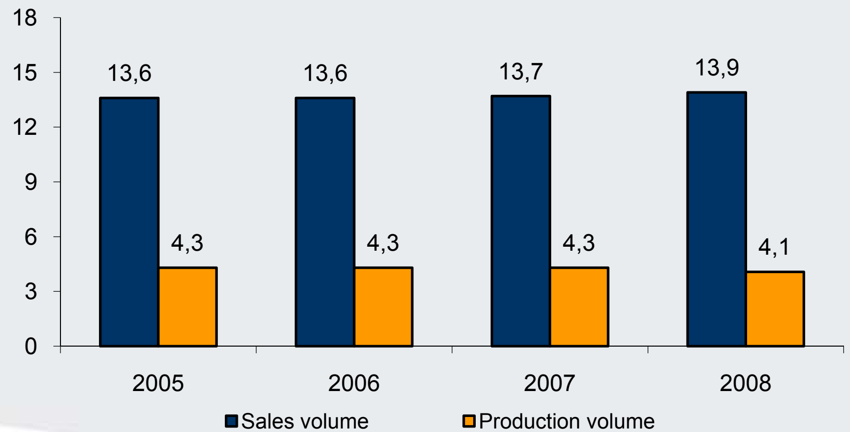
- PGNiG S.A. is exposed to significant foreign exchange and interest rate volatility risk inherent in agreements and contracts concluded as part of the Company's ordinary business and financing activities;
- In order to hedge against the currency risk, PGNiG S.A. enters into derivative transactions, which meet the hedge accounting requirements:
  - purchase of an European call option;
  - zero-cost symmetric option strategies; risk reversal;
  - delivery forward.
- Foreign exchange and currency risk exposure under the loan extended to PGNiG Norway was hedged with a series of Cross Currency Interest Rate Swap transactions.
- Gains on derivative instrument transactions calculated according to an average exchange rate of National Bank of Poland, including paid option premium, in 2008 totalled **PLN 136m**;
- Valuation of open positions on derivative transactions as at **December 31st 2008** amounted to **PLN 157.5m**;
- *Financial Risk Management Policy*, which was consistently applied by PGNiG S.A., protected the Company against adverse effects of the financial crisis. Also, the key objectives of the *Financial Risk Management Policy*, i.e. bringing the volatility of cash flows in short- and medium term under control and building the Company value in a long-term, were attained.

Natural Gas

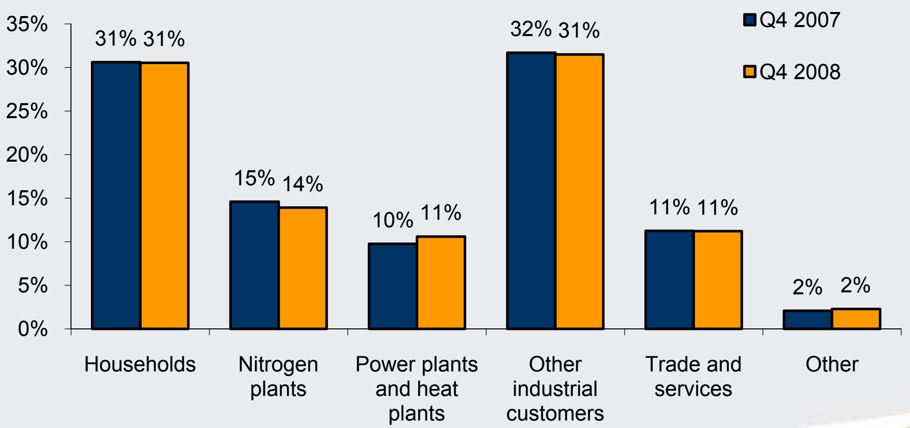
PGNiG Group, IFRS	Q4 2007	Q4 2008	Change
Production volume* (m m^3)	1,119	1,073	(4%)
Sales volume** (m m^3)	4,317	3,907	(10%)
Gas sales revenue (PLNm)	4,570	5,030	10%
High-methane gas (E)	4 169	4,621	11%
Nitrogen-rich gas (Ls, Lw)	402	408	2%

- A 4% drop in the natural gas production volume reported in Q4 2008 is attributable to a lower demand from customers connected directly to the fields via a dedicated pipeline. This also led to a reduction in the volume of gas sold;
- A year-on-year decrease in the volume of gas sold is a consequence of the average air temperature being higher by approx. 3°C, which, in turn, resulted in lower consumption of gas used for heating;
- A 10% rise in gas sales revenue followed from the introduction in April and November 2008 new higher tariff prices for gaseous fuel, which went up by 15% and 11%, respectively.

Gas sales and production volumes (bn m^3)**



Customers' percentage share in the gas sales volume in Q4 2007 and Q4 2008

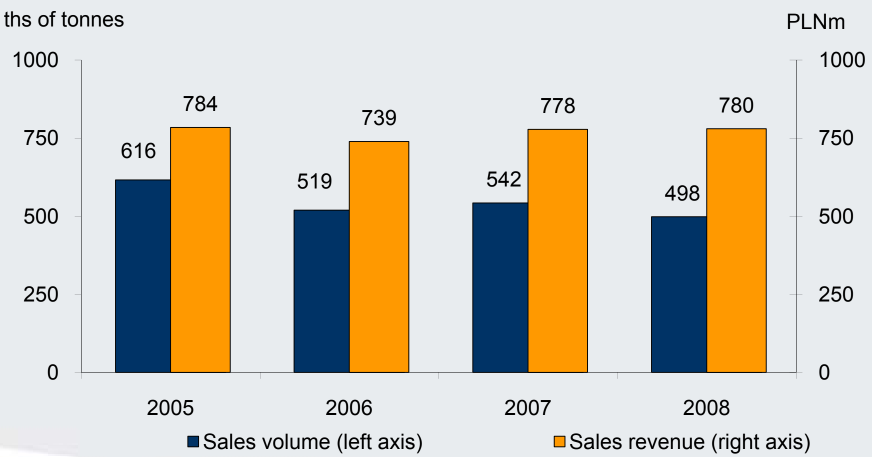


* Data includes the production of the PGNiG Branch in Odolanów.
** Measured as high-methane gas equivalent (E).

Crude Oil

PGNiG Group, IFRS*	Q4 2007	Q4 2008	Change
Production volume (‘000 t)	150	138	(8%)
Sales volume (‘000 t)	145	137	(6%)
Sales revenue (PLN m)	238	145	(39%)
Oil unit price (PLN/t)	1,640	1,056	(36%)
Average price of Brent Dated oil for the period (USD/bbl)	89	56	(37%)

Oil sales volume and revenue*



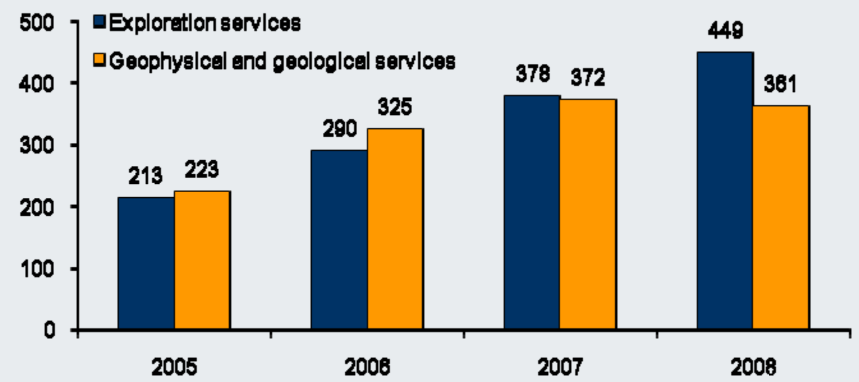
- A comparison of Q4 2008 and Q4 2007 shows that there were no production or sales irregularities on part of PGNiG S.A., and the differences are attributable to the market situation (e.g. lower demand from customers);
- A comparison of Q4 and Q3 2008 reflects the situation on the commodities markets and macroeconomic trends in the economy: the sharp and rapid drop in commodity prices (the average crude price shrank by 52%) and a steep depreciation of the złoty in relation to the US dollar (30%);
- The plummeting oil price in the last quarter of the previous year drove down the revenue from sales of oil by 39%. However, the revenue drop was offset by a 33% (or 34 thousand tonnes) production increase in Q4 relative to Q3 2008;
- In Q4 2008, PGNiG S.A. sold 137.19 thousand tonnes of crude oil, of which 57% was purchased by domestic customers, and the balance was sold abroad.

* For crude and condensate.

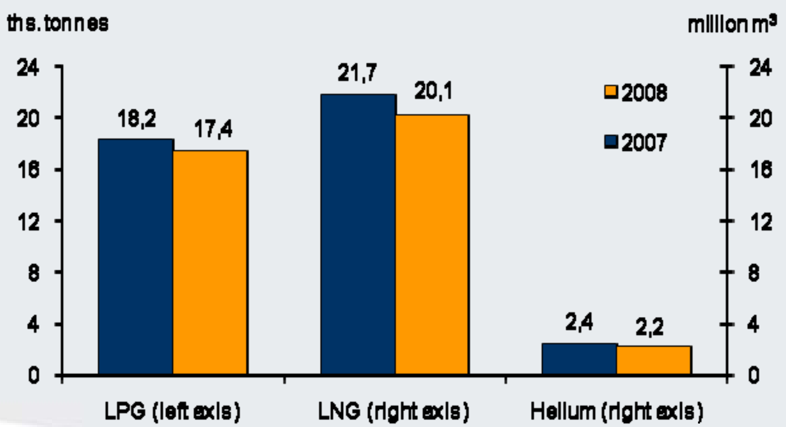
Other Sales

Sales revenue PGNiG Group (PLNm)	Q4 2007	Q4 2008	Change
Helium	6.9	7.8	13%
Propane-butane gas (LPG)	16.0	11.8	(26%)
LNG	6.3	6.4	2%
Geophysical and geological services	75.6	73.8	(2%)
Exploration services	74.2	151.0	103%
Other products and services	89.5	87.2	(3%)

Revenues from exploration and geophysical and geological services (PLNm)



Production volume of other products



- Revenues from exploration services rose in Q4 2008 on the back of the appreciation of the US dollar, in which foreign currency contracts are denominated, and a higher volume of contracts performed by the companies from the segment;
- In 2008, revenues from the sale of exploration services rose by 19% relative to 2007, with the revenues from geophysical and geological services remaining essentially unchanged year-on-year.

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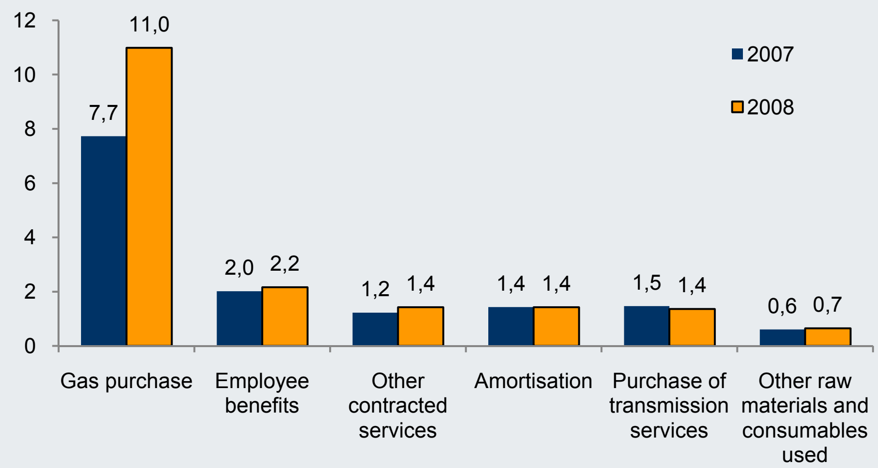
Operating Expenses

PGNiG Group, IFRS (PLNm)	Q4 2007	Q4 2008	Change
Total operating expenses	**5,991**	**6,017**	**0,4%**
Cost of gas sold	2,471	4,413	79%
Other raw materials and consumables used	166	203	22%
Employee benefits	627	631	1%
Depreciation and amortisation	353	366	4%
OGP GAZ-SYSTEM transmission services	425	339	(20%)
Other contracted services	430	460	7%
Other operating expenses, net	1,738	(43)	n/a
Cost of products and services for own needs	(229)	(247)	(8%)

Operating expenses in 2007-2008 (PLNbn)



- The main factor affecting the operating expenses in Q4 2008 was cost of gas sold, which in the past quarter amounted to PLN **4.4bn**, having risen by 79% from Q4 2007;
- The large difference between other net operating expenses in Q4 2008 and Q4 2007 followed from the valuation allowance of PLN 1.3bn, made at the end of 2007 against the value of assets held by the distribution companies;
- A year-on-year decline in expenses on transmission services resulted firstly from lower, by 10%, sales of natural gas in the discussed period, and secondly from the lower tariff for gas transmission effective from May 2008.

Summary

- In Q4 2008, the Company recorded a loss due to high costs of imported gas which in the discussed period rose by **79%** relative to Q4 2007. The high expenses reflect higher prices of crude oil, which reached USD 146 per bbl in January-September 2008;

- In the discussed period, the performance was severely affected by the depreciation of the złoty against foreign currencies. In the past quarter, the Polish currency lost **25%** of its value against the US dollar and **22%** against the euro, which further added to the cost of gas imports in the Polish currency;

- Due to a big disparity between the price of imported natural gas and the tariff, but also due to depreciation of the Polish złoty the high methane gas sales margin in the last quarter of 2008 decreased to the level of minus 29% from plus 9% a year earlier;

- The improved performance in the Distribution segment was, as in Q3 2008, caused by new tariffs granted to six distribution companies, effective from April 2008, and the transfer of a portion of the costs of the Distribution segment to the Trade and Storage segment from Q2 2008.

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Thank you.