PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

Financial Results of PGNiG SA

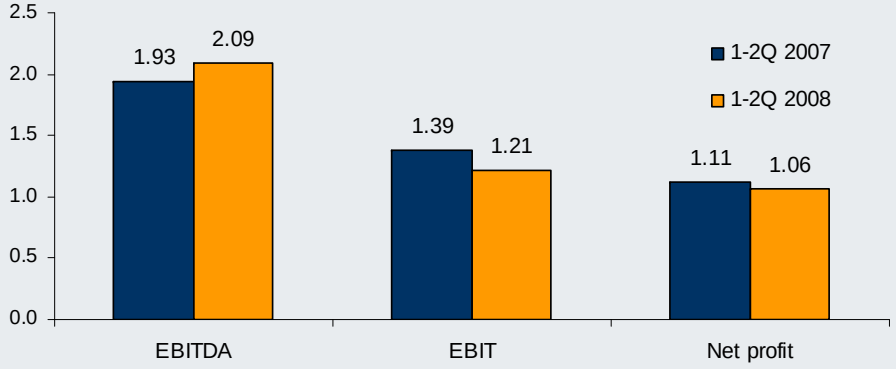
Q2 2008

August 13th 2008

Financial Highlights

PGNiG Group (PLN m)	Q2 2007	Q2 2008	change
Sales revenue	3,392	3,929	16%
EBIT	412	294	(29%)
EBITDA	785	665	(15%)
Net profit	326	280	(14%)
Net margin	10%	7%	(3 bps)

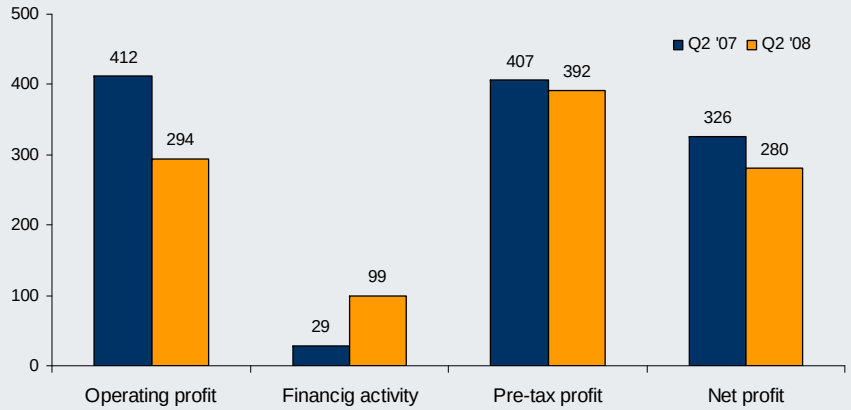
Results of PGNiG Group after two quarters of 2007-2008 (PLN m)



- The two-digit growth of sales revenue results from three factors:
  - volume natural gas sales higher by almost 9% which translated into 14% increase of gas sales revenue;
  - rise of gaseous fuel tariff price by 14% on average, effective since April 25th 2008;
  - higher revenue from sales of crude oil on rising crude prices on international markets;
- On the other hand, the lower-than-expected financial performance was an effect of significant increase in operating expenses, mainly:
  - cost of imported gas;
  - other net operating expenses;
- As a result, consolidated net profit in Q2 2008 was 14% lower on the 2007 figure.

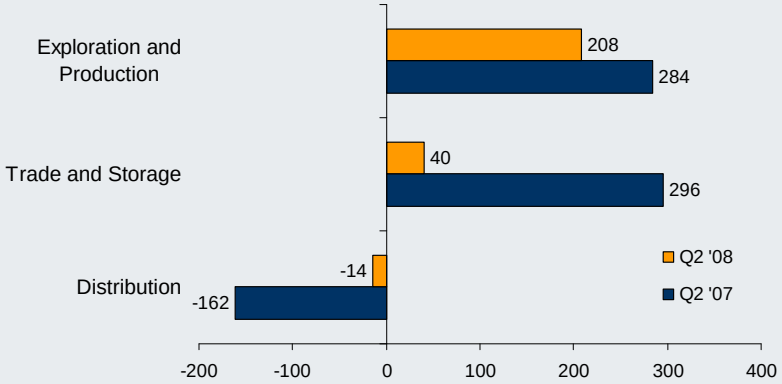
Review of the Performance

Breakdown of PGNiG Group results (PLN m)



- The considerable improvement of the result on financing activity is an effect of positive valuation of financial hedges (almost PLN 59m);
- Moreover, in Q2 2008 PGNiG's interest expense was five times lower due to repayment of a EUR 600m loan in mid 2007;
- In the analysed period, the equity value of EuRoPol Gas, a subsidiary, did not have any material effect on PGNiG Group's results.

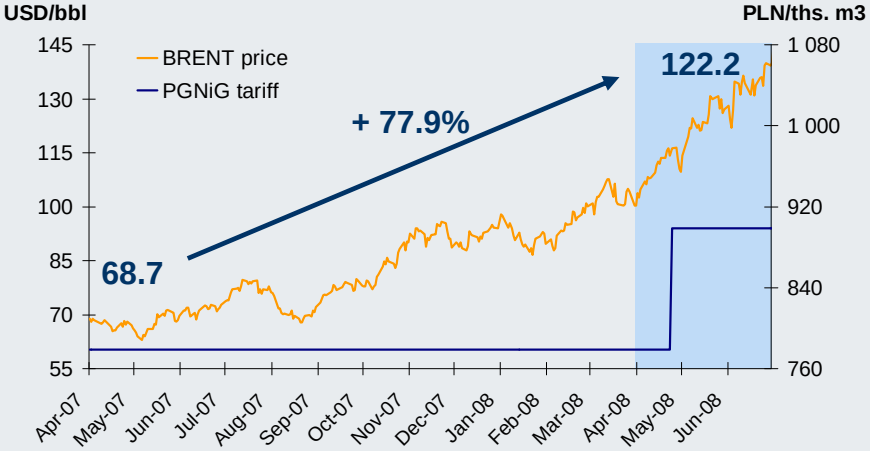
Operating result by segments (PLN m)



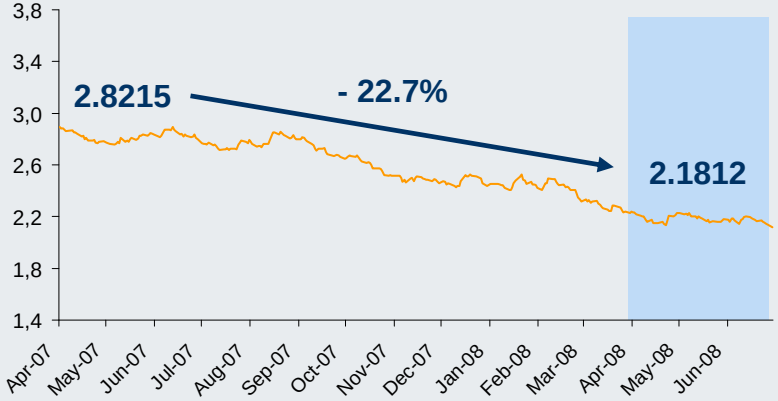
- The operating result in the E&P segment decreased by 27% y/y, due to worse performance of the exploration business;
- Lower EBIT in Trade and Storage is a consequence of the lack of gas tariff price increase in the first month of the quarter and the higher price of imported gas;
- The satisfactory result of the Distribution segment was related to the new tariffs for six Distribution System Operators, but also to unbundling of trade activity from distribution in the middle of 2007.

Factors with a Bearing on PGNiG Group's Results

Crude oil spot price** vs. tariff price



PLN/USD exchange rate*



- Crude oil quotations significantly affect prices of imported gas;
- The formula used to calculate imported gas purchase price is based on the 9-month average for crude oil derivative products whose price is almost fully correlated with crude prices;
- In Q2 2008, the average price per barrel of crude oil reached USD 122 and was almost two times higher than in Q2 2007.

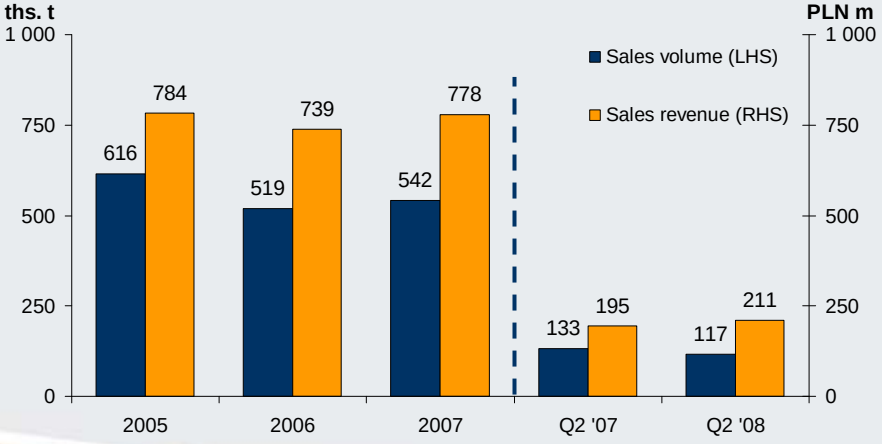
- The USD/PLN exchange rate is important for the Company as the gas import price is quoted in USD – similarly as the crude selling price;
- The continued appreciation of the zloty Q2 2008 had a positive effect on the final cost of imported gas, however it did not fully offset the higher market prices of natural gas;
- In the last year, the USD/PLN exchange rate has decreased by 23%. In Q2 2008, the average USD/PLN exchange rate was 2.18.

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

Crude Oil

PGNiG Group IFRS*	Q2 2007	Q2 2008	change
Production volume (ths. t)	101	107	5%
Sales volume (ths. t)	133	117	(12%)
Sales revenue (PLN m)	195	211	8%
Crude oil unit price (PLN/t)	1,463	1,807	24%
Average crude oil quotation Brent Dated (USD/bbl)	69	121	76%

Crude oil – sales volume and revenue*



- PGNiG sells crude oil on market terms, as part of its Exploration and Production segment;
- In 2007, then-current production of crude oil was cumulated and sold with previously stored crude oil, which affected positively the Q2 2007 results. Net of this effect, the sales volume of crude oil y/y would be at a comparable level but revenues would be higher in Q2 2008;
- The increase of crude oil production volume by 5% y/y is a natural effect of improved productivity;
- Further strengthening of the Polish zloty against the US dollar was the main reason for relatively lower increase of the crude oil unit price in PLN/t compared with the crude oil price in USD;
- In Q2 2008, the average price of crude oil sold by PGNiG reached USD 107 per barrel and rose by 73% y/y.

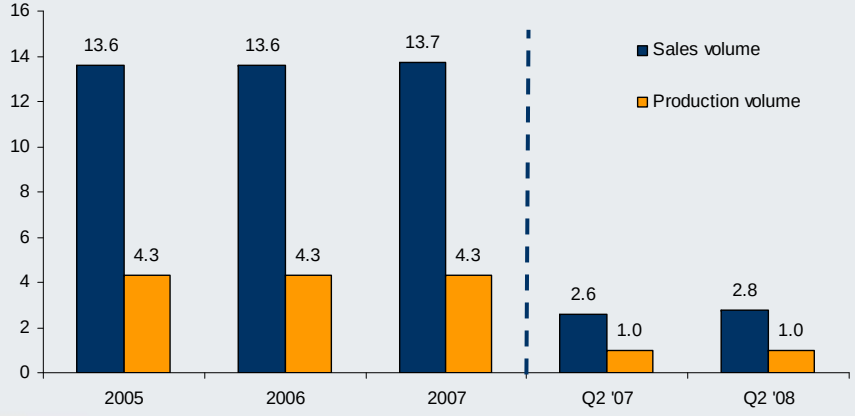
* The data includes both crude oil and condensate.

Natural gas

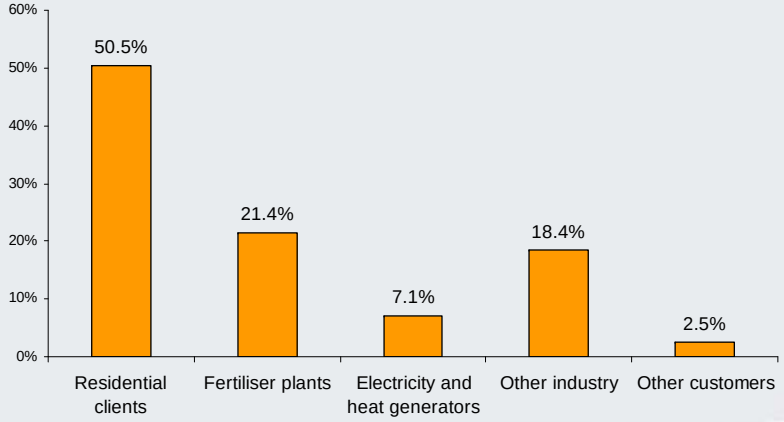
PGNiG Group IFRS	Q2 2007	Q2 2008	change
Production volume* (mcm)	1,001	974	(3%)
Sales volume** (mcm)	2,641	2,891	9%
Gas sales revenue	2,971	3,378	14%
High-methane gas (E)	2,736	3,097	13%
Nitrogen-rich gas (Ls, Lw)	235	281	19%

- The reason for the 9% y/y increase in the gas sales volume was a 12% rise of sales to industrial customers Q2 2008;
- The gas production volume in Q2 2008 stayed flat y/y, at PLN 974 million cu. meters;
- Revenue from high-methane gas and nitrogen-rich gas sales rose in total by 14% y/y.

Natural gas – sales and production volume (bcm)**



Percentage gas sales volume breakdown by customers

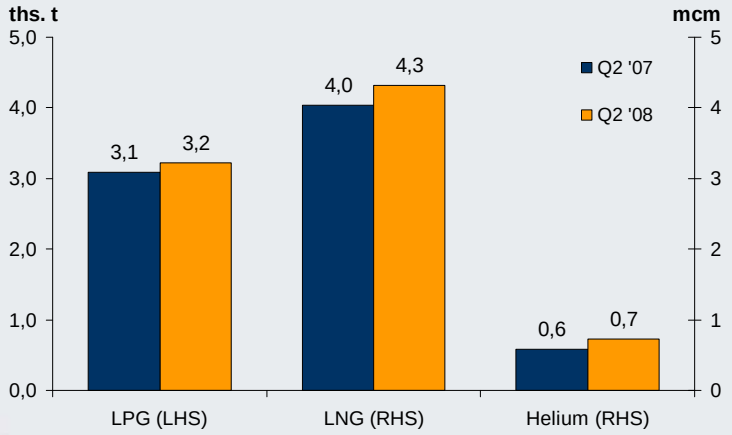


* Data includes the production of PGNiG Branch in Odolanów (nitrogen removal plant).
** Measured as a high-methane gas equivalent (E).

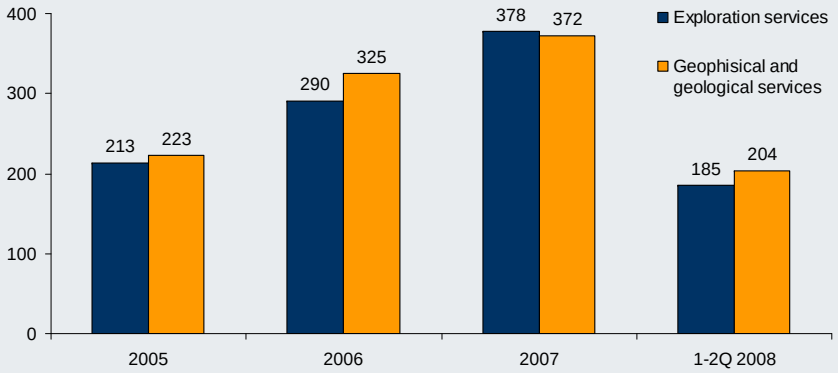
Other sales

PGNiG Group IFRS (PLN m)	Q2 2007	Q2 2008	change
Helium	7.5	6.6	(13%)
Propane-butane gas (LPG)	7.1	8.9	25%
Decompressed gas (LNG)	3.4	4.5	31%
Geophysical and geological services	88.3	134.1	52%
Exploration services	115.9	80.5	(31%)
Goods and materials	5.3	5.7	8%

Production volume of other products



Revenues from exploration, geophysical and geological services (PLN m)

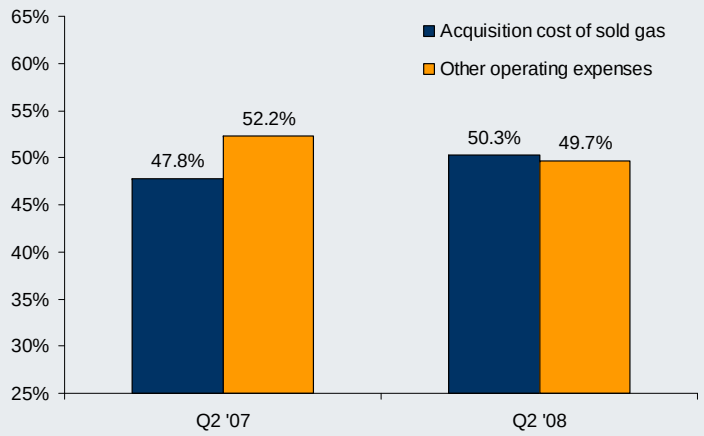


- The growing demand for geophysical and geological services and very good reputation of the PGNiG Group companies in this field translated into an over 50% growth of revenues from this activity in Q2 2008;
- As a result of delays and cancelations of certain projects, in Q2 2008 exploration services generated revenues lower by 31% y/y;
- Moreover, contracts of the exploration companies are quoted in US dollars so revenues of those companies are affected by the appreciation of the Polish currency.

Operating Expenses

PGNiG Group IRFS (PLN m)	Q2 2007	Q2 2008	change
Total operating expenses	**2,980**	**3,636**	**22%**
Acquisition cost of sold gas	1,423	1,830	29%
Other raw materials and consumables used	156	165	6%
Employee benefits	556	572	3%
Depreciation and amortisation	374	371	(1%)
OGP GAZ-SYSTEM transmission services	325	308	(5%)
Other contracted services	288	342	19%
Other net operating expenses	14	232	1,616%
Cost of products and services for own needs	(155)	(185)	19%

Acquisition cost of sold gas vs. other operating expenses (PLN m)



- The 22% y/y rise of operating expenses was caused by:
  - cost of imported gas being higher by over PLN 400m, which is an effect of the rising crude oil prices affecting the natural gas purchase prices;
  - over sixteen-times higher value of other operating expenses net which resulted from change in provisions and write offs as well as from FX losses;
- The 19% rise of other contracted services resulted from increase of exploration costs related to higher number of dry wells;
- The lower cost of transmission services was connected to the reduced OGP Gaz-System transmission tariff effective since May 1st 2008.

Conclusions

- The improved result of the Distribution segment (from minus PLN 162m in Q2 2007 to minus PLN 14m in Q2 2008) followed mainly from the new distribution tariffs for the Group's six distribution companies and from unbundling of trade activity from distribution in the middle of 2007;

- The significant decline of Trade and Storage's EBIT – down by 87% on Q2 2007 – was caused by the rising cost of imported gas, which was not fully reflected in the current tariff;

- The growing crude prices on international markets directly translated into higher gas prices under import contracts. During the last year, crude oil prices have doubled and reached USD 140 per barrel at the end of Q2 2008.

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Thank you.