PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

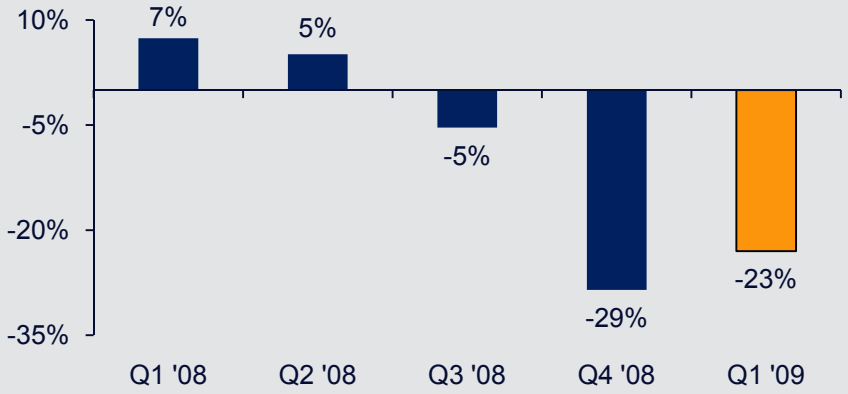
Financial Performance of PGNiG SA
Q1 2009

May 12th, 2009

Financial Highlights

PGNiG Group (PLNm)	Q1 2008	Q1 2009	Change
Sales revenue	5,330	6,379	20%
EBIT	947	(457)	(148%)
EBITDA	1,298	(88)	(107%)
Net result	779	(399)	(151%)

High-methane gas sales margin in 2008 and Q1 2009



- The loss incurred by the PGNiG Group in Q1 2009 is a result of very high costs of imported gas (a y-o-y increase of 86% despite lower volumes purchased) which were not reflected in the effective gas tariff. Consequently, the margin on sales of high-methane gas was -23% in the reporting period;
- Another factor which significantly contributed to the negative result was further strong depreciation of the złoty in Q1 2009.

- The slight improvement in the margin on sales of high-methane gas (by 6pp) is attributable to higher volumes of gas withdrawn from the storage facilities in Q1 2009 relative to Q4 2008;
- The higher net loss in Q1 2009 compared with Q4 2008 follows not only from the increase in the costs of gas sold, but also from a 16% higher volume of high-methane gas sales, which continue to generate negative margins.
- In spite of negative data in Q1 2009, the realisation of financial results projected in the Group's annual business plans is not materially jeopardized.

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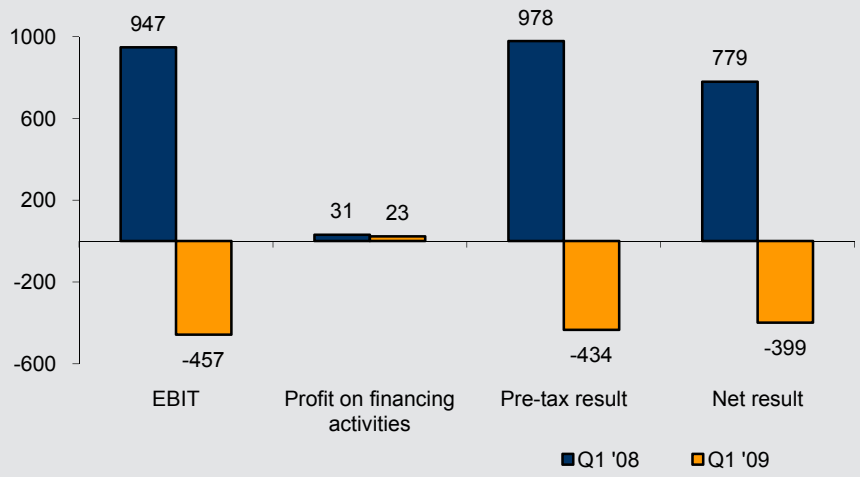
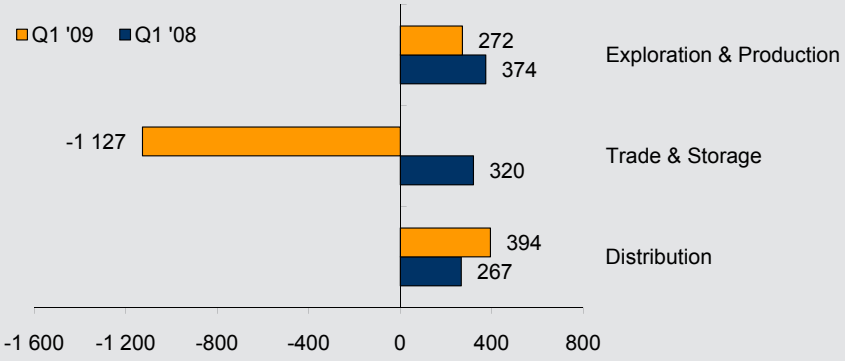
Performance Review

Structure of PGNiG Group's result (PLNm)



- The PGNiG Group's performance in Q1 2009 was adversely affected by very high purchase costs of gas sold. Almost twice as high as a year ago, the costs were the key factor which contributed to the operating loss of PLN 457m;
- In Q1 2009, equity value of EuRoPol Gaz, a subsidiary undertaking, did not have any material effect on the PGNiG Group's financial performance.

Operating results by segments (PLNm)



- The 27% fall in operating profit in the Exploration and Production segment is attributable to lower revenue from sales of crude oil, which declined by PLN 93m due to lower oil prices on the global markets;
- The very high operating loss in the Trade and Storage segment is a result of very high prices of natural gas, with the tariffs failing to reflect the changing market conditions;
- EBIT of the Distribution segment improved significantly on the back of higher margin on the distribution service following the introduction of new tariffs in April 2008, as well as lower costs of the segment (in Q1 2008, in line with the tariff then in force, the distribution companies covered costs of transmission via the OGP Gaz-System networks).

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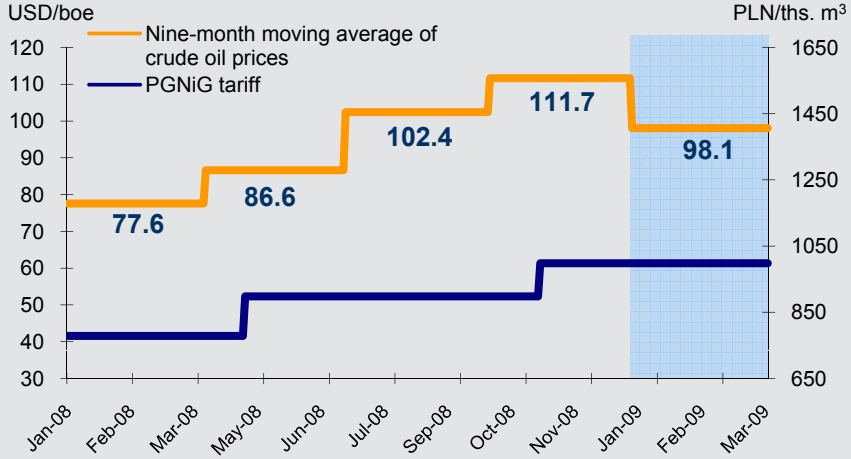
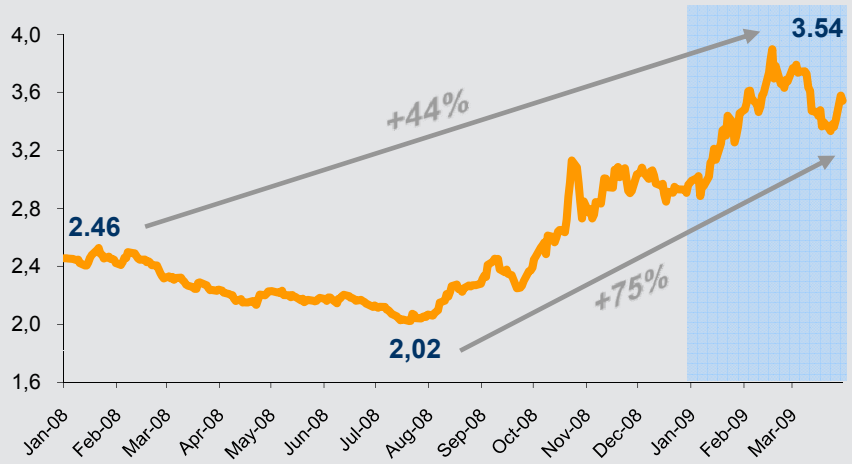
Financial Performance Drivers

Crude oil quoted prices* vs. tariff price



- 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 oil derivative products, which has an almost 100% co-relation with crude oil prices;
- In Q1 2008, the 9-month average price of oil derivative products was USD 78/bbl. During the year it increased by 26% and reached USD 98/bbl in Q1 2009.

PLN/USD exchange rate**



- The price of imported natural gas is denominated chiefly in the US dollars, just like the price of crude oil;
- Q1 2009 saw a further weakening of the złoty. During that period, the PLN/USD exchange rate rose by 20%, from 2.99 to 3.54. This had an adverse effect on the price of imported natural gas;
- Between Q4 2008 and Q1 2009, the average PLN/USD exchange rate went up by 21%, from 2.86 to 3.45.

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

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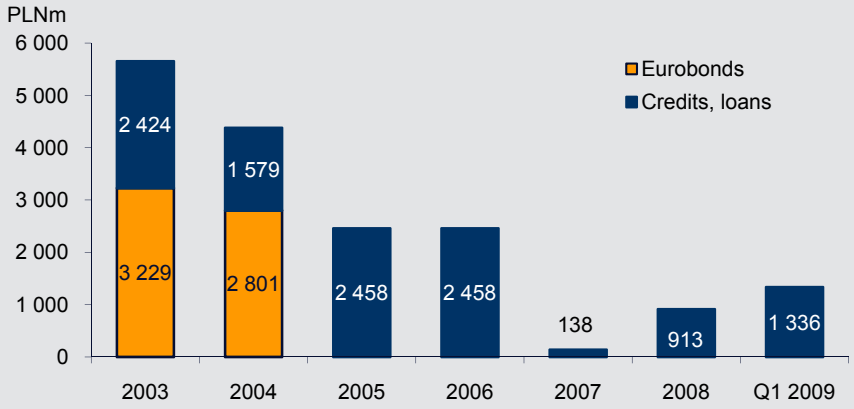
Financial Risk Management

- PGNiG 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 enters into derivative transactions, which meet the hedge accounting requirements:
  - purchase of an European call option;
  - zero-cost symmetric option strategies; risk reversal.
- Gains on derivative instrument transactions calculated according to an average exchange rate of National Bank of Poland, including paid option premium, in Q1 2009 totalled PLN 23m;
- 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.

Debt in PGNiG Group



- The Group's total debt at the end of Q1 2009 reached PLN 1.3bn and was by PLN 423m higher than at the end of 2008;
- By 2008, the Group's debt had been substantially reduced. The current debt level is the effect of implementation of PGNiG's investment plans set forth in its strategy announced towards the end of 2008 but also of negative margin on sale of high-methane gas in the last two quarters;
- The credit facilities currently available amount to approximately PLN 1.5bn.

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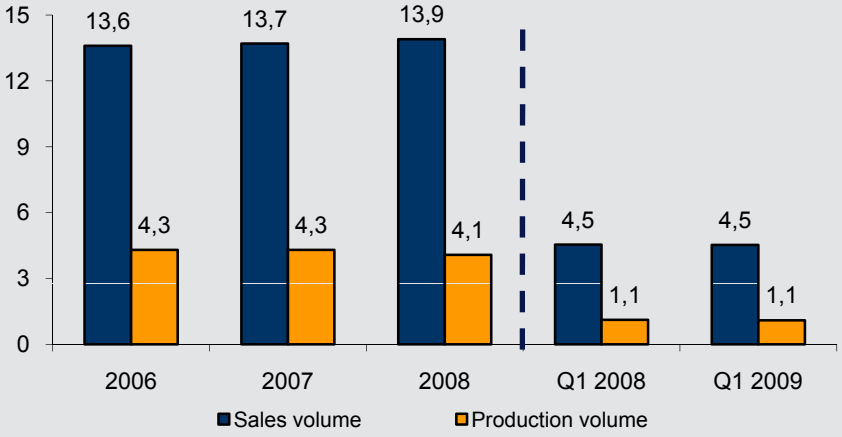
Natural gas

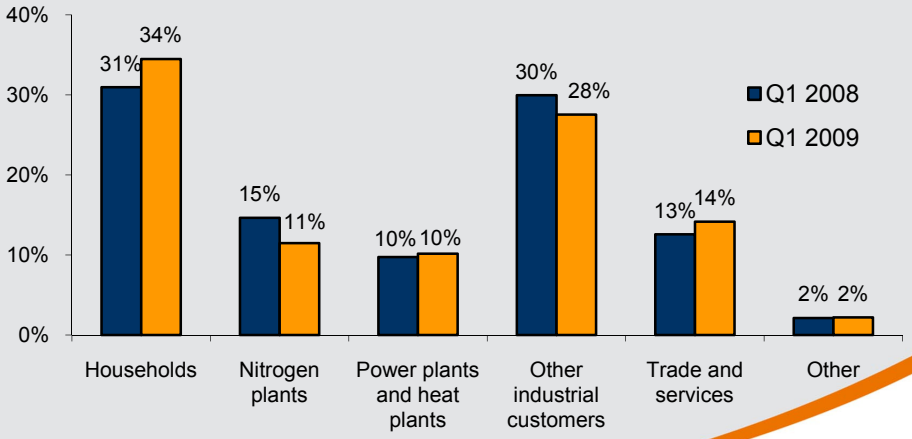
PGNiG Group, IFRS	Q1 2008	Q2 2009	Change
Production volume* (m m^3)	1,140	1,094	(4%)
Sales volume** (m m^3)	4,546	4,530	0%
Gas sales revenue (PLNm)	4,813	5,924	23%
High-methane gas (E)	4,385	5,435	24%
Nitrogen-rich gas (Ls, Lw)	428	489	14%

- Lower gas demand from industrial customers was offset by higher gas consumption by retail customers (due to average temperature in Q1 2009 being lower by approx. 2°C). In effect, the gas sales remained at a level comparable to that recorded in Q1 2008;
- The 23% rise in gas sales revenue, with comparable sales volumes, is attributable to the introduction of new gaseous fuel tariffs in April and November 2008, which provided for price increases respectively of 15% and 11%.

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



Customers' percentage share in the gas sales volume in Q1 2008 and Q1 2009

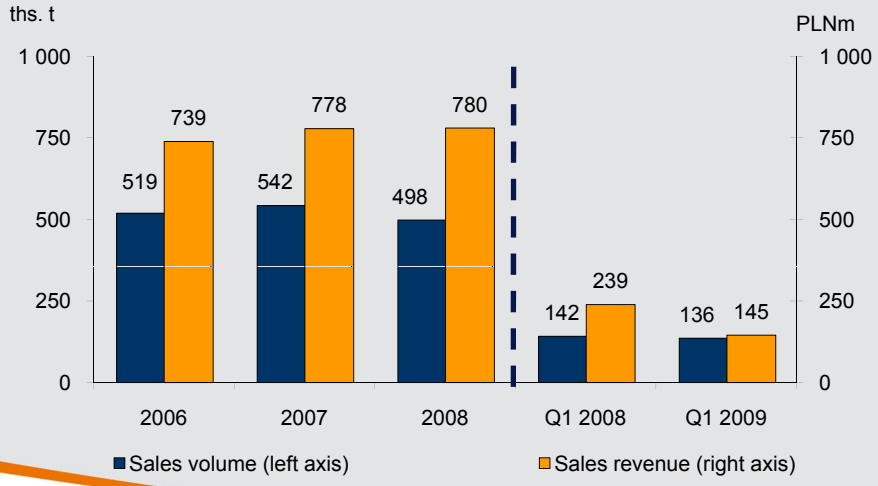


* Data includes the production of the PGNiG Branch in Odolanów.
** Measured as high-methane gas equivalent (E).

Crude oil

PGNiG Group, IFRS*	Q1 2008	Q1 2009	Change
Production volume (ths. t)	145	137	(5%)
Sales volume (ths. t)	142	136	(4%)
Sales revenue (PLN m)	239	145	(40%)
Oil unit price (PLN/t)	1,680	1,062	(37%)
Average price of Brent Dated oil for the period (USD/bbl)	97	44	(54%)

Oil sales volume and revenue*



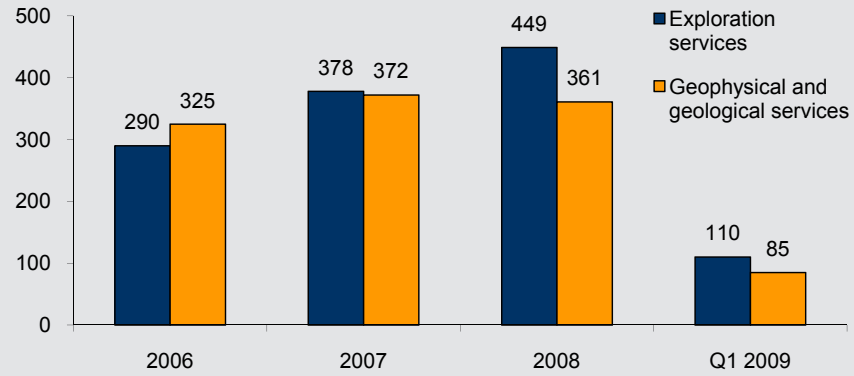
- When Q1 2008 is compared with Q1 2009, the most striking difference is that between the trends in oil prices on the global markets. The oil price slump in Q1 2009 was deeper than the złoty depreciation against the US dollar compared with Q1 2008, which adversely affected the sales results in the reported period;
- The Q1 2009 sales results are largely similar to the sales volume and value in Q4 2008. The quantity of crude oil sold was almost identical in the two periods, which shows that PGNiG has succeeded in maintaining stable production volumes. The fall in oil prices witnessed in Q1 2009 was offset by the simultaneous depreciation of the złoty against the US dollar, which enabled the Group to maintain the sales value at a level similar to that recorded in Q4 2008;
- In Q1 2009, the Group sold 136 thousand tonnes of crude oil and condensate, of which 52% was purchased by domestic customers, and 48% by foreign customers.

* For crude and condensate.

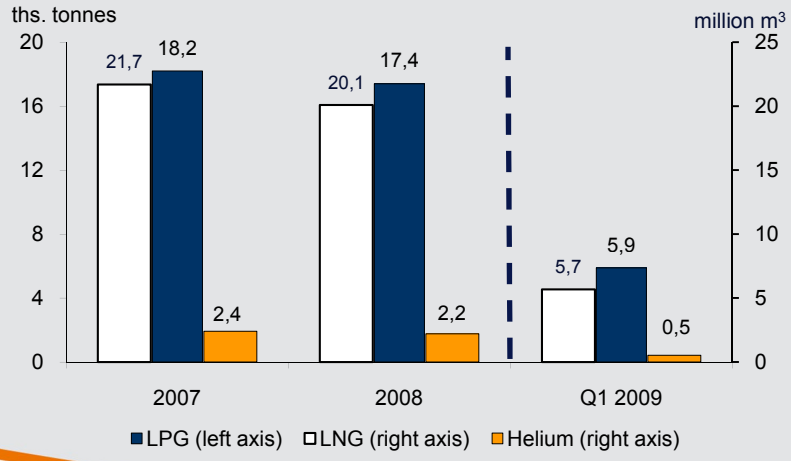
Other Sales

Sales revenue PGNiG Group (PLNm)	Q1 2008	Q1 2009	Change
Helium	6.9	8.1	18%
Propane-butane gas (LPG)	13.5	9.2	(32%)
LNG	5.1	6.3	23%
Geophysical and geological services	69.7	84.9	22%
Exploration services	104.2	109.7	5%
Other products and services	75.9	85.0	12%

Revenues from exploration and geophysical and geological services (PLNm)



Production volume of other products



- The rise in revenue from geophysical, geological and exploration services in Q1 2009 was driven chiefly by the strengthening of the US dollar, which is the currency of foreign contracts;
- As far as other products are concerned, in Q1 2009 there was a year-on-year increase in production in the case of LPG (propane-butane gas) – by 9%, and helium – by 2%. The production of LNG in the period fell by 5%.

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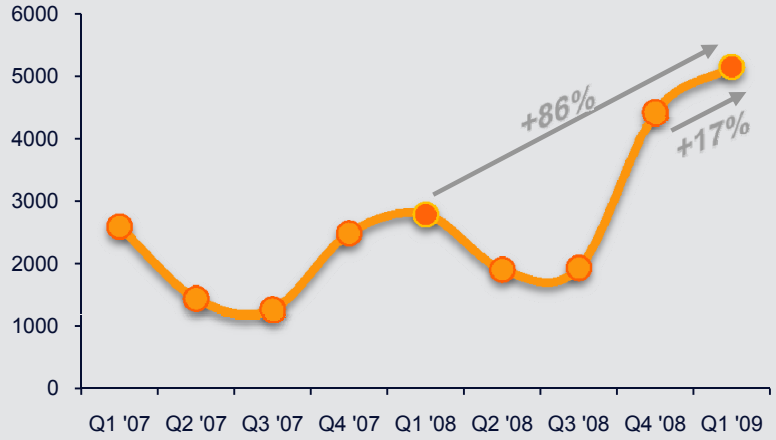
Operating Expenses

PGNiG Group, IFRS (PLNm)	Q1 2008	Q1 2009	Change
Total operating expenses	**4,383**	**6,836**	**56%**
Cost of gas sold	2,770	5,141	86%
Other raw materials and consumables used	129	137	6%
Employee benefits	465	523	13%
Depreciation and amortisation	350	370	5%
OGP GAZ-SYSTEM transmission services	416	375	(10%)
Other contracted services	272	336	24%
Other operating expenses net	103	113	9%
Cost of products and services for own needs	(159)	(123)	(23%)

Purchase cost of gas sold in the particular quarters (PLN bn)



- The main factor affecting the operating expenses in Q1 2009 was cost of gas sold, which in the past quarter amounted to **PLN 5.1bn**;
- The 86% surge in the purchase cost of gas sold in Q1 2009 relative to Q1 2008 was caused by a 26% increase in the nine-month moving average price of crude oil in the US dollar, which – given a 45% rise in the average PLN/USD exchange rate – translated into an 82% increase in the nine-month moving average price of crude oil in the złoty. Consequently in Q1 2009 unit purchase costs of imported gas grew up by 108% compared to Q1 2008.
- If the cost of gas sold is excluded from total operating expenses, the remaining cost items between two analysed periods increase only by 5%;
- The costs of other contracted services rose primarily due to higher expenditure on geological services, which rose by PLN 40m (of which PLN 32m was related to higher costs of geophysical surveys). Moreover, in the quarter under review PGNiG incurred costs related to switching of customers to high-methane gas, which amounted to PLN 12m (no such costs were recorded in Q1 2008).

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Conclusions

- In Q1 2009, the Company recorded a loss due to high costs of imported gas which in the discussed period rose by 86% relative to Q1 2008 (in the same period the tariff price increased only by 26%). The high expenses reflect higher prices of crude oil, which reached USD 146 per bbl in the mid 2008, and depreciation of złoty against US dollar or euro;

- In spite of significant increase of cost of gas sold and consequently negative results in Q1 2009, the realisation of financial results projected in the Group's annual business plans is not materially jeopardized;

- The Financial Risk Management Policy, which has been consistently applied by PGNiG, sheltered the Company from adverse effects of the financial crisis. In Q1 2009 the result of the settlement of derivative contracts calculated according to an average exchange rate of National Bank of Poland (NBP), which include paid option premium, reached PLN 23m;

- A noteworthy change is a significant improvement of the Distribution segment's performance, which is attributable to the new, higher tariffs applied by six distribution companies since April 2008, as well as of improved cost structure of the segment.

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Thank you