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Polskie Górnictwo Naftowe
i Gazownictwo SA

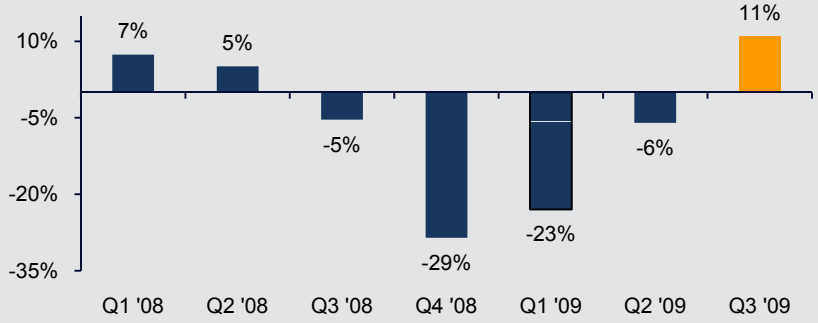
Financial Performance of PGNiG Group
Q3 2009

November 12th, 2009

Financial highlights

PGNiG Group (PLNm)	Q3 2008	Q3 2009	change
Sales revenue	3,654	3,408	(7%)
EBIT	196	495	153%
EBITDA	532	842	58%
Net result	180	408	127%

High-methane gas sales margin in 2008 and 1-3Q 2009



- The improved performance of the PGNiG Group is attributable primarily to higher profitability of high-methane gas sales following a drop in the unit cost of imported gas. In Q3 2009, the margin on sales of high-methane gas was plus 11%, compared with minus 5% in Q3 2008;
- The cumulative margin on sales of high-methane gas for the first nine months of 2009 amounted to minus 10% and was the main driver of the PLN 85m loss for the first three quarters of the year.

- A slight drop in sales revenue is a consequence of a 13% decline in the gas sales volume caused by lower demand for gas, mostly from industrial customers;
- On the other hand, year-on-year gas production rose by 11% following an increase in the processing capacity of the nitrogen removal facility;
- The results for the quarter come close to the expectations of stock market analysts – sales revenue are in line with average of expectations, while net profit is 7% above the market consensus*.

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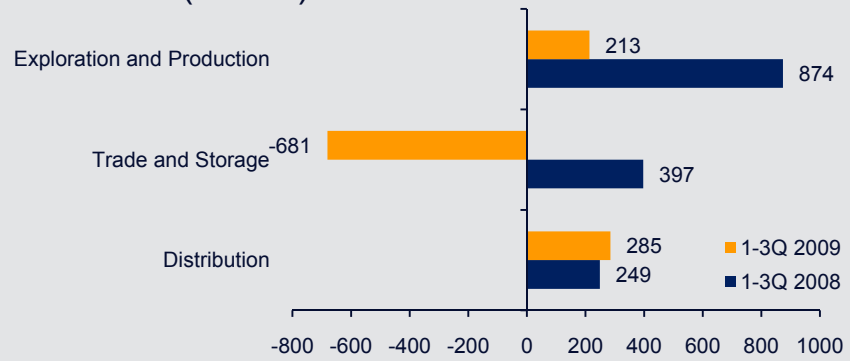
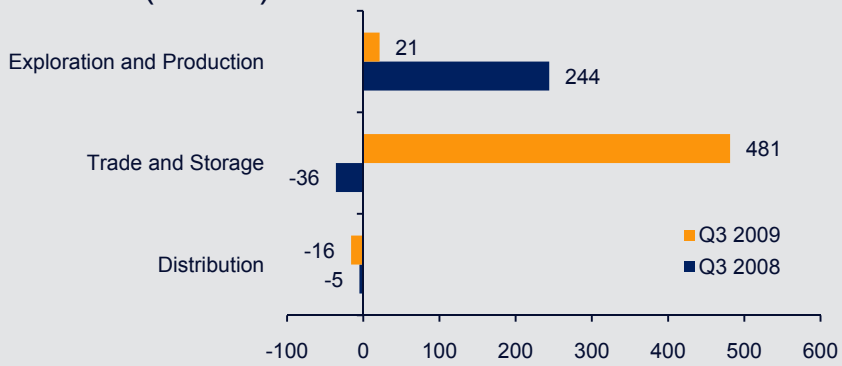
* Consensus of Polish Press Agency dated November 4th 2009.

Operating profit by segments

Operating results by segments in 1-3Q 2008 and 1-3Q 2009 (PLNm)



Operating results by segments in Q3 2008 and Q3 2009 (PLNm)



- In Q3 2009 PGNiG generated a positive margin on sales of gas. This increased the operating result of the Trade and Storage segment for the discussed period by PLN 518m compared with the Q3 2008 level and by PLN 517m compared with the figure for Q2 2009. The segment's EBIT for the first three quarters of 2009 was negative at PLN 681m. The loss follows from very high costs of imported gas in the first half of the year, not reflected in the gaseous fuel tariff.

- The poorer EBIT of the Exploration and Production segment in Q3 2009 is an outcome of higher cost of written-off dry wells by approximately PLN 150m in Q3 2009 compared with the corresponding period of 2008, lower profitability of crude oil sales (a PLN 47m drop in revenue) and lower revenue from geophysical and geological services (drop by PLN 35m). Cumulatively, for the first nine months of 2009, the segment's profit was PLN 213m, i.e. 76% less than for the corresponding period of 2008.
- The decline in the operating result of the Distribution segment is attributable to an 11% drop in the volume of distributed gas, which was partly offset by a rise in the distribution tariff (by 14% on average) as of June 1st 2009.
  In cumulative terms, the segment's result did not change significantly.

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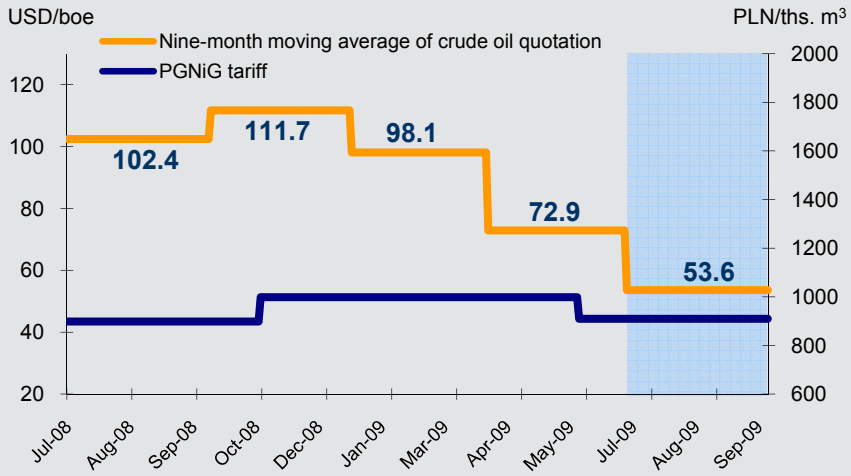
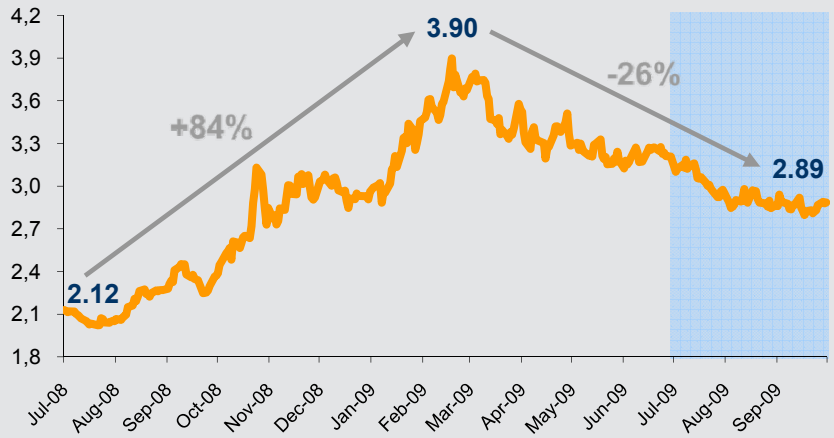
Financial performance drivers

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 a co-relation with crude oil prices;
- In Q3 2008, the 9-month average price of oil derivative products was USD 102/bbl. During the year it decreased by 48% and reached USD 54/bbl in Q3 2009.

USD/ PLN exchange rate**



- The price of imported natural gas is denominated chiefly in the US dollars, just like the price of crude oil;
- Q3 2009 saw a further strengthening of the złoty. During that period, the USD/PLN exchange rate fell by 9%, from 3.17 to 2.89. This had an adverse effect on the price of imported natural gas;
- Taking into account the average USD/PLN exchange rate, in Q3 2009 the nine-month average price of crude oil expressed in the Polish currency went down by 30% compared with its level in Q3 2008.

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

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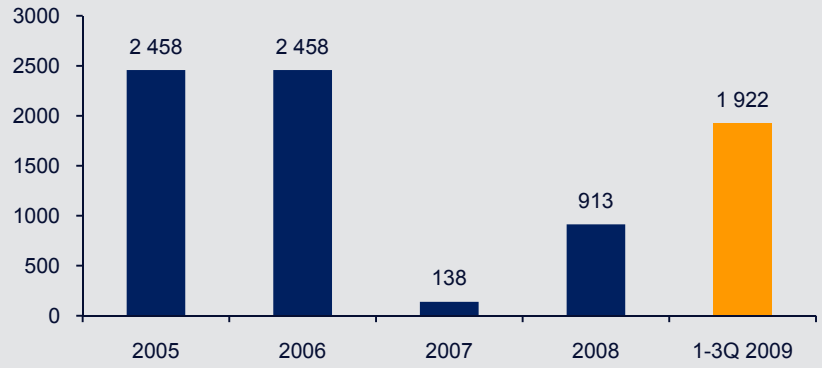
Financial risk management

- 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:
  - purchase of an European call option;
  - zero-cost symmetric option strategies; risk reversal.
- The result on derivative transactions (realised and unrealised) and foreign exchange differences was negative at PLN 11m in Q3 2009 and positive at PLN 46m for the first nine months of 2009;
- 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 (PLNm)



- At the end of Q3 2009 the PGNiG Group's total debt was PLN 1.9bn, i.e. PLN 1bn higher than at the end of 2008. In Q3 2009 alone, the debt increased by PLN 433m;
- By 2008, the PGNiG Group's debt had been significantly reduced. The current debt comes as a result of implementation of the PGNiG's investment plans and the necessity to cover operating losses incurred during the first half of 2009;
- The net debt after Q3 2009 was PLN 971m.

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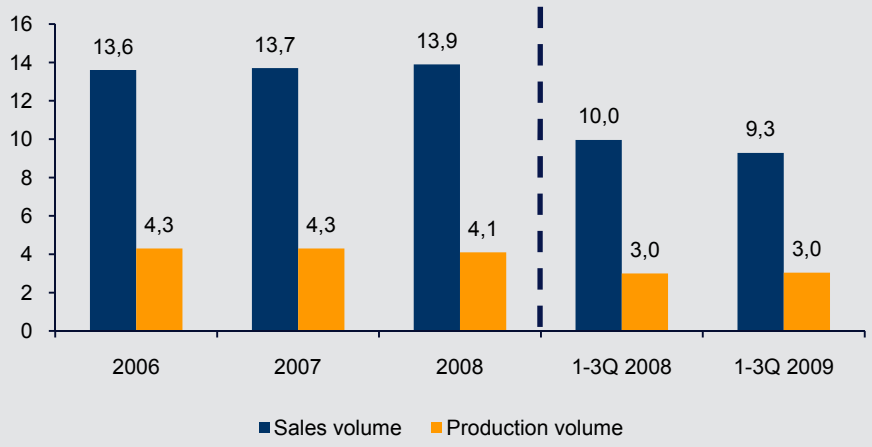
Natural gas

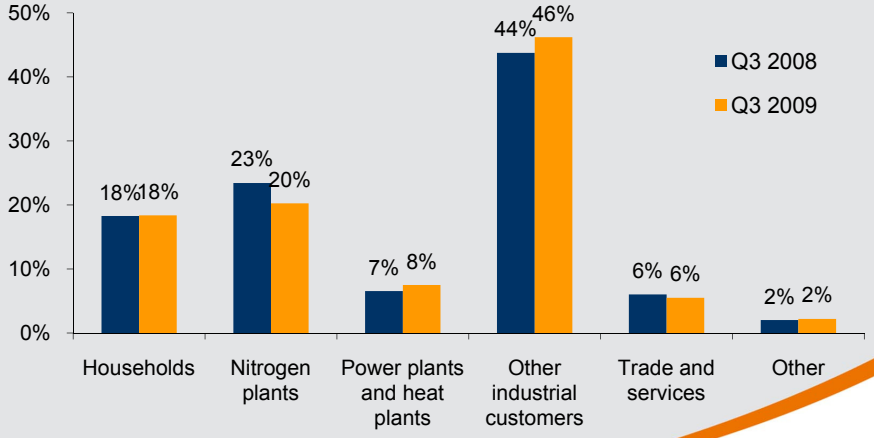
PGNiG Group, IFRS	Q3 2008	Q3 2009	change
Production volume* (million m^3)	887	981	11%
Sales volume** (million m^3)	2,518	2,190	(13%)
Gas sales revenue (PLNm)	3,157	2,984	(5%)
High-methane gas (E)	2,931	2,792	(5%)
Nitrogen-rich gas (Ls, Lw)	227	192	(15%)

- The significant change in the volume of natural gas production is attributable to the fact that Q3 2009 saw an upgrade of the processing capacity of the nitrogen removal facility, which made it possible to increase the production capacity of the mines currently in operation. As a result, the production of nitrogen-rich gas in 2009 rose by 25%;
- The 13% decline in the sales volume is an effect of lower demand for natural gas, both from industrial customers (mainly nitrogen plants – 25% fall in demand), and from households (higher temperatures in September 2009 compared with September 2008);
- A drop in the volume of gas sales caused a 5% decrease in the revenue from gas sales.

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



Customers' percentage share in the gas sales volume in Q3 2008 and Q3 2009

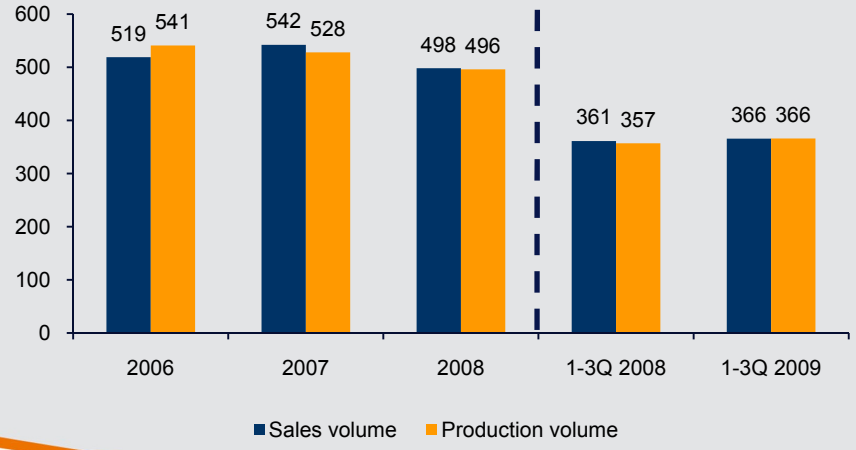


* Data includes the production of the PGNiG Branch in Odolanów.
** Measured as high-methane gas equivalent (E).

Crude oil

PGNiG Group, IFRS*	Q3 2008	Q3 2009	change
Production volume (ths. t)	103	98	(7%)
Sales volume (ths. t)	103	99	(4%)
Sales revenue (PLN m)	183	136	(26%)
Oil unit price (PLN/t)	1,782	1,377	(23%)
Average price of Brent Dated oil for the period (USD/bbl)	115	67	(42%)

Oil sales and production volume (ths. t)*



- The Q3 2009 results were affected to the greatest extent by the overhaul shutdown at the Dębno mine, which this year continued from mid July to mid August (a year earlier the scheduled shutdown took place in June) and resulted in lower oil production and lower volume of crude sold;
- A comparison of revenue on crude sales in Q3 2008 vs. Q3 2009 clearly reflects the vast difference between crude prices on the global markets in these two periods. In Q3 2009, average crude prices fell by 42% y-o-y, which was reflected in the revenue drop, offset by the depreciation of the zloty against the dollar;
- In Q3 2009, PGNiG sold 99 thousand tonnes of crude and condensate, of which 62% was purchased by domestic customers and the balance (38%) – by foreign customers.

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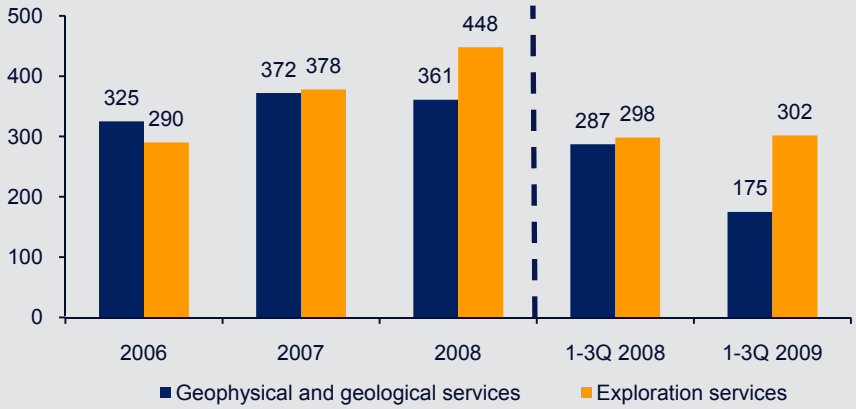
* For crude and condensate.

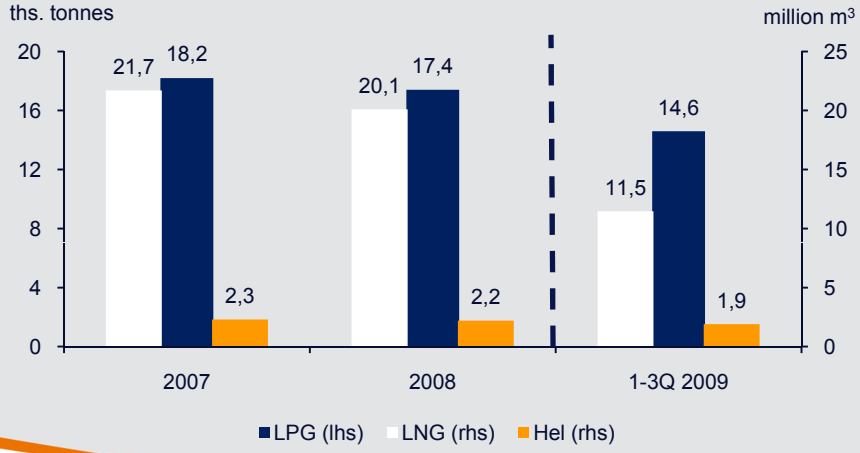
Other sales

Sales revenue PGNiG Group (PLNm)	Q3 2008	Q3 2009	change
Helium	6.3	10.6	67%
Propane-butane gas (LPG)	8.2	7.4	(10%)
LNG	4.3	4.4	3%
Geophysical and geological services	86.3	50.9	(41%)
Exploration services	113.7	110.7	(3%)
Other products and services	94.4	104.6	11%

Revenues from exploration and geophysical and geological services (PLNm)



Production volume of LPG, LNG and helium



- The lower revenue from geophysical and geological services for Q3 2009 relative to Q3 2008 is a consequence of discontinuation or suspension of some of the works conducted by Geofizyka Toruń in India, which is one of the areas of the most intensive activity for the PGNiG companies from the segment;
- Compared with Q3 2008, Q3 2009 saw increases of 4.3% and 52% in the production of LPG (propane/butane) and helium, respectively. The production of LNG in the period fell by 26%.

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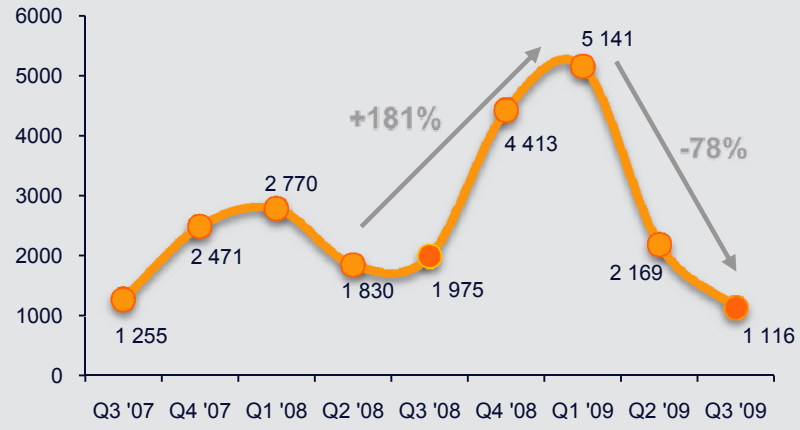
Operating Expenses

PGNiG Group, IFRS (PLNm)	Q3 2008	Q3 2009	change
Total operating expenses	**3,458**	**2,913**	**(16%)**
Cost of gas sold	1,975	1,116	(43%)
Other raw materials and consumables used	153	168	10%
Employee benefits	496	518	4%
Depreciation and amortisation	336	347	3%
OGP GAZ-SYSTEM transmission services	298	308	3%
Other contracted services	353	532	51%
Other operating expenses net	28	165	485%
Cost of products and services for own needs	(183)	(241)	32%

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



- The amount of operating expenses is predominantly determined by the purchase cost of sold gas. In Q3 2009, the cost was PLN 1.1bn and was 43% lower compared with Q3 2008 and almost by half lower than in Q2 2009;
- The purchase cost of sold gas fell in the period from Q3 2008 to Q3 2009 mainly as result of a 29% drop in unit cost of imported gas. The drop in the purchase cost of sold gas would be even higher but for the depreciation of the złoty in relation to the US dollar in Q3 2009 compared with Q3 2008.
- The higher cost of other contracted services follows from higher cost of written-off dry wells by approximately PLN 150m in Q3 2009 compared with the corresponding period of 2008;
- The substantial increase in “Other operating expenses, net” is due to a higher impairment on trade receivables and lower results on derivative instruments and exchange rate differences reported in Q3 2009 compared with Q3 2008;
- The cost of products and services for own needs rose by PLN 58m, on account of an increase in the value of tangible assets under construction, acquired in the period and connected with exploration activities.

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Conclusions

- INCREASE OF FINANCIAL RESULT
  The PGNiG Group improved its financial performance in Q3 2009 as a result of a 29% drop in the unit cost of imported gas. The total purchase cost of sold gas was lower by 43% y-o-y and 49% q-o-q. Consequently, the operating margin on sales of high-methane gas in the analysed period was +11%, compared with -6% in Q2 2009 and -23% in Q1 2009;

- INCREASE OF PRODUCTION VOLUME
  A positive development is an 11% rise in the production volume of natural gas, for the most part a consequence of higher processing capacity of the nitrogen removal facility, which contributed to a 25% increase in the production of nitrogen-rich gas in Q3 2009 (high-methane gas equivalent of 118m m^3);

- DECREASE OF SALES VOLUME
  The overall economic slowdown brought about a 13% drop in the volume of natural gas sales. In Q3 2009, industrial customers took off over 200m m^3 less gas than in Q3 2008. Additionally, higher temperatures in September resulted in lower demand for gas from individual customers.

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Thank you