Polskie Górnictwo Naftowe i Gazownictwo SA

Financial Performance of PGNiG Group FY 2010

March 21st, 2011

Financial highlights

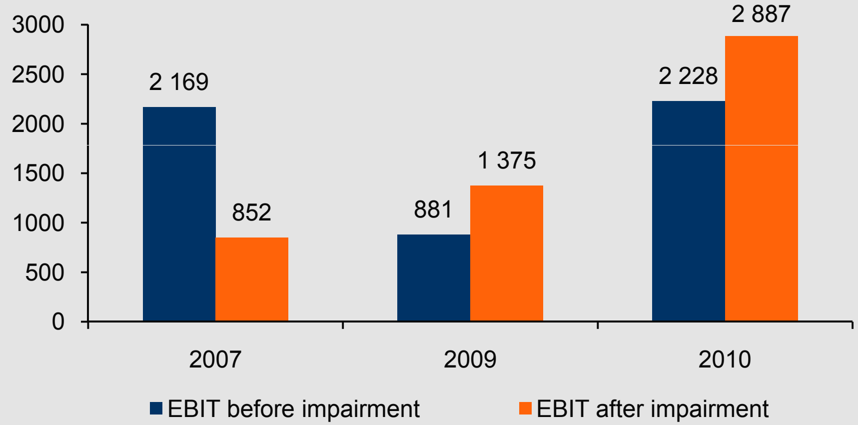
PGNiG Group (PLN m)	2009	2010	change	Q4 2009	Q4 2010	change
Sales revenue	19,332	**21,281**	*10%*	5,656	**6,638**	*17%*
Operating expenses	(17,957)	**(18,394)**	*2%*	(4,111)	**(5,293)**	*29%*
EBITDA	2,871	**4,411**	*54%*	1,933	**1,758**	*(9%)*
EBIT	1,375	**2,887**	*110%*	1,546	**1,345**	*(13%)*
Result on financial activity	109	**50**	*(54%)*	11	**7**	*(38%)*
Net result	1,237	**2,457**	*99%*	1,311	**1,118**	*(15%)*
High-methane gas sales margin	(2%)	**3%**	*5 pp*	14%	**2%**	*(12 pp)*

- In 2010, the Group's financial performance improved on higher gas sales volume and lower cost of gas purchase owing to a discount received from a contractor, as well as on better performance on crude oil sales and the higher value of reversed impairment losses relating to distribution companies' assets.
- In Q4 2010, the margin on high-methane gas sales was 2%, i.e. similar to the Q3 2010 figure, but 12 p.p. on Q4 2009. It was the main factor contributing to the year-on-year decline of the Group's operating profit.
- Higher sales revenue reflected a record-high volume of gas sales - 14.4bn cubic metres in 2010 (4.4bn cubic metres in Q4 2010). In both cases, the year-on-year growth was approx. 10%.
- In Q4 2010, the Group recognised the discount received for gas supplied under the contract with Gazprom-Export. The discount decreased cost of gas imports by PLN 158m.

Impairment losses on distribution assets

- In 2007, the PGNiG Group companies had to recognise impairment losses in excess of PLN 1.3bn on the distribution companies' non-current assets.
- In Q4 2009, a portion of the impairment losses (PLN 494m) was reversed following a significant improvement of the Distribution segment's profitability. The reversal of the DCF charge was made at three companies:
  - Karpacka Spółka Gazownictwa (PLN 21m);
  - Pomorska Spółka Gazownictwa (PLN 153m);
  - Wielkopolska Spółka Gazownictwa (PLN 319m).
- In Q4 2010, the Company made full reversal of the impairment losses recognised in 2007. In total, PLN 659m was recognised in the income statement in relation to the reversal of the DCF charge on the distribution assets, including:
  - Mazowiecka Spółka Gazownictwa - PLN 489m;
  - Dolnośląska Spółka Gazownictwa - PLN 170m.

The effect of the DCF charge on the Group's operating profit (PLN m)



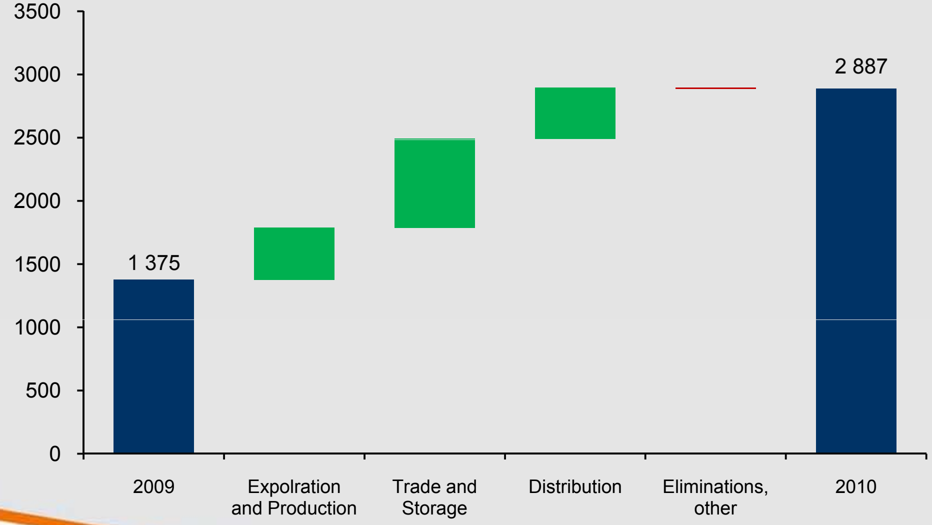
- The reversal has no effect on the PGNiG Group’s cash flows or on PGNiG SA’s separate financial statements.
- The difference between the total amount of the impairment losses recognised in 2007 and the value of the 2009 and 2010 reversals reflects the potential amount of accumulated depreciation of distribution assets which would have been recognised if the impairment losses had not been made. The amount of the reversed impairment losses relating to potential accumulated depreciation is not recognised in the P&L.

PGNiG

Segments – 2010

Operating result (PLN m)	2009	2010	change
Exploration and Production	174	588	238%
Trade and Storage	113	815	623%
Distribution	1,086	1,491	37%
Eliminations, other	2	(8)	---
TOTAL	1,375	2,887	110%

Segments' influence on the operating result in 2010 (PLN m)

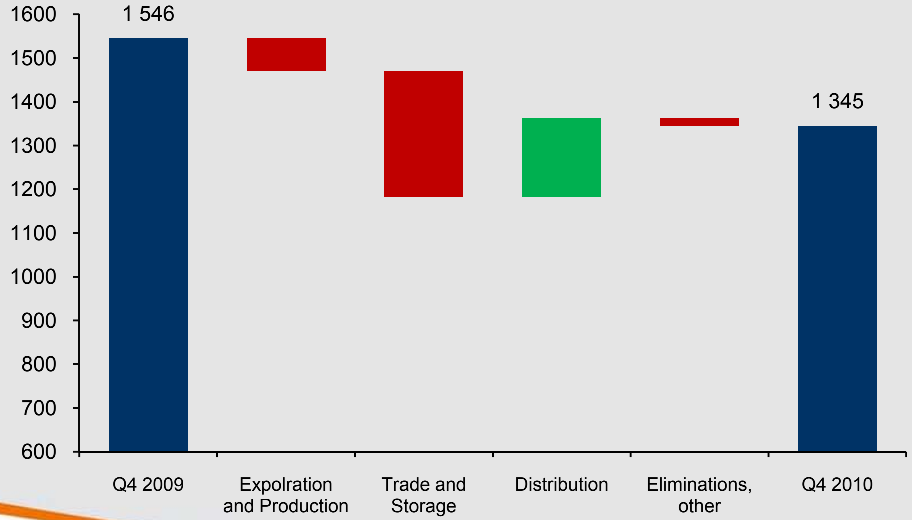


- The strong increase in the Exploration and Production segment's operating profit followed from significantly higher margins on crude sales. Prices at which PGNiG SA sold crude were up by 28%, mainly on the back of crude returning to stronger price performance on the global markets. Moreover, the segment's operating profit also improved due to a considerable decrease in net impairment losses and a fall in drilling expenses incurred on wells which were evaluated as negative.
- The most significant performance improvement was seen in the Trade and Storage segment. The Group reported an increase in the profitability of high-methane gas sales resulting from a 6% decrease in the unit price of imported gas, driven primarily by the weaker US dollar. The segment's better performance also follows from the discount for gas supplied under the contract with Gazprom-Export. Obtaining of the discount effected in gas fuel tariff decrease, which will influence the Group's revenue in Q1 2011.
- The Distribution segment's operating profit was up by PLN 414m year on year, mainly due to the reversal of impairment losses on assets of the Gas Companies, higher rates and charges for network services as of June 2010, and a 7% year-on-year increase in the volume of distributed gas.

Segments – Q4 2010

Operating result (PLN m)	IV kw. 2009	IV kw. 2010	*change*
Exploration and Production	77	**2**	*(98%)*
Trade and Storage	677	**389**	*(42%)*
Distribution	787	**967**	*23%*
Eliminations, other	5	**(14)**	---
TOTAL	1,546	**1,345**	*(13%)*

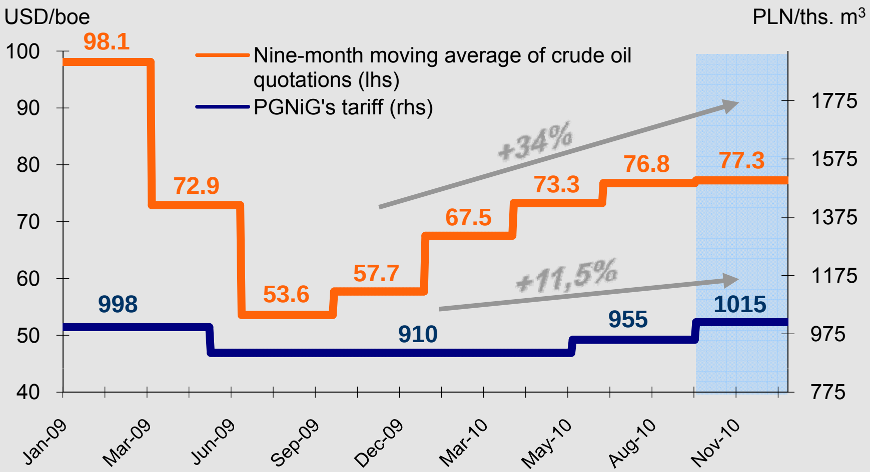
Segments' influence on the operating result in Q4 2010 (PLN m)



- Despite the higher revenue on crude sales and on geophysical/geological services, the Exploration and Production segment reported a PLN 75m decline of the operating profit. The segment's weaker EBIT results from an impairment test of capitalised costs of exploratory activities. The research and drillings prompted the Group to make revaluation of resources in deposits. Therefore, a write-down was required to cover the capitalised costs of well drilling.
- The operating result of the Trade and Storage segment deteriorated due to lower margins on high-methane gas sales (down by 12 p.p.) caused by a 34% increase in unit prices of imported gas. The difference between the quarters under review would have been higher had it not been for the PLN 158m discount for gas supplied under the contract with Gazprom-Export.
- In Q4 2010, the Distribution segment's EBIT grew by PLN 181m year on year. The improvement was attributable to the reversal of impairment losses on assets of the segment companies as well as a 9% increase in the volume of distributed gas and a rise in tariff rates for network services.

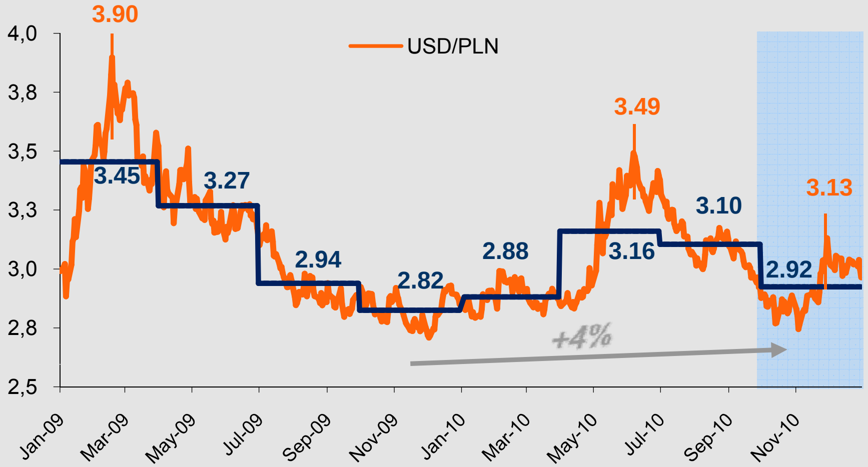
Financial performance drivers

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 nine-month moving average price of oil derivative products, which has an almost 100% co-relation with crude oil prices.
- In 2009, the nine-month average of petroleum product prices dropped from 98 USD/boe in Q1 to 54 USD/boe in Q3, following the fall of crude oil prices on the global markets to approx. 40 USD/boe in December 2008. Since March 2009, the prices of crude oil have been growing steadily, leading to a 34% increase in the nine-month average of crude quotations between Q4 2009 and Q4 2010.

USD/PLN exchange rate**



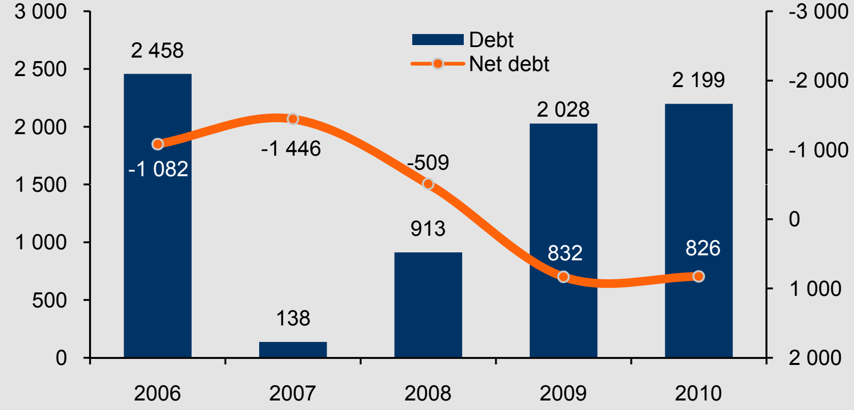
- The imported gas purchase price is mainly denominated in the dollar, similarly to the crude oil sale price.
- The Polish currency appreciated against the dollar from PLN 3.90 in February 2009 to PLN 2.71 for USD 1 in December 2009. Until May 2010, the exchange rate moved within the 2.80-2.90 band, to return to 3.49 in June 2010. The appreciation of the dollar had an adverse effect on the purchase price of imported gas.
- The average USD/PLN exchange rate in 2010 was 3.02, 3% down on 2009 (3.12). In Q4 2010, the average USD/PLN exchange rate was 4% up year on year.

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

Financial indebtness

- As at the end of 2010, cash stood at PLN 1.4bn, which represented a 15% increase year on year.
- As at December 31st 2010, the PGNiG Group's total debt amounted to PLN 2.2bn, up by PLN 171m on December 31st 2009 and up by PLN 151m compared with Q3 2010.
- The current debt level is the result of the investment projects which have been carried out during last five years and implementation of PGNiG Group's strategy announced in 2008.
- PGNiG is currently implementing a domestic bond issue programme of up to PLN 3bn, underwritten by six banks. As at December 31st 2010, the Group held corporate notes for an amount of PLN 1.1 bn.
- In order to optimise cash management at the Group, PGNiG SA launched a PLN 400m note issuance programme, where PGNiG notes are acquired by the distribution companies. The programme is in operation until November 30th 2013. The first issue was carried out on December 22nd 2010. As at the end of 2010 the debt under the programme was PLN 120m.

PGNiG Group's debt (PLN m)



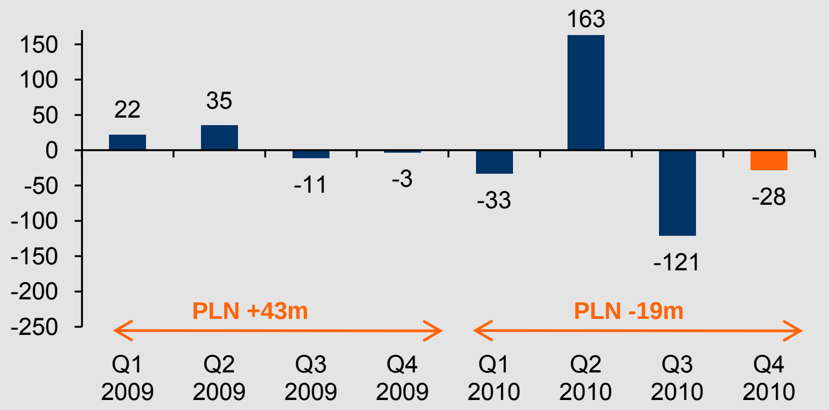
- In August 2010, PGNiG Norway executed a USD 400m credit facility agreement with seven banks under the Reserved Based Loan formula. As at the end of 2010, the debt under the RBL was approx. USD 310m.
- PGNiG SA has commenced preparations for a five-year Eurobond issue programme of up to EUR 1.2bn. The issue date will depend on the Company's liquidity needs and the situation on the financial markets. Proceeds will be used to finance PGNiG's investment programme.

Market risk hedging policy

- PGNiG SA is considerably exposed to the risk of fluctuations in the prices of commodities, and to the foreign exchange and interest rates risks. The Company enters into the following derivatives transactions to hedge its currency risk:
  - purchase of a European call option,
  - zero-cost collar option strategies (risk reversal),
  - forward transactions
  - cross-currency basis swaps.

- Since May 2010, PGNiG has also entered into transactions to hedge the prices at which it purchases natural gas. To hedge its exposure to changes in gas prices, the Company enters into transactions that hedge the main assets based on which the prices of natural gas are determined. These hedges qualify for hedge accounting, and include:
  - purchase of Asian commodity call options,
  - risk reversal zero-cost collar option strategies (Asian options),
  - commodity swaps.

Result on hedging transactions (PLN m)

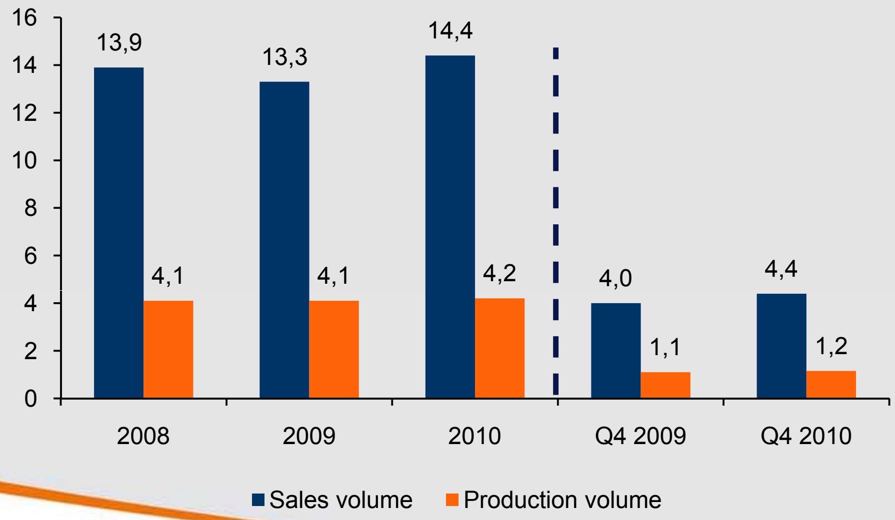


- In 2010, the cumulative loss on derivative transactions and currency translation was PLN -19m (PLN 43m a year earlier).
- In Q4 2010, the PGNiG Group recorded a net loss of PLN -28m on derivative transactions and currency translation. To compare, in Q4 2009 the Group reported a net loss of PLN -3m on hedging transactions.

Natural gas

PGNiG Group	2009	2010	change	Q4 2009	Q4 2010	change
Production volume* (million m^3)	4,139	4,237	2%	1,106	1,152	4%
Sales volume** (million m^3)	13,284	14,417	9%	4,001	4,397	10%
Gas sales revenue (PLN m)	17,489	19,075	9%	5,134	6,030	17%
High-methane gas (E)	16,208	17,888	10%	4,799	5,649	18%
Nitrogen-rich gas (Ls, Lw)	1,281	1,187	(7%)	335	382	14%

Natural gas sales and production volume (bn m^3)



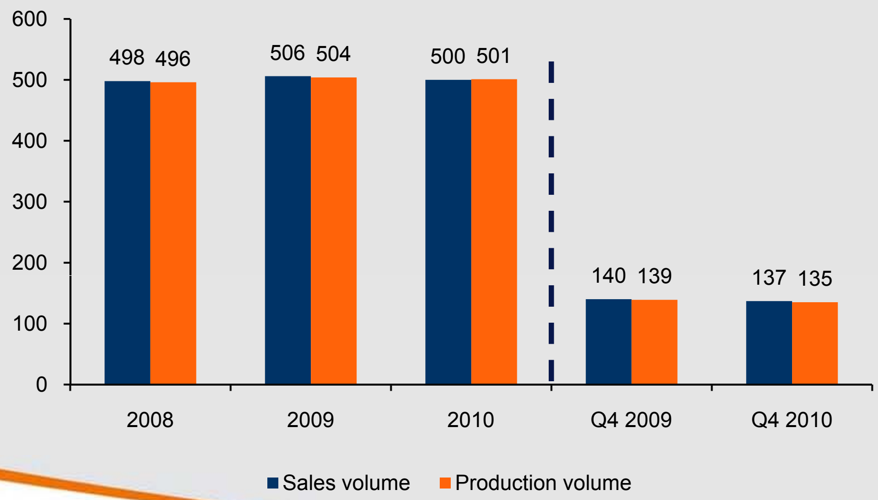
- The higher natural gas production volume is mainly a result of the increase in the throughput capacity of the Grodzisk Denitriding Plant, which came into operation in H1 2009.
- In 2010 PGNiG Group reached record-high gas sales volume, higher by 9% than 2009 level, and by 4% compared to 2008 figure. Higher sales volume was attributable to stronger demand from all customer groups. In 2010, gas sales to retail customers increased by approx. 370m cubic metres (up 10%), while gas sales to industrial customers rose by over 500m cubic metres (up 7%) year on year.
- In Q4 2010, growth of revenue from gas sales followed not only from the higher sales volumes but also a 12% increase in the gas fuel tariff (PLN 910/ths m^3 in Q4 2009 relative to PLN 1015/ths m^3 in Q4 2010).

* Measured as high-methane gas equivalent (E).

Crude oil

PGNiG Group*	2009	2010	change	Q4 2009	Q4 2010	change
Production volume (ths. t)	504	501	(1%)	139	135	(3%)
Sales volume (ths. t)	506	500	(1%)	140	137	(2%)
Sales revenue (PLN m)	664	842	27%	210	245	17%
Oil unit price (PLN/t)	1,314	1,681	28%	1,498	1,791	20%
Average price of Brent Dated oil for the period (USD/bbl)	62	80	29%	75	87	16%

Oil sales and production volume (ths. t)*



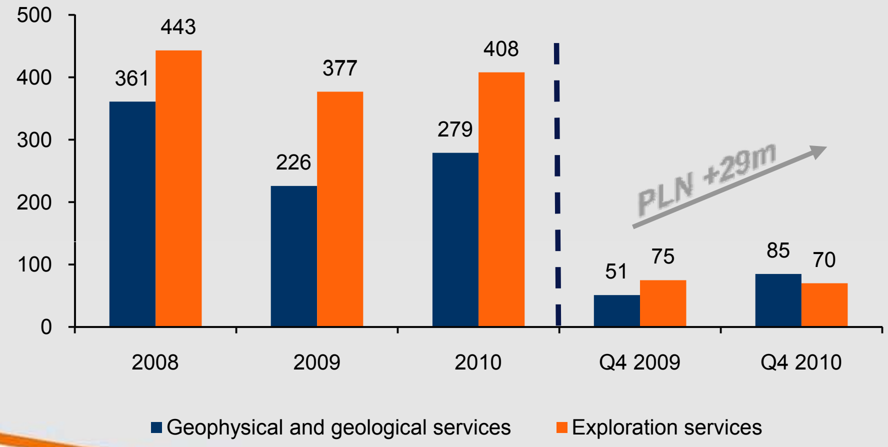
- Crude production levels were similar in Q4 2009 and Q4 2010. However, the considerably higher crude prices in 2010 translated into stronger revenue streams from crude sales.
- There was a slight difference in crude oil and condensate production levels between Q3 and Q4 2010. In Q4 2010 crude oil prices on international markets grew leading to higher sales revenue in the period, despite the depreciation of the US dollar against the złoty.
- Production of crude oil and condensate was stable in 2010 and 2009. However, 2010 saw a considerable change in crude prices relative to 2009.
- In 2010, 58% of the crude oil and condensate sold was purchased by domestic customers, and the remaining 42% – by foreign customers. In Q4 2010 sales structure was similar.

* For crude and condensate (together with tests from production).

Other sales

Sales revenue PGNiG Group (PLN m)	2009	2010	change	Q4 2009	Q4 2010	change
Helium	37.1	44.1	19%	10.8	12.1	12%
Propane-butane gas (LPG)	36.8	49.9	36%	11.8	14.5	22%
LNG	21.4	30.1	41%	6.8	9.5	39%
Geophysical and geological services	225.5	278.8	24%	50.7	84.6	67%
Exploration services	376.9	408.4	8%	75.1	69.7	(7%)
Connection charge	50.9	87.5	72%	30.3	34.6	14%

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



- In 2009, the Group launched the Grodzisk Denitriding Plant, thus increasing its helium and LNG production capacity. In 2010, the production of these gases went up respectively by 37% and 34% relative to 2009, which boosted revenue from sales of these products.
- The growth in revenue from sales of geophysical and geological services follows from the stronger demand for these services, especially in Poland where it has been driven by interest in shale gas.
- In Q4 2010, there was a slight year-on-year fall in demand for exploration services. However, in the whole of 2010 the revenue from sales of exploration services increased by PLN 32m, primarily on the foreign markets (Uganda, India).

Operating expenses

PGNiG Group (PLN m)	2009	2010	change	Q4 2009	Q4 2010	change
Total operating expenses	**(17,957)**	**(18,394)**	***2%***	**(4,111)**	**(5,293)**	***29%***
Cost of gas sold	(10,862)	(11,005)	*1%*	(2,353)	(3,575)	*52%*
Other raw materials and consumables used	(661)	(670)	*1%*	(193)	(230)	*20%*
Employee benefits	(2,454)	(2,647)	*8%*	(708)	(788)	*11%*
Depreciation and amortisation	(1,496)	(1,525)	*2%*	(387)	(414)	*7%*
OGP GAZ-SYSTEM transmission services	(1,354)	(1,531)	*13%*	(366)	(421)	*15%*
Cost of written-off dry wells	(265)	(162)	*(39%)*	(40)	(50)	*23%*
Other contracted services	(1,345)	(1,455)	*8%*	(451)	(466)	*3%*
Other operating expenses net	(420)	(442)	*5%*	89	219	*148%*
Cost of products and services for own needs	900	1,043	*16%*	299	432	*44%*

- Cost of gas sold (approx. PLN 11bn both in 2009 and 2010) was the largest contributor to operating expenses (accounting for 60% of the total expenses). In Q4 2010 there was a 50% year-on-year increase in this cost item fuelled by a rise in gas imports (+14%), the higher nine-month average of petroleum product prices (+34%), and depreciation of the złoty against the US dollar.
- The increase in employee benefits was primarily attributable to first-time consolidation of two undertakings as well as higher temporary staffing levels for particular projects at the PGNiG Group, mainly in the Exploration and Production segment.
- Higher costs of the transmission services rendered by OGP GAZ-SYSTEM were due to the higher volumes of natural gas sold (up 10%), higher rates for gas transmission services and the fact that capacity subscriptions were at times exceeded during the winter season (by PLN 40m in Q4 2010 relative to Q4 2009 and by PLN 108m in 2010 relative to 2009).
- Lower costs of dry wells written off followed from a smaller number of dry holes in 2010 compared with 2009. In 2010, the PGNiG Group wrote off seven dry holes vs. 16 in the previous year.

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Summary

- **RECORD-HIGH SALES OF NATURAL GAS**
  In 2010, the PGNiG Group reported record-high sales of natural gas on the back of low temperatures driving demand for gas from households and growing demand from industrial customers. In order to meet the stronger demand for gas fuel, the Group increased the quantity of gas supplies under the main import contract.

- **REVERSAL OF IMPAIRMENT LOSSES ON DISTRIBUTION ASSETS**
  In Q4 2010, the Group reversed impairment losses on assets of the distribution companies, for an amount of PLN 659m, out of PLN 1.3bn originally recognised as impairment losses in 2007, which confirms that distribution assets generate positive cash flows.

- **HIGH CRUDE OIL PRICES**
  Since the end of January crude oil prices have stayed above 100 USD/bbl and are currently above 110 USD/bbl. In Q1 2011, the nine-month moving average price of oil products will be 81 USD/bbl (up 4% on Q4 2010) and may reach approx. 90 USD/bbl in Q2. If the currency market remains stable, it may lead to a considerable increase in the cost of gas sold in the future periods. Therefore, the Company filed an application with the Energy Regulatory Office requesting an increase of the gas fuel tariff. If the tariff remains unchanged, the profitability of high-methane gas sales may deteriorate.

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Thank you for your attention