Financial Performance of PGNiG Group Q2 2010 and H1 2010

August 31st, 2010

Financial highlights

PGNiG Group (PLN m)	H1 2009	H1 2010	*change*	Q2 2009	Q2 2010	*change*
Sales revenue	10,254	10,762	*5%*	3,875	4,140	*7%*
Operating expenses	(10,933)	(9,560)	*(13%)*	(4,097)	(4,154)	*1%*
EBITDA	83	1,947	*2,239%*	171	365	*113%*
EBIT	(679)	1,202	*n/a*	(222)	(15)	*(93%)*
Result on financial activity	103	15	*(85%)*	79	6	*(92%)*
Net result	(493)	994	*n/a*	(94)	7	*n/a*
High-methane gas sales margin	(16%)	4%	*20 pp*	(5%)	(3%)	*2 pp*

- The Group's financial performance improved in H1 2010 on the back of stronger return on sales of high-methane gas, reflected by a 20pp year-on-year increase in high-methane gas sales margin. This increase was the key driver of the Group's operating profit, which rose by PLN 1.9bn year on year.
- In Q2 2010, like a year earlier, the sales margin on high-methane gas was negative at -3%. The Group's stronger operating result for the period was fuelled chiefly by higher revenue from sales of geophysical, geological and exploration services, as well as from sales of network services provided by the Distribution segment subsidiaries.
- Severe winter and lower air temperatures in April relative to the previous year contributed to a rise in the volume of gas sold, which in turn had a positive impact on the Group's sales revenue.
- Stronger financial results helped reduce the Group's debt from PLN 2bn at the end of 2009 to PLN 1.8bn in H1 2010.
- A marked change in net result on financing activities is an effect of higher finance income reported in Q2 2009, reflecting the reversal of impairment losses on a loan advanced to EuRoPol GAZ SA.
- A steady growth in natural gas production (up by 4% both in H1 2010 and Q2 2010) is also worth noting.

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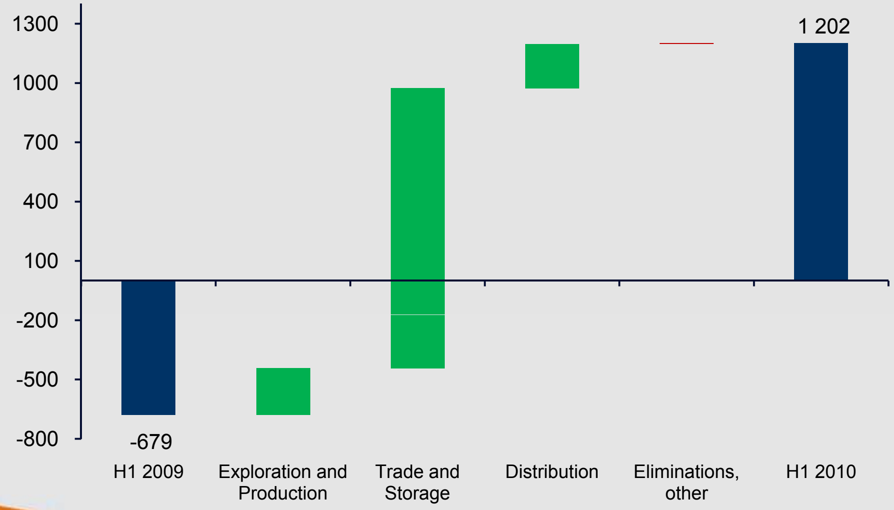
Segments – H1 2010

Operating result (PLN m)	H1 2009	H1 2010	*change*
Exploration and Production	103.4	339.8	*229%*
Trade and Storage	(1,073.6)	342.6	*n/a*
Distribution	301.6	526.1	*74%*
Eliminations, other	(10.7)	(6.8)	*(36%)*

Effect of segments on the operating result in H1 2009 and H1 2010 (PLN m)

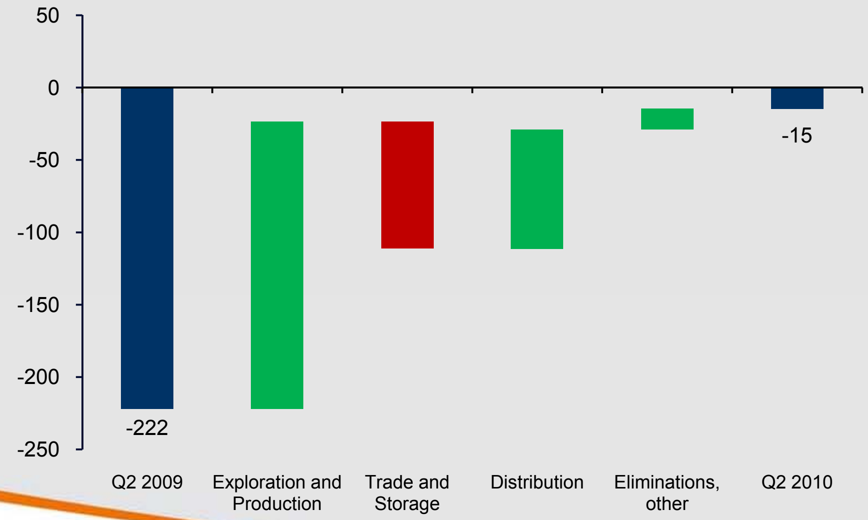


- An improved return on crude sales and an increase in revenue from sales of geophysical and geological services translated into a substantial rise of the operating result in the Exploration and Production segment. Furthermore, impairment losses on production assets, increased in the first half-year of 2009 by PLN 162m, were reduced by almost PLN 5m in the first six months of the year, leading to the segment's better financial performance in the period under review.
- A considerable improvement in the financial position of the Trade and Storage segment came as a result of better margins generated on sales of high-methane gas, following a 30% decline in the unit cost of imported gas.
- Operating result of the Distribution segment was up by PLN 225m year on year, mainly due to rises in the rates and charges for network services, coupled with an 8% year-on-year increase in the volume of distributed gas. This increase was fuelled by stronger demand for gas fuels during the heating season.

Segments – Q2 2010

Operating result (PLN m)	Q2 2009	Q2 2010	*change*
Exploration and Production	(100.1)	98.3	*n/a*
Trade and Storage	(15.4)	(103.0)	*569%*
Distribution	(92.2)	(9.8)	*(89%)*
Eliminations, other	(14.4)	(0.1)	*(99%)*

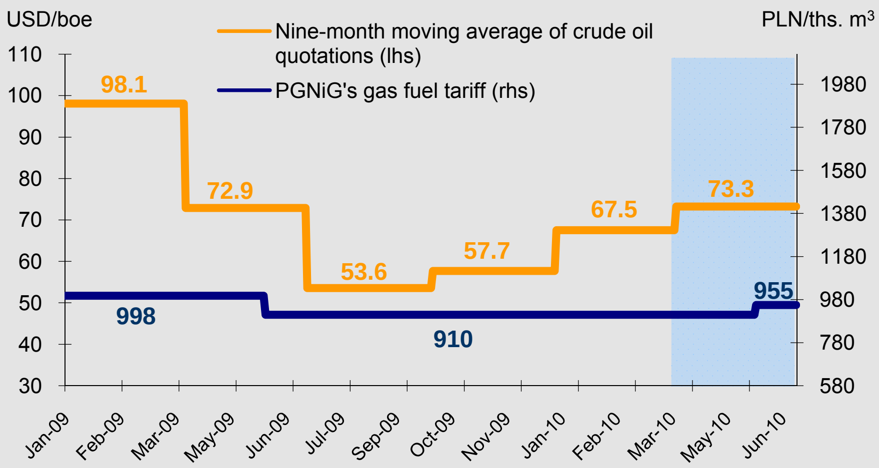
Effect of segments on the operating result in Q2 2009 and Q2 2010 (PLN m)



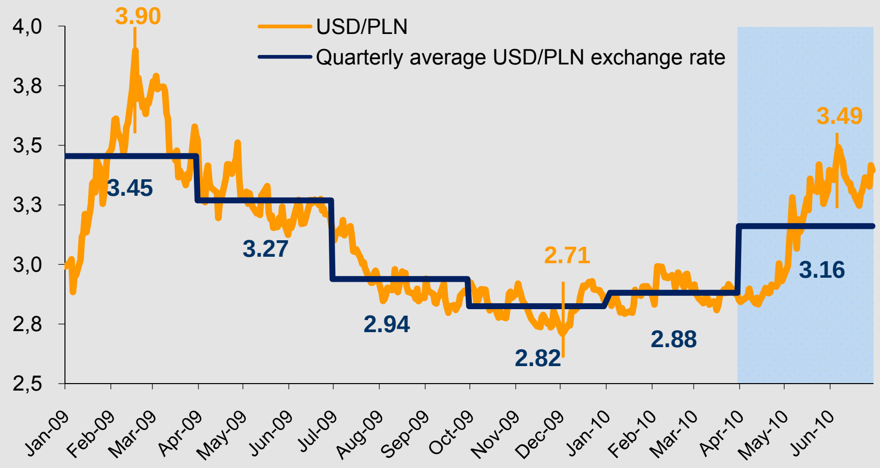
- In Q2 2010, the Exploration and Production segment earned PLN 198m more in operating profit than in the corresponding period of last year, chiefly thanks to the surge in revenue from sales of geophysical, geological and exploration services (up by nearly PLN 90m, including inter-segment sales). Moreover, the segment reported lower costs, mainly in connection with the fact that impairment losses on production assets, increased in Q2 2009 by PLN 162m, were reduced by PLN 5m in Q2 2010.
- Weaker EBIT of the Trade and Storage segment is attributable to a decrease in net foreign exchange differences, and a rise in the cost of contracted services, including gas transmission and distribution (up by approx. PLN 130m in aggregate), reflecting higher volume of gas sold. The segment's performance was also affected by the two changes in the gas fuel tariff rates.
- In Q2 2010, the Distribution segment's EBIT grew by PLN 82m year on year on the back of higher revenue from sales of network services, reflecting a rise in network rates and a 13% increase in the volume of distributed gas.

Financial performance drivers

Crude oil quoted prices* vs. tariff price



USD/PLN 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 nine-month moving average price of oil derivative products, which has an almost 100% co-relation with crude oil prices.
- In Q2 2010, the nine-month moving average price of crude oil was 73 USD/boe, virtually unchanged relative to the corresponding period of the previous year.

- In H1 2010, the USD appreciated by 19% against the PLN (from 2.85 to 3.39), which had a negative effect on the cost of purchase of imported gas, particularly in Q2 2010, when the exchange rate reached nearly PLN 3.50 for USD 1.
- Taking into account the average USD/PLN exchange rate, in Q2 2010 the nine-month average price of crude oil expressed in the Polish currency fell by 3% compared with its level in Q2 2009.

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

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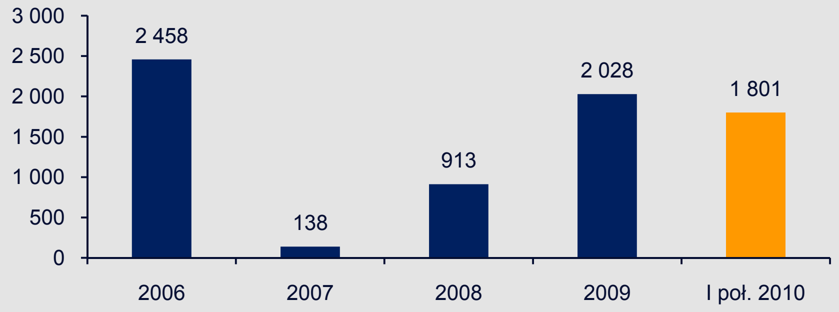
Liquidity and debt

- The primary source of financing of the PGNiG Group's assets is equity. As compared with the end of 2009, its value increased by 3% (PLN 608m).
- As at June 30th 2010, cash and cash equivalents amounted to PLN 2.1bn, up by 75% relative to the end of 2009. This increase was mainly fuelled by higher cash provided by current operating activities.
- At the end of H1 2010, the PGNiG Group's total debt was PLN 1.8bn, down by PLN 227m from the end of 2009.
- In Q2 2010 alone, the debt increased by PLN 624m relative to Q1 2010.
- By 2008, the PGNiG Group's debt had been significantly reduced. The current debt level is the result of implementation of PGNiG's investment plans.
- As at the end of H1 2010, the Group's net debt amounted to PLN -293m.
- PGNiG is currently implementing a domestic bond issue programme with a value of up to PLN 3bn. The bond issues are underwritten by six banks, which entered into underwriting agreements with the Company in June 2010.
- Under the Programme, effective until July 31st 2013, PGNiG will be able to issue discount and coupon bonds with maturities ranging from one month to one year. Proceeds from the first issue were used to repay a multi-currency loan which matured on July 27th 2010. Proceeds from subsequent issues will be used to finance investments.

PGNiG Group's debt (PLN m)



- 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).
- 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,
  - commodity swaps.
- In H1 2010, the Company reported gains on derivative transactions and currency translation of PLN 130m (PLN 57m a year earlier). In Q2 2010 alone, PGNiG had gains of PLN 163m, up by PLN 128m on the Q2 2009 figure.

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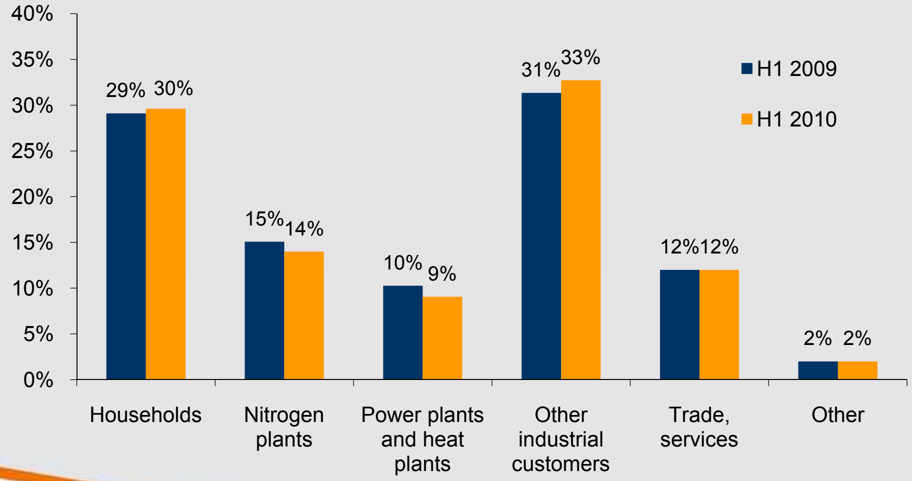
Natural gas

PGNiG Group	H1 2009	H1 2010	*change*	Q2 2009	Q2 2010	*change*
Production volume* (million m^3)	2,025	2,104	*4%*	931	966	*4%*
Sales volume** (million m^3)	7,093	7,622	*7%*	2,564	2,732	*7%*
Gas sales revenue (PLN m)	9,372	9,744	*4%*	3,448	3,625	*5%*
High-methane gas (E)	8,618	9,141	*6%*	3,183	3,397	*7%*
Nitrogen-rich gas (Ls, Lw)	754	603	*(20%)*	265	228	*(14%)*

Customers' percentage share in gas sales volume in H1 2009 and H1 2010



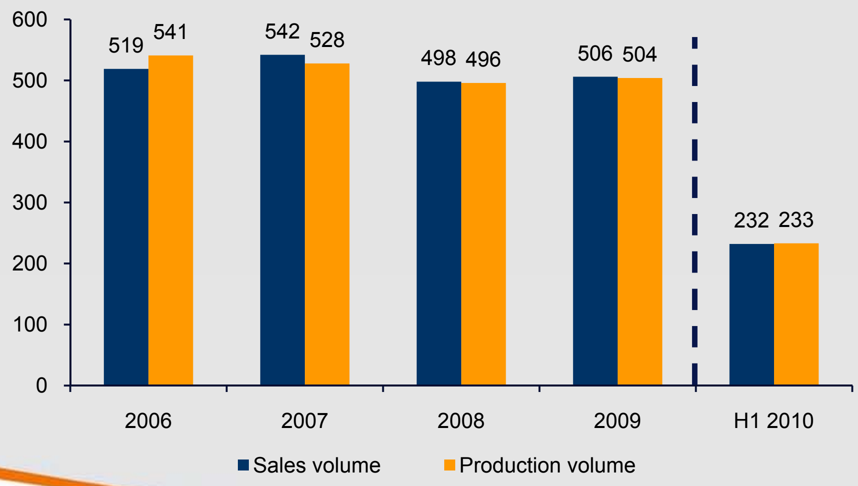
- Higher natural gas production volume is connected mainly with the increase in the throughput capacity of the Grodzisk Wielkopolski Nitrogen Removal Facility in H1 2010 relative to the corresponding period of 2009.
- Higher natural gas sales volumes both in H1 and in Q2 2010 are attributable to increased gas collection by retail customers (respectively by 9% and by 16%) due to lower air temperatures. Higher gas sales are also the result of higher demand for gas from industrial customers – up by 6% and by 2% respectively in H1 and Q2 2010.
- Lower revenue from sales of nitrogen-rich gas is connected with higher deliveries of gas for denitriding and a drop in the demand for nitrogen-rich gas after the city of Poznań and the Eastern part of the Greater Poland region switched to high-methane gas.

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

Crude oil

PGNiG Group*	H1 2009	H1 2010	*change*	Q2 2009	Q2 2010	*change*
Production volume (ths. t)	268	233	*(13%)*	129	96	*(26%)*
Sales volume (ths. t)	267	232	*(13%)*	131	97	*(26%)*
Sales revenue (PLN m)	319	376	*18%*	174	168	*(3%)*
Oil unit price (PLN/t)	1,194	1,620	*36%*	1,331	1,728	*30%*
Average price of Brent Dated oil for the period (USD/bbl)	52	78	*49%*	59	79	*33%*

Oil sales and production volume (ths. t)*



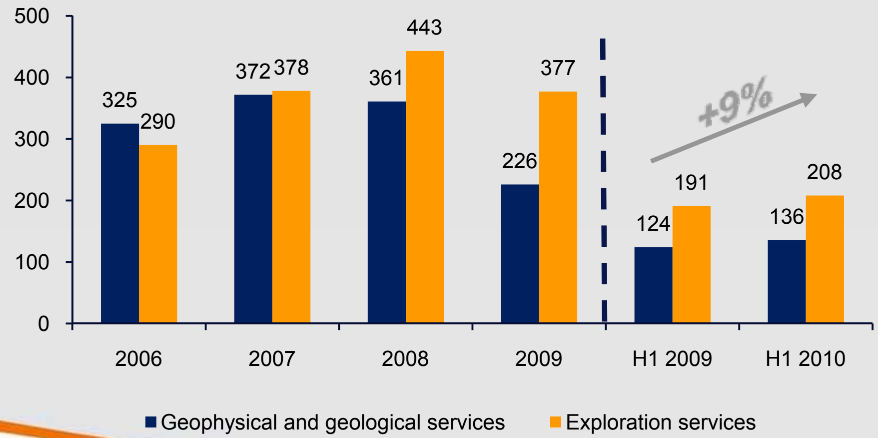
- The difference in the production of crude oil and condensate between Q2 2010 and Q2 2009 is attributable to the fact that the overhaul stoppage at the Dębno mine took place at various times in 2010 and 2009. In 2010 the stoppage took place in May (Q2), whereas in the previous year it lasted from mid-July to mid-August (Q3).
- Crude oil and condensate production levels have been stable in 2010 and have proceeded as planned, whereas the price of oil has changed significantly relative to 2009. In Q2 of the current year alone, the increase in the prices of crude oil resulted in PGNiG generating sales revenue comparable with that recorded in Q2 2009 with lower production volume. Additionally, revenue from sales of crude oil in the discussed quarter was positively affected by the depreciation of the złoty against the dollar.
- In H1 2010, 59% of the crude oil and condensate sold was purchased by domestic customers, and the rest by foreign customers.

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

Other sales

Sales revenue PGNiG Group (PLN m)	H1 2009	H1 2010	*change*	Q2 2009	Q2 2010	*change*
Helium	15.7	21.5	*37%*	7.6	11.3	*48%*
Propane-butane gas (LPG)	17.6	22.3	*27%*	8.5	8.7	*2%*
LNG	10.1	13.8	*37%*	3.9	5.9	*53%*
Geophysical and geological services	124.0	136.3	*10%*	39.1	72.5	*86%*
Exploration services	191.1	208.1	*9%*	81.4	111.2	*37%*
Other products and services	204.8	239.5	*17%*	112.1	137.4	*23%*

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



- Partial launch of the Grodzisk Nitrogen Removal Facility allowed the Group to increase production of helium and of LNG respectively by 57% and 42% in Q2 2010 relative to Q2 2009, which translated into higher revenue generated from sales of these products.
- Higher revenue from the geophysical and geological services was the result of higher demand for these services in Q2 2010, both in Poland and abroad (Pakistan, India, Libya).
- Extension of the scope of realized services, particularly by PNiG Kraków, was the factor which contributed to a marked increase in the sales revenue from exploration services.
- Moreover, sales revenue from geophysical, geological and exploration services was positively affected by the depreciation of the złoty against the dollar, as foreign contracts of the companies which provide these services are denominated in the American currency.

Operating expenses

PGNiG Group (PLNm)	H1 2009	H1 2010	*change*	Q2 2009	Q2 2010	*change*
Total operating expenses	**10,933**	**9,560**	***(13%)***	**4,097**	**4,154**	***1%***
Cost of gas sold	7,373	5,669	*(23%)*	2,231	2,153	*(4%)*
Other raw materials and consumables used	300	272	*(9%)*	163	141	*(14%)*
Employee benefits	1,228	1,283	*4%*	706	713	*1%*
Depreciation and amortisation	762	745	*(2%)*	393	379	*(3%)*
OGP GAZ-SYSTEM transmission services	679	788	*16%*	304	333	*9%*
Cost of written-off dry wells	47	90	*90%*	21	54	*162%*
Other contracted services	559	640	*15%*	249	343	*38%*
Other operating expenses net	343	435	*27%*	230	234	*1%*
Cost of products and services for own needs	(360)	(361)	*1%*	(201)	(195)	*(3%)*

- Cost of gas sold (of PLN 5.7bn in H1 2010, PLN 1.7bn less year on year) was the item which determined the level of operating expenses more than any other item. It accounted for 60% of the total expenses. The decrease in the cost of gas sold was the effect of a 30% lower unit cost of purchase of imported gas year on year.
- The increase in net other operating expenses in H1 2010 is connected with lower net result on derivatives and foreign exchange year on year. The positive effect of currency movements has been reflected in a lower cost of gas sold.
- Higher costs connected with the transmission services rendered by OGP GAZ-SYSTEM were due to higher network rates for gas transmission, higher volumes of natural gas sold in the analysed periods and the fact that capacity subscriptions were from time to time exceeded during the winter.
- Higher costs of written off dry wells were not attributable to higher numbers of dry holes but to higher costs of drillings, which are due to the fact that exploratory work is getting more and more complex.
- Higher costs of other contracted services are associated with a wider scope of geological work done and higher costs of subcontracting.

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Conclusions

- IMPROVED FINANCIAL PERFORMANCE
  The PGNiG Group's improved financial performance in H1 2010 was to a large extent the effect of higher volume of natural gas sold combined with a lower unit price of purchase of imported gas (down by 30%). The total cost of gas sold was by 23% lower year on year, as a result of which operating margin on the sales of high-methane gas was plus 4% in the analysed period, compared with minus 16% in H1 2009.

- HIGHER REVENUE FROM SALES OF SERVICES
  Since Q2 2010, the PGNiG Group has witnessed a significant rise in demand for geophysical, geological and exploration services. As a result, revenue from sales of these services were up by PLN 63m in Q2 of the current year relative to Q2 2009.

- GROWING PRICES OF IMPORTED GAS
  The Company has filed an application with the Energy Regulatory Office requesting an increase of the gas fuel tariff. The requested increase of natural gas selling prices is justified by the appreciation of the dollar. Since May 2010, there has been a reversal of the situation on the currency market, with the dollar growing sharply. A further appreciation of foreign currencies would pose a significant risk of high-methane gas trading becoming unprofitable. In addition, the nine-month moving average of crude oil prices has risen in Q3 2010 by 5% relative to Q2 2010.

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Polskie Górnictwo Naftowe i Gazownictwo SA

Thank you for your attention