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Polskie Górnictwo Naftowe
i Gazownictwo SA

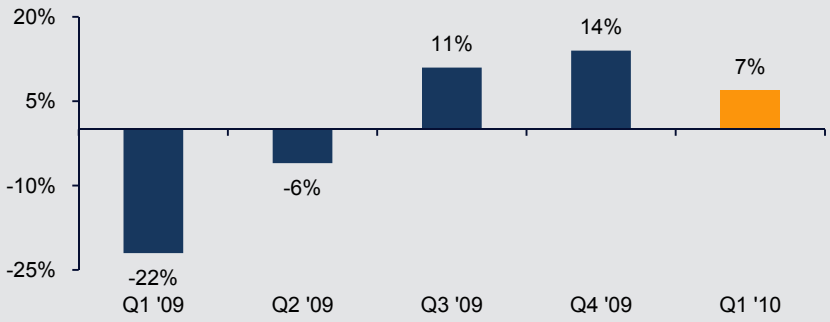
Financial Performance of PGNiG Group
Q1 2010

May 12th, 2010

Key Financials

PGNiG Group (PLNm)	Q1 2009	Q1 2010	*change*
Sales revenue	6,379	6,622	*4%*
Operating expenses	(6,836)	(5,406)	*(21%)*
EBITDA	(88)	1,582	*n/a*
EBIT	(457)	1,216	*n/a*
Net result	(399)	988	*n/a*

High-methane gas sales margin in 2009 and Q1 2010



- Improved financial performance by the PGNiG Group is chiefly attributable to higher volumes of natural gas sales combined with higher margins generated on those sales (due to lower unit cost of purchase of imported gas). In Q1 2010 the margin on sales of high-methane gas was 7%, compared with -22% a year earlier;
- Thanks to better performance the Group reduced its debt from over PLN 2bn at the end of 2009 to less than PLN 1.2bn at the end of Q1 2010.
- Very low air temperatures in Q1 2010 boosted the volume of PGNiG Group's natural gas sales by 8%, or 360m m^3 year on year. In effect, the volume of distributed natural gas also increased, by approximately 200m m^3.
- Sales revenue generated in the discussed quarter is similar to that forecasted by stock-exchange analysts, while the overall performance is about 10% lower from market expectations*.

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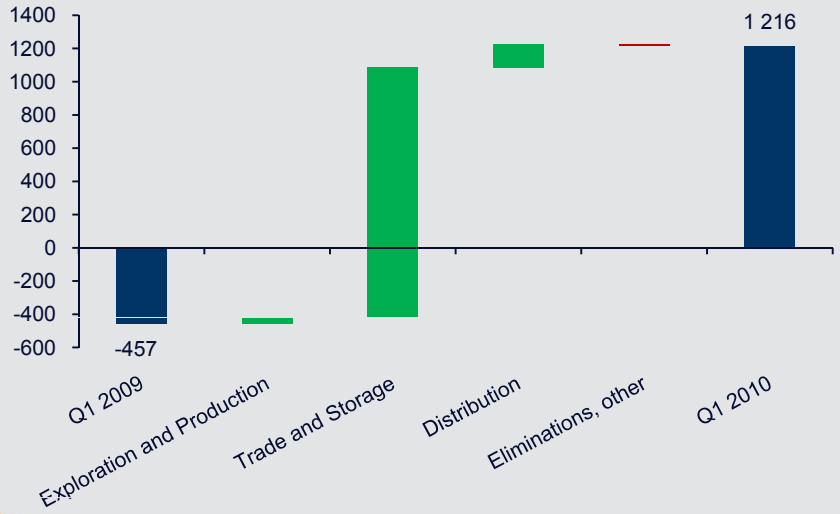
* Consensus by the Polish Press Agency of May 10th, 2010.

Segments

Operating result (PLNm)	Q1 2009	Q1 2010	*change*
Exploration and Production	203	242	*19%*
Trade and Storage	(1,058)	446	*n/a*
Distribution	394	536	*36%*

Segments' influence on the operating result between Q1 of 2009 and 2010 (PLNm)



- In Q1 2010, the Exploration and Production Segment generated PLN 38m higher operating profit than in the corresponding period of the previous year. This improvement is attributable to the PLN 64m increase in revenue from sales of crude oil, partly offset by lower revenue from geophysical/geological and exploration services;
- The considerable improvement of the operating result at the Trade and Storage Segment is the effect of a 360m m^3 higher gas sales volume, combined with 19% lower segment costs due to a 46% drop in the unit purchase cost of imported gas. The segment's result would have been still better if it were not for a PLN 56m impairment loss recognised on receivables from Zakłady Azotowe Kędzierzyn;
- In Q1 2010, EBIT reported by the Distribution Segment rose by PLN 142m from Q1 2009. The segment's operating result was boosted by a 6% (approximately 200m m^3) increase in the volume of distributed gas combined with a higher tariff applicable to the distribution service (by 13.7% on average).

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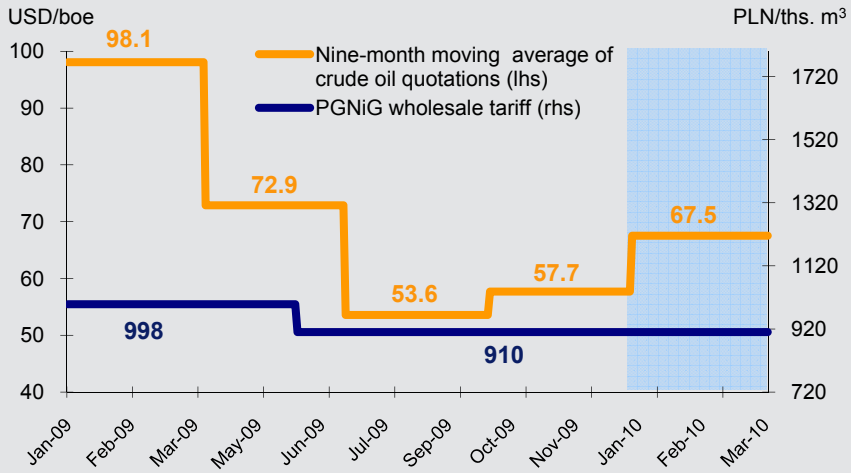
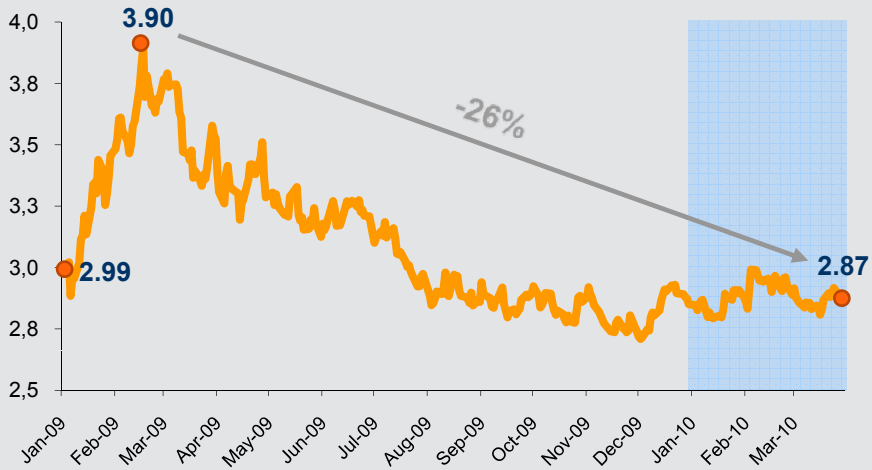
Financial Performance Drivers

Crude oil quoted prices* vs. tariff price



- Quoted prices of crude oil determine the purchase price of imported gas. The formula used to calculate the price of imported gas is based on a nine-month average of quoted prices of oil derivative products, which are nearly 100% correlated with the quoted prices of crude oil.
- In Q1 2010, the nine-month average of quoted prices of oil derivative products was 68 USD/boe and was 31% lower than in the same period of the previous year, when it amounted to 98 USD/boe.

USD/ PLN exchange rate**



- The imported gas purchase price is mainly denominated in the dollar, similarly to the crude oil sale price;
- In Q1 2010 the USD/PLN exchange rate remained relatively stable (it fluctuated between 2.79 and 2.99). The average USD/PLN exchange rate in the analysed quarter was PLN 2.88, down by PLN 0.57 on Q1 2009;
- Taking into account the average USD/PLN exchange rate, the nine-month average of quoted prices of crude oil expressed in the Polish currency fell in Q1 2010 by 43% relative to Q1 2009.

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

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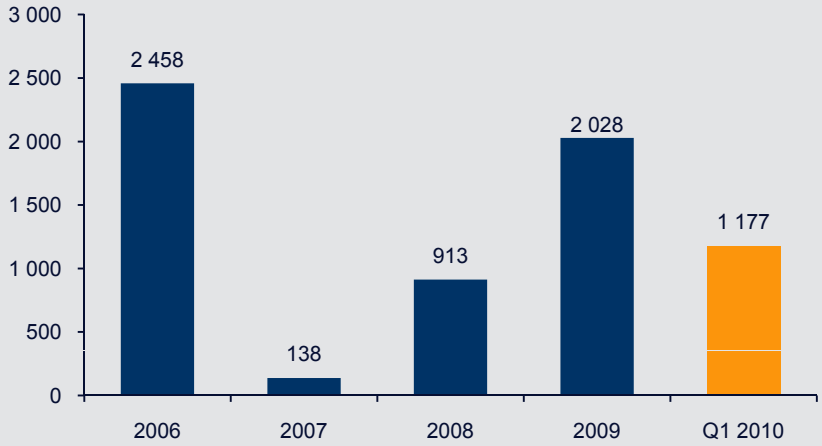
Managing Financial Risk

- 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. In Q1 2010 following derivative transactions were concluded:
  - purchase of an European call option;
  - zero-cost symmetric option strategies; risk reversal with maturities from one to six months;
  - forwards.
- In none of the periods does the volume of hedging transactions exceed the value of hedged items;
- In Q1 2010, the Group reported a net loss of PLN 33m on derivative transactions and currency-translation differences. In the corresponding period of 2009, the Group recorded a net gain of PLN 22m.

PGNiG Group's debt (PLNm)



- At the end of Q1 2010, PGNiG Group's total debt was PLN 1.18bn, down by PLN 851m on the figure reported at the end of 2009. Debt reduction was achieved mainly thanks to the Group's better financial performance.

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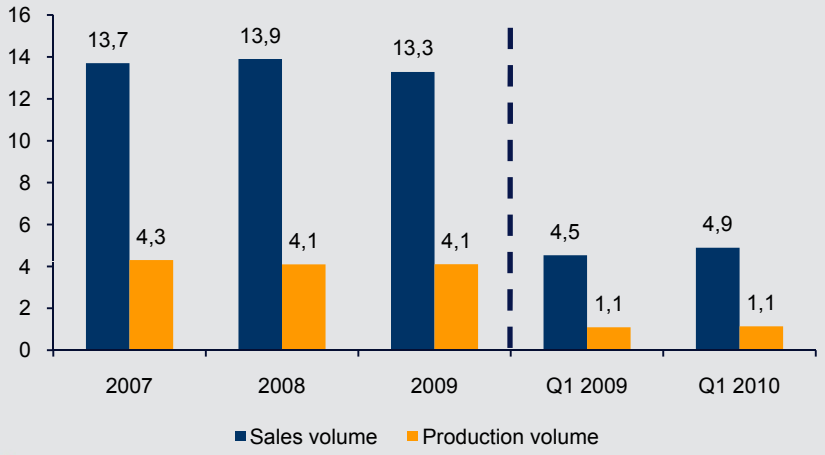
Natural Gas

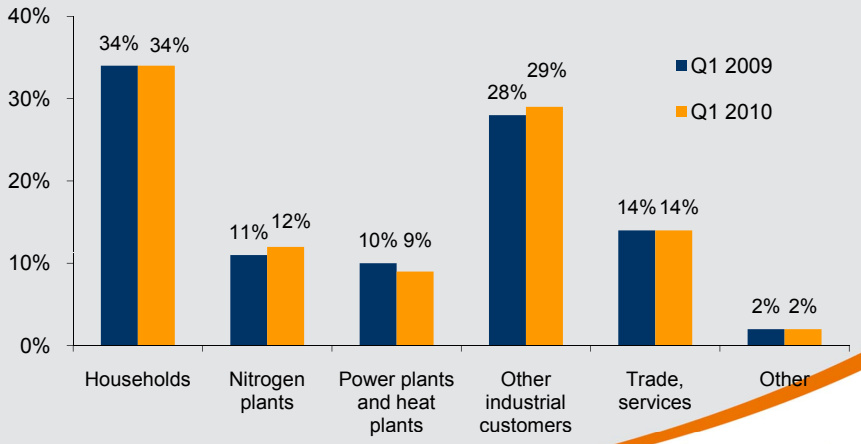
PGNiG Group, IFRS	Q1 2009	Q1 2010	*change*
Production volume* (million m^3)	1,094	1,138	*4%*
Sales volume** (million m^3)	4,530	4,890	*8%*
Gas sales revenue (PLNm)	5,924	6,120	*3%*
High-methane gas (E)	5,435	5,744	*6%*
Nitrogen-rich gas (Ls, Lw)	489	376	*(23%)*

- The 8% increase in sales volume followed mainly from higher demand for gas from households due to frosty winter. Importantly, compared with Q1 2009, in Q1 2010 there was increased demand for gas from industrial customers, including also nitrogen plants which alone reported an approximately 10% sales growth;
- The decline in revenue from sales of nitrogen-rich gas is attributable to lower demand for this type of gas after the city of Poznań and the eastern belt of the Greater Poland region switched to high-methane gas.

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



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

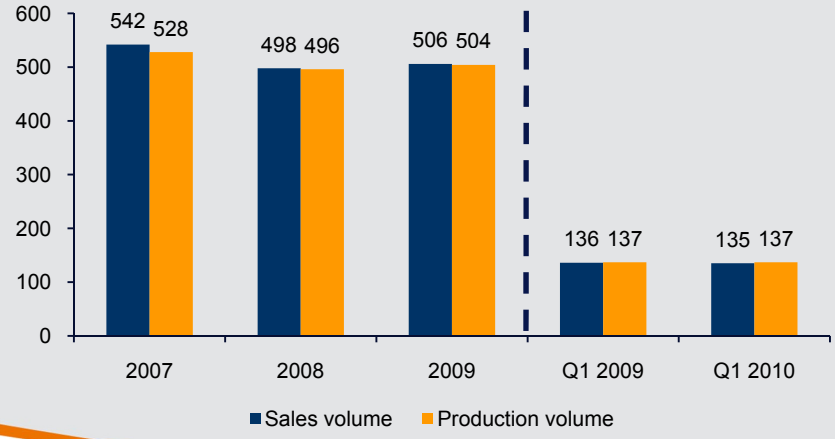


* Data includes the production of the PGNiG Branch in Odolanów.
** Measured as high-methane gas equivalent (E).

Crude Oil

PGNiG Group, IFRS*	Q1 2009	Q1 2010	*change*
Production volume (ths. t)	137	137	*0%*
Sales volume (ths. t)	136	135	*(1%)*
Sales revenue (PLN m)	145	208	*44%*
Oil unit price (PLN/t)	1,062	1,542	*45%*
Average price of Brent Dated oil for the period (USD/bbl)	45	77	*70%*

Oil sales and production volume (ths. t)*



- In Q1 2009, crude oil production was similar as in the corresponding period of 2010. The key difference between the compared quarters was the price of crude oil, which jumped by approximately 70% in the first three months of 2010. The rise in crude oil prices was slightly decelerated by the strengthening of the złoty, but still translated into a strong revenue growth.
- A comparison between Q1 of the current year and Q4 of the previous year, when crude oil production and sales volumes were, respectively, 138 thousand tonnes and 140 thousand tonnes and sales revenue amounted to PLN 210m, shows a stable situation both in the area of production and on the international oil price markets. Between the compared quarters, there are no significant differences with respect to the USD/PLN exchange rate, either. Production of crude oil and condensate proceeds as planned, and remains stable from quarter to quarter.
- In Q1 2010, 56% of crude oil and condensate was sold domestically, and 44% – to foreign customers.

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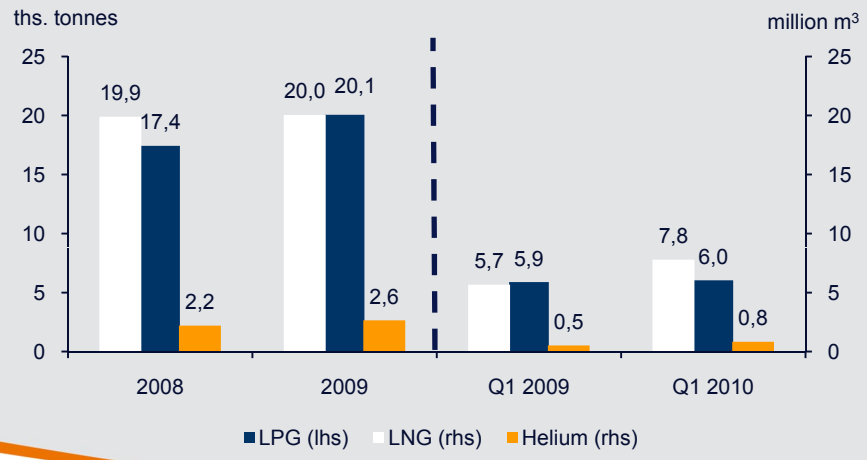
* For crude and condensate (together with tests from production).

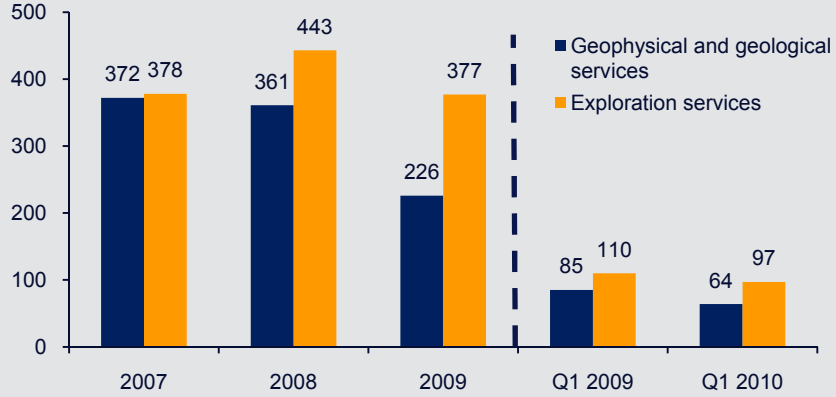
Other Sales

Sales revenue PGNiG Group (PLNm)	Q1 2009	Q1 2010	*change*
Helium	8.1	10.2	*26%*
Propane-butane gas (LPG)	9.2	13.6	*49%*
LNG	6.3	7.9	*27%*
Geophysical and geological services	84.9	63.8	*(25%)*
Exploration services	109.7	96.9	*(12%)*
Other products and services	85.0	98.8	*16%*

LPG, LNG and helium production volumes



Revenues from geophysical, geological and exploration services (PLNm)



- Lower year-on-year revenue from geophysical and geological services in Q1 2010 followed primarily from limitation by Geofizyka Toruń of its presence in India, which is one of the key areas of activity for PGNiG Group's geophysical and geological companies.
- The decline in revenue from sales of exploration services is connected with reduction of exploration programmes by the service buyers (including in Egypt and Kazakhstan);
- Partial launch of the Grodzisk nitrogen-removal plant allowed the Group to increase the production of helium and LNG by 59% and 37%, respectively.

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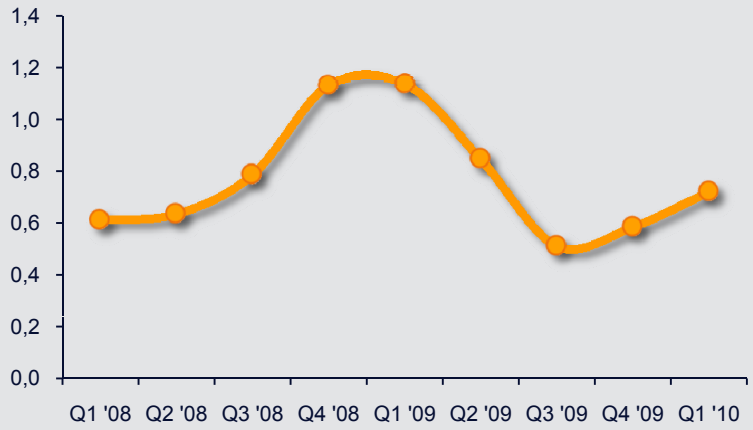
Operating Expenses

PGNiG Group, IFRS (PLNm)	Q1 2009	Q1 2010	*change*
Total operating expenses	**6,836**	**5,406**	***(21%)***
Cost of gas sold	5,141	3,516	*(32%)*
Other raw materials and consumables used	137	132	*(4%)*
Employee benefits	523	570	*9%*
Depreciation and amortisation	370	366	*(1%)*
OGP GAZ-SYSTEM transmission services	375	455	*21%*
Cost of written-off dry wells	27	36	*35%*
Other contracted services	310	298	*(4%)*
Other operating expenses net	113	201	*78%*
Cost of products and services for own needs	(159)	(166)	*5%*

Average cost of gas sold by quarter (PLN/m^3)



- Operating expenses are affected the most by the cost of natural gas purchase. In the past quarter, the cost was PLN 3.5bn, down by 32% on Q1 2009;
- Employee benefits rose by PLN 47m year on year, but only PLN 13m of that amount was attributable to an increase in salaries and wages (4% year on year). The balance of the rise was due to higher contributions to the Company Social Benefits Fund following the entry into effect of the new Collective Labour Agreement in mid 2009.
- Higher net other operating expenses are related to a lower net result (net loss) on derivative transactions and currency-translation differences in Q1 2010 compared with Q1 2009. The positive effect of changes in foreign-exchange rates was reflected in lower cost of gas sold.
- The 21% higher cost of purchase of the transmission service in the analysed quarter is directly related to higher gas sales volumes and higher gas transmission tariff rates, as well as charges for exceeding the capacity subscription.

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Summary

- IMPROVED FINANCIAL RESULT
  The improved financial performance by the PGNiG Group in Q1 2010 is attributable to higher volumes of natural gas sales, combined with a 46% drop in the unit purchase cost of imported gas. The total cost of gas sold was 32% lower year on year. Consequently, the operating margin on high-methane gas sales was 7% in the analysed period, compared with -22% a year earlier. However, a comparison of the data for the analysed quarter with the data for the last three months of 2009 shows a 7pp decline in the margin on high-methane gas sales.

- HIGHER SALES VOLUME
  Frosty winter brought about a significant increase in demand for natural gas from households, which use gas for heating purposes. The discussed quarter also saw greater demand for gas from industrial customers, including the nitrogen plants. However, companies from the fertilisers and chemicals industries are still buying less gas than in Q1 2008.

- LOWER INDEBTEDNESS
  The clear improvement in performance allowed the PGNiG Group to reduce its indebtedness. The Group's current outstanding debt under loans is around PLN 1.2bn, down by 42% on the end of 2009. The Group intends to maintain high levels of capital expenditure on projects involving extension of underground gas storage facilities, increase of production capacities, or diversification of gas supply sources, as well as projects related to oil and gas exploration and appraisal or developing the power generation business.

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Thank you for your attention.