Financial Performance of the PGNiG Group
Q3 2010

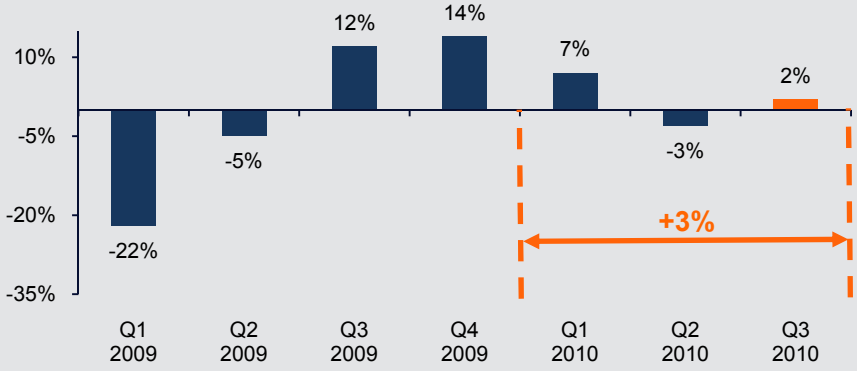
November 10th, 2010

Financial highlights

PGNiG Group (PLN m)	Q3 2009	Q3 2010	*change*
Sales revenue	3,422	**3,882**	*13%*
Operating expenses	(2,913)	**(3,541)**	*(22%)*
EBITDA	855	**706**	*(17%)*
EBIT	508	**340**	*(33%)*
Result on financial activity	(5)	**28**	-----
Net result	419	**345**	*(18%)*

- The higher revenue from gas sales was chiefly attributable to a higher volume of natural gas sold, combined with approx. 5% higher tariff.
- The increase in operating expenses, and the resultant year-on-year decrease in the operating result in Q3 2010, were due to lower margins generated on sale of high-methane gas. In the discussed period, the margin on high-methane gas sales was 2%, compared with 12% in Q3 2009.
- The operating result in Q3 2010 was positively impacted by the improved performance of the Exploration and Production segment.

High-methane gas sales margin in the separate quarters of 2009 and 2010



- Cumulatively for the first three quarters of 2010, the margin on high-methane gas sales was 3%, against minus 9% a year earlier. Accordingly, the net financial result for the first three quarters of the year was higher by PLN 1.4bn than in the corresponding period of 2009.
- The sales revenue in the quarter under analysis is close to market analysts' forecasts, while the net result has decidedly surpassed the market's expectations, with the net profit being almost twofold higher than the consensus*.

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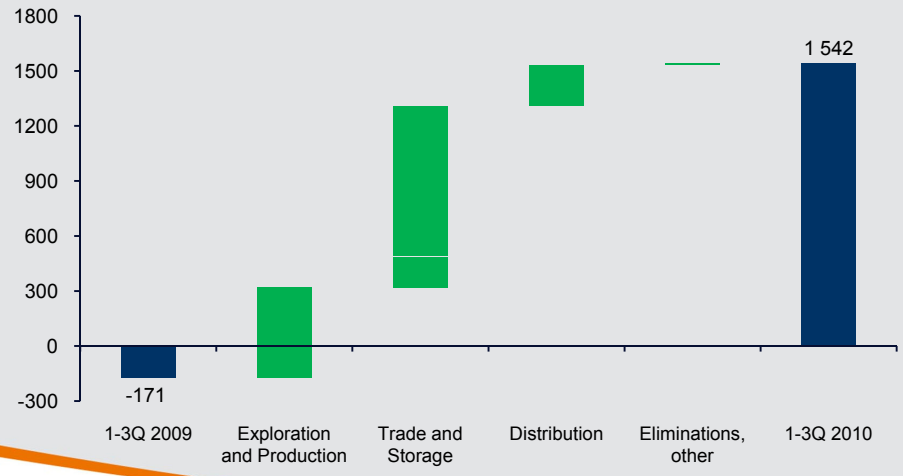
*Consensus by the Polish Press Agency of November 5th, 2010.

Segments

Operating result (PLN m)	Q3 2009	Q3 2010	*change*
Exploration and Production	(6.7)	**246.0**	-----
Trade and Storage	509.4	**83.5**	*(84%)*
Distribution	(2.6)	**(2.4)**	*10%*
Eliminations, other	8.3	**13.1**	*58%*
TOTAL	508.4	**340.3**	*(33%)*

Effect of segments on the operating result in 1-3Q 2010 (PLN m)



- The 33% lower EBIT of the PGNiG Group in Q3 2010 relative to Q3 2009 was largely due to poorer operating performance of the Trade and Storage segment. The segment's weaker operating result was primarily attributable to 10pp lower margin on high-methane gas sales year on year.
- In Q3 2010, the Exploration and Production segment reported the best operating performance from all of the Group's segments. Its EBIT in the analysed quarter was PLN 264m, up by PLN 253m year on year. The better operating performance reflected higher revenue from sale of crude oil and from geophysical/geological and exploration services, as well as lower costs of dry well write-offs.
- In Q3 2010, the Distribution segment recorded a seasonal loss. The loss was generated despite 8% higher volume of distributed gas and higher network rates in the segment - they were offset by higher costs of the segment's day-to-day operations, including the cost of a provision created for extra-contractual use of real estate and transmission easement in the amount of PLN 19m.
- An analysis of cumulative EBIT for the first nine months of 2010 shows improvements in all the segments relative to the previous year.

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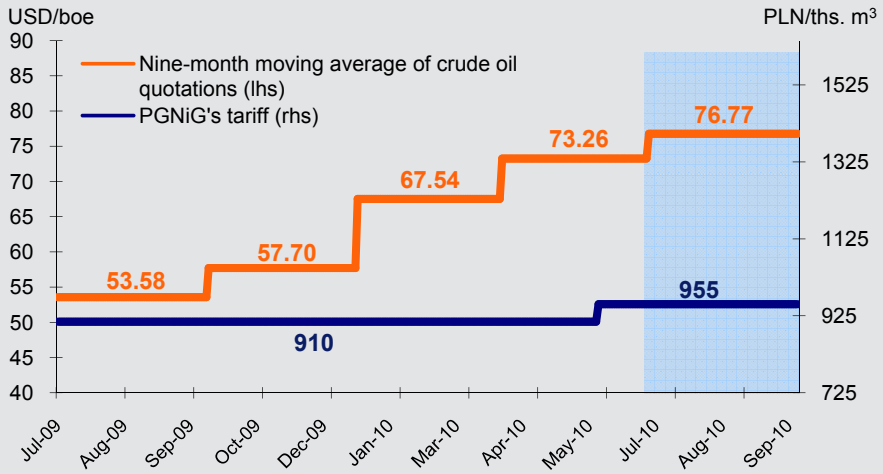
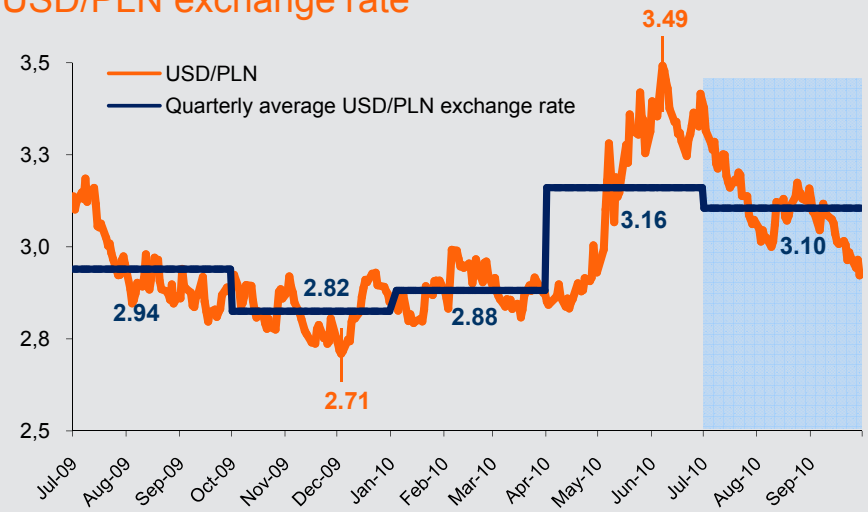
Financial performance drivers

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 nine-month moving average price of oil derivative products, which has an almost 100% co-relation with crude oil prices.
- In Q3 2010, the nine-month average of petroleum product prices was 77 USD/boe, up by 43% relative to the previous year (54 USD/boe).

USD/PLN exchange rate**



- The imported gas purchase price is mainly denominated in the dollar, similarly to the crude oil sale price;
- Q3 2010 saw a gradual appreciation of the Polish currency, however the USD exchange rate remained over PLN 3 almost throughout the discussed period. The average USD/PLN exchange rate in Q3 2010 stood at 3.10 and was 0.16 higher than in Q3 2009.
- Taking into account the average USD/PLN exchange rate, in Q3 2010 the nine-month average of crude oil prices expressed in the Polish currency rose by 51% compared with its level in Q3 2009.

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

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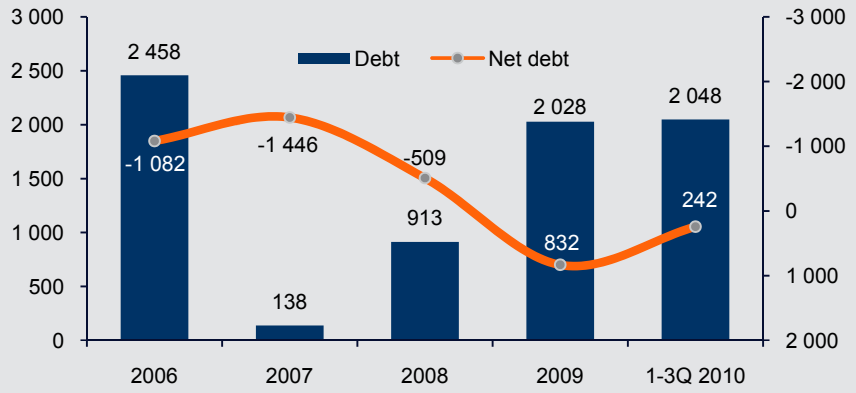
Financial indebtness

- As at September 30th 2010, cash and cash equivalents amounted to PLN 1.8bn, up by 51% relative to the end of 2009. This increase was mainly fuelled by higher cash provided by current operating activities.
- As at the end of Q3 2010, the PGNiG Group's total debt amounted to PLN 2.05bn, a level comparable with that recorded at the end of 2009, and PLN 247m higher than in Q2 2010.
- The current debt level is the result of the implementation of PGNiG's investment plans following from its strategy announced in 2008.
- 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)



- On August 31st 2010 PGNiG Norway executed a Credit Facility Agreement with seven banks amounting to USD 400m. The Credit Facility is based on the Reserve Based Loan formula. As at September 30th 2010, PGNiG Norway used USD 150m of the RBL.
- In Q3 2010, the Company commenced the documentation preparation process for a five-year Eurobond issue programme of up to EUR 1.2bn.

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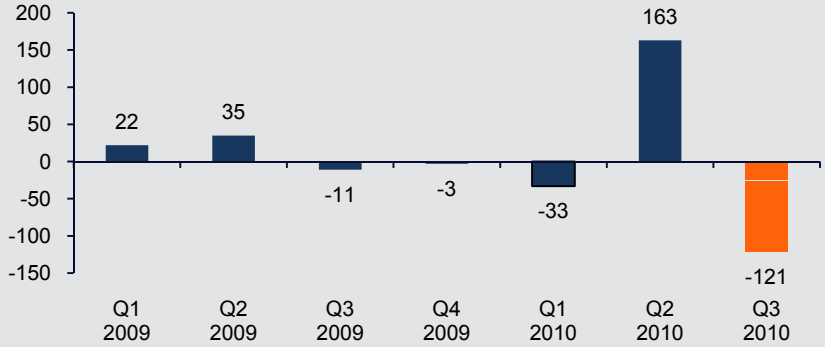
Market risk hedging policy

- 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.

- 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 the period Q1-Q3 2010, the Company reported net gains on derivative transactions and currency translation of PLN 9m (compared with PLN 46m a year earlier).
- In Q3 2010, the PGNiG Group recorded a negative result of PLN 121m on derivative transactions and currency translation, offset by a decrease in trade payables expressed in foreign currencies as a result of appreciation of the złoty against the US dollar. To compare, in Q3 2009 the Group reported a negative result of PLN 11m on hedging transactions.

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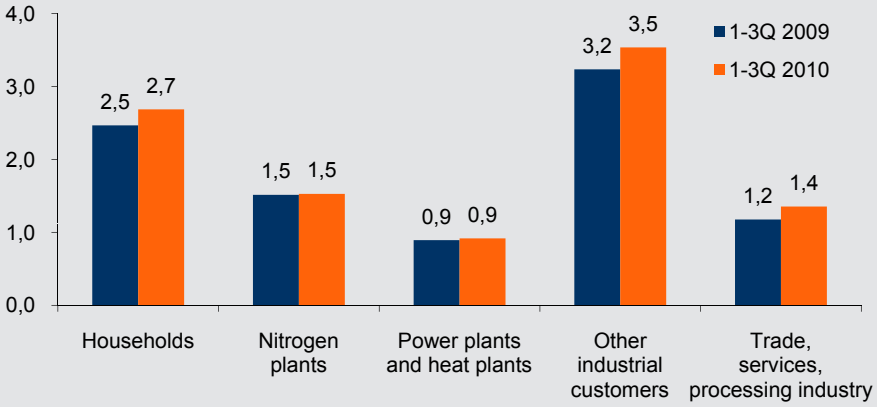
Natural gas

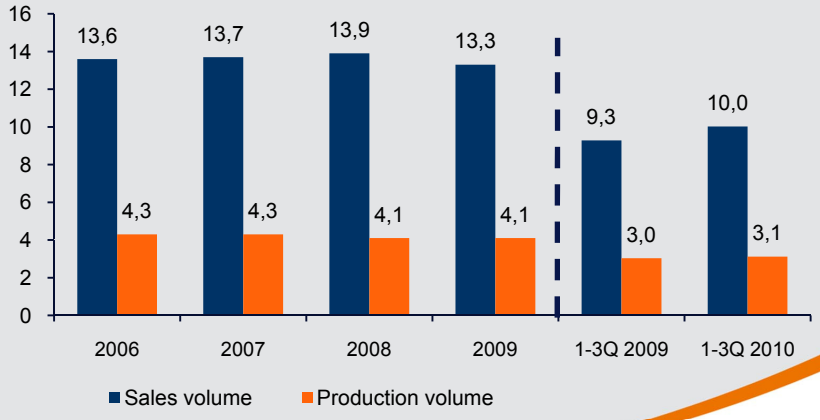
PGNiG Group*	Q3 2009	Q3 2010	*change*
Production volume (million m^3)	997	**985**	*(1%)*
Sales volume (million m^3)	2,191	**2,397**	*9%*
Gas sales revenue (PLN m)	2,984	**3,300**	*11%*
High-methane gas (E)	2,792	**3,098**	*11%*
Nitrogen-rich gas (Ls, Lw)	192	**202**	*5%*

- The 9% year-on-year rise in sales volumes in Q3 2010 is attributable to a 7% rise in demand from industrial customers (the strongest increase was recorded in the case of power and CHP plants). A rise was also seen in demand from households, which - owing to the colder September - purchased 7% more gas than a year earlier.
- The slight decline in natural gas production was due to the fact that in the period under review the Grodzisk Wielkopolski Nitrogen-removal Plant operated one month shorter than in Q3 2009 due to a technical stoppage.
- The year-on-year growth in revenue from sales of natural gas follows from higher sales volumes and an increase in the tariff effective since June 1st 2010 (from PLN 910 to PLN 955/thousand m^3).

Customers' share in gas sales volume in 1-3Q 2009 and 1-3Q 2010 (bn m^3)



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

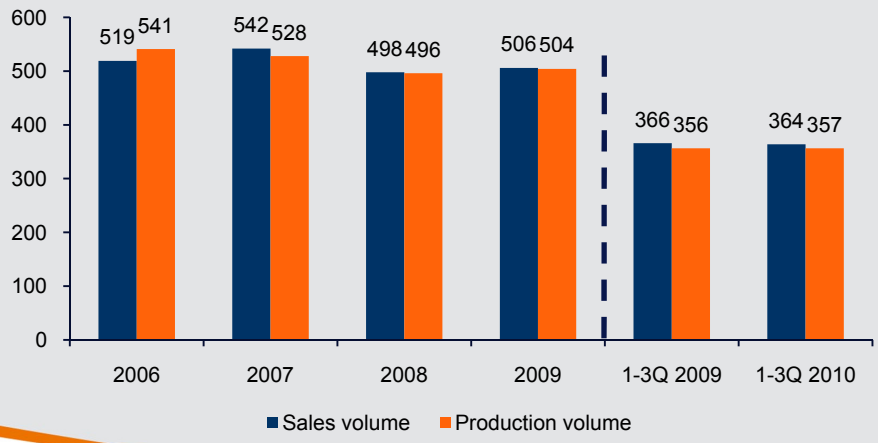


* Measured as high-methane gas equivalent (E).

Crude oil

PGNiG Group*	Q3 2009	Q3 2010	*change*
Production volume (ths. t)	96	130	*36%*
Sales volume (ths. t)	99	132	*34%*
Sales revenue (PLN m)	136	221	*63%*
Oil unit price (PLN/t)	1,377	1,673	*21%*
Average price of Brent Dated oil for the period (USD/bbl)	68	76	*12%*

Oil sales and production volume (ths. t)*



- The difference in the production of crude oil and condensate between Q3 2009 and Q3 2010 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.
- Sales of crude oil are not regulated and are transacted at market prices. In addition to the higher production volumes, a rise in the crude prices combined with a slight depreciation of the Polish currency translated into a higher sales revenue in Q3 2010 compared with the same period last year.
- In Q3 2010, 57% of crude oil and condensate sold was purchased by domestic customers, whereas the remaining 43% was export sales.

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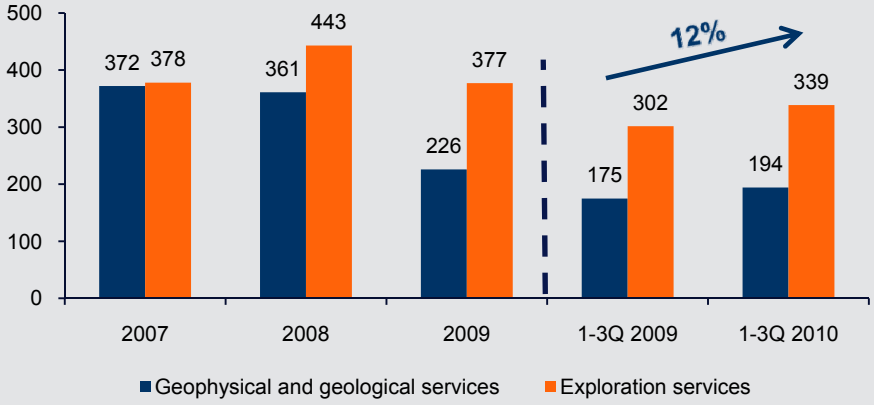
* For crude and condensate (together with tests from production).

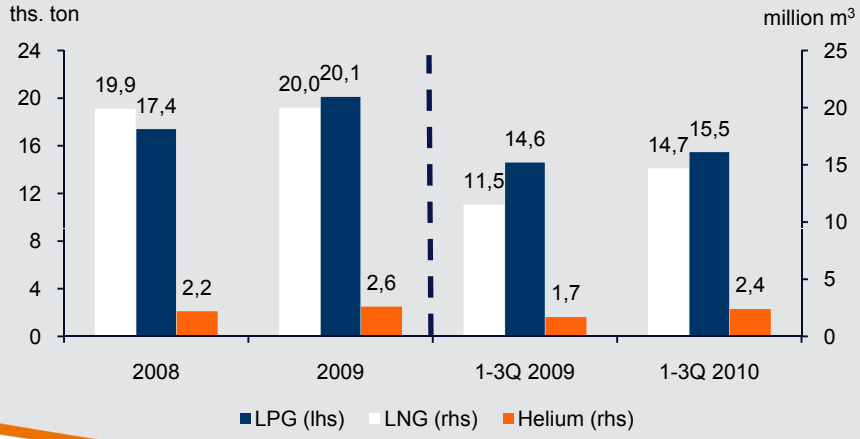
Other sales

Sales revenue PGNiG Group (PLN m)	Q3 2009	Q3 2010	*change*
Helium	10.6	**10.5**	*(1%)*
Propane-butane gas (LPG)	7.4	**13.2**	*78%*
LNG	4.4	**6.8**	*53%*
Geophysical and geological services	50.9	**57.8**	*14%*
Exploration services	110.7	**130.5**	*18%*
Other products and services	117.6	**141.5**	*20%*

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



LPG, LNG and helium output volumes



- The higher year-on-year revenue from geophysical and geological services in Q3 2010 is the result of stronger demand for such services, primarily in Poland. The higher revenue from exploration services reflects a larger scale of operations of the Exploration and Production companies mainly outside Poland - in Uganda, India and the Czech Republic.
- The rise in revenue from sales of LPG and LNG in Q2 2010 was a direct consequence of higher output, which grew by 63% and 65%, respectively.

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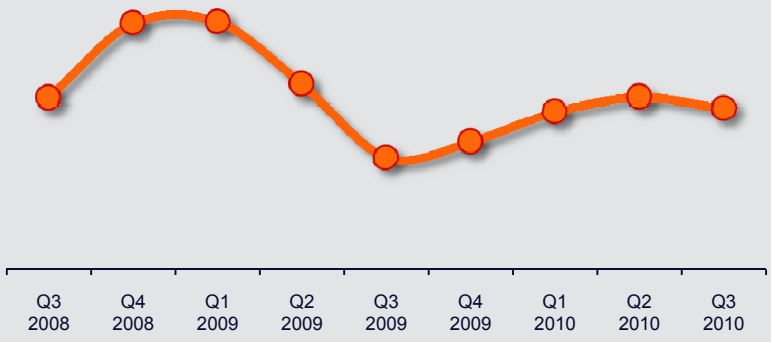
Operating expenses

PGNiG Group, IFRS (PLNm)	Q3 2009	Q3 2010	*change*
Total operating expenses	**2,913**	**3,541**	***22%***
Cost of gas sold	1,136	1,761	*55%*
Other raw materials and consumables used	168	168	*0%*
Employee benefits	518	576	*11%*
Depreciation and amortisation	347	366	*5%*
OGP GAZ-SYSTEM transmission services	308	323	*5%*
Cost of written-off dry wells	177	23	*(87%)*
Other contracted services	335	348	*4%*
Other operating expenses net	165	226	*37%*
Cost of products and services for own needs	(241)	(250)	*(4%)*

Average cost of gas sold by quarter



- The largest item of operating expenses was the cost of gas sold. In the Q3 2010, it reached PLN 1.8bn (up by 55% year on year), which was due to higher unit cost of imported gas (up by 47%).
- The significant fall in costs of written off dry wells can be explained by the fact that in Q3 2010 there was only one dry well written off, compared with eight dry holes in the same quarter of 2009.
- The year-on-year increase in employee benefits in Q3 2010 was connected mainly with an increase in salaries and wages, totalling PLN 52m. Employee benefits in the first three quarters of 2010 were 6% (PLN 113m) higher year on year.
- The increase in net other operating expenses in Q3 2010 is connected with a worse result on derivatives and currency translation by PLN 66m relative to Q3 2009.

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Summary

- **STRONG PERFORMANCE OF THE EXPLORATION AND PRODUCTION SEGMENT**
  Q3 2010 saw a substantial year-on-year improvement in the Exploration and Production segment's operating performance. Higher crude prices on global markets translated into a 63% rise in revenue from crude sales. Moreover, since Q2 2010 the demand for E&P services performed by the service companies has picked up significantly, which also was reflected in revenue from sales of geophysical, geological and exploration services in the reviewed quarter.

- **RECOVERY IN DEMAND FOR NATURAL GAS**
  In 2009, the economic slowdown affected sales of natural gas, which fell from PLN 13.9bn cubic meters in 2008 to 13.3bn cubic meters. In the period to the end of September 2010, sales of natural gas were higher by 700 million cubic meters compared with the first three quarters of 2009. The increase was driven by a recovery of both industrial and retail demand.

- **FINANCING OF THE PGNIG GROUP**
  In Q3 2010, the Group had secured financing of PLN 4.2bn, comprising a domestic bond programme of up to PLN 3bn and a PLN 1.2bn credit facility agreement under the Reserved Based Loan formula. The arrangement of further financing in the amount of PLN 4.8bn (Eurobonds) has commenced. This financing will enable the PGNiG Group to implement its ambitious investment programme.

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i Gazownictwo SA

Thank you for your attention