Polskie Górnictwo Naftowe i Gazownictwo SA

Financial Performance of the PGNiG Group
3rd quarter 2011

November 10th, 2011

Financial highlights

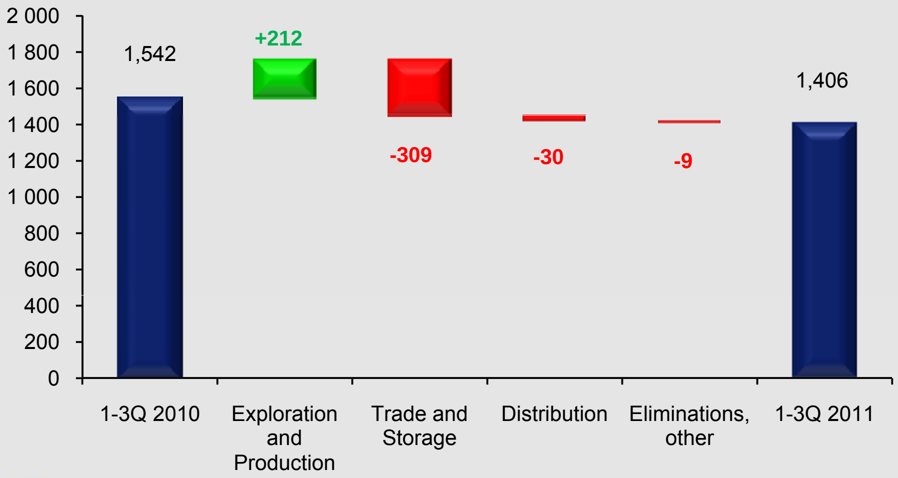
PGNiG Group (PLN m)	Q1-Q3 2010	Q1-Q3 2011	change	Q3 2010	Q3 2011	change
Sales revenue	14,644	**16,031**	*9%*	3,882	**4,508**	*16%*
Operating expenses	(13,102)	**(14,625)**	*12%*	(3,541)	**(4,175)**	*18%*
EBITDA	2,653	**2,576**	*(3%)*	706	**726**	*3%*
EBIT	1,542	**1,406**	*(9%)*	340	**333**	*(2%)*
Result on financial activity	43	**48**	*12%*	28	**(119)**	*(525%)*
Net result	1,339	**1,324**	*(1%)*	345	**319**	*(7%)*
Hi-methane gas sales margin	3%	**(1%)**	*(4 pp)*	2%	**(2%)**	*(4 pp)*

- At the operating level, in Q1-Q3 2011 PGNiG Group's EBIT fell by PLN 136m, following from a **4 pp** decline in the profitability of high-methane gas sales. The strong performance of the Exploration and Production segment helped the Group to soften the decline in its operating profit.
- In Q1-Q3 2011, profitability of high-methane gas sales deteriorated year on year, primarily due to a **17%** increase in the unit purchase price of imported gas. The protracting tariff procedures and postponed introduction of a new tariff resulted in the Group losing on margin on natural gas sales.
- Net profit in Q3 2011 was affected mainly by a PLN 147m **drop** in the result on financing activities, attributable to higher costs incurred on the back of foreign exchange losses. On the other hand, the year-on-year net profit dropped by a mere 7% (PLN 25m), owing to a PLN 128m decrease in tax expense caused by a considerable increase in the deferred tax assets in PGNiG Norway AS.
- In Q3 2011 alone, sales margin on high-methane gas was **negative at -2%** due to a **27%** increase in the unit purchase price of imported gas.

Segments – 3 quarters 2011

EBIT (PLN m)	Q1-Q3 2010	Q1-Q3 2011	*change*
Exploration and Production	586	**798**	*36%*
Trade and Storage	426	**117**	*(73%)*
Distribution	524	**494**	*(6%)*
Eliminations, other	6	**(3)**	*(150%)*
TOTAL	1,542	**1,406**	*(9%)*

Segments influence on the operating result in 3 quarters 2010 and 3 quarters 2011 (PLN m)

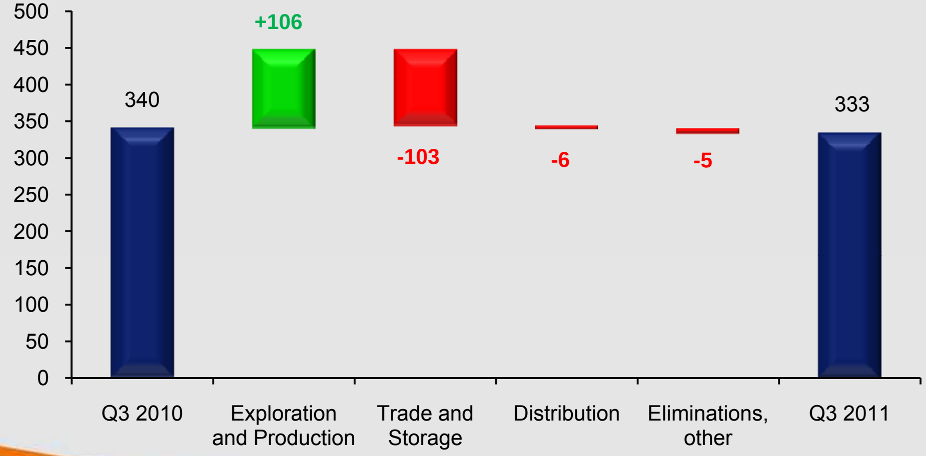


- Operating profit recorded by the Exploration and Production segment **grew by PLN 212m** year on year, as a result of improved profitability of crude sales driven mainly by the rising crude prices on global markets, on average by 45%. The segment's EBIT advanced also on higher revenue from sales of geophysical, geological, drilling and maintenance services, related to the intensified exploration for shale gas in Poland.
- Trade and Storage recorded the largest decline in productivity - the segment's operating profit was down by PLN 309m year on year. This was a result of significant weakening of high-methane gas sales profitability, caused mainly by the **17%** rise in the unit purchase price of imported gas.
- The operating result reported by the Distribution segment was down by PLN 30m year on year, chiefly due to a **3%** decline in the volume of distributed gas caused by higher average air temperatures compared with 2010.

Segments – Q3 2011

EBIT (PLN m)	Q3 2010	Q3 2011	*change*
Exploration and Production	246	352	*43%*
Trade and Storage	84	(19)	*(122%)*
Distribution	(2)	(8)	*(224%)*
Eliminations, other	13	8	*(42%)*
TOTAL	340	333	*(2%)*

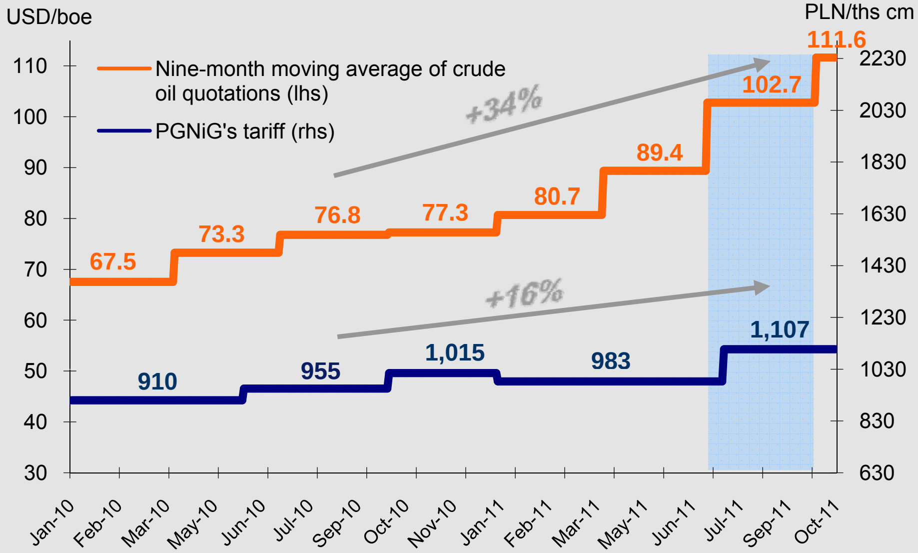
Segments influence on the operating result in Q3 2010 and Q3 2011 (PLN m)



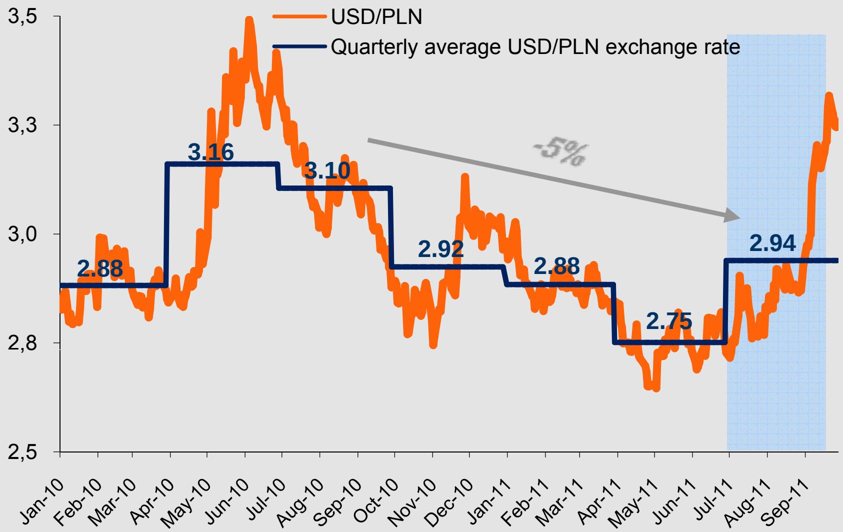
- Thanks to a 36% (PLN 79m) increase in revenue on crude sales driven by a year-on-year rise of crude prices by approximately 50%, combined with a 30% (PLN 57m) improvement in revenue on exploration services (geophysical, geological, drilling and maintenance), the Exploration and Production segment recorded a **PLN 106m** rise in operating result.
- The deterioration of the Trade and Storage segment's operating result was an effect of a **33%**, or PLN 586m, rise in the costs of gas year on year, which was not fully reflected by the 16% tariff increase as of July 15th 2011, compared with the tariff effective in Q3 2010.
- The higher purchase price of gas is a result of the rising nine-month average of petroleum product prices to which the purchase price of imported gas is indexed.
- In Q3 2011, the Distribution segment's EBIT declined by PLN 6m year on year on the back of a slight **1%** drop in the volume of distributed gas.

Financial performance drivers

Crude oil quoted prices* vs tariff price of gas



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% correlation with crude oil prices.
- The prices of crude oil remain high, having exceeded USD 100 per barrel since February. In Q3 2011, the value of the nine-month average price reached 102.7 USD/boe, having grown by **34%** relative to Q3 2010.

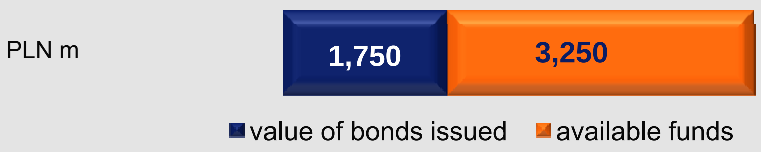
- The imported gas purchase is mainly denominated in the dollar, similarly to the crude oil sale price, which determine the largest cost item of PGNiG Capital Group and part of revenues of Exploration and Production segment.
- In Q3 2011, the average USD/PLN exchange rate was 2.94, up by almost **7%** relative to Q2 2011 (2.75), and by **5%** year on year.
- Taking into account the average USD/PLN exchange rate, the value of the nine-month average price of petroleum products in Q3 2011 was 302 PLN/boe, up by **27%** year on year and by **23%** relative to Q2 2011.

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

Financial indebtedness

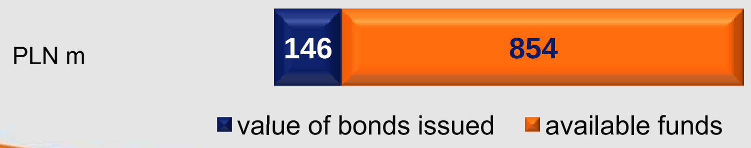
Use of debt under the financing programmes as at September 30th, 2011

- Domestic bond issue programme – up to **PLN 5bn**

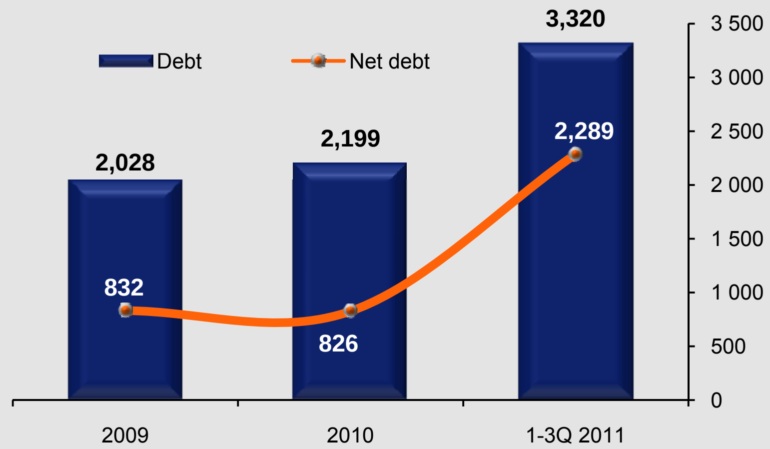


- Reserve Based Loan (PGNiG Norway) – up to **USD 400m**

- Note issuance programme acquired by the distribution companies – up to **PLN 1bn** (subject to elimination in consolidated financial statement)



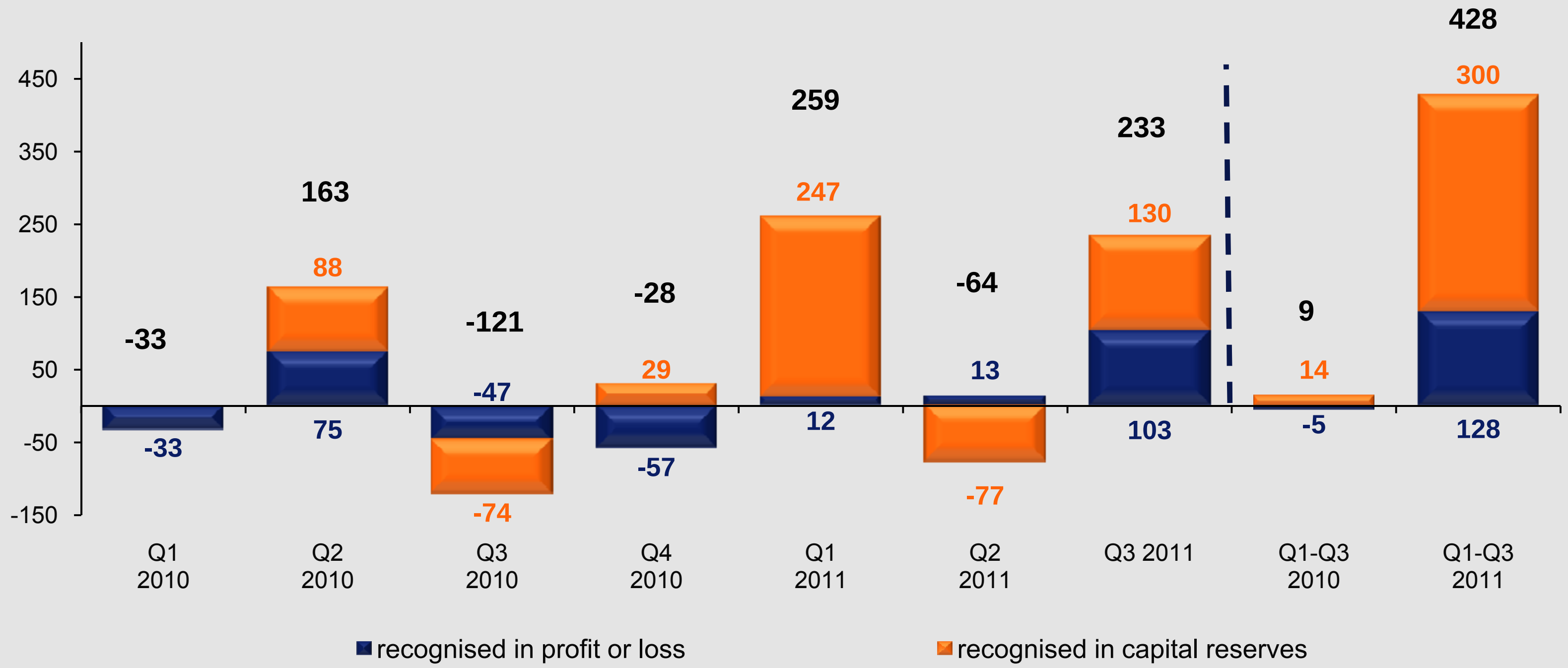
PGNiG Group debt (PLN m)



- The amount of debt as at September 30th, 2011 was up on the end of 2010, as PGNiG issued **PLN 647m** more bonds during the period, while PGNiG Norway increased the use of the RBL facility by **PLN 385m.**
- In July 2011, the maximum value of the domestic bond issue programme was increased **from PLN 3bn to PLN 5bn** and the maturity was extended by two years, i.e. until **July 31st 2015**.
- In Q2 2011, the maximum value of short-term bonds issued to the distribution companies was increased to **PLN 1bn**.

Market risk hedging policy

Result on foreign exchange differences and derivative instruments (PLN m)



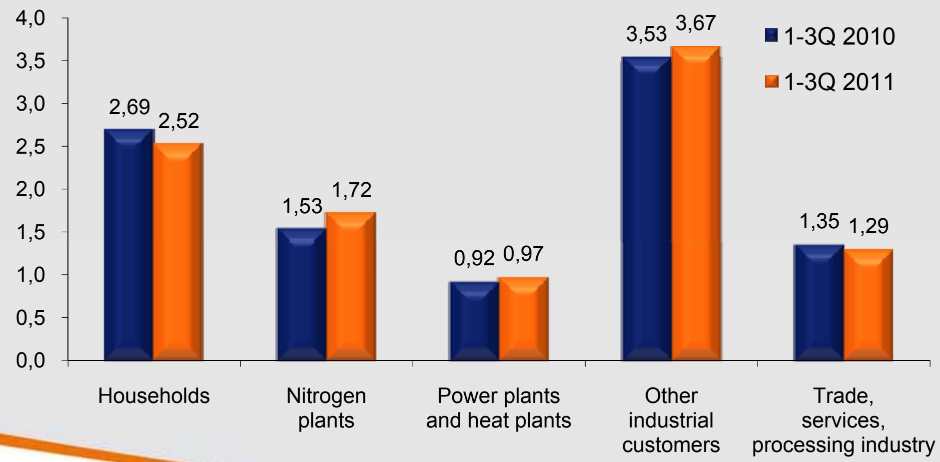
- In the first three quarters of 2011, the PGNiG Group recorded a positive result on derivative transactions (both realised and unrealised) and exchange differences of **PLN 428m**, including a net gain on derivative transactions related to operating activities (mainly gas purchases) of PLN 459m. To compare, in the first three quarters of 2010 the Group's net gain on hedging transactions was PLN 9m.
- In Q3 2011 alone, the result on derivative transactions was positive at **PLN 233m** (Q3 2010: PLN -121m).

PGNiG

Natural gas

PGNiG Group*	Q1-Q3 2010	Q1-Q3 2011	*change*	Q3 2010	Q3 2011	*change*
Production volume (million m³)	3,071	**3,195**	*4%*	967	**1,069**	*11%*
Import volume (million m³)	7,221	**8,053**	*12%*	1,723	**2,177**	*26%*
Sales volume (million m³)	10,020	**10,166**	*1%*	2,398	**2,549**	*6%*
Gas sales revenue (PLN m)	13,045	**14,077**	*8%*	3,300	**3,779**	*14%*
High-methane gas (E)	12,239	**13,228**	*8%*	3,098	**3,557**	*15%*
Nitrogen-rich gas (Ls, Lw)	806	**849**	*5%*	202	**221**	*9%*

Customers' share in gas sales volume (bn m^3)



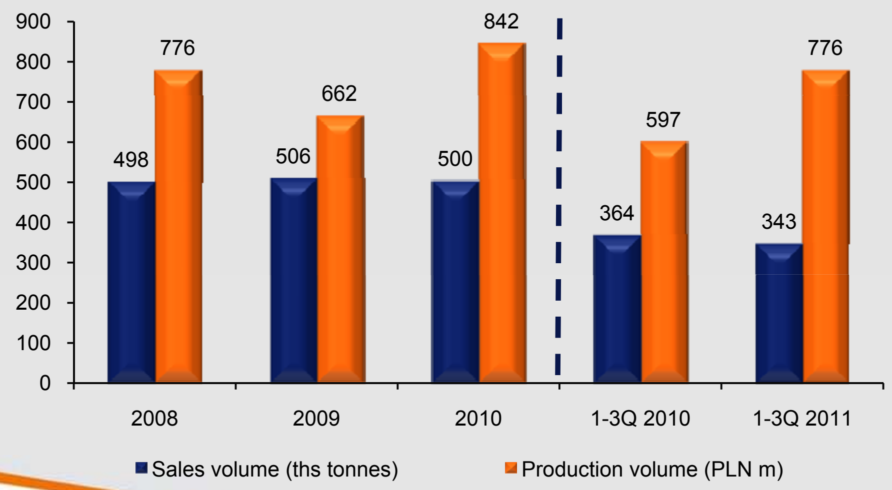
- **Higher gas output** was a result of steady increase in production, following from the implementation of the PGNiG Group's Strategy.
- The significant year-on-year growth of gas imports in Q3 2011 enabled the Group to increase the volume of gas injected into the underground gas storage facilities nearly 1.5 times. As at September 30th 2011, the high-methane gas underground storage facilities contained **1.8bcm** of gas.
- In Q3 2011, the year-on-year **growth of gas sales revenue** was driven not only by a higher sales volume, but also by an 9.7% increase in the average tariff gas selling price and charge rates.

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

Crude oil

PGNiG Group*	Q1-Q3 2010	Q1-Q3 2011	*change*	Q3 2010	Q3 2011	*change*
Production volume (ths. t)	366	344	*(6%)*	133	127	*(5%)*
Sales volume (ths. t)	364	343	*(6%)*	132	124	*(6%)*
Sales revenue (PLN m)	597	776	*30%*	221	302	*36%*
Oil unit price (PLN/t)	1,639	2,261	*38%*	1,673	2,431	*45%*
Average price of Brent Dated oil for the period (USD/bbl)	77	112	*45%*	77	113	*48%*

Oil production and sales volume*



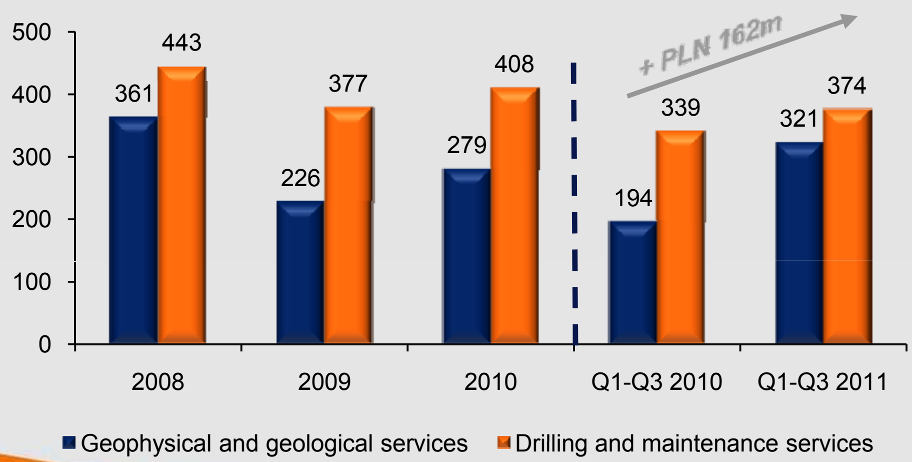
- Year-on-year lower crude output in 2011 has been caused mainly by the absence of new connections and a natural decrease in the production from the existing fields. Crude oil production and sales in 2011 proceed as planned and are expected to reach the output target volume **of 460 thousand tonnes**. In mid-2012, PGNiG plans to launch production from new wells on the largest existing crude deposit Barnówko-Mostno-Buszewo, while crude production from the LMG field is to start in April 2013.
- The strong growth in crude oil prices has led to a significant increase in revenue from crude sales. In Q3 2011, the price of crude oil **rose on average by 48%** over Q3 2010.

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

Other sales

Sales revenue PGNiG Group (PLN m)	Q1-Q3 2010	Q1-Q3 2011	*change*	Q3 2010	Q3 2011	*change*
Helium	31.9	**42.1**	*32%*	10.5	**15.7**	*50%*
Porpane-butane gas (LPG)	35.5	**40.4**	*14%*	13.2	**16.2**	*23%*
LNG	20.6	**24.6**	*19%*	6.8	**9.5**	*41%*
Exploration services, herein:	532.8	**695.2**	*30%*	188.3	**245.6**	*30%*
Geophysical and geological services	194.1	**321.3**	*66%*	57.8	**111.6**	*93%*
Drilling and maintenance services	338.7	**373.9**	*10%*	130.5	**134.0**	*3%*

Revenues from exploration services (PLN m)



- The growth of revenue from sales of exploration services (geological, geophysical, drilling and maintenance) followed from a strong demand for these services, especially in Poland where it has been bolstered by the **growing interest in shale gas exploration**.
- The year-on-year rise in revenue from sales of helium, reported in the first three quarters of 2011, was attributable to an **8%** increase in helium production capacity, coupled with a **22%** increase in its unit selling price, which is correlated with the prices of petroleum products.
- The production of LNG also increased (by 6% in Q1-Q3 2011 on Q1-Q3 2010), resulting in 7% higher sales volume and **19%** higher sales revenue.

PGNiG

Operating expenses

PGNiG Group (PLN m)	Q1-Q3 2010	Q1-Q3 2011	change	Q3 2010	Q3 2011	change
Total operating expenses	**13,102**	**14,625**	***12%***	**3,541**	**4,175**	***18%***
Cost of gas sold	7,430	8,909	*20%*	1,761	2,347	*33%*
Other raw materials and consumables used	440	501	*14%*	168	173	*3%*
Employee benefits	1,859	2,002	*8%*	576	622	*8%*
Depreciation and amortisation	1,111	1,170	*5%*	366	393	*7%*
OGP GAZ-SYSTEM transmission services	1 110	1,094	*(1%)*	323	330	*2%*
Cost of written-off dry wells	113	176	*57%*	23	37	*63%*
Other contracted services	989	1,044	*6%*	348	380	*9%*
Other operating expenses net	661	447	*(32%)*	226	129	*(43%)*
Cost of products and services for own needs	(611)	(717)	*17%*	(250)	(235)	*(6%)*

- The largest item of operating expenses was the cost of gas sold. Cumulatively for the first three quarters of 2011 and in Q3 2011 alone, the operating expenses went up by **20% and 33%**, respectively, relative to the corresponding periods of 2010, mainly on the back of increased volume of gas imports (up by **12% and 26%**, respectively) and **over 30%** higher nine-month average price of petroleum products. The adverse effect of the increase in operating expenses was partially offset by the year-on-year appreciation of the złoty against the dollar.
- The growth in the value of written-off wells in the first three quarters of 2011 is the effect of an increased number of dry wells compared with the previous year, and higher costs of drilling a well. In Q3 2011 alone, the Group wrote off two dry wells (one well in Q3 2010).
- The change in net other operating expenses, both on a quarterly and cumulative basis, was mainly attributable to the reversal of impairment losses on receivables under gas deliveries.

PGNiG

Summary

SIGNIFICANTLY LOWER PROFITABILITY OF TRADE AND STORAGE SEGMENT

The rise in crude oil prices in 2011 has had an adverse effect on the cost of gas purchased by PGNiG, which has translated into the **negative gas sales margin**. Persistently high crude oil prices will further drive the nine-month moving average price of petroleum products in Q4 2011, and the rise may be further accelerated by the depreciation of the Polish złoty.

The Trade and Storage segment's profitability will continue to deteriorate unless the price trends become reflected in the gas tariff.

EXPLORATION SERVICES SALES GROWTH

Intensification of hydrocarbons exploration on the Polish territory has contributed to a significant growth of interest in geophysical, geological, drilling and maintenance services from external clients. Revenues from sales of these services in the third quarter of 2011 increased by over **30%** y-o-y.

PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

Thank You