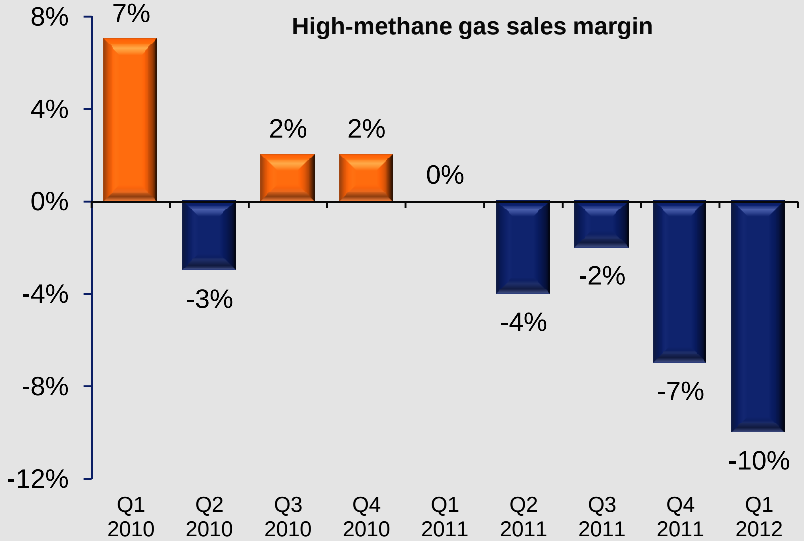
Financial Performance of PGNiG Group
1st quarter 2012

May 15th, 2012

Financial highlights

PGNiG Group (PLN m)	Q1 2011	Q1 2012	change
Sales revenue	7,045	8,947	27%
Operating expenses	(5,866)	(8,647)	47%
EBITDA	1,569	755	(52%)
EBIT	1,179	300	(75%)
Result on financial activity	64	29	(54%)
Net result	1 025	297	(71%)
Hi-methane gas sales margin	0%	(10%)	10pp

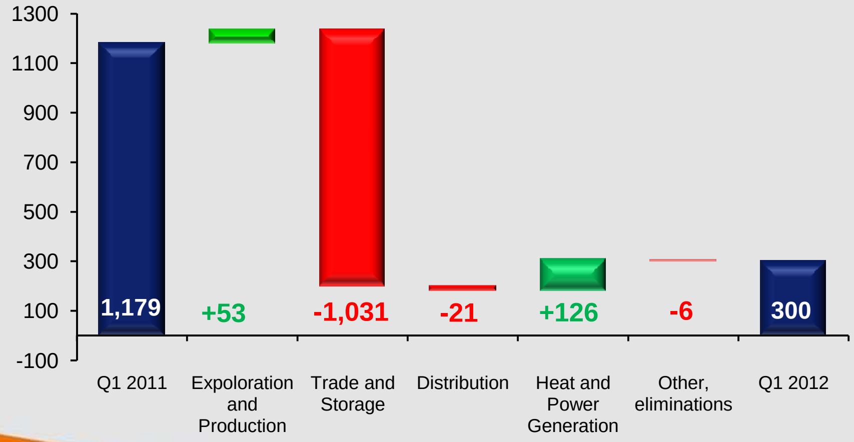


- **Despite a 27% revenue increase in Q1 2012, the Group's operating profit declined by 75%,** or PLN 0.88bn, following a **10 pp** drop in the margin on high-methane gas sales.
- In Q1 2012, the margin on high-methane gas sales hit a three-year low of **-10%.**
- The profitability of high-methane gas sales deteriorated primarily due to a **41%** increase in the unit purchase price of imported gas and protracting tariff procedures, as a result of which a new tariff reflecting market developments was not approved.
- The results for Q1 2012 reflect the consolidation of **PGNiG Termika** (former Vattenfall Heat Poland) following its acquisition in January.
- The Trade and Storage segment's contribution to the Group's operating profit was negative and exceeded **PLN -1bn.**
- The small difference between the operating result and the net profit in Q1 2012 is attributable mainly to a PLN 186m decrease in income tax (including PLN 107m on account of lower current income tax and PLN 48m on account of higher deferred income tax).

Segments - 1st quarter 2012

Operating result (PLN m)	Q1 2011	Q1 2012	*change*
Exploration and Production	377	430	*14%*
Trade and Storage	253	(778)	*(408%)*
Distribution	549	528	*(4%)*
Heat and Power Generation		126	-
Other, eliminations	0	(6)	-
TOTAL	1,179	300	*(75%)*

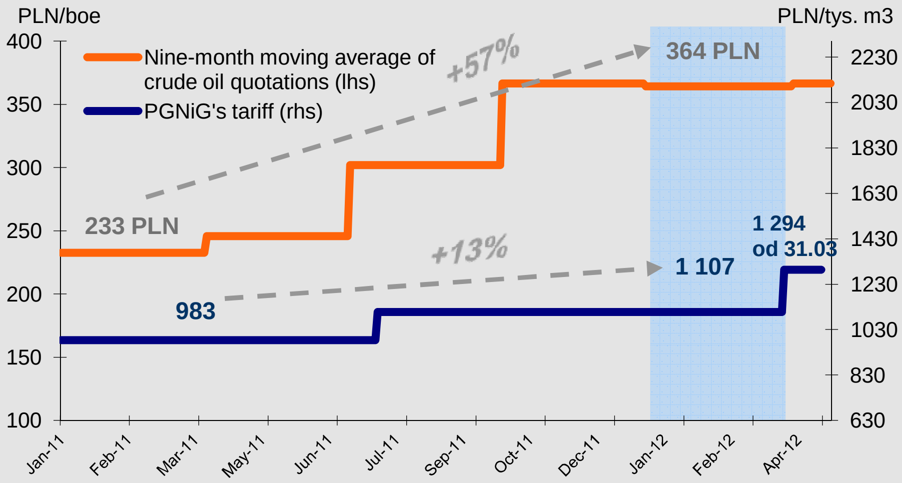
Segments' influence on the operating result in Q1 2012 (PLN m)



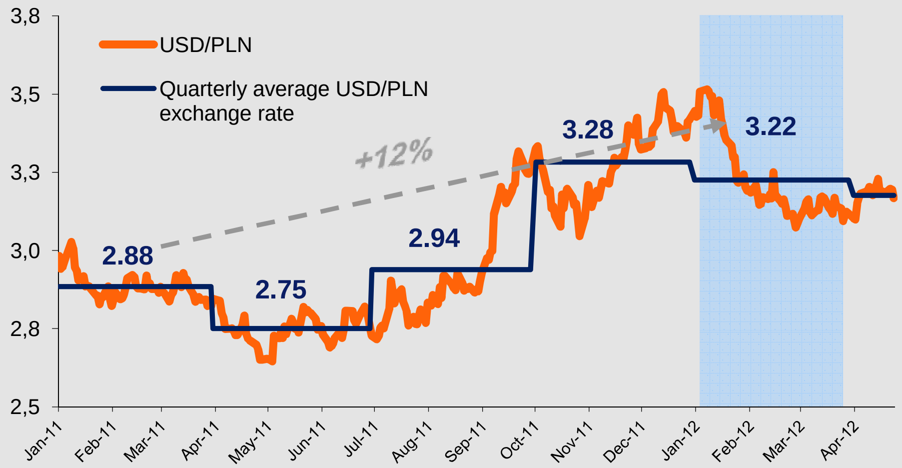
- The most adverse development affecting the Group's operating result was **a loss of PLN -778m** reported by the Trade and Storage segment. The loss, attributable to the **negative margin on sales** of the main product, i.e. natural gas, decreased EBIT by over PLN 1bn relative to Q1 2011.
- This negative effect was only slightly offset by a **14%** rise in EBIT reported by the Exploration and Production segment and the first-time consolidation of the Generation segment.
- EBIT of the Exploration and Production segment increased owing to rising crude oil prices and reached PLN 430m.
- The result of the Distribution segment (PLN 520m) was similar to that reported for Q1 2011.
- The Generation segment (heat and electricity production by PGNiG Termika) contributed **PLN 126m** to the Group's EBIT

Financial performance drivers

Crude oil quoted prices* vs. tariff price



USD/PLN exchange rate**



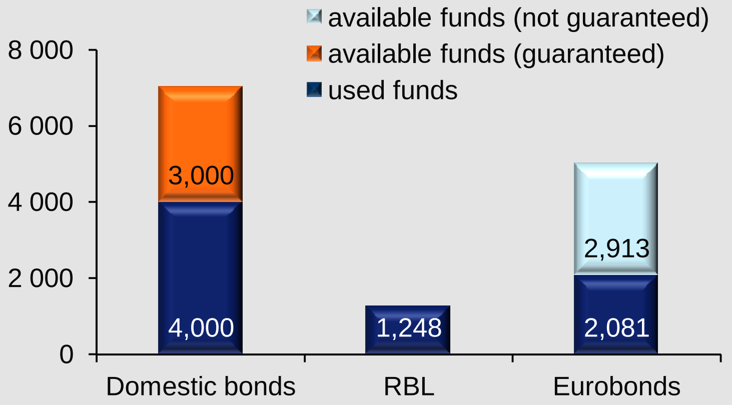
- Crude oil prices determine the purchase price of imported gas. The pricing formula is based on a nine-month average of petroleum product prices, which are almost perfectly correlated with crude prices.
- The prices of crude oil remain high, having stayed above USD 100 per barrel since February 2011. In Q1 2012, the value of the nine-month average reached 113 USD/boe, having grown by **40%** relative to Q1 2011.
- With crude oil prices rising by 57% in PLN from 1Q 2011 to 1Q 2012, the gas tariff was increased by only 13%, reaching the level of **1 107 PLN/mcm.** The tariff has been increased to 1 294 PLN/mcm only on March 31st 2012.

- The price of imported gas, similarly to crude prices, is denominated chiefly in the US dollars, which determines the value of the largest item in the Group's expenses and a portion of revenue generated by the Exploration and Production segment.
- In Q1 2012, the average USD/PLN exchange rate was 3.22, up by almost **12%** on Q1 2011 (2.88), and down by **2%** on Q4 2011.
- Thus, in PLN-terms the nine-month average price of petroleum products in Q1 2012 was **364 PLN/boe**, down by 1% on Q4 2011 and up by **57%** year on year.

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

Financial indebtness

Use of debt under the financing programmes as at March 31st 2012 (PLN m)



PGNiG Group's debt (PLN m)

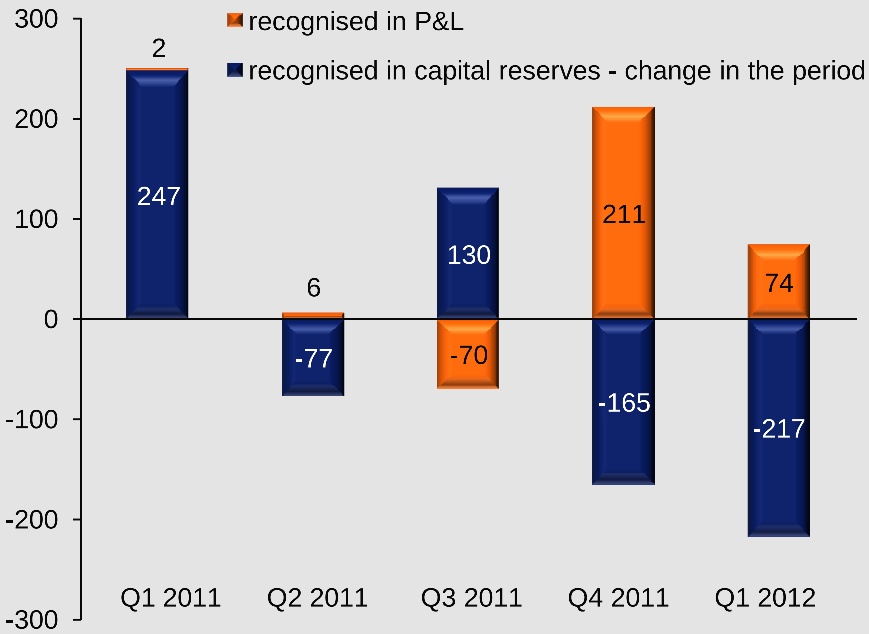
- The value of the domestic notes issue programme increased from **PLN 3bn to PLN 7bn**; the notes' maturity was extended until July 31st 2015.
- Reserve Based Loan (PGNiG Norway) – up to **USD 400m.**
- Five-year **EUR 1.2bn programme for the issue of eurobonds with maturity of up to 10 years**. February 10th 2012 saw the first issue of EUR 500m bonds, with a **4%** coupon.

- The **PLN 2.5bn increase in debt** from the end of 2011, to PLN 6bn, was due to the higher requirement for external financing to implement the Group's strategy.
- Additional funds were raised mainly from **new issues of domestic notes** (PLN 0.7bn) and **the first issue as part of the eurobond programme** (EUR 500m).

* According to National Bank's of Poland exchange rates as of March, 30th 2012 for EUR (eurobonds) and USD (Reserve Based Loan).

Market risk hedging policy

Result on derivative instruments* (PLN m)



From 2005 to 2011, with the currency transaction value of **PLN 47bn**, the cumulative result on the transactions was PLN -16.5m, which represents **currency hedging costs of 0.035%** (including option premiums paid). In 2010-2011, the value of commodity trades was USD 5.6bn, yielding a gain of PLN 316m.

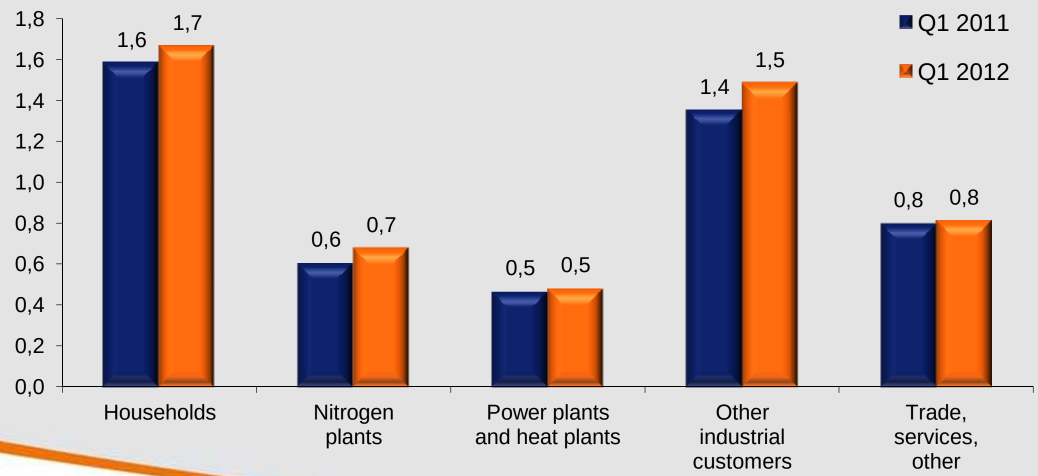
- In Q1 2012, the PGNiG Group reported a negative result on derivative transactions (both realised and unrealised), which reduced the Company's equity and financial result by **PLN -143m**:
  - PLN -217m related to changes in equity, and
  - PLN 74m related to valuations of derivative instruments recognised in profit or loss (realised and unrealised).
- To compare, in Q1 2011 the Group reported a net gain on hedging transactions, of **PLN 249m**.
- Hedging transactions executed by the Group:
  - purchase of a European call option
  - zero-cost collar option strategies (risk reversal)
  - forward contracts
  - cross-currency interest rate swap
  - risk reversal zero-cost collar option strategies (Asian options)
  - purchase of Asian commodity call options

* Without foreign exchange differences

Natural gas (I)

PGNiG Group*	Q1 2011	Q1 2012	*change*
Production volume (million m³)	1,130	**1,138**	*0,6%*
Import volume (million m³)	3,130	**2,999**	*(4,3%)*
Sales volume (million m³)	4,805	**5,121**	*6,6%*
Distribution volume (million m³)	3,349	**3,449**	*3%*
Gas sales revenue (PLN m)	6,416	**7,426**	*16%*
High-methane gas (E)	6,014	**6,991**	*16%*
Nitrogen-rich gas (Ls, Lw)	402	**435**	*8%*

Customers' share in gas sales volume (bn m³)

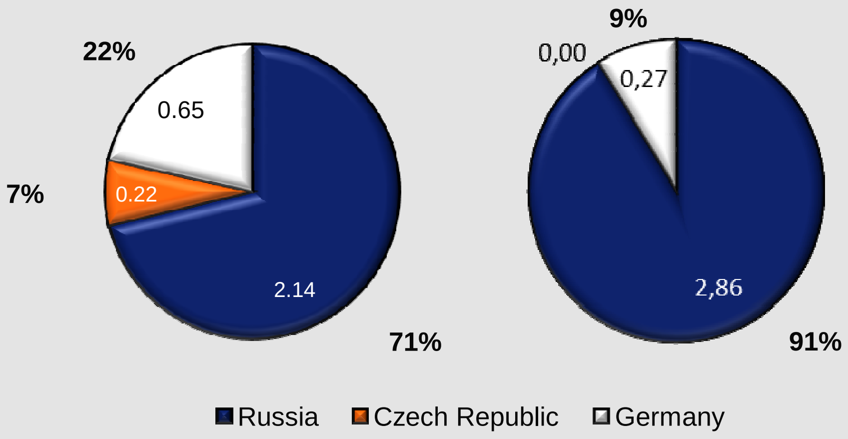


- Higher consumption of natural gas by households was due to lower temperatures. The average temperature in February, measured at the Rzeszów reference point, was **-7.8 °C**. February 2012 has been the coldest month since PGNiG's first stock exchange listing in 2005.
- A substantial **increase in demand for gas** was also seen among **nitrogen processing plants** (up by 12%) and other **industrial customers** (up by nearly 10%).
- In Q1 2012, the gas sales volume reached an all-time high of PLN 5.1bn m3. **The gas fuel tariff, however, did not reflect gas purchase costs**, therefore the high sales had an adverse effect on PGNiG's financial performance.

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

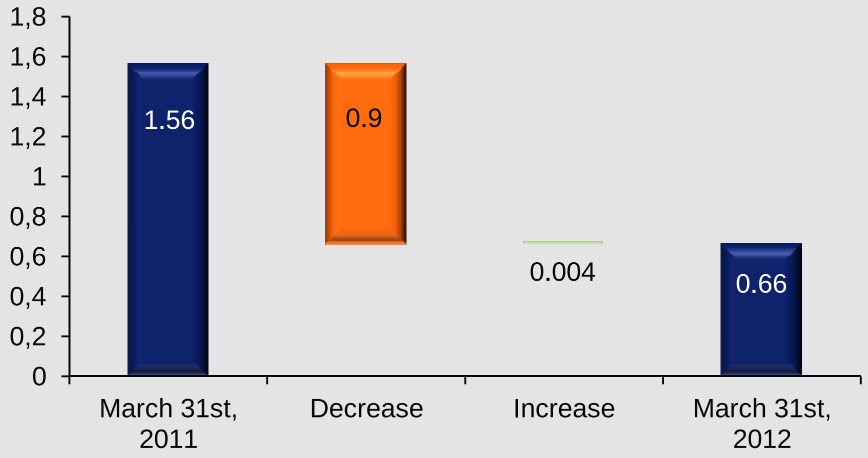
Natural gas(II)

Gas imports (bln m^3)



- To optimise the cost of gas purchases in Q1 2012, **860m m^3 of gas** was acquired west of Poland (Germany + Czech Republic) by using the expanded interconnector in Lasów, virtual reverse flow at the Yamal pipeline, and the Moravia interconnector. To compare, in Q1 2011 the volume of gas acquired in this way was 275m m^3, i.e. almost 600m m^3 less. At the same time, imports from Russia fell from **2.8bn to 2.1bn m^3**.

Gas in storage (bln m^3)



- A strong increase in gas imports in Q2 and Q3 2011 allowed PGNIG to fill the underground gas storage facilities to capacity before the winter season. As at the end of December 2011, the volume stored exceeded **1.5bn m^3 and 900m m^3** of gas could be withdrawn during the first three months of 2012. This also enabled PGNiG to reduce imports by **4.3%** in Q1 2012, when gas prices were higher.

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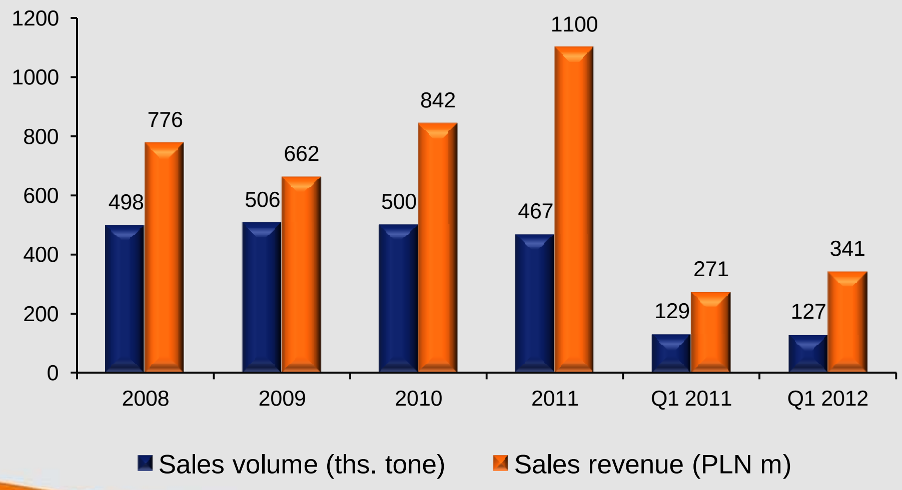
Crude oil

PGNiG Group*	Q1 2011	Q1 2012	change
Production volume (ths. t)	133	**128**	*(4%)*
Sales volume (ths. t)	129	**127**	*(2%)*
Sales revenue (PLN m)	271	**343**	*26%*
Oil unit price (PLN/t)	2,102	**2,703**	*29%*
Average price of Brent Dated oil for the period (USD/bbl)	105	**119**	*12%*

Oil sales volume and revenues*



- The slight year-on-year decline of crude oil output was caused by the lack of new fields going onstream in 2011 and by the natural decrease in output from the producing fields.
- In mid-2012, new wells are to be connected at the Barnówko-Mostno-Buszewo field (at present our largest field), whereas the launch of production from the LMG field is scheduled for 2013.
- The significant rise of crude prices translated into higher revenue from crude sales. In Q1 2012, the average price of Brent crude was USD 119, **up by 12%** year on year. Expressed in the złoty, the crude oil price per tonne rose by **29%** over the year.
- Domestic crude oil production in 2012 is forecast to reach **480 thousand tonnes**, and in 2013 – to **750 thousand tonnes.**

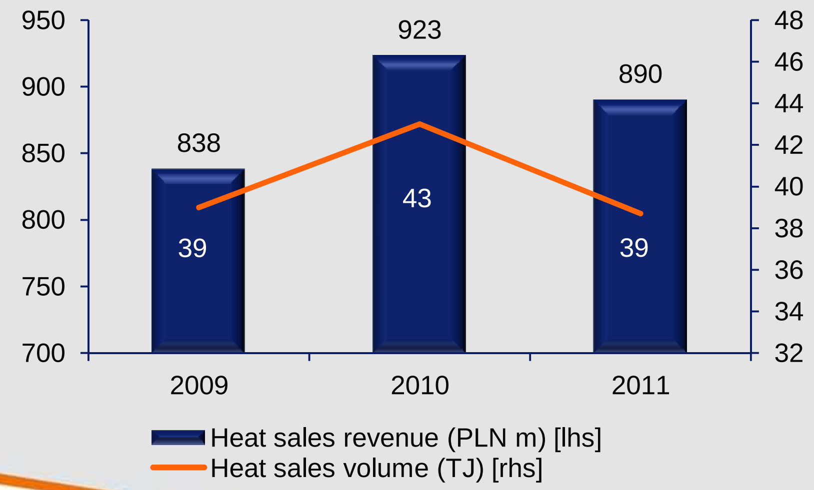
* For crude and condensate (together with tests from production).

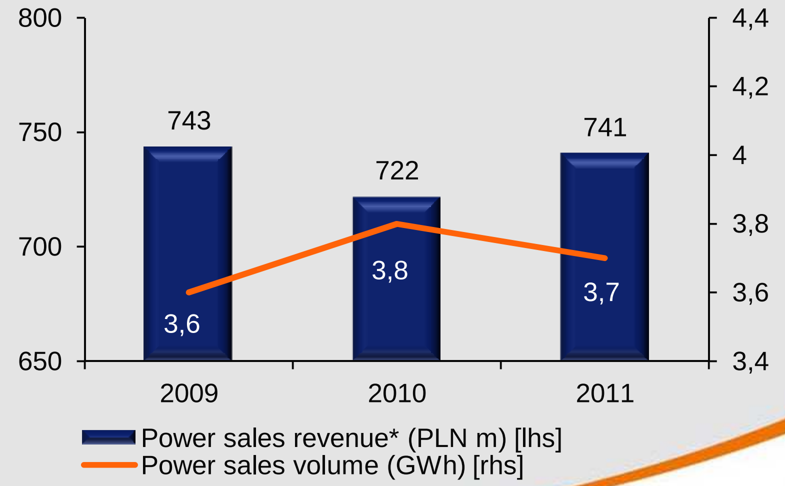
Heat and power – PGNiG Termika

	1Q 2011 VHP	1Q 2012 PGNiG Termika	*change*
Heat sales volume (TJ)	17,354	**17,721**	*2%*
Heat sales revenue (PLN m)	348	**376**	*8%*
Power sales volume (GWh)	1,400	**1,403**	*0%*
Power sales revenue* (PLN m)	326	**370**	*13%*

- Heat and electricity are generated by PGNiG Termika (former Vattenfall Heat Poland), acquired on January 11th 2012 for **PLN 3bn**.
- The installed thermal capacity of PGNiG Termika is **4,782 MWt**, and its electric power is **963 MWe**. This represents more than 23% of the total installed thermal capacity in Poland, satisfying approximately **75%** of heat demand in Warsaw and **98%** in the SPEC network.

Historical revenue and heat and electricity sales volumes of Vattenfall Heat Poland



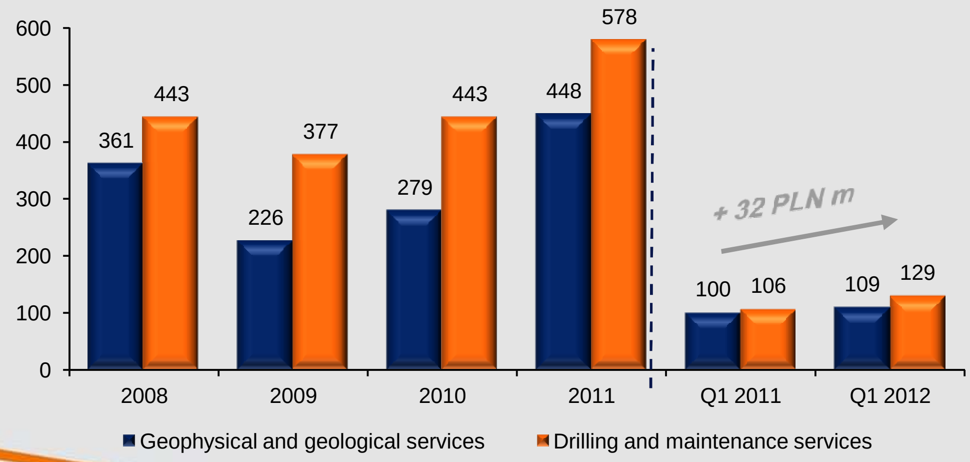


* Including certificates of origin for electricity

Other sales

Sales revenue PGNiG Group (PLN m)	Q1 2011	Q1 2012	*change*
Helium	14	**33**	*141%*
Propane-butane gas (LPG)	16	**18**	*14%*
LNG	9	**13**	*47%*
Exploration services, herein:	206	**238**	*16%*
Geophysical and geological services	100	**109**	*9%*
Drilling and maintenance services	106	**129**	*22%*

Revenues from exploration services (PLN m)



- The growth in revenue from sales of exploration services (geophysical/geological, drilling and maintenance services) followed from the stronger demand for these services, especially in Poland, where it has been bolstered by the **growing interest in shale gas exploration.**
- The **141%** increase in revenue from helium sales compared with Q1 2011 follows from a 4% increase in helium output and from a higher unit selling price, which is co-related with petroleum product prices.
- The LNG production and sales volume rose by 30% on Q1 2011, which, combined with growing prices, boosted the sales revenue by **47%**.
- In Q1 2012, production and sales volume of propane-butane (LPG) increased by almost 5% year on year, while revenue generated by this product went up by **14%**.

Operating expenses

PGNiG Group (PLN m)	Q1 2011	Q1 2012	change
Total operating expenses	**(5,866)**	**(8,647)**	***47%***
Cost of gas sold	(4,155)	(5,886)	*42%*
Other raw materials and consumables used	(157)	(193)	*22%*
Fuel for heat and power generation	-	(412)	-
Employee benefits	(598)	(695)	*16%*
Depreciation and amortisation	(390)	(455)	*17%*
OGP GAZ-SYSTEM transmission services	(415)	(418)	*1%*
Cost of written-off dry wells	(86)	(59)	*(32%)*
Other contracted services	(318)	(324)	*2%*
Other operating expenses net	(13)	(357)	*2732%*
Cost of products and services for own needs	265	151	*(43%)*

- The largest item of operating expenses was the cost of gas sold. In Q1 2012, the cost of gas sold rose by **42%**, which was due to a 57% increase in the nine-month average price of petroleum products expressed in the złoty. Higher cost of imported gas was offset by a **4.3% drop in imports** and an **increase in volumes of gas sourced from countries west and south of Poland (to 860m m3).**

- The cost items for Q1 2012 reflect the consolidation of **PGNiG Termika**.
- The increase in other net operating expenses is chiefly a result of negative foreign exchange differences related to operating activities (**PLN 187m**), as well as a quarter-to-quarter change of impairment losses.
- A decline in costs of products and services for own needs was caused by the downscaling of intercompany sales of project-execution services by PGNiG subsidiaries.
- "Fuels for heat and electricity generation" include costs of coal, biomass and other fuels used to produce heat and electricity. In Q1 2011, the costs at Vattenfall Heat Poland were PLN 360m*.
- The increase in employee benefits is mainly an outcome of the consolidation of PGNiG Termika and a wider scope of exploration work performed by the companies in the Exploration and Production segment.

* Dane Vattenfall Heat Poland według PSR.

Summary

LOSS IN TRADE & STORAGE SEGMENT

Higher crude oil prices and appreciation of the US dollar against the złoty continuing since mid-July 2011 led to an increase in costs of gas purchases by the Company, which was not reflected in the gas fuel tariff in Q1 2012.

The situation resulted in a **negative margin (-10%)** on sales of gas, and consequently in a **PLN 1bn** drop in the operating result of the Trade and Storage segment compared with Q1 2011. In Q1 2012, the nine-month average price of crude oil was **USD113/boe**, up by 40% on Q1 2011, and the USD/PLN exchange rate exceeded **PLN 3.2.**

RECORD-HIGH GAS SALES

Q1 2012 saw record-high quarterly sales of gas (**5.1bn m3**) and a high distribution volume (3.45bn m3). However, the margin on high-methane gas sales was the lowest since January 2009 and stood at **-10%.**

PRODUCT DIVERSIFICATION

Natural gas remains the PGNiG Group's core product (accounting for 83% of sales revenue in Q1 2012). However, following the consolidation of PGNiG Termika, **heat and electricity** gained importance, as these products together generate **over 8%** of the Group's sales revenue, which is double the current contribution from sales of crude oil (4%).

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i Gazownictwo SA

Thank you for your attention