DIRECTORS' REPORT ON THE OPERATIONS OF PGNIG S.A. IN H1 2013

Polskie Górnictwo Naftowe i Gazownictwo SA

Warsaw, August 1st 2013

Table of contents

Section I: General Information on the Company

1. Incorporation

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (PGNiG S.A.), with its registered office in Warsaw, ul. Marcina Kasprzaka 25, was incorporated through transformation of the state-owned enterprise Polskie Górnictwo Naftowe i Gazownictwo into a state-owned stock company. The Deed of Transformation, together with the Company’s Articles of Association, were executed in the form of a notarial deed (No. A 18871/96 in the Register of Notarial Deeds) on October 21st 1996.

On October 30th 1996, the Company was entered in the commercial register under the name of Polskie Górnictwo Naftowe i Gazownictwo S.A. of Warsaw, under No. RHB 48382. As of the date of entry in the commercial register, the Company became a legal entity. On November 14th 2001, it was entered into the register of entrepreneurs of the National Court Register under No. 0000059492.

Currently, the share capital of PGNiG S.A. amounts to PLN 5.9bn and is divided into 5,900,000,000 shares with a par value of PLN 1 per share.

The Company floated its shares on the Warsaw Stock Exchange on September 23rd 2005. PGNiG shares have been listed on the Warsaw Stock Exchange since October 20th 2005.

PGNiG S.A. is the largest entity on the Polish markets of natural gas exploration, production and trade. PGNiG S.A. is the leader in all areas of the Polish gas industry; natural gas imports, deposit exploration, oil and gas production, storage of gas fuels, and sale of natural gas.

2. Organisational structure of PGNiG S.A.

On January 15th 2013, the business names of six gas trading units of PGNiG S.A. were changed to Trading Branch in Wrocław, Trading Branch in Zabrze, Trading Branch in Tarnów, Trading Branch in Warsaw, Trading Branch in Gdańsk, and Trading Branch in Poznań.

On April 9th 2013 the Mogilno Underground Gas Storage Cavern Facility Branch in Palędzie Dolne was established. The formation of a new branch was a part of the process of reorganising the storage operations at the PGNiG Group, aimed at streamlining operations by transferring the storage assets, as well as the technical and management competencies related to storage, to Operator Systemu Magazynowania Sp. z o.o.

On May 27th 2013, the Wholesale Trading Branch in Warsaw was established to manage the organisation, supervision and execution of the wholesale of natural gas, electricity and related products within the PGNiG Group.

PGNiG S.A. has a multi-branch structure, which as at June 30th 2013 comprised the Head Office and 17 branches. The table below presents the business range of PGNiG S.A.'s organisational units.

Business range of PGNiG S.A.'s organisational units

Organisational unit	Business range
Head Office in Warsaw	Supervision of the operations of the Company's branches Owner's supervision of the operations of the PGNiG Group
Geology and Hydrocarbon Production Branch in Warsaw	Management and coordination of exploration for and production of natural gas and crude oil
Sanok Branch	Production of natural gas and crude oil Direct sale of off-system natural gas and other products and services
Zielona Góra Branch	Production of natural gas and crude oil Direct sale of off-system natural gas and other products and services
Odolanów Branch	Processing of nitrogen-rich natural gas into high-methane gas
Operator Branch in Pakistan	Exploration for and production of hydrocarbons in licence areas in Pakistan
Branch in Egypt	Exploration for and production of hydrocarbons in licence areas in Egypt
Branch in Denmark	Exploration for and production of hydrocarbons in licence areas in Denmark
Mogilno Underground Gas Storage Cavern Facility Branch in Palędzie Dolne	Development and maintenance of operations of the Mogilno Underground Gas Storage Cavern Facility
Well Mining Rescue Station in Kraków	Provision of rescue services to the petroleum extraction industry
Wholesale Trading Branch in Warsaw	Trade in natural gas, electricity and related products
Trading Branch in Wrocław	Comprehensive customer service related to sale of natural gas and other products and services
Trading Branch in Zabrze	
Trading Branch in Tarnów	
Trading Branch in Warsaw	
Trading Branch in Gdańsk	
Trading Branch in Poznań	
Central Measurement and Testing Laboratory in Warsaw	Provision of services ensuring the accuracy and reliability of measurements related to natural gas

As at June 30th 2013, PGNiG SA operated foreign representative offices in Moscow (Russia), Brussels (Belgium), Kiev (Ukraine) and Vysokoye (Belarus).

3. Structure of the PGNiG Group

As at June 30th 2013, the Group comprised PGNiG SA (the Parent), and 34 production and service companies, including:

- 25 direct subsidiaries of PGNiG SA
- 9 indirect subsidiaries of PGNiG SA.

The list of the PGNiG Group companies as at June 30th 2013 is presented in the table below.

Companies of the PGNiG Group

	Name	Share capital (PLN)	Value of shares held by PGNiG SA (PLN)	Ownership interest held by PGNiG SA	% of total vote held by PGNiG SA
	Direct subsidiaries of PGNiG SA – first tier				
1	Exalo Drilling S.A.	981,500,000.00	981,500,000.00	100.00%	100.00%
2	GEOFIZYKA Kraków S.A.	64,400,000.00	64,400,000.00	100.00%	100.00%
3	GEOFIZYKA Toruń S.A.	66,000,000.00	66,000,000.00	100.00%	100.00%
4	PGNiG Upstream International AS (NOK)[1)]	1,092,000,000.00	1,092,000,000.00	100.00%	100.00%
5	Polish Oil and Gas Company - Libya B.V. (EUR)[1)]	20,000.00	20,000.00	100.00%	100.00%
6	PGNiG Sales & Trading GmbH (EUR)[1)]	10,000,000.00	10,000,000.00	100.00%	100.00%
7	Operator Systemu Magazynowania Sp. z o.o.	5,000,000.00	5,000,000.00	100.00%	100.00%
8	INVESTGAS S.A.	502,250.00	502,250.00	100.00%	100.00%
9	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000.00	658,384,000.00	100.00%	100.00%
10	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000.00	1,300,338,000.00	100.00%	100.00%
11	Karpacka Spółka Gazownictwa Sp. z o.o.	1,484,953,000.00	1,484,953,000.00	100.00%	100.00%
12	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000.00	1,255,800,000.00	100.00%	100.00%
13	Pomorska Spółka Gazownictwa Sp. z o.o.	655,199,000.00	655,199,000.00	100.00%	100.00%
14	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000.00	1,033,186,000.00	100.00%	100.00%
15	Geovita S.A., which has been classified as held for sale	86,139,000.00	86,139,000.00	100.00%	100.00%
16	PGNiG Energia S.A.	41,000,000.00	41,000,000.00	100.00%	100.00%
17	PGNiG Technologie S.A.	182,127,240.00	182,127,240.00	100.00%	100.00%
18	BUD-GAZ PPUH Sp. z o.o. w likwidacji (in liquidation)	51,760.00	51,760.00	100.00%	100.00%
19	Polskie Elektrownie Gazowe Sp. z o.o.	1,212,000.00	1,212,000.00	100.00%	100.00%
20	PGNiG TERMIKA S.A.	650,000,000.00	650,000,000.00	100.00%	100.00%
21	PGNiG Finance AB (SEK)[1)]	500,000.00	500,000.00	100.00%	100.00%
22	PGNIG Serwis Sp. z o.o.	9,995,000.00	9,995,000.00	100.00%	100.00%
23	PGNIG SPV 4 Sp. z o.o.	9,995,000.00	9,995,000.00	100.00%	100.00%
24	BSiPG Gazoprojekt S.A.[2)]	4,000,000.00	900,000.00	22.50%	22.50%
25	NYSAGAZ Sp. z o.o.	9,881,000.00	6,549,000.00	66.28%	66.28%

Companies of the PGNiG Group (cont.)

	Direct subsidiaries of PGNiG SA – second tier	Share capital (PLN)	Value of shares held by PGNiG SA's subsidiaries (PLN)	Ownership interest held by PGNiG SA's subsidiaries	% of total vote held by PGNiG SA's subsidiaries
26	Powiśle Park Sp. z o.o.	81,131,000.00	81,131,000.00	100.00%	100.00%
27	Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation)	165,000.00	165,000.00	100.00%	100.00%
28	XOOL GmbH (EUR)[1)]	500,000.00	500,000.00	100.00%	100.00%
29	Oil Tech International F.Z.E. (USD)[1)]	20,000.00	20,000.00	100.00%	100.00%
30	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	1,806,500.00	1,806,500.00	100.00%	100.00%
31	Poltava Services LLC (EUR)[1)]	20,000.00	19,800.00	99.00%	99.00%
32	Ośrodek Badawczo - Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o.	3,000,000.00	2,565,350.00	85.51%	85.51%
33	GAZ Sp. z o.o.	300,000.00	240,000.00	80.00%	80.00%
34	PT Geofizyka Torun Indonesia LLC w likwidacji (in liquidation) (IDR)[1), 3)]	8,773,000,000.00	4,825,150,000.00	55.00%	55.00%

[1)] In foreign currencies.
[2)] PGNiG SA is entitled to appoint the majority of the company's Supervisory Board members.
Also, PGNiG SA holds a 52.50% indirect interest in the company through PGNiG Technologie S.A.
[3)] Paid-up capital: USD 40,687.13.

Changes in the PGNiG Group's structure in H1 2013:

- On January 2nd 2013, the Extraordinary General Meeting of BUD-GAZ PPUH Sp. z o.o. resolved to wind up the company and commence the liquidation process.
- On January 25th 2013, the Extraordinary General Meeting of PGNiG Poszukiwania S.A. resolved to amend the company's Articles of Association by changing the company name to Exalo Drilling S.A. The amendment was registered with the National Court Register on February 6th 2013.
- On February 1st 2013, the merger of PGNiG Poszukiwania S.A. (now Exalo Drilling S.A.) with PNiG Kraków S.A., PNiG NAFTA S.A., PNiG Jasło S.A., PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o. was registered with the National Court Register.
- On March 27th 2013, the General Meeting of PGNiG Norway AS resolved to amend the company's Articles of Association by changing the company name to PGNiG Upstream International AS; the change of company name was registered on May 23rd 2013.
- On April 15th 2013, INVESTGAS S.A. acquired 307 shares in Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o.; INVESTGAS S.A.'s interest in the company's share capital increased from 85% to 85.51%.
- On May 14th 2013, the General Meeting of Biogazownia Ostrowiec Sp. z o.o. resolved to wind up the company and commence the liquidation process; the changes were registered with the National Court Register on July 29th 2013.

Changes in the Group companies' share capital in H1 2013:

- Registration of share capital increase at Biogazownia Ostrowiec Sp. z o.o. by PLN 60,000, to PLN 165,000, by way of an issue of 1,200 new shares with a par value of PLN 50 per share; the new shares were acquired by PGNiG Energia S.A., the company's sole shareholder, and paid for with cash;
- Increase in the share capital of PGNiG SPV 4 Sp. z o.o. by PLN 990,000, to PLN 995,000, by way of an issue of 19,800 new shares with a par value of PLN 50 per share, which were subscribed for by PGNiG SA and fully paid for with cash; the increase was registered with the National Court Register on March 6th 2013;

- Increase in the share capital of PGNiG TERMIKA S.A. by PLN 33,984,000, to PLN 896,300,000, by way of an issue of 3,398,400 Series D shares; all new issue shares were subscribed for by PGNiG SA; PGNiG SA's interest in the company's share capital increased to 72.52%; the increase was registered with the National Court Register on March 22nd 2013;
- Reduction of the share capital of PGNiG TERMIKA S.A. by PLN 246,300,000, to PLN 650,000,000, by way of retirement of all of the company's 24,630,000 treasury shares without consideration (i.e. 24,629,609 shares in respect of which the company did not exercise the voting rights, and 391 shares acquired from non-controlling shareholders under Art. 418 of the Commercial Companies Code); PGNiG SA holds 100% interest in PGNiG TERMIKA S.A.'s share capital and voting rights; the reduction was registered with the National Court Register on May 27th 2013; the court also registered PGNiG SA as the sole shareholder in the company;
- Increase in the share capital of PGNiG Technologie S.A. by PLN 15,213,240, to PLN 182,127,240; all of the new shares were subscribed for by PGNiG SA and fully paid for with a non-cash contribution in the form of 21,000 shares in B.S.i P.G. Gazoprojekt S.A.; PGNiG SA's direct interest in the share capital of B.S.i P.G. Gazoprojekt S.A. was reduced to 22.50%, while its indirect interest through PGNiG Technologie S.A. is 52.50%; the changes were registered with the National Court Register on June 21st 2013.

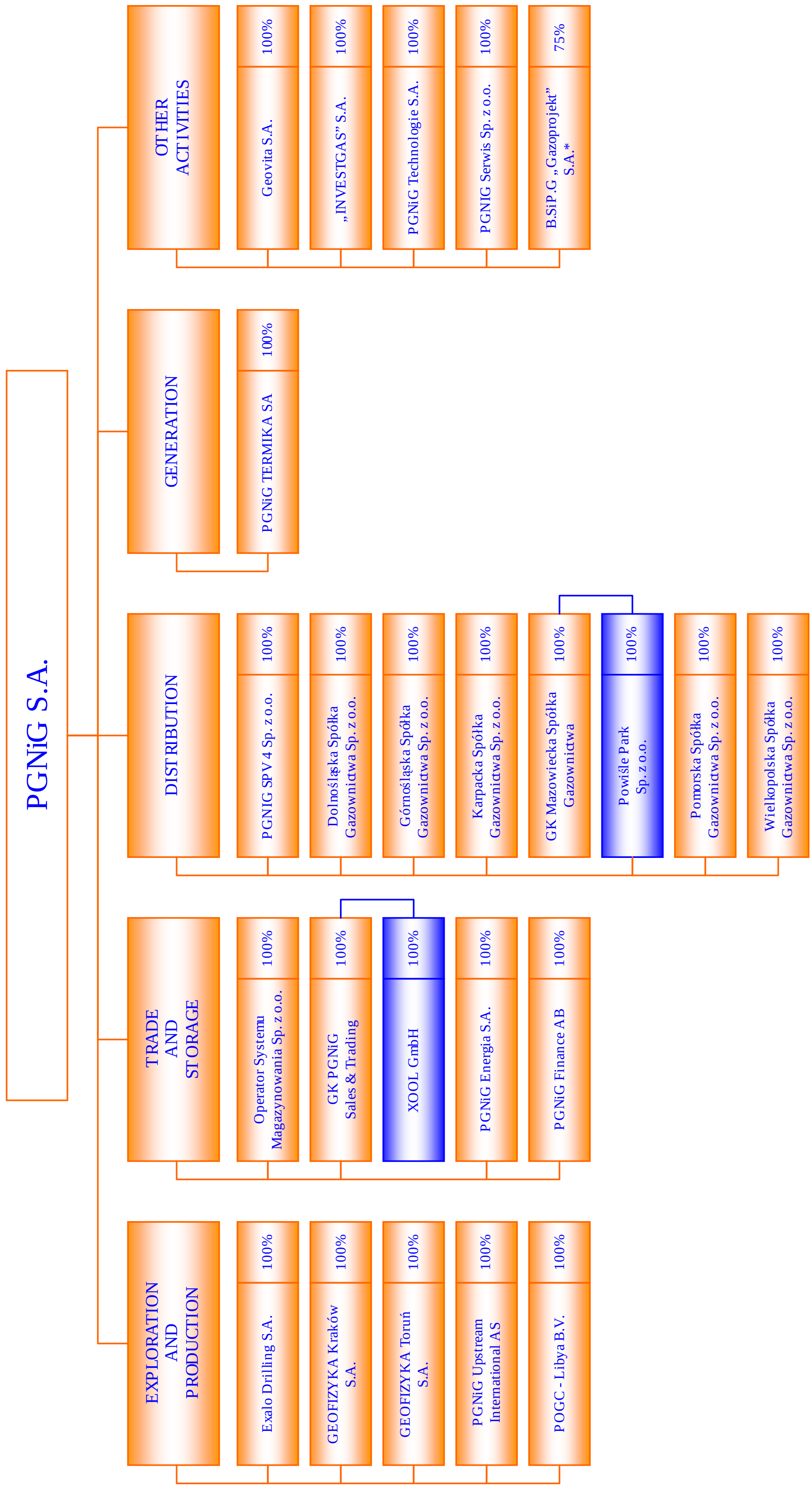
<u>Changes subsequent to the end of the reporting period</u>

The following changes in the Group's structure occurred subsequent to the end of the reporting period:

- The merger, pursuant to Art. 492.1.1 of the Commercial Companies Code, of PGNiG SPV 4 Sp. z o.o. (acquiring company) with six Gas Distribution Companies (target companies), being Mazowiecka Spółka Gazownictwa Sp. z o.o., Wielkopolska Spółka Gazownictwa Sp. z o.o., Karpacka Spółka Gazownictwa Sp. z o.o., Pomorska Spółka Gazownictwa Sp. z o.o., Dolnośląska Spółka Gazownictwa Sp. z o.o. and Górnośląska Spółka Gazownictwa Sp. z o.o.; as a result, the share capital of PGNiG SPV 4 Sp. z o.o. was increased by PLN 10,453,211,550, to PLN 10,454,206,550; the merger and the share capital increase were registered with the National Court Register on July 1st 2013;
- The merger, pursuant to Art. 492.1.1 of the Commercial Companies Code, of Operator Systemu Magazynowania Sp. z o.o. (acquiring company) with INVESTGAS S.A. (target company); as a result, the share capital of Operator Systemu Magazynowania Sp. z o.o. was increased by PLN 10,290,000, to PLN 15,290,000; the merger and the share capital increase were registered with the National Court Register on July 1st 2013;
- The merger, pursuant to Art. 492.1.1 of the Commercial Companies Code, of PGNiG SA (acquiring company) with PGNiG Energia S.A. (target company) without share capital increase; the merger was registered with the National Court Register on July 23rd 2013.

The chart below presents the consolidated companies of the PGNiG Group as at June 30th 2013, by segments.

CONSOLIDATED COMPANIES OF THE PGNiG GROUP



* PGNiG SA has the right to appoint the majority of the company’s Supervisory Board members.
PGNiG SA’s direct interest in the share capital of B.SiP.G „Gazoprojekt” S.A. is 22.50%, and its indirect interest through PGNiG Technologie S.A. is 52.50%.

4. Employment

The table below presents employment at the PGNiG Group as at June 30th 2013, by segments. Employment at the PGNiG Head Office is presented in the Trade and Storage segment.

Workforce by segments (no. of staff)

	Jun 30 2013
Exploration and Production	4,194
Trade and Storage	3,803
Other Activities	39
Total	8,036

Compared with December 31st 2012, the number of employees at PGNiG SA decreased by 704. The change is mainly attributable to the launch in H2 2012 of the voluntary termination programme for Company employees. Most of the employees who participated in the voluntary termination programme terminated their employment contracts with effect as of December 31st 2012.

Since January 2009, the Group has operated the Programme for Workforce Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3). The term of the Programme has been extended for another calendar year. The Programme is operated on a stand-by basis. It may be implemented in extraordinary circumstances and requires all the companies to follow a procedure which is uniform across the Group.

In H1 2013, the Programme covered 138 former employees of PGNiG Technologie SA. One-off redundancy payments for the terminated employees were financed with PGNiG SA's Central Restructuring Fund reserve.

5. Sales and production

In H1 2013, the PGNiG Group recorded revenue of PLN 14.2bn, 90% of which was derived from sales of natural gas.

Revenue (PLNm)

	H1 2013
Natural gas, including:	12,741
- high-methane gas	11,964
- nitrogen-rich gas	777
Crude oil	948
Condensate	3
Helium	92
Propane-butane	32
Electricity	4
Other sales	375
Total	14,195

In H1 2013, PGNiG SA sold 8.1bcm of natural gas, of which 95% were sales from the transmission and distribution systems and the balance – direct gas sales from the fields.

Natural gas sales volume (mcm)

	H1 2013
Trade and Storage	7,729.7
Exploration and Production	369.8
Total	8,099.5

In H1 2013, PGNiG SA produced a total of 2.1bcm of natural gas, measured as high-methane gas equivalent.

Natural gas production volume (mcm)

	H1 2013
Poland	2,116.3
Abroad	0.9
Total	2,117.2

Section II: Company's Governing Bodies

1. Management Board

As at January 1st 2013, the composition of the PGNiG Management Board was as follows:

- Grażyna Piotrowska-Oliwa – CEO and President of the Management Board
- Radosław Dudziński – Vice-President, Trade
- Sławomir Hinc – Vice-President, Finance
- Mirosław Szkałuba – Vice-President, Procurement and IT.

On January 22nd 2013, Mr Sławomir Hinc tendered his resignation from the position of Vice-President of the PGNiG SA's Management Board for Finance, with effect as of March 31st 2013. The reason of the resignation was his appointment as President (CEO) of PGNiG Norway AS (now PGNiG Upstream International AS).

On February 27th 2013, the PGNiG Supervisory Board appointed, with effect as of April 1st 2013, Mr Krzysztof Bocian to the position of Vice-President of the Management Board for Exploration and Production, and Mr Jacek Murawski to the position of Vice-President of the Management Board and Chief Financial Officer, for the joint term of office expiring on March 13th 2014.

On March 30th 2013, the PGNiG Management Board was notified that Mr Krzysztof Bocian submitted a declaration to avoid legal effects of acceptance of the position of Vice-President of the PGNiG Management Board for Exploration & Production. As a result, Mr Krzysztof Bocian could not take the position. On April 2nd 2013, the PGNiG Supervisory Board rescinded the resolution to appoint Vice-President of the PGNiG Management Board for Exploration & Production.

On April 29th 2013 the PGNiG Supervisory Board removed Ms Grażyna Piotrowska-Oliwa, CEO and President of the Management Board, and Mr Radosław Dudziński, Vice-President of the Management Board for Trade, from the PGNiG Management Board and their positions. The reason of the removal was loss of trust and confidence of the PGNiG Supervisory Board towards these members of the Management Board. At the same time, the PGNiG Supervisory Board delegated Mr Mirosław Szkałuba, Vice-President of the Management Board, to coordinate the Management Board's work until appointment of the new President.

On May 6th 2013 the PGNiG Supervisory Board initiated the qualification process for the positions of President of the Management Board and Vice-President of the Management Board for Trade.

On June 11th 2013 the PGNiG Supervisory Board appointed Mr Jerzy Kurella as Vice-President of PGNiG Management Board for Trade, with effect as of June 14th 2013, for a joint term of office expiring on March 13th 2014. The PGNiG Supervisory Board also resolved to close the qualification procedure for the position of President of the PGNiG Management Board without electing a candidate.

As at June 30th 2013, the composition of the PGNiG Management Board was as follows:

- Mirosław Szkałuba – Vice-President
- Jacek Murawski – Vice-President, Finance
- Jerzy Kurella – Vice-President, Trade.

Division of responsibilities within the Management Board

In H1 2013, two resolutions provided for the division of responsibilities within the PGNiG Management Board.

Pursuant to the resolution of the PGNiG Supervisory Board on the division of powers between members of the Management Board, dated September 26th 2012:

- The President of the Management Board was responsible for management of the PGNiG Group and supervision of human resources, strategy, marketing and communication, audit and internal control, information protection and defence matters, and oversaw the operation of the PGNiG representative office in Brussels;
- Vice-President of the Management Board for Trade supervised gas purchases, infrastructure and trading activities. His responsibilities also included oversight over foreign representative offices of PGNiG SA (except the office in Brussels);
- Vice-President of the Management Board for Finance was responsible for economics, accounting, business controlling, finance management, taxes, investor relations and investments;
- Vice-President of the Management Board for Procurement and IT supervised assets and administration, Company's and Group's procurement strategies, as well as IT development; his responsibilities also included supervision and coordination of petroleum extraction operations.

Pursuant to the resolution of the PGNiG Supervisory Board on the division of powers between members of the Management Board, dated April 29th 2013:

- Vice-President of the Management Board coordinated the work of the Management Board in all areas of PGNiG Group's operations and carried out all other actions which, pursuant to the Company's internal regulations, fall within the scope of powers of the President of the Management Board. He was responsible for human resources management, strategy, marketing and communication, audit and internal control, information protection, defence matters and IT management, as well as supervision and coordination of work related to petroleum extraction, investments, gas purchases, infrastructure and trading activities; his responsibilities also included oversight over foreign representative offices of PGNiG SA;

- Vice-President of the Management Board for Finance was responsible for economics, accounting, business controlling, finance management, taxes, investor relations and the Company's tariff policy, as well as assets and administration.

On July 1st 2013, the PGNiG Supervisory Board appointed Mr Jerzy Kurella, Vice-President, as acting President of the Management Board until the new President is elected, and approved Management Board's resolution on the division of powers between the Management Board members, whereby:

- Vice-President of the Management Board, in addition to being the acting President, is also responsible for human resources management, strategy, marketing and communication, audit and internal control, information protection, defence matters and the Company's tariff policies; he supervises and coordinates work related to petroleum extraction, gas purchases, infrastructure and trading activities; his responsibilities also include oversight over foreign representative offices and branches of PGNiG SA;

- Vice-President of the Management Board for Finance is responsible for economics, accounting, business controlling, finance management, taxes, investor relations, Company's and Group's procurement strategies, as well as formulation of their investment policies;

- Vice-President of the Management Board for IT supervises assets and administration, IT development and management, and cooperation with trade unions; also responsible for compliance with occupational health and safety standards and fire safety regulations.

2. Supervisory Board

As at January 1st 2013, the composition of the PGNiG Supervisory Board was as follows:

- Wojciech Chmielewski – Chairman of the Supervisory Board
- Marcin Moryń – Deputy Chairman of the Supervisory Board
- Mieczysław Kawecki – Secretary of the Supervisory Board
- Agnieszka Chmielarz – Member of the Supervisory Board
- Józef Głowacki – Member of the Supervisory Board
- Janusz Pilitowski – Member of the Supervisory Board
- Mieczysław Puławski – Member of the Supervisory Board
- Ewa Sibrecht-Ośka – Member of the Supervisory Board
- Jolanta Siergiej – Member of the Supervisory Board.

On June 26th 2013, the Extraordinary General Meeting of PGNiG SA removed Mr. Mieczysław Puławski from the Supervisory Board and appointed Mr. Zbigniew Skrzypkiewicz as a new member of the Board.

As at June 30th 2013, the composition of the PGNiG Supervisory Board was as follows:

- Wojciech Chmielewski – Chairman of the Supervisory Board
- Marcin Moryń – Deputy Chairman of the Supervisory Board
- Mieczysław Kawecki – Secretary of the Supervisory Board
- Agnieszka Chmielarz – Member of the Supervisory Board
- Józef Głowacki – Member of the Supervisory Board
- Janusz Pilitowski – Member of the Supervisory Board
- Ewa Sibrecht-Ośka – Member of the Supervisory Board
- Jolanta Siergiej – Member of the Supervisory Board
- Zbigniew Skrzypkiewicz – Member of the Supervisory Board.

Section III: Shareholder Structure

As at June 30th 2013, the share capital of PGNiG SA amounted to PLN 5,900,000,000 and was divided into 5,900,000,000 shares with a par value of PLN 1 per share. The State Treasury was the only shareholder directly holding a large block of PGNiG shares. The shares of all series, that is Series A, A1 and B, were ordinary bearer shares and each share conferred the right to one vote at the General Meeting. The shareholder structure as at June 30th 2013 is presented in the table below:

Shareholder structure

Shareholder	Number of shares as at June 30 2013	% ownership interest as at June 30 2013	Number of votes conferred by shares held	% of total vote at GM as at June 30 2013
State Treasury	4,271,764,202	72.40%	4,271,764,202	72.40%
Other shareholders	1,628,235,798	27.60%	1,628,235,798	27.60%
Total	5,900,000,000	100.00%	5,900,000,000	100.00%

<u>PGNiG shares and shares in PGNiG SA's related entities held by management and supervisory personnel</u>

The table below presents PGNiG shares held by the management and supervisory personnel as at June 30th 2013.

PGNiG shares held by the management and supervisory personnel

Name	Position	Number of shares	Par value of shares (PLN)
Mirosław Szkałuba	Vice-President of the Management Board	9,425	9,425
Mieczysław Kawecki	Secretary of the Supervisory Board	19,500	19,500
Jolanta Siergiej	Member of the Supervisory Board	9,425	9,425

Section IV: Regulatory Environment

1. Licences

As at June 30th 2013, PGNiG SA held the following licences granted by the President of the Polish Energy Regulatory Office under the Energy Law:

- one licence for trade in gas fuels
- one licence to trade in natural gas with foreign partners
- one licence to trade in liquid fuels
- one licence to produce electricity
- one licence to trade in electricity.

On June 14th 2013, the President of the Energy Regulatory Office approved the amendment to the licence for cogeneration of electricity. The amendment pertains to extension of the scope of activities covered by the licence to include another co-generation unit, situated at the oil production facility in Nosówka in the Rzeszów Province.

As at June 30th 2013, PGNiG SA held the following licences, granted under the Polish Geological and Mining Law:

- 94 licences for exploration for and appraisal of crude oil and natural gas deposits
- 1 licence for appraisal of a salt deposit
- 225 licences to produce crude oil and natural gas from deposits
- 9 licences to store gas in underground facilities
- 3 licences for storage of waste.

2. Changes in PGNiG SA's tariffs

Amendment to Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office, dated December 17th 2012 has been in effect since January 1st 2013. On average, the prices and charge rates for the supply of high-methane gas type E, and nitrogen-rich gas types Lw and Ls were reduced by 6.7%, 8.0% and 10.9%, respectively.

On January 25th 2013, the President of the Energy Regulatory Authority approved a change to Gas Fuel Supply Tariff No. 5/2012. The approved change related to the rules of classifying customers to the tariff groups for the supply of nitrogen-rich gas over the distribution network of Wielkopolska Spółka Gazownictwa Sp. z o.o. It was required in order to bring PGNiG SA's tariff in line with the tariff of WSG Sp. z o.o., and concerned the S-8 and Z-8 tariff groups.

The following tables present the average tariffs (PLN/cubic meter) used in settlements with customers purchasing gas fuels, by fuel type and place of delivery.

Area covered by Dolnośląska Spółka Gazownictwa Sp. z o.o.

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1.1	2.7648	2.4969	-9.7%
W-2.1	2.2036	1.9816	-10.1%
W-3.1	2.0209	1.8029	-10.8%
W-4	1.8905	1.6693	-11.7%
W-5 - W-7C	1.7507	1.7071	-2.5%
W-8A - W-10C	1.5063	1.4651	-2.7%

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
S-1	2.0010	1.7900	-10.5%
S-2	1.5888	1.4044	-11.6%
S-3	1.4625	1.3013	-11.0%
S-4	1.3384	1.1801	-11.8%
S-5 - S-7B	1.2677	1.2338	-2.7%
S-8 - S-9	1.1566	1.1225	-2.9%

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
Z-1	1.5830	1.4156	-10.6%
Z-2	1.4510	1.2888	-11.2%
Z-3	1.3004	1.1623	-10.6%
Z-4	1.2209	1.0841	-11.2%
Z-5 - Z-7B	1.2088	1.1793	-2.4%

Area covered by Górnośląska Spółka Gazownictwa Sp. z o.o.

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1.1	2.7337	2.4726	-9.6%
W-2.1	2.2672	2.0440	-9.8%
W-3.1	1.9883	1.7660	-11.2%
W-4	1.9183	1.6909	-11.9%
W-5 - W-7C	1.7732	1.7314	-2.4%
W-8A - W-11C	1.5121	1.4681	-2.9%

Area covered by Karpacka Spółka Gazownictwa Sp. z o.o.

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1.1	2.6153	2.3594	-9.8%
W-2.1	2.1797	1.9590	-10.1%
W-3.1	1.9319	1.7288	-10.5%
W-4	1.8829	1.6843	-10.5%
W-5 - W-7BC	1.7796	1.7355	-2.5%
W-8A - W-10C	1.4811	1.4310	-3.4%

Area covered by Mazowiecka Spółka Gazownictwa Sp. z o.o.

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1.1	2.9951	2.7039	-9.7%
W-2.1	2.0888	1.8693	-10.5%
W-3.1	1.8913	1.6877	-10.8%
W-4	1.8787	1.6755	-10.8%
W-5 - W-7C	1.7536	1.7086	-2.6%
W-8A - W-10C	1.4219	1.3669	-3.9%

Area covered by Pomorska Spółka Gazownictwa Sp. z o.o.

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1.1	2.8368	2.5658	-9.6%
W-2.1	2.2265	2.0058	-9.9%
W-3.1	2.0013	1.8006	-10.0%
W-4	1.9399	1.7451	-10.0%
W-5 - W-7C	1.7992	1.7606	-2.1%
W-8A - W-10C	1.4953	1.4601	-2.4%

Area covered by Wielkopolska Spółka Gazownictwa Sp. z o.o.

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1.1	2.8611	2.5856	-9.6%
W-2.1	2.1348	1.9143	-10.3%
W-3.1	1.9954	1.7881	-10.4%
W-4	1.9050	1.7032	-10.6%
W-5 - W-7C	1.7169	1.6715	-2.6%
W-8A - W-10C	1.4576	1.4140	-3.0%

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
S-1	2.0115	1.8046	-10.3%
S-2	1.5505	1.3774	-11.2%
S-3	1.4196	1.2602	-11.2%
S-4	1.3447	1.1889	-11.6%
S-5 - S-7B	1.2699	1.2365	-2.6%

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
Z-1	1.8231	1.6422	-9.9%
Z-2	1.3904	1.2408	-10.8%
Z-3	1.2569	1.1208	-10.8%
Z-4	1.1900	1.0570	-11.2%
Z-5 - Z-7B	1.1446	1.1157	-2.5%

Customers connected to the transmission grid of OGP GAZ-SYSTEM S.A.

	Tariff No. 5/2012	Amendment to Tariff No. 5/2012	Change (%)
	1	2	2/1
E-1A - E-2C	1.3713	1.3302	-3.0%
Lw-1 - Lw-2	1.0582	1.0196	-3.6%
Ls-1 - Ls-2	0.8827	0.8537	-3.3%

On July 18th 2013 PGNiG SA applied to the President of the Energy Regulatory Office for approval of the new Gas Fuel Supply Tariff. As at the date of this report, the proceedings were pending.

3. Regulatory risks

Polish Energy Law

In H1 2013 work was still under way on a set of three bills to regulate the energy sector: the Gas Law, the Energy Law and the Law on Renewable Energy Sources (the so-called Large Three Pack), as well as a parliamentary draft amendment to the Energy Law and certain other acts (the so-called Small Three Pack). On July 25th 2013, the Regulation of the Minister of Economy of June 28th 2013 on detailed rules for determining and calculating tariffs for gas fuels and on settlement of transactions in gas fuels trading (the Tariff Regulation) came into force. The amended Tariff Regulation introduces, among other things, entry-exit transmission tariffs, rules for computation of charges for short-term and interruptible services and for virtual reverse flow services provided by transmission and distribution system operators, as well as rules for computation of charges for storage services rendered on a packaged or stand-alone basis by storage system operators. The Tariff Regulation also provides for the possibility of offering transmission services under an auction system in the case of interconnections between transmission systems within the EU, and for passing along the costs of gas fuel transport to the tariffs of other energy utilities. Another purpose is to adapt the provisions of the Tariff Regulation to the Gas System Regulation.

Changes to laws and delays in amending legal acts create risks, resulting chiefly from uncertainty as to the final extent of the regulatory changes and the short time given to adapt to them, which might adversely affect the financial performance and development prospects of PGNiG SA. The currently planned legislative changes are to introduce a trading obligation (sale of certain volumes of gas specified in the Act on the gas market) and mechanisms that would facilitate changing gas suppliers. This may lead to a loss of market share by PGNiG SA.

Energy Efficiency Act

The Energy Efficiency Act came into force on August 11th 2011. The Act implements Directive 2006/32/EC of the European Parliament and of the Council of April 5th 2006 on energy end-use efficiency and energy services. The Energy Efficiency Act establishes a national target for economical energy use, according to which savings of end-use energy until 2016 should be no less than 9% of the annual national consumption of energy. Since January 1st 2013, PGNiG has, as a trading company, been obliged to purchase energy efficiency certificates or else to pay the buy-out price. This obligation will drive up the cost of regulated activities and, consequently, inflate the price paid for gas by customers.

Tariff calculation

PGNiG SA's ability to cover the costs of its core operations depends on prices and charge rates approved by the President of the Energy Regulatory Office. When approving tariffs for a given period, the President of the Energy Regulatory Office takes into consideration external factors which are beyond PGNiG SA's control. In an attempt to protect customers, the President of the Energy

Regulatory Office may consider certain business costs to be unjustified. Moreover, the President of the Energy Regulatory Office does not always agree with the assumptions made by PGNiG SA with respect to the main cost drivers and profit targets allowing for business risk. Consequently, the Energy Regulatory Office frequently refuses to approve tariff prices and charge rates applied for by PGNiG SA. Lower tariff prices and charges might adversely affect PGNiG SA’s profitability.

In previous years, the President of the Energy Regulatory Office unilaterally extended effective tariff periods. The Company is of the opinion that such actions by the President of the Energy Regulatory Office create the risk of a tariff being calculated below costs, as it does not account for the cost of supply of gas fuel to customers in the period by which the tariff's effective period is so extended. As a result, it should be expected that in the next round of tariff approval proceedings, this factor may be taken into consideration in the tariff calculation. Moreover, the President of the Energy Regulatory Office may protract the tariff approval proceedings, with tariffs approved at later dates than those originally requested by PGNiG SA.

Demand for natural gas

The current methodology for calculation of prices and charge rates is based on demand forecasts; accordingly, revenue is exposed to forecasting risk. Inaccurate estimates of demand, affecting the accuracy of forecast purchase and supply volumes as well as costs upon which the determinations of prices and charge rates are based, may adversely affect the Group's financial performance.

Purchase price of imported gas

Prices of imported gas are denominated in USD or EUR and are based on indexation formulae reflecting the prices of petroleum products. Changes in foreign exchange rates and prices of petroleum products have a material effect on the cost of imported gas. Material changes in prices of fuels on the international markets affect the prices of imported gas. Any accurate forecast of natural gas price changes is encumbered with a high risk of error. There can be no assurance that despite the legal possibility of adjusting the prices approved for a tariff term, an increase in the price of imported gas may not be fully passed on to customers, or that changes in gas sale prices may lag behind changes in its import prices.

Section V: Exploration and Production

1. Exploration

Exploration in Poland

In H1 2013, PGNiG SA was engaged in exploration for both conventional and unconventional gas deposits (shale gas and tight gas). In Poland, PGNiG SA conducted, both on its own and jointly with partners, exploration and appraisal work, specifically in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands. Drilling work was performed in Poland on nine exploratory wells, including two research boreholes (Wysin-1 and Kochanowo-1), and two appraisal wells.

In H1 2013, seven wells were tested in PGNiG license areas, including three wells drilled in 2012. The tests confirmed the presence of gas in three wells – one exploratory well (Komorze-3k/3kbis), and two appraisal wells (Przeworsk-18 and Siedliczka-3). Four wells did not flow hydrocarbons at commercial rates and were subsequently abandoned (Wadowice Dolne-1, Gosławice-2, Mieczewo-1k and Czarna Wieś-8).

As part of exploration for unconventional deposits in Pomerania, the Opalino-2 (shale gas) and Pławce-2 (tight gas) wells underwent testing. Tests also confirmed the presence of gas in the Lubocino-2h well. In the Lublin area, further analysis of geological data was performed with a view to continuing the work on the Lubycza Królewska-1 well (shale gas). At the same time, drilling of the Kramarzówka-1k well commenced in the Carpathian Foothills, to confirm the presence of an unconventional gas (tight gas) deposit, explored by the Kramarzówka1 well.

As at June 30th 2013, the Group’s recoverable reserves were as follows:
- 87.8 bcm of natural gas measured as high-methane equivalent,
- 18.3 million tonnes of crude oil.

Joint ventures in Poland

In H1 2013, PGNiG SA conducted joint operations with two other entities in licence areas awarded to PGNiG S.A. – FX Energy Poland Sp. z o.o., and San Leon Energy PLC (the company had acquired the license interests from its former partner, Aurelian Oil & Gas PLC).

Also in H1 2013, PGNiG SA, Tauron Polska Energia S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A. and Enea S.A. held negotiations on detailed terms of cooperation under the framework agreement of July 4th 2012 (concerning exploration for and production of shale gas and oil within the Wejherowo licence area).

Under the licences awarded to PGNiG SA, work continued in the following areas:

- “Płotki” – under the agreement for joint operations dated May 12th 2000; licence interests: PGNiG SA (operator) – 51%, FX Energy Poland Sp. z o.o. – 49%,
- “Płotki” – “PTZ” (the Extended Zaniemyśl Area) – under the Operating Agreement dated October 26th 2005; licence interests: PGNiG SA (operator) – 51%, FX Energy Poland Sp. z o.o. – 24.5%, Calenergy Resources Poland Sp. z o.o. – 24.5%,
- “Poznań” – under the agreement for joint operations dated June 1st 2004; licence interests: PGNiG SA (operator) – 51%, FX Energy Poland Sp. z o.o. – 49%,
- “Bieszczady” – under the agreement for joint operations dated June 1st 2007; licence interests: PGNiG SA (operator) – 51%, Eurogas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%

- "Sieraków" – under the agreement for joint operations dated June 22nd 2009; licence interests: PGNiG SA (operator) – 51%, Orlen Upstream Sp. z o.o. – 49%.

In H1 2013, production continued from the Roszków field in the "Płotki" area, and from the Zaniemyśl field in the "Płotki" – "PTZ" area. In the "Płotki" area, the work on acquisition of the Donatowo-Rusocin 3D seismic survey was completed and the processing of the survey commenced. In the "Płotki" – "PTZ" area, reinterpretation of the Kaleje-Zaniemyśl 3D seismic survey was commenced and completed to select the best location for the Zaniemyśl-4 or Zaniemyśl-3k production well. Based on the results of the reinterpretation, there is no rationale for drilling of the Zaniemyśl-4 well. As a result, design and analytical work was commenced on two project options, i.e. the drilling of the Zaniemyśl-3k horizontal well or a workover of the Zaniemyśl-3 well.

In the "Poznań" licence area, in H1 2013, the Winna Góra field was brought onstream and gas production continued from the Środa Wielkopolska, Kromolice and Kromolice S fields. Work continued on the development of the Lisewo natural gas field, while the development of the Komorze 3K field commenced. Hydraulic fracturing was performed in the Pławce-2 (tight gas) exploration well and the process of initiating production was started. Drilling of the Mieczewo-1k exploration well was also completed, resulting in gas flow with a significant presence of formation water. Based on the geological and field analyses, as well as economic analyses, a decision was made to abandon the well. The processing of the Miłosław 3D seismic survey was also completed and work began on data interpretation. Interpretation of the Taczanów 3D seismic survey was completed.

In the "Bieszczady" area, processing of seismic profiles in the Jaśliska-Baligród zone and reprocessing of the Kostarowce-Zahutyń 2D archive seismic profiles continued. Also, Niebieszczany-1 well was temporarily secured until a decision is made on further well tests.

In H1 2013, in the "Sieraków" area, the Sieraków-3 borehole was drilled. Based on the initial testing of the well, a decision to secure the well for further tests was made.

Under licences awarded to FX Energy Poland Sp. z o.o., work was conducted in the following areas:

- "Warszawa-Południe" (blocks 254 and 255) – under the agreement for joint operations dated May 26th 2011; licence interests: FX Energy Poland Sp. z o.o. (operator) – 51%, PGNiG SA – 49%;
- "Ostrowiec" – under the agreement for joint operations dated February 27th 2009; licence interests: FX Energy Poland Sp. z o.o. (operator) – 51%, PGNiG SA – 49%;
- "Kutno" – under the agreement for joint operations dated September 30th 2010; licence interests: FX Energy Poland Sp. z o.o. (operator) – 50%, PGNiG SA – 50%.

In H1 2013, in the "Warszawa-Południe" area, FX Energy Poland Sp. z o.o. performed its own geological interpretation of the Potycz – Boglewice – Grójec area to select an area for the development of a 3D survey. The company also applied to the Ministry of Environment to amend its licence for block 254 (abandonment of a part of the licence area).

Analytical work was completed for the "Ostrowiec" area. In the "Kutno" area work was conducted on documenting results of the drilling of the Kutno-2 well. FX Energy Poland Sp. z o.o. made a decision to abandon the licences covering the "Ostrowiec" and „Kutno" areas.

Under licences awarded to San Leon Energy PLC, work was conducted in the following areas:

- "Karpaty Zachodnie" - under the agreement for joint operations dated December 17th 2009, concluded with Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (subsidiary of San Leon Energy PLC); licence interests: Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (operator) – 60%, PGNiG SA – 40%
- "Karpaty Wschodnie" - under the agreement for joint operations dated December 17th 2009, concluded with Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (subsidiary of San Leon Energy

PLC); licence interests: Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (operator) – 80%, PGNiG SA – 20%.

In H1 2013, in "Karpaty Zachodnie" area, the Budzów–Cieszyn–Bestwina–Bielsko-Biała 2D seismic profiles were reprocessed.

In the "Karpaty Wschodnie" area, geological and geophysical materials from the Mszana Dolna – Jordanów region were analysed to assess the possibility of commencing drilling works. As a result, a decision not to proceed with the drilling of an exploration well was made and a request to amend the Mszana Dolna license (abandonment of a part of the licensed area) was filed with the Ministry of Environment.

Exploration abroad

PGNiG SA conducts exploration work in Pakistan under an agreement for hydrocarbon exploration and production in the Kirthar licence area executed between PGNiG SA and the government of Pakistan on May 18th 2005. Work in the Kirthar block is conducted jointly with Pakistan Petroleum Ltd., with production and expenses shared proportionately to the parties' interests in the licence: PGNiG SA (operator) – 70%, PPL – 30%. In 2012, the operator decided to move to the second exploration stage on the Kirthar licence, as part of which a new exploration well is to be drilled by July 2014. In H1 2013, work was carried out on the construction of pipelines and surface installations to commence test production from the Rehman-1 and Hallel X-1 wells. Test production was launched at the end of June 2013.

In Egypt, PGNiG SA conducts exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement (EPSA) executed with the government of Egypt of May 17th 2009. The Company holds a 100% interest in the licence. In H1 2013, two exploration wells were drilled. The wells were abandoned as no commercial hydrocarbon flows were recorded.

2. Production

Natural gas and crude oil production in Poland is conducted by two branches of PGNiG SA: the Zielona Góra Branch and the Sanok Branch. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 23 sites, including 14 gas production facilities, 6 oil and gas production facilities and 3 oil production facilities. The Sanok Branch produces high-methane and nitrogen-rich natural gas and crude oil at 46 sites, including 26 gas production facilities, 10 oil and gas production facilities and 10 oil production facilities. In H1 2013, gas production was launched from the Rehman field (tight gas) in Pakistan.

In H1 2013, PGNiG SA produced a total of 2,117.2 mcm of natural gas (measured as high-methane gas equivalent), of which 2,116.3 mcm was produced from fields in Poland, and 0.9 mcm from fields abroad. Following the launch of production from the Lubiatów, Międzychów and Grotów (LMG) fields, crude output increased significantly, to 382 thousand tonnes. The table below presents PGNiG SA's production volumes in H1 2013.

Production volumes

	Product	Unit	H1 2013
1.	Natural gas, including:	mcm	2,117.2
a.	high-methane gas, including:	mcm	779.9
	- Zielona Góra Branch	mcm	0.0
	- Sanok Branch	mcm	779.9
b.	nitrogen-rich gas, including:	mcm*	1 337.3
	- Zielona Góra Branch	mcm*	1 295.6
	- Sanok Branch	mcm*	40.8
	- Pakistan Branch	mcm*	0.9
2.	Crude oil, including:	thousand tonnes	382.0
	- Zielona Góra Branch	thousand tonnes	357.7
	- Sanok Branch	thousand tonnes	24.3

*Measured as high-methane gas equivalent.

In H1 2013, in the Sanok Branch area three new wells were brought onstream: the Terliczka-6k well on the Terliczka field, the Pruchnik-24 well on the Pruchnik-Pantałowice field, and the Batycze-4 well as part of a test production. The total addition to gas production capacity from the new wells is approximately 2.8 thousand cubic metres of gas per hour (measured as high-methane gas equivalent). In the Zielona Góra Branch area, six new oil producing wells were brought onstream: two on the Lubiatów field (Lubiatów-2k, Lubiatów-7h) and four on the Grotów field (Grotów-1, Grotów-2, Grotów-8k, Grotów-9k), with an aggregate daily production capacity of 620 tonnes; and one gas producing well on the Międzychód field (Międzychód-7h) with a capacity of 4.5 thousand cubic metres of gas per hour (measured as high-methane gas equivalent). The Winna Góra field was also brought onstream (Winna Góra-1 well) with a production capacity of 1.2 thousand cubic metres of gas per hour (measured as high-methane gas equivalent).

In H1 2013, PGNiG SA was engaged in a range of activities aimed at maintaining the gas and oil output from the currently producing fields. In order to increase hydrocarbon production, 2,440 metres of production drilling was performed. Major remedial treatments were performed on a total of 6 wells to maintain their operable condition. Those wells flowed hydrocarbons at commercial rates. In H1 2013, well interventions were undertaken on a total of 43 wells, designed mainly to maintain or improve production rates of producing wells or to restore sub-surface extraction equipment to working condition (including one well used as injector).

Other products, obtained in the process of crude refining, include crude condensate, sulphur and propane-butane. Some of the produced nitrogen-rich gas is further treated into high-methane gas at the Odolanów and Grodzisk Wielkopolski nitrogen rejection units. Apart from high-methane gas, the cryogenic processing of nitrogen-rich gas yields such products as liquefied natural gas (LNG), gaseous and liquid helium and liquid nitrogen.

In H1 2013, PGNiG SA's sales of natural gas totalled 369.8 mcm, of which 368.9 mcm was sold in Poland, and 0.9 mcm was sold in Pakistan. The table below presents volumes of natural gas (including LNG) sold directly from the fields, and volumes of crude oil and other products sold to third-party customers.

Sales of key products

		Unit	H1 2013
1	Natural gas, including:	mcm	369.8
	- high-methane gas	mcm	37.2
	- nitrogen-rich gas*	mcm	332.6
in	Crude oil	thousand tonnes	373.9
3	Condensate	thousand tonnes	1.2
4	Helium	mcm	1.5
5	Propane-butane	thousand tonnes	12.7
6	Nitrogen	thousand kilograms	226.9
7	Sulphur	thousand tonnes	16.6

*Measured as high-methane gas equivalent.

In Poland, the largest amounts of natural gas were sold to industrial customers, accounting for 83% of the total sales volume. As in the past, crude oil was sold to Rafineria Trzebinia S.A., Rafineria Nafty Jedlicze S.A. and TOTSA TOTAL OIL TRADING S.A. In Q1 2013, PGNiG SA executed a short-term agreement with TOTSA TOTAL OIL TRADING S.A. for test deliveries of crude oil from the Lubiatów field.

The Company's foreign customers accounted for 46.6% of the total sales volume of crude oil, and for 87.7% of helium and 23.5% of sulphur sales. Crude oil was exported through the Druzhba pipeline to a German refinery. Most of the helium was sold to EU customers, and the sulphur was sold to customers in Germany and the Czech Republic.

Underground gas storage facilities

In H1 2013, the Exploration and Production segment used the working capacities of the Daszewo and Bonikowo nitrogen-rich gas storage facilities. Storage capacities used to meet the needs of the Production segment are not storage facilities within the meaning of the Polish Energy Law.

The table below presents working capacities of the underground storage facilities used by the Exploration and Production segment as at June 30th 2013.

Working capacities of the underground storage facilities used by the Exploration and Production segment (mcm)

Nitrogen-rich gas	H1 2013
Daszewo (Ls)	30.0
Bonikowo (Lw)	200.0

3. Planned activities

Exploration

In H2 2013, PGNiG SA will continue exploratory geophysical work and drilling in Poland on dozens of prospects in the Carpathian Mountains, Carpathian Foothills and the Polish Lowlands. The work will be conducted by PGNiG SA on its own and jointly with partners.

As part of these activities, PGNiG SA also intends to pursue projects focused on exploring new potential opportunities in the area of unconventional resources (shale gas/oil and tight gas), where little appraisal has so far been made. In Pomerania, the Company plans to drill the Lubocino-3h and Opalino-3 wells, and to begin drilling the Opalino-4 well, as well as to fracture the Piaski-3 well. The Company has plans to drill more pilot wells for shale gas/oil exploration in both Pomerania and the Lublin region. The Company will also continue works related to drilling the Kramarzówka-1k well in the Carpathian Foothills.

Final formation testing is to be performed in the deep well Dukla-1, as part of exploration for conventional reserves in the Carpathian Mountains, where little appraisal work has been conducted so far. The Company also intends to begin drilling the Fredropol-1 deep well.

In H2 2013, PGNiG SA will also continue its exploration work in Egypt and Pakistan.

Natural gas production

PGNiG SA is implementing an investment programme aimed at increasing, in the long-term perspective, its natural gas production capacity. As part of the programme, the PGNiG Group plans to develop new deposits and wells, modernise and expand the existing gas production facilities, build new underground gas storage facilities and expand the existing ones.

Plans for 2013 provide for an annual natural gas production volume of approximately 4.5 bcm of high-methane gas equivalent with a calorific value of 39.5 MJ/cm, of which approximately 4.4 bcm will be produced in Poland, and 0.1 bcm in Pakistan. In H2 2013, new wells will be brought onstream on the already-producing Wola Różaniecka, Kielanówka-Rzeszów and Wierzchosławice fields operated by the Sanok Branch, and the Jarocin and Lisewo fields operated by the Zielona Góra Branch.

Crude oil production

In 2013, PGNiG SA plans to produce 750 thousand tonnes of crude oil. This increase in output is possible thanks to the launch of production from the Lubiatów field in late 2012, and from the Grotów field in January 2013.

4. Risks related to exploration and production

Resource discoveries and estimates

The main risk inherent in exploration activities is the risk of failure to discover resources, i.e. exploration risk. This means that not all the identified potential deposit sites actually have deposits of hydrocarbons which can qualify as an accumulation. Whether or not a sufficient accumulation exists depends on a number of geological factors. Furthermore, the actual quantity and quality of the accumulated hydrocarbons may differ from estimates. When the results of successful exploration activity, in the form of new reserves, do not offset the production from the existing reserves, PGNiG SA's recoverable reserves will decrease pro rata to the current production volumes.

The reserves estimates and production projections may be erroneous due to imperfections inherent in the equipment and technology, which affect the quality of the acquired information concerning the geological factors and the characteristics of the deposit site. Irrespective of the methods applied, data on the volume and quality of commercial reserves of crude oil and natural gas is always an estimate. Actual production, income and expenses relating to a given deposit may significantly differ from the estimates. The weight of this risk is further increased by the fact that in the full business cycle the period from the commencement of exploration to the launch of production from a developed field takes six to eight years, while the production lasts from 10 to 40 years. Formation characteristics determined at the stage of preparing the relevant documentation are reviewed after production starts. Each downgrade of the size of the reserves or production quantities may lead to a lower revenue and adversely affect PGNiG SA's financial performance.

<u>Exploration for unconventional gas deposits</u>

The risk associated with exploration for unconventional gas deposits in Poland relates to the lack of confirmed presence of shale gas and tight gas. Furthermore, even if existence of in-place petroleum is confirmed, its production may prove uneconomic due to insufficient gas recovery and high investment expenditure necessary on drillings and construction of production infrastructure. Another material factor is connected with difficult access to unconventional gas plays given the environmental regulations and the necessity to obtain the landowners' consent for access to the area.

<u>Competition</u>

Both on the Polish market and abroad there is a risk of competition from other companies in the area of acquisition of licences for exploration for and appraisal of hydrocarbon deposits. Certain competitors of PGNiG SA, especially those active globally, enjoy strong market positions and have financial resources larger than those available to PGNiG SA Thus, it is probable that such companies would submit their bids in tender procedures and be able to acquire promising licences, offering better terms than PGNiG SA could offer given its financial and human resources. This competitive advantage is particularly important on the international market.

<u>Delayed work</u>

Under the applicable Polish legal regulations, obtaining a licence for exploration for and appraisal of crude oil and natural gas deposits lasts from one to one and a half years. On foreign markets, such procedures may take even two years from the time that the winning bid is awarded in a tender for licence until the relevant contract is ratified. Prior to the commencement of field work, the Company is also required to make a number of arrangements, including obtaining formal and legal permits and approvals for entering the area, meeting environmental protection-related requirements and, in some cases, requirements related to protection of archaeological sites, and abiding by the regulations governing tenders held to select a contractor, which delays execution of an agreement with a contractor by another few months. Frequently the waiting time for customs clearance of imported equipment is very long. These factors create the risk of delays in the start of exploration work.

Formal and legal hurdles beyond PGNiG SA's control include:
- local governments' failure to approve local zoning plans or amendments to those already approved;
- obstacles in incorporating investment projects into the local zoning plans;
- need to obtain and comply with administrative or other formal and legal decisions, including environmental decisions or building permits;
- amendments to the current investment project;
- obstacles in obtaining permission from land owners to enter the site.

These factors significantly delay implementation of investment projects and commencement of on-site construction work. Concurrently, PGNiG SA's obligation to comply with the Public Procurement Law frequently protracts the tender procedure. Notices of appeal and complaints submitted by bidders lead to lengthy court proceedings and, consequently, to delays in implementing an entire investment project. A protracted investment process exacerbates the risk related to estimation of capital expenditure.

Cost of exploration

Exploratory work is capital intensive, given the prices of energy carriers and materials. Cost of exploratory work is especially sensitive to steel prices, which are passed onto prices of casing pipes and lifting casing used in drilling. An increase in prices of energy and materials translates into an increase in the cost of exploratory work. Moreover, profitability of foreign exploration projects to a significant extent depends on the prices of oil derivative products and on exchange rates. In 2011, PGNiG SA introduced the Daily Rate system into the drilling contractors selection procedure, which is expected to reduce the costs of drilling services.

Safety, environmental protection and health regulations

Ensuring compliance with environmental laws in Poland and abroad may significantly increase PGNiG SA's operating expenses. Currently, PGNiG SA incurs significant capital expenditure and costs on ensuring compliance of its operations with ever more complex and stringent regulations concerning safety and health at work, as well as environmental protection. The Act of May 18th 2005 amending the Natural Environment Protection Law and Certain Other Acts (Dz. U. No. 113, item 954 of June 27th 2005) rendered the regulations governing the execution of projects which might affect the Natura 2000 sites more stringent and enhanced the environmental protection-related requirements with regard to entering the areas of the occurrence of protected plant species and habitats of protected animals. Trends to implement increasingly more stringent environmental protection regulations are seen also in other countries where PGNiG SA conducts exploration operations.

Qualified personnel

The presence of foreign companies on the Polish market has intensified competition for highly qualified employees with extensive professional experience. This risk of losing experienced personnel is especially high with respect to oil and gas exploration professionals. In countries where PGNiG SA operates, highly qualified staff is difficult to recruit.

Unforeseen events

Hydrocarbon deposits developed by PGNiG SA are usually located at great depth, which involves extremely high pressures and, in many cases, presence of hydrogen sulphide. Consequently, there the risk of hydrocarbon blowout or leakage is very high, which in turn may pose a threat to people (workers and local population), natural environment and production equipment.

Changes in laws and regulations

The laws and regulations in some countries change frequently and unexpectedly, causing difficulties for entities involved in exploration activity. This problem may be particularly acute in countries where changes in law depend on decisions made by authoritarian governments.

Political and economic situation

In some countries where the PGNiG Group conducts exploration activities there is a risk of armed conflicts or terrorist attacks, which may lead to a limitation, suspension or discontinuation of the exploration and production activities.

Some regions of the world where the PGNiG Group operates are exposed to a risk of social and political unrest. Changes of governments may bring to a halt licensing proceedings before state administration authorities. Additionally, these countries are at risk of internal conflicts and social unrest caused by poor social and demographic conditions. The risks specified above may lead to a limitation, suspension or discontinuation of PGNiG SA's activities.

In certain countries, operations of exploration companies may be hindered by the lack of adequate infrastructure, which may be an obstacle in transporting equipment, personnel and materials to the sites. Problems may also arise in providing supplies and ensuring appropriate health care. These risks may lead to a limitation or suspension of the Company's exploration activities.

Section VI: Trade and Storage

1. Gas purchases

In H1 2013, PGNiG SA purchased gas from abroad and, to a limited extent, from domestic suppliers. PGNiG SA bought natural gas mainly under the agreements and contracts specified below, i.e. the long-term contract with OOO Gazprom Export and short- and medium-term gas supply agreements with European suppliers:

- Contract with OOO Gazprom Export for sale of natural gas to the Republic of Poland, dated September 25th 1996, effective until December 31st 2022;
- Individual transactions for natural gas supplies, including with the use of reverse flow on the Yamal Pipeline, with PGNiG Sales & Trading GmbH;
- Individual Agreement with Vitol S.A. for sale of natural gas, dated May 13th 2011, effective until October 1st 2014.

The table below presents the structure of natural gas purchases, measured as high-methane gas equivalent.

Structure of natural gas purchases, by supply sources (mcm)

	H1 2013	%
Foreign suppliers:	5,940.8	97.8%
- Gazprom Export	5,056.5	85.1%
- Other foreign suppliers	884.3	14.9%
Domestic suppliers	134.4	2.2%
Total	6,075.2	100.0%

<u>New agreements</u>

In H1 2013, PGNiG SA and PGNiG Sales & Trading GmbH executed short-term agreements for the supply of natural gas using the reverse flow service on the Yamal Pipeline, for a total of ca. 398.3m cubic metres.

2. Sales

In H1 2013, PGNiG SA executed comprehensive contracts for gas fuel supplies, both from the transmission system and from the distribution system, with 29.7 thousand new customers.

The key products sold by the Trade and Storage segment are high-methane gas and nitrogen-rich gas. PGNiG SA sold gas on the Polish market. In H1 2013, gas sales increased by ca. 1% i.e. 69.5 mcm relative to H1 2012. The strongest growth was seen in sales to households. The sales structure of the PGNiG Trade and Storage segment in H1 2013 is presented in the table below.

Sales structure of key products

		Unit	H1 2013
1	Natural gas, including:	mcm	7,729.7
	- high-methane gas	mcm	7,429.6
	- nitrogen-rich gas*	mcm	300.1
in	Propane-butane	thousand tonnes	0.8

*Measured as high-methane gas equivalent.

Gas was purchased primarily by industrial customers (mainly from the chemical, oil refining, petrochemical and metallurgical sectors) and by households. Households made up the largest group of customers purchasing natural gas, accounting for 97% of the entire customer base (approximately 6.5m). Their share in the total volume of gas sales increased by approximately 5% year on year. Industrial customers had the largest share in the sales volume, though sales to this group decreased by approximately 3% on H1 2012. PGNiG SA commenced the sale of gas on the Power Exchange, where it sold ca. 25 mcm of natural gas in H1 2013. The table below presents the structure of sales of natural gas (measured as high-methane gas equivalent) by customer groups.

Sales of natural gas through the national grid (mcm)

	H1 2013	%
Industrial customers	4283.9	55.4%
Trade and services	976.3	12.7%
Households	2327.8	30.1%
Wholesale customers	117.1	1.5%
Exchange	24.6	0.3%
Total	7729.7	100.0%

Sales of electricity

PGNiG S.A. expanded its product offering by launching sales of electricity to business customers (tariff groups A, B and C). The Company also plans to launch sales of electricity to households (tariff group G) in H2 2013.

PESO project

In H1 2013, PGNiG SA continued a project consisting in LNG-based distribution of gas fuel to customers in Ełk and Olecko. This project is a part of an initiative to switch Pisz, Ełk, Suwałki and Olecko to high-methane gas (PESO project). The project involves construction of an LNG regasification station and two-step pressure reduction, metering and odourising stations in Ełk and Olecko, and switching customers in those towns to high-methane gas.

Consolidation of trading operations

On May 27th 2013, the Wholesale Trading Branch was established. The Division's operations will involve wholesale trade in natural gas, electricity, heat, certificates of electricity origin and carbon credits.

3. Storage

For its own needs, the Trade and Storage segment uses the working capacities of the Wierzchowice, Husów, Strachocina, Swarzów and Brzeźnica underground gas storage facilities, as well as the Mogilno Underground Gas Storage Cavern Facility. A part of the working capacity of the Mogilno facility, which was made available to OGP GAZ-SYSTEM S.A., is not a storage facility within the meaning of the Polish Energy Law.

Short-term peak fluctuations in demand for natural gas are balanced by the supplies from the Mogilno gas storage facility, where gas is stored in worked-out caverns. The capacities of the Wierzchowice, Husów, Strachocina, Swarzów and Brzeźnica underground gas storage facilities are used to minimise the effect of changes in demand for natural gas in the summer and winter seasons, to meet the obligations under the take-or-pay import contracts, to ensure the continuity and security of natural gas supplies and to meet the obligations under agreements providing for the delivery of natural gas to customers' premises.

The capacities of the Wierzchowice, Husów, Mogilno and Strachocina facilities are also used by the Group to meet its obligation to maintain mandatory stocks, imposed by the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market, dated February 16th 2007.

In H1 2013, PGNiG SA completed construction of the surface section of the Wierzchowice Underground Gas Storage Facility and performed start-up work on the gas injection and withdrawal unit. Start-up of the power engineering section, i.e. the turboexpander, needs to be performed before the extension of the facility (up to 1.2 bcm) can be completed. In June 2013, the Company also commenced work on the extension of the Husów Underground Gas Storage Facility up to 500 mcm. The table below presents storage facilities' working capacities as at June 30th 2013.

Working capacities of the storage facilities used by the Trade and Storage segment (mcm)

	Jun 30 2013
Brzeźnica Underground Gas Storage Facility	65.0
Husów Underground Gas Storage Facility	350.0
Mogilno Underground Gas Storage Cavern Facility	407.9*
Strachocina Underground Gas Storage Facility	330.0
Swarzów Underground Gas Storage Facility	90.0
Wierzchowice Underground Gas Storage Facility	575.0
Total	1,817.9

*The working storage capacity of the facility was reduced as a result of the process of convergence (tightening) of the salt rock mass.

4. Planned activities

Purchases of natural gas

In H2 2013, PGNiG SA will continue to purchase imported gas under the long-term contract with OOO Gazprom Export and short- and medium-term gas supply agreements with European suppliers. With a view to optimising the costs of gas purchases, the Company will purchase natural gas on the German market, under short-term agreements. The gas will be delivered using the virtual reverse flow service on the Yamal gas pipeline.

Storage

In H2 2013, PGNiG SA will continue work on extending the Mogilno Underground Gas Storage Cavern Facility and the Husów Underground Gas Storage Facility. The Company will also continue the construction (begun in 2007) of the Kosakowo underground gas storage cavern for high-methane gas.

5. Risks related to trade and storage

Obligation to diversify imported gas supplies

The maximum share in total gas imports of gas importable from one country in a given year is determined in the Council of Ministers’ Regulation of October 24th 2000 on the minimum level of diversification of foreign sources of gas supplies. In 2012, the President of the Energy Regulatory Office instigated administrative proceedings to impose a fine on PGNiG SA for its failure to comply with the obligation to diversify supplies of imported gas in 2010 and 2011 – on May 11th and December 5th, respectively. Similar administrative proceedings were instituted by the President of the Energy Regulatory Office concerning PGNiG SA’s failure to comply with the obligation to diversify supplies of imported gas in 2007, 2008 and 2009. The 2009, 2010 and 2011 proceedings were suspended ex officio until the conclusion of the 2007 and 2008 proceedings, held before the Competition and Consumer Protection Court.

In order to avoid a similar situation in the future, in 2011 PGNiG SA submitted an inquiry to the Constitutional Court concerning the compliance of the Council of Ministers’ Regulation of October 24th 2000 on the minimum level of diversification of foreign sources of gas supplies with the Polish Constitution.

If the Regulation is not amended, the President of the Energy Regulatory Office may continue imposing fines on the Company for failing to comply with the diversification requirement until gas starts to be supplied from other sources (e.g. through the LNG terminal).

Deregulation of gas prices

PGNiG SA is the largest supplier of natural gas in Poland. However, the upcoming gas market deregulation in Poland is bound to trigger major changes, in the market itself and in the related legal framework. In 2012, a natural gas market was launched on the Polish Power Exchange. Under a decision issued by the President of the Energy Regulatory Office, natural gas trading handled by PGNiG SA on the exchange is exempt from the tariff obligation. Also, in 2012, PGNiG SA commenced development of the Gas Release Programme which provides for a release of gas prices paid by institutional customers, followed by a release of gas prices for households (in 2-3 years’ time). Despite the protracted work on the project, a set of three energy acts, including the Gas Law, is to be enacted in 2013. As a result of the expected changes, the Company’s share in the natural gas sales volume may fall to the benefit of both existing and new gas trading entities.

Storage

Pursuant to the Act on Mandatory Reserves, as of October 1st 2012 the volume of mandatory reserves must be increased from 20 to 30 days of average annual imports and must be kept in gas storage facilities whose technical parameters ensure delivery of the total reserves to the gas system within 40 days. Delivery of the total reserves to the gas system within the statutory time limit is possible only on condition that the buffering capacity of the storage facilities is increased at the cost of their working capacity. This will result in a reduction of the available trading capacity.

Additionally, due to the required volume of mandatory reserves and the technical parameters necessary to deliver the gas to the system, a significant portion of the reserves were placed at the Mogilno underground gas storage cavern, being Poland's only peak-demand storage facility. As a result, the mandatory reserves significantly limit the use of the Mogilno facility for balance purposes in periods of peak gas demand.

Section VII: Other Activities

PGNiG SA's organisational unit classified in the Other Activities segment is the Central Measurement and Testing Laboratory Branch, which provides services ensuring accurate and reliable measurements of natural gas quality and volume. It also performs calibration and testing of measurement devices and systems used in the natural gas industry, including testing of new measurement and analysis equipment. The Branch also offers advisory services, issues opinions, prepares expert reports, and validates and supervises field quality-testing laboratories.

In H1 2013, its main areas of activity included:

- Metrological inspections of measurement systems on the Yamal-Europe transit gas pipeline (Polish section),
- Estimations of CO_2 emission indicators on the Yamal-Europe transit gas pipeline (Polish section),
- Metrological inspections and supervision of a measurement station at the Polish border (Cieszyn),
- Metrological inspections of measurement systems at industrial customers' metering stations (18 facilities),
- Analytical supervision of process gas chromatography, including for settlements in energy units,
- Above-ground environmental testing at the underground gas storage facilities,
- Calibration of measurement equipment used in natural gas settlements,
- Checking of natural gas measurement systems for the purposes of assessment of CO_2 emissions by large industrial emitters,
- Technological and meteorological supervision of gas meter attestation posts,
- Testing of ultrasound gas meters, including clamp-on meters,
- Analyses of sulphur content in natural gas,
- Measurement oversight of process analyser systems for the evaluation of gas quality in transmission and distribution networks, at production sites and in storage facilities,
- Validations and measurement supervision of the field laboratories controlling the quality of natural gases,
- Technical consultancy, mainly for LNG quality and measurements control (as part of preparatory work for completion acceptance of the LNG terminal in Świnoujście).

The Branch also participated in a consortium building a laboratory for high-pressure calibration of gas meters - an investment carried out by OGP GAZ-SYSTEM S.A. As a consortium member, the Branch is responsible for the set-up and preparation of documentation for the laboratory's quality management system.

The Branch mainly rendered its services to PGNiG Group entities, EUROPOL GAZ S.A. and OGP GAZ-SYSTEM S.A.

<u>Planned activities</u>

The Branch intends to continue the organisation and provision of industry training programmes that it launched in H1 2013. These involve training programmes in power engineering and construction and operation of gas networks, as well as verification of gas network construction qualifications.

The Branch intends to maintain its position as the leading research laboratory and an attestation centre, carrying out meteorological inspections of measurement systems and devices used in the natural gas industry. The Branch also intends to remain the key laboratory in the area of quality assessment of natural gases of all types and forms, and of biogas; evaluation of measurement and process analyser systems used to estimate CO_2 emissions and other types of emissions; and in the area of measurement supervision of field laboratories. The Branch also intends to develop services related to measurement and settlement of LNG shipments by sea.
Further, the Branch plans to expand research into gas volume converters.

Section VIII: Investments

In H1 2013, capital expenditure incurred by PGNiG SA on property, plant and equipment and intangible assets was PLN 635.1m. The table below presents expenditure in the individual segments.

Capital expenditure (PLNm)

	H1 2013
Exploration and Production	497.0
Trade and Storage	116.2
Other Activities	21.9
Total	635.1

The following are the key projects implemented by PGNiG SA in H1 2013.

Exploration

Capital expenditure incurred by PGNiG SA on exploration work of PLN 239m was incurred chiefly on geophysical surveys, three wells drilled with positive results and wells on which work is still under way.

Lubiatów-Międzychód-Grotów project

The objective of the project is to develop the Lubiatów-Międzychód-Grotów (LMG) oil and gas field and to facilitate the transport, storage and sale of crude oil, natural gas, liquid sulphur and propane-butane from the LMG Oil and Gas Production Facility. The LMG project involves:

- Construction of the LMG Central Facility to serve as a hub for collection, distribution and treatment of reservoir fluids
- Construction of the Dispatch Terminal in Wierzbno (sub-project completed in previous years)
- Construction of a gas pipeline to the Grodzisk nitrogen rejection unit to provide for transmission of surplus gas from the LMG Oil and Gas Production Facility to the Grodzisk nitrogen rejection unit.

In H1 2013, the LMG Central Facility was put into service. Total expenditure incurred on the construction of the Facility amounted to approximately PLN 1,460.1m. The construction of a high-pressure gas pipeline from the Wierzbno terminal to the Paproć gas production facility was also completed in June 2013. Expenditure on the entire project incurred in H1 2013 amounted to PLN 176.1m.

Other investment projects in the Exploration and Production segment

Other investment projects involved the development of gas reserves (including already producing fields), projects executed in order to sustain or restore hydrocarbon production rates, and projects for the operation of the hydrocarbon production area. The key investment projects included:

- Upgrade and extension of the existing gas production facilities;
- Completion of the development of the Rylowa-Rajsko gas field;
- Development of the Lisewo gas field;
- Drilling work and development of a well in the Radlin field;
- Development of wells in the Wola Różaniecka field.

- Drilling of the Księżpol 19 well.

Trade and Storage

In H1 2013, the capital expenditure of the Trade and Storage segment amounted to PLN 116.2m, of which PLN 81.2m was spent on the underground gas storage facilities. Major projects in the area of underground gas storage facilities included:

- Completion of the construction of the surface section of the Wierzchowice Underground Gas Storage Facility and start-up work on the gas injection and withdrawal unit;
- Continued construction of the surface section of the Kosakowo Underground Gas Storage Facility and continued leaching work in the caverns;
- Continued leaching work in the caverns of the Mogilno Underground Gas Storage Cavern Facility;
- Commencement of work on the extension of the Husów Underground Gas Storage Facility up to 500 mcm of storage capacity.

Section IX: Environmental Protection

Well and extraction pit abandonment

Pursuant to the Polish Geological and Mining Law, PGNiG SA is required to properly abandon worked-out extraction pits, eliminate the danger and repair any damage caused by mineral extraction, and restore the land to its original condition. Plugging of wells and pits prevents leakage of crude oil and natural gas to the surface and into water courses. Furthermore, if gas wells remain unplugged, there is a risk that escaping gas could accumulate inside, posing a fire hazard. In H1 2013, a total of 17 wells and 13 extraction pits were abandoned.

Carbon credit trading system

In H1 2013, PGNiG SA reviewed annual reports on carbon dioxide emissions for 2012. After reconciling its CO_2 emissions with emission rights held, and after cancelling used allocations for 2012, the remaining amount was 14,327 Mg CO_2 of free emission units. In 2012, the Odolanów Branch and the Zielona Góra Branch, as well as the Mogilno Underground Gas Storage Cavern Facility, were covered by the scheme, with emissions from those installations totalling 85,655 Mg CO_2. In H1 2013, emissions from the installations were 36,726 Mg CO_2.

Land reclamation and non-productive asset surveying

Pursuant to the Environmental Protection Law, PGNiG SA conducts diagnostic tests, surveys and land reclamation work in areas polluted in the course of past activities, with a view to restoring them to the conditions required under environmental quality standards. In H1 2013, land reclamation work was completed on the property in Kargowa, and the second stage of land reclamation work was launched on the property in Radków. The land reclamation work involves decommissioning of tar pits and removal of local soil contaminations (most often found near reservoirs) through their extraction and neutralisation by operators contracted by the Company. The Company also monitored the environmental impact of the reclaimed landfill site in Zabrze-Biskupice, and a property in Zabrze.

REACH and CLP

In H1 2013, PGNiG SA performed tasks related to supervision of compliance by subcontractors using chemical substances in operations in wells with the regulations of the European Parliament and the Council of the European Union on safe use of chemicals (*REACH*) and on the classification, labelling and packaging of substances and mixtures (*CLP*). A research institute was also contracted to review the correctness of the information contained in the provided data sheets for the chemical substances and mixtures used, as well as of their classification and labelling. All those measures are carried out to confirm the characteristics of the substances used and identify any potential hazards to the natural environment and human safety.

Environmental Management System

In H1 2013, PGNiG SA completed the first stage of the implementation of the Environmental Management System in its trading branches. As part of the work, an environmental review was performed.

Section X: Other Information

Distribution of the 2012 profit

On May 22nd 2013, the Annual General Meeting of PGNiG SA adopted a resolution on the distribution of the 2012 PLN 1,918.5m net profit. The profit was distributed as follows:

- PLN 1,151.5m was allocated to the Company’s statutory reserve funds
- PLN 767.0m was allocated for dividend payments (dividend per share of PLN 0.13).

In addition, retained earnings of PLN 625.9m were allocated to the Company’s statutory reserve funds.

The Annual General Meeting of PGNiG SA set July 20th 2013 as the dividend record date and October 3rd 2013 as the dividend payment date.

Discharge granted to Management Board and Supervisory Board members in respect of their duties

On May 22nd 2013, the Annual General Meeting of PGNiG SA approved the financial statements and the Directors’ Report on the operations of PGNiG SA, as well as the consolidated financial statements and the Directors’ Report on the operations of the PGNiG Group, and granted discharge to members of the Management and Supervisory Boards of PGNiG SA in respect of their performance of duties in the financial year 2012.

Legal actions against PI GAZOTECH Sp. z o.o.

Proceedings concerning PGNiG SA’s action against PI GAZOTECH Sp. z o.o. to rescind or declare the invalidity of resolutions by the General Meeting of PI GAZOTECH Sp. z o.o., dated April 23rd 2004, including the resolution obliging PGNiG SA to pay additional contributions in the amount of PLN 52m, were held in turn before the Regional Court of Warsaw, the Warsaw Court of Appeals and the Supreme Court. On June 25th 2010, the Regional Court granted PGNiG SA’s claims and declared the resolution concerning share redemption and the resolution concerning the additional contributions invalid. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, together with a request for a court fee waiver. By virtue of its decision of December 14th 2011, the Court of Appeals dismissed PI GAZOTECH Sp. z o.o.’s appeal. The decision was final. On April 24th 2012, PI GAZOTECH Sp. z o.o. lodged a cassation compliant. By virtue of its decision of March 13th 2013, the Supreme Court refused to accept the cassation compliant for consideration. Thus the proceedings in this case were concluded.

Proceedings based on PGNiG SA’s action against PI GAZOTECH Sp. z o.o. to rescind or declare the invalidity of the resolution of the General Meeting of PI GAZOTECH Sp. z o.o., dated January 19th 2005, whereunder PGNiG SA was obliged to pay additional contributions in the amount of PLN 25,999,998, were held before the Regional Court of Warsaw and the Warsaw Court of Appeals. By virtue of its ruling of October 18th 2010, the Regional Court of Warsaw invalidated the resolution. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, together with a request for a court fee waiver. By virtue of its decision of June 22nd 2012, the Warsaw Court of Appeals dismissed PI GAZOTECH Sp. z o.o.’s appeal. The decision is final. On October 30th 2012, PI GAZOTECH Sp. z o.o. lodged a cassation complaint against that decision. As at the date of this report, the Supreme Court’s decision to hear or refuse to hear the cassation complaint was pending.

Proceedings before the President of the Polish Office of Competition and Consumer Protection (UOKiK)

On December 28th 2010, the President of the Polish Office of Competition and Consumer Protection ("UOKiK") instigated, ex officio, anti-trust proceedings concerning alleged abuse by PGNiG SA of its dominant position on the domestic natural gas wholesale market, which consisted in inhibiting sale of gas against the interest of other business players or consumers and in frustrating the development of market conditions necessary for the emergence or development of competition by refusing to sell gas fuel under a comprehensive supply contract to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw. In its decision of July 5th 2012, the President of the UOKiK found these practices to be anti-competitive, concluded that PGNiG SA had discontinued those practices as of November 30th 2010, and imposed on the Company a fine of PLN 60,016,474.40. On July 24th 2012, PGNiG SA filed an appeal against the decision of the President of the UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw. As at the date of these financial statements, the Competition and Consumer Protection Court had not notified PGNiG SA of a hearing date.

On February 9th 2012, the President of the UOKiK instigated anti-trust proceedings concerning alleged employment by PGNiG SA of practices infringing collective consumer interests. The President of the UOKiK accused PGNiG SA of using, in comprehensive gas fuel supply contracts, a provision classified as an abusive clause. In the course of the proceedings, PGNiG SA voluntarily agreed to revise certain contractual provisions. By virtue of a decision of August 10th 2012, the President of the UOKiK resolved not to impose a fine on the Company and obliged the Company to introduce a new form of comprehensive agreement containing revised general provisions. PGNiG SA is in the process of fulfilling this obligation.

On February 22nd 2013, the President of the UOKiK instigated anti-trust proceedings concerning alleged employment by PGNiG SA of practices infringing collective consumer interests. The President of the UOKiK accused PGNiG SA of using provisions classified as abusive clauses in contract forms based on which comprehensive gas fuel supply contracts are concluded. PGNiG SA initiated an investigation and submitted a motion to the President of the UOKiK for a commitment decision. On June 28th 2013, the President of the UOKiK issued a commitment decision that concluded the administrative proceedings against PGNiG SA. The President of the UOKiK did not impose a fine on the Company in this case. PGNiG S.A. is in the process of fulfilling this obligation.

On April 3rd 2013, the President of the UOKiK instigated anti-trust proceedings concerning abuse by PGNiG SA of its dominant position on the domestic wholesale and retail natural gas market, consisting in impeding the development of market conditions necessary for the emergence or development of competition through:

- limiting the ability of business customers to reduce ordered volumes of gas fuel and contractual capacity,
- limiting the ability of business customers to resell gas fuel,
- requiring that business customers define the maximum volume of gas fuel purchased for resale in the contract,
- refusing to grant wholesale customers the right to a partial change of supplier.

PGNiG SA initiated an investigation and submitted a motion to the President of the UOKiK for a commitment decision.

In the case referred to above, the President of the UOKiK may impose on PGNiG SA a fine of up to 10% of the revenue generated by the Company in the financial year preceding the date of the decision imposing the fine.

Section XI: Financial Performance

The interim condensed separate financial statements of PGNiG SA for the six months ended June 30th 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at June 30th 2013.

The accounting policies applied in preparing the interim condensed separate financial statements are presented in the interim consolidated financial statements of the PGNiG Group for the six months ended June 30th 2013.

1. Financial performance

In H1 2013, PGNiG SA reported a net profit of PLN 1,424m, an improvement of PLN 1,571m year on year.

Summary information on PGNiG SA's financial performance in H1 2013 is presented below, in the financial statements prepared in accordance with the International Financial Reporting Standards, which comprise:

- statement of financial position,
- income statement,
- statement of cash flows,
- selected financial ratios.

Separate statement of financial position (PLNm)

ASSETS	Jun 30 2013	Dec 31 2012
Non-current assets	28,059	27,791
Property, plant and equipment	14,004	14,098
Investment property	2	2
Intangible assets	228	204
Financial assets available for sale	8,177	7,263
Other financial assets	5,251	5,780
Deferred tax assets	352	397
Other non-current assets	45	47
Current assets	7,903	8,852
Inventories	2,433	2,427
Trade and other receivables	3,326	5,172
Current tax assets	-	24
Other assets	71	17
Derivative financial instrument assets	340	105
Cash and cash equivalents	1,603	1,034
Non-current assets held for sale	130	73
Total assets	35,962	36,643

Separate statement of financial position (PLNm) – cont.

EQUITY AND LIABILITIES	Jun 30 2013	Dec 31 2012
Total equity	22,734	21,974
Share capital	5,900	5,900
Share premium	1,740	1,740
Accumulated other comprehensive income	37	(66)
Retained earnings	15,057	14,400
Non-current liabilities	7,272	7,287
Borrowings and other debt instruments	4,473	4,390
Employee benefit obligations	98	89
Provisions	1,481	1,576
Deferred income	569	559
Deferred tax liabilities	608	632
Other non-current liabilities	43	41
Current liabilities	5,956	7,382
Trade and other payables	2,802	2,763
Borrowings and other debt instruments	2,501	3,879
Derivative financial instrument liabilities	237	393
Current tax liabilities	95	-
Employee benefit obligations	98	190
Provisions	210	152
Deferred income	13	5
Total liabilities	13,228	14,669
Total equity and liabilities	35,962	36,643

Separate income statement (PLNm)

	H1 2013	H1 2012
Revenue	14,195	13,168
Total operating expenses	(12,886)	(13,725)
Raw materials and consumables used	(8,904)	(9,677)
Employee benefit expense	(383)	(400)
Depreciation and amortisation expenses	(353)	(274)
Services	(3,199)	(2,952)
Work performed by the entity and capitalised	7	5
Other income and expenses	(54)	(427)
Operating profit/loss	1,309	(557)
Finance income	649	492
Finance costs	(280)	(161)
Profit/loss before tax	1,678	(226)
Income tax	(254)	79
Net profit/(loss)	1,424	(147)

Separate statement of cash flows (PLNm)

	H1 2013	H1 2012
Net cash flows from operating activities	3,036	37
Net cash flows from investing activities	(916)	(3,935)
Net cash flows from financing activities	(1,551)	3,679
Net change in cash	569	(219)
Cash and cash equivalents at beginning of the period	1,034	935
Cash and cash equivalents at end of the period	1,603	716
including restricted cash	233	715

Financial ratios

Profitability

	H1 2013	2012
EBIT (PLNm) operating profit	1,309	-557
EBITDA (PLNm) operating profit + depreciation/amortisation	1,662	-283
ROE net profit to equity at end of the period	6.3%	-0.7%
NET MARGIN net profit to sales revenue	10.0%	-1.1%
ROA net profit to assets at end of the period	4.0%	-0.4%

Liquidity

	Jun 30 2013	Dec 31 2012
CURRENT RATIO current assets (net of other assets) to current liabilities	1.3	1.2
QUICK RATIO current assets (net of other assets) less inventories to current liabilities	0.9	0.9

Debt

	Jun 30 2013	Dec 31 2012
DEBT RATIO total liabilities to total equity and liabilities	36.8%	40.0%
DEBT/EQUITY RATIO total liabilities to equity	58.2%	66.8%

Year on year, the Company's EBIT improved by PLN 1,866m. The strengthening of the Company's financial position was attributable chiefly to the higher profitability of high-methane gas sales and higher sales of crude oil.

The rise in profitability of high-methane gas sales was caused mainly by a reduction in the unit purchase price of imported gas. The November 2012 annex to the contract with OOO Gazprom Export of September 25th 1996 for sales of natural gas to the Republic of Poland changed the pricing terms for supplies of natural gas, including with respect to the gas volumes purchased since the beginning of 2012. The financial effect of the agreement was recognised as a one-off item in the Company's accounting books in November 2012.

The amendment to Gas Fuel Supply Tariff No. 5/2012 has been in effect since January 1st 2013. The new tariff brought about a 6.7% decrease in the average prices and charge rates for the supply of high-methane gas to customers. Although the unit price of imported natural gas was lowered, the new tariff is still insufficient to fully cover the cost of gas purchase.

The margin on high-methane gas sales also improved thanks to the weakening of the US dollar, which is the currency used in gas import transactions. The USD/PLN exchange rate fell by 2.9% relative to H1 2012.

The volume of crude sold by the Company grew by 69% on H1 2012.
Higher crude sales volumes were driven by the launch of production from the Lubiatów, Międzychów and Grotów (LMG) oil and gas fields in Poland at the end of 2012 and the beginning of 2013.

Also, other income and expenses, up PLN 373m on H1 2012, formed a significant contribution to the Company's operating performance. This increase was chiefly attributable to higher unrealised foreign exchange gains under gas supply payables, as well as the improvement of the result on forward transactions. In addition, the figure was also materially affected by the reversal of impairment losses on tangible assets tested for impairment, and recognition of a provision for purchase of energy efficiency certificates (white certificates).

The Company's result on financing activities was up PLN 38m on H1 2012, chiefly on higher dividends received.

The improvement in the Company's financial position was reflected in its key financial ratios. Return on equity (ROE) improved from -0.7% to 6.3%. Return on assets (ROA) was 4%, against -0.4% 2012, and net margin grew from -1.1% to 10.0%.

As at June 30th 2013, total assets recognised in the separate statement of financial position were PLN 35,962m, down PLN 681m on the end of June 2012.

<u>Assets</u>

Property, plant and equipment, of PLN 14,004m as at the end of June 2013, down PLN 94m (1%) relative to December 31st 2013, was the largest item of the Company's assets. The decrease in property, plant and equipment was primarily caused by the lease of the high-pressure pipeline (from the Kościan Natural Gas Mine to KGHM Polkowice/Żukowice) to Wielkopolska Spółka Gazownictwa Sp. z o.o.

Financial assets available for sale are another major item of assets. As at June 30th 2013, they totalled PLN 8.177m, up PLN 914m on the end of December 2012. The increase was attributable to the Company's higher ownership interest in PGNiG TERMIKA SA. PGNiG TERMIKA SA's equity increased following the acquisition of PGNiG SPV1 Sp. z o.o. and conversion of its debt to PGNiG SA (under an assumed loan) to equity.

Other financial assets stood at PLN 5.251m, down PLN 529m on December 31st 2012. This decline was caused by repayment of loans by related parties and the conversion of the loan advanced to PGNiG SPV1 Sp. z o.o. to PGNiG TERMIKA SA's equity.

As at June 30th 2013, current assets stood at PLN 7,903m, down PLN 949m (or 11%) relative to December 31st 2012.

As at June 30th 2013, the Company's inventories amounted to PLN 2,433m, close to the corresponding figure for the end of December 2012. The inventories disclosed in the balance sheet primarily represent gas stored in the underground gas storage facilities.

Trade and other receivables fell by PLN 1,846m (36%) relative to the end of 2012. This change was attributable chiefly to a seasonal decrease in receivables from gas sales and to a settlement of OOO Gazprom Export's liabilities towards PGNiG SA under the annex of November 2012 to the Contract with OOO Gazprom Export for sales of natural gas to the Republic of Poland of September 25th 1996, as well as to the change in the balance of public dues.

Cash and cash equivalents stood at PLN 1,603m, up PLN 569m on the end of 2012, owing primarily to the Company's improved operating margin.

The value and structure of current assets held by the Company guaranteed its ability to settle liabilities in a timely manner. Current ratio was 1.3 compared with 1.2 as at the end of December 2012, while quick ratio remained unchanged at 0.9.

Liabilities and equity

Equity is the primary source of financing of the Company's assets. Relative to December 31st 2012, the Company's equity rose by PLN 760m (or 3%). This change was chiefly the outcome of net profit reported for the period.

As at June 30th 2013, non-current liabilities were PLN 7,272m, slightly down (PLN 15m) on the end of December 2012. The change is chiefly attributable to a PLN 95m reversal of provisions for costs of well decommissioning and a PLN 83m increase in borrowings and debt instruments.

Current liabilities were down PLN 1,426m (19%) on the end of 2012, mostly as a result of a PLN 1,378m decline in the value of borrowings and debt instruments, caused chiefly by the redemption of notes issued.

Due to the decrease in external financing used by the Company, the ratios of equity to liabilities changed. Debt to equity was down from 66.8% to 58.2%. Debt ratio (total liabilities to total equity and liabilities) fell from 40.0% to 36.8%.

Transactions concluded on non-arm's length terms

In H1 2013, PGNiG SA and its subsidiaries did not enter into any material related-party transactions on non-arm's length terms.

Guarantees and sureties

In H1 2013, PGNiG SA and its subsidiaries did not grant any borrowing sureties or guarantees to any entity where the total value of such sureties or guarantees would represent 10% or more of PGNiG SA's equity.

The Company's ability to meet published financial forecasts

In H1 2013, the Company did not publish any financial forecasts.

2. Projected future financial performance

Key factors with a bearing on PGNiG SA's financial performance will include crude oil and natural gas prices on the international markets, the conditions prevailing on the currency markets, and the stance taken by the President of the Energy Regulatory Office with regard to gas fuel tariffs.

The prices of crude oil, petroleum products and natural gas are an essential factor determining the PGNiG SA's financial position. Relative to H1 2012, the average price of Brent crude fell 2.3%. If the current trend prevails over the following months, it will have a positive effect on the Company's regulated activities.

Gas prices on global markets will be driven primarily by the pace of economic recovery in individual countries. Despite a higher global supply of natural gas, caused by increased production of gas from unconventional deposits, the economic upturn may boost the market prices of gas, raising costs related to gas imports for PGNiG SA.

The Company's financial performance depends to a significant extent on conditions prevailing on the currency markets. In H1 2013, the US dollar depreciated against the złoty. Further weakening of the dollar will lower the PLN-denominated purchase costs of imported high-methane gas, translating into stronger financial performance by the Company.

Other drivers of the Company's performance are the rates and charges provided for in the gas fuel tariffs. As of January 1st 2013, a new, lower tariff was introduced for high-methane gas, which is insufficient to fully cover the cost of its acquisition. As the tariff expires on September 30th 2013, in July 2013 PGNiG SA applied to the President of the Energy Regulatory Office for approval of the new gas fuel supply Tariff.

In December 2012, the Company started to trade in natural gas on the Polish Power Exchange (TGE), which by virtue of a decision by the President of the Energy Regulatory Office, is exempt from the tariff obligation. In February 2013, the President of the Energy Regulatory Office announced the exemption of power utilities from the obligation to submit wholesale gas trading tariffs for approval. The draft act amending the Energy Law and certain other acts (the so-called Small Energy Three-Pack) provides for an obligation to sell 30% of gas fed into the transmission network in Poland on the energy exchange (in 2013; 40% in 2014). Because of the uncertainty concerning the date of introduction of the act and its final scope, it is difficult to produce forecasts, even for the next six months.

Since January 1st 2013, PGNiG SA, as a trading company, has been obliged to purchase energy efficiency certificates (white certificates) in the amount set in the Energy Efficiency Act or else to pay a buy-out price. This obligation drives up the cost of regulated activities and is not reflected in the existing tariff.

At the transition of 2012 into 2013, PGNiG SA launched production from the Lubiatów, Międzychód and Grotów oil and gas fields. This enabled the Company to increase crude oil production and will have a positive effect on PGNiG SA's financial performance. In H1 2013, the Company intensified exploration for both conventional and unconventional hydrocarbon deposits, but the first economic effects of this effort will only be visible after several years.

In H2 2013, PGNiG SA intends to maintain a high level of capital expenditure. Spending will focus on projects involving maintenance of hydrocarbon production capacities, diversification of gas supply sources, and projects related to the exploration for and appraisal of crude oil and natural gas deposits and development of the Company’s power generation segment.

Members of the Management Board

Vice-President of the Management Board	Jerzy Kurella	....
Vice-President of the Management Board	Jacek Murawski	....
Vice-President of the Management Board	Mirosław Szkałuba	....