

Ladies and Gentlemen, Dear Shareholders,

**The ultimate success of our negotiations with Gazprom over an annex to the Yamal Contract for natural gas supplies to Poland was unquestionably the key event of 2012. The revised pricing formula under the Yamal Contract was a major driver behind the reported improvement in the Group's operating performance. It also offers good prospects for our ambitious growth-oriented projects, many of which were launched in 2012. At the same time, we can report an increasing performance improvement across our operating segments: Exploration and Production, Trade and Storage and Distribution.**

**The Group** posted PLN 28.7bn in revenue, up by PLN 5.7bn on the year before. We made a net profit of PLN 2.23bn and operating profit in excess of 2.5bn.

**The Exploration and Production segment's operating profit in 2012** came in at PLN 1.35bn, which represents an increase of nearly PLN 38m (close to 3%) on 2011, which was an exceptionally good year for the upstream area. This result was achieved on the back of increased volume of crude oil production and sales, following the hook-up of new wells in the Barnówko-Mostno-Buszewo field, and high production rates from wells which had come on-stream earlier. This confirms that our plans to optimise the Group's investment processes in the upstream area and the adopted crude production targets were on the mark, while still reflecting the growing price of crude oil. It also attests to the professional skills and competence of staff employed by Group companies engaged in the provision of drilling, maintenance and geophysical services. Therefore, it is with high hopes that we look forward to the anticipated intensification in the search for both conventional and unconventional gas in Poland, as it is an opportunity that could propel our further growth.

An increase of 12%, to PLN 878m, was also recorded in the **Distribution segment**. This was achieved after a 5% growth in the volume of distributed gas combined with an average rise of 1.7% in distribution tariffs effected in July 2011. The growth in gas consumption by households and smaller industrial plants connected to the distribution network can be explained by the generally lower temperatures recorded in the first and fourth quarters of 2012 relative to the corresponding months of 2011, and the acquisition of new customers, including customers for the distribution of coke-oven gas.

Operating efficiency increased considerably in the **Trade and Storage segment**, which delivered PLN 325m in operating profit, a year-on-year increase of PLN 524m. As the annex to the Yamal Contract signed in November also applied retroactively to purchases made before that

date, the segment managed to recoup the losses it had incurred in the first three quarters of 2012.

**Generation**, the new operating segment in the Group since Q1 2012, posted annual revenue of PLN 1.96bn, with operating profit of PLN 15m. These figures, however, fail to do full justice to the segment's profitability, because they were adjusted for the effect of accumulated amortisation of intangible assets recognised at the time of acquisition of shares in PGNiG Termika, including carbon emission allowances, without which the segment's EBIT in 2012 would have reached PLN 225m.

In 2012, we reviewed and re-evaluated the objectives defined in the PGNiG Strategy for 2011-2015. In doing so, we took into account all recent developments: newly emerged economic trends, the tendencies prevailing on the gas market as well as the regulatory environment. As a consequence, we found that certain assumptions and plans needed to be updated. The findings were used to inform the Group's Short-Term Value Creation Strategy for 2012-2014, whose main pillars are now the intensification of exploration efforts, preparation of the Group to operate on the deregulated gas market, optimisation of our portfolio of gas sources, restructuring of the Group's business model, and continued expansion of the power generation business.

Secure and uninterrupted supplies of natural gas to both households and institutions remain our overriding commitment. Our strategic investment projects, such as construction and extension of underground gas storage facilities and gas distribution pipelines, are undertaken to advance that very objective. By adding new capacities to our underground gas storage sites, we will be able to flexibly respond to any disruptions in supplies. The massive injection of gas into storage, which started in Q2 2012, has allowed us to accumulate record gas volumes. By the year's end, we had a reserve of nearly 1.8 billion cubic metres of high-methane gas. Thanks to the Moravia interconnector between Poland and the Czech Republic, the Lasów terminal and "the virtual reverse flow" on the Yamal Pipeline, the share of gas imported from countries lying west and south of Poland has grown to 18%, or 2 billion cubic metres.

While allowing us to buy cheaper gas, these measures help diversify our supply sources, which translates into enhanced energy security.

Compared with the EU average, in Poland there is still a large potential upswing in electricity consumption and gas-fired power generation, especially high-efficiency co-generation. With a view to diversifying our future revenue sources, in 2012 we stepped up our efforts to include electricity in the PGNiG product portfolio. By entering the power generation segment and

becoming involved in new gas-fired CHP projects in Poland, the Group will be able to achieve this objective and meet projected market demand. Having our own generation capacity in place, we will be able to enter the electricity sales market in the most effective way. Gas-fired power generation units are an optimal solution, as they are characterised by short construction times and the highest control ranges, and complement renewable energy sources.

This means that, despite the slowdown brought on by the global crisis, prospects for the natural gas industry remain strong. We regard the upstream segment and power generation as complementary areas, with significant potential synergies. Domestically produced natural gas should play an increasingly important role in power generation. This is why we have maintained our strategic goals to increase the Group's own production of natural gas to about 6.2 billion cubic metres, and of crude oil to about 1.8 million tonnes a year by 2015. The launch in late 2012 of production from the Skarv field on the Norwegian Continental Shelf and the LMG field in Greater Poland is expected to significantly strengthen the Group's financial position.

Further, PGNiG will also intensify its exploration for conventional hydrocarbons in Poland within 80 licence areas. We also want to further optimise our exploration and production efforts outside of Poland.

In the exploration and production area, our efforts will remain focused on appraising and developing unconventional hydrocarbons within our licence areas, mainly in the Provinces of Gdańsk and Lublin. In late 2012 and early 2013, the first fracturing treatment was performed on a horizontal well – in Lubocino, within the Wejherowo licence area. Our plans for 2013 provide for the drilling of 13 or so wells in search for shale gas. We believe that the success of shale gas exploration in Poland will depend to a large extent on whether operators can reach local communities with reliable information and whether open dialogue can be maintained. We employ a variety of tools and channels to communicate with the public, and we keep exploring new solutions. In December 2012, in the commune of Krokowa (where Lubocino is located), the country's first Local Consultative Board formally commenced its work. The Board, which consists of representatives of local residents, organisations, the media and government, will represent the local community in its ongoing relations with PGNiG.

It is with great commitment that we continue to engage in building long-term, equal-footing relations with the local communities in the areas covered by our exploration projects, but we haven't forgotten about EU institutions, either. We think it of paramount importance that a voice from Poland regarding issues of vital interest to our country be heard and heeded. We believe Poland stands a chance of becoming a large-scale producer of shale gas, which would boost

development, job creation and living standards. For this reason, exploration-related communication and outreach initiatives are at the very top of our agenda.

In 2012, we began to transform the Company's organisational structure. In the first stage, aimed at enhancing the efficiency of our management processes, we reorganised the PGNiG Head Office, the remodelled structure of which was approved in May. Subsequently, changes were implemented at the PGNiG Branches, and as in the case of Head Office, the organisational structure was flattened and units with similar remits were combined. The process has allowed us to centralise B2B service at the Branches, while transforming the units responsible for coordinating retail customer service at gas sales units into Regional Sales Offices. Their catchment areas are larger than the gas sales units' areas were. Regional Sales Offices were consolidated in the Upper Silesian, Greater Poland, Carpathian and Pomeranian Gas Trading Divisions. These changes were made to improve the effectiveness of sales and quality of customer service.

In parallel with this work, we developed and implemented a procedure to reorganise the structures of departments and branches engaged in the exploration for and production of hydrocarbons. This led to the establishment of the Geology and Hydrocarbon Production Branch, whose role is to coordinate exploration work and investment decision-making related to hydrocarbon exploration and production in Poland and abroad. As part of the Geology and Hydrocarbon Production Branch, the Geology and Drilling functions, previously performed at the Sanok and Zielona Góra Branches, were consolidated with the Hydrocarbon Production and Mining Work Department and the Exploration Department currently operating at PGNiG Head Office. In spring 2012, the PGNiG Management Board resolved to consolidate five drilling and maintenance services companies from the Group: PNiG Kraków S.A., PNiG Jasło S.A., PNiG NAFTA S.A., PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o. into a single company, PGNiG Poszukiwania. Since February 1st 2013, following the full legal and organisational merger, it has traded under the name of Exalo Drilling. In 2013, we expect to float Exalo Drilling shares on the Warsaw Stock Exchange unless conditions in the capital market are not favourable.

We have reason to look back at the year behind us with immense satisfaction. After the difficult negotiations with Gazprom, we secured a historical price reduction under the Yamal Contract. We intensified exploration for gas, including shale gas. At the same time we were consistently preparing to operate on the deregulated market, by pursuing a corporate restructuring programme. Moreover, our efforts have been noted by the market. Throughout the year, PGNiG stock gained nearly 30%. We also won the prestigious 'Bulls and Bears' award conferred by the *Gazeta Giełdy Parkiet* daily, in the 'WIG20 Company of the Year' category for our activity in 2012.

PGNiG has been listed in the RESPECT Index – a ranking of responsible companies compiled by the Warsaw Stock Exchange – since its inception. In April 2012, it was again recognised as the most responsible firm in the Fuel and Energy industry in the Responsible Company ranking prepared by the *Dziennik Gazeta Prawna* daily. We are greatly honoured by these distinctions, and we also view them as obligations for the future, as we are well aware of the challenges that lie ahead of us.

I know that a company's success is largely driven by its employees, at every level of the organisation. Each of us, with our day-to-day work, makes a contribution to the Group's value.

I would like to extend my heart-felt thanks to the Shareholders, Customers, Members of the Supervisory Board and all Employees of the PGNiG Group for helping us rise to our current position.

Grażyna Piotrowska-Oliwa

President of the Management Board

PGNiG S.A.