DIRECTORS' REPORT ON OPERATIONS OF PGNiG SA IN H1 2012

Warsaw, August 13th 2012

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Chapter I: Company's Highlights

1. Establishment of the Company

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (PGNiG SA) with registered office in Warsaw, ul. Marcina Kasprzaka 25, was established as a result of transformation of the state-owned enterprise under the name Polskie Górnictwo Naftowe i Gazownictwo into a state-owned stock company. The Deed of Transformation and the Company's Articles of Association were executed in the form of a notarial deed dated October 21st 1996 (Rep. A No. 18871/96).

On October 30th 1996, the Company was entered in the commercial register as Polskie Górnictwo Naftowe i Gazownictwo S.A. of Warsaw, under entry No. RHB 48382. As of the registration date, the Company acquired legal personality. On November 14th 2001, the Company was entered into the Register of Entrepreneurs of the National Court Register under entry No. 0000059492.

Currently, the share capital of PGNiG SA 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 Polish company in the hydrocarbon exploration and production industry, and on the natural gas market. The Company is the leader in all areas of the Polish gas sector, i.e. natural gas imports, hydrocarbon exploration, oil and gas production, gas fuel storage and sale of natural gas.

2. PGNiG SA's organisational structure

PGNiG SA operates a multiple-unit structure. As at June 30st 2012, the structure comprised the Head Office and fourteen branches and divisions. Their activities are presented in the table below.

Core activities of PGNiG SA's organisational units

Unit	Activity
Head Office, Warsaw	Supervision over the Company branches and divisions Supervision over the PGNiG Group as part of ownership supervision
Sanok Branch	Production of natural gas and crude oil Operation of underground gas storage facilities Direct sale of off-system natural gas and other products and services Exploration work
Zielona Góra Branch	Production of natural gas and crude oil Operation of underground gas storage facilities Direct sale of off-system natural gas and other products and services Exploration work
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
Egypt Branch	Exploration for and production of hydrocarbons in licence areas in Egypt
Denmark Branch	Exploration for and production of hydrocarbons in licence areas in Denmark
Lower Silesian Gas Trading Division in Wrocław	Comprehensive customer service related to sale of natural gas and other products and services
Upper Silesian Gas Trading Division in Zabrze	
Carpathian Gas Trading Division in Tarnów	
Mazovian Gas Trading Division in Warsaw	
Pomeranian Gas Trading Division in Gdańsk	
Greater Poland Gas Trading Division in Poznań	
Central Measurement and Testing Laboratory in Warsaw	Provision of services ensuring accuracy and reliability of measurements related to natural gas
Well Mining Rescue Station in Kraków	Provision of rescue services to the petroleum mining industry

As at June 30th 2012, PGNiG SA operated foreign representative offices in Moscow (Russia), Brussels (Belgium), Kiev (Ukraine) and Vysokoye (Belarus).

On June 5th 2012, the Storage System Operator Branch was wound up due to the launch of business activity by Operator Systemu Magazynowania Sp. z o.o. as of June 1st 2012.

3. Structure of the PGNiG Group

As at June 30th 2012, the Group comprised PGNiG SA (the Parent), and 40 production and service companies, including:

- 29 subsidiaries of PGNiG SA, and
- 11 indirect subsidiaries of PGNiG SA.

The list of the PGNiG Group companies as at June 30th 2012 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				
1	Poszukiwania Nafty i Gazu NAFTA S.A.	100,000,000.00	100,000,000.00	100.00%	100.00%
2	Poszukiwania Nafty i Gazu Kraków S.A.	105,231,000.00	105,231,000.00	100.00%	100.00%
3	Poszukiwania Nafty i Gazu NAFTA S.A.	60,000,000.00	60,000,000.00	100.00%	100.00%
4	GEOFIZYKA Kraków Sp. z o.o.	64,400,000.00	64,400,000.00	100.00%	100.00%
5	GEOFIZYKA Toruń Sp. z o.o.	66,000,000.00	66,000,000.00	100.00%	100.00%
6	Poszukiwania Naftowe Diament Sp. z o.o.	62,000,000.00	62,000,000.00	100.00%	100.00%
7	Zakład Robót Górniczych Krosno Sp. z o.o.	26,903,000.00	26,903,000.00	100.00%	100.00%
8	PGNiG Norway AS (NOK)[1)]	1,092,000,000.00	1,092,000,000.00	100.00%	100.00%
9	Polish Oil and Gas Company - Libya B.V. (USD)[1)2)]	26,724.00	26,724.00	100.00%	100.00%
10	PGNiG Sales & Trading GmbH (EUR)[1)]	10,000,000.00	10,000,000.00	100.00%	100.00%
11	Operator Systemu Magazynowania Sp. z o.o.	5,000,000.00	5,000,000.00	100.00%	100.00%
12	INVESTGAS S.A.	502,250.00	502,250.00	100.00%	100.00%
13	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000.00	658,384,000.00	100.00%	100.00%
14	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000.00	1,300,338,000.00	100.00%	100.00%
15	Karpacka Spółka Gazownictwa Sp. z o.o.	1,484,953,000.00	1,484,953,000.00	100.00%	100.00%
16	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000.00	1,255,800,000.00	100.00%	100.00%
17	Pomorska Spółka Gazownictwa Sp. z o.o.	655,199,000.00	655,199,000.00	100.00%	100.00%
18	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000.00	1,033,186,000.00	100.00%	100.00%
19	Geovita Sp. z o.o.	86,139,000.00	86,139,000.00	100.00%	100.00%
20	PGNiG Energia S.A.	41,000,000.00	41,000,000.00	100.00%	100.00%
21	PGNiG Technologie S.A.	166,914,000.00	166,914,000.00	100.00%	100.00%
22	BUD-GAZ PPUH Sp. z o.o.	51,760.00	51,760.00	100.00%	100.00%
23	Polskie Elektrownie Gazowe Sp. z o.o.	1,212,000.00	1,212,000.00	100.00%	100.00%
24	PGNiG SPV1 Sp. z o.o.	770,020,000.00	770,020,000.00	100.00%	100.00%
25	PGNiG Finance AB (SEK)[1)]	500,000.00	500,000.00	100.00%	100.00%
26	PGNiG Serwis Sp. z o.o.	9,995,000.00	9,995,000.00	100.00%	100.00%
27	MLV 27 Sp. z o.o.	5,000.00	5,000.00	100.00%	100.00%
28	B.S. i P.G. Gazoprojekt S.A.	4,000,000.00	3,000,000.00	75.00%	75.00%
29	NYSAGAZ Sp. z o.o.	9,881,000.00	6,549,000.00	66.28%	66.28%

Companies of the PGNiG Group – contd.

	Indirect subsidiaries of PGNiG SA	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
1	Oil Tech International F.Z.E. (USD)[1)]	20,000.00	20,000.00	100.00%	100.00%
2	Powiśle Park Sp. z o.o.	81,131,000.00	81,131,000.00	100.00%	100.00%
3	Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła)	1,806,500.00	1,806,500.00	100.00%	100.00%
4	Biogazownia Ostrowiec Sp. z o.o.	105,000.00	105,000.00	100.00%	100.00%
5	XOOL GmbH (EUR)[1]	500,000.00	500,000.00	100.00%	100.00%
6	PGNiG TERMIKA S.A.	246,300,000.00	246,045,490.00	99.89%	99.89%
7	Poltava Services LLC (EUR)[1)]	20,000.00	19,800.00	99.00%	99.00%
8	Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o.	3,000,000.00	2,550,000.00	85.00%	85.00%
9	GAZ Sp. z o.o. (Błonie)	300,000.00	240,000.00	80.00%	80.00%
10	PT Geofizyka Torun Indonesia LLC (IDR)[1)3)]	8,773,000,000.00	4,825,150,000.00	55.00%	55.00%
11	GAZ MEDIA Sp. z o.o. (Wołomin)	300,000.00	153,000.00	51.00%	51.00%

1) figures expressed in foreign currencies
2) financial reporting currency changed from EUR to USD
3) paid-up capital: USD 40,687.13

Changes in the PGNiG Group's structure in H1 2012:

- On January 11th 2012, PGNiG SPV 1 Sp. z o.o. executed a final share purchase agreement with Vattenfall AB, whereby PGNiG SPV 1 Sp. z o.o. acquired 24,591,544 shares in Vattenfall Heat Poland S.A., which represented 99.8% of the company's share capital and conferred the right to 99.8% of the total vote at the General Meeting of Vattenfall Heat Poland S.A. In H1 2012, PGNiG SPV 1 Sp. z o.o. acquired 13,005 PGNiG TERMIKA S.A. shares from the company's minority shareholders, thus its interest in the company's share capital increased to 99.9%;
- On January 23rd 2012, Vattenfall Heat Poland S.A. changed its name to PGNiG TERMIKA S.A.;
- On February 24th 2012, Mazowiecka Spółka Gazownictwa Sp. z o.o. executed two share purchase agreements, whereby it acquired an aggregate of 58 shares in GAZ Sp. z o.o. of Błonie. Thus MSG's equity exposure to GAZ rose to PLN 240,000, with the ownership interest increasing to 80%;
- On June 6th 2012, PGNiG Sales & Trading GmbH acquired 500,000 shares in XOOL GmbH, with a par value of EUR 1 per share, representing the entire share capital of the company. XOOL GmbH was acquired to expand the Group's trading activities on the German market;
- On June 6th 2012, PGNiG SA acquired 100 shares in MLV 26 Sp. z o.o., with an aggregate par value of PLN 5,000, representing the entire share capital of the company. The total purchase price was PLN 7,500 in 2013, MLV 26 Sp. z o.o. is to start providing HR and payroll, finance, accounting, as well as IT services to PGNIG TERMIKA S.A. On June 14th 2012, a change of the company's name to PGNiG Serwis Sp. z o.o. was registered with the National Court Register;
- On June 8th 2012, PGNiG SA acquired 100 shares in MLV 27 Sp. z o.o., with an aggregate par value of PLN 5,000, representing the entire share capital of the company. The total purchase price was PLN 7,500. The company's name was changed to PGNiG SPV 4 Sp. z o.o. By the date of this Report, the change in the company's name has not been registered with the National Court Register.

Changes in the Group companies' share capital in H1 2012:

- Share capital increase at PGNiG SPV 1 Sp. z o.o. by PLN 770,000,000, to PLN 770,020,000, by way of an issue of 15,400,000 new shares with a par value of PLN 50 per share. The new issue

shares were acquired by PGNiG SA. The share capital increase was registered on January 25th 2012;
- Share capital increase at Pomorska Spółka Gazownictwa Sp. z o.o. by PLN 1,553,000, to PLN 655,199,000. The new issue shares were acquired by PGNiG SA and paid for with an in-kind contribution in the form of a perpetual usufruct right to a plot of land situated in Toruń, along with the ownership title to buildings and structures erected thereon. The share capital increase was registered on March 7th 2012;
- Share capital increase at PGNiG Energia S.A. by PLN 11,000,000, to PLN 41,000,000 by way of an issue of 110,000 new shares with a par value of PLN 100 per share. All new issue shares were acquired by PGNiG SA. The share capital increase was registered on March 22nd 2012;
- Share capital increase at PGNiG Serwis Sp. z o.o. to PLN 9,995,000. The new issue shares were acquired by PGNiG SA. The share capital increase was registered on June 29th 2012.

Also in H1 2012, registry courts registered transformation of the following entities into joint-stock companies:
- January 2nd 2012 – PNiG Jasło Sp. z o.o.
- June 1st 2012 – PNiG Kraków Sp. z o.o.
- June 1st 2012 – PGNiG Technologie Sp. z o.o.
- June 14th 2012 – PNiG NAFTA Sp. z o.o.

<u>Changes subsequent to the end of H1 2012</u>

On July 2nd 2012, registry courts registered transformation of GEOFIZYKA Kraków Sp. z o.o., GEOFIZYKA Toruń Sp. z o.o. and GEOVITA Sp. z o.o. into joint-stock companies.

On July 3rd 2012, a new company PGNiG Poszukiwania S.A. w organizacji (in the process of formation) was incorporated. The company was established to consolidate the exploration and service subsidiaries of PGNiG SA. Its share capital amounts to PLN 10,000,000 and is divided into 10,000,000 shares with a par value of PLN 1 per share. All shares in the company were acquired by PGNiG SA. On July 27th 2012, the company was registered with the National Court Register.

<u>Changes in the segmental structure of PGNiG SA and the PGNiG Group</u>

In H1 2012, the segmental structure of the Company and the PGNiG Group was changed. One new segment was formed, and selected subsidiaries and the underground gas storage facilities were reclassified based on their business profiles.

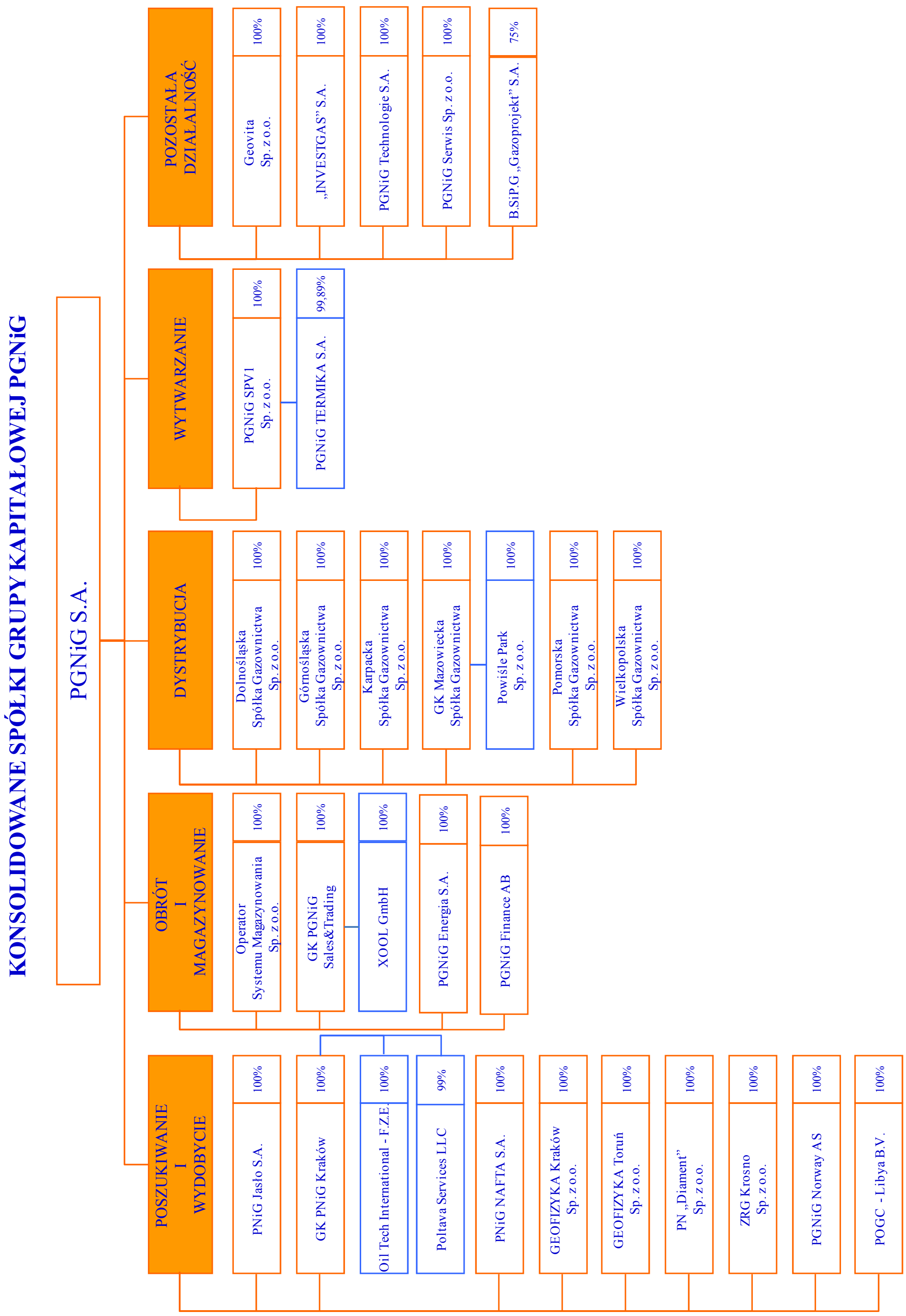
The Brzeźnica, Strachocina and Swarzów underground gas storage facilities were transferred from the Exploration and Production segment to the Trade and Storage segment after PGNiG SA provided access to the facilities' working capacities to third parties (on a TPA basis).

As a result of the acquisition of PGNiG TERMIKA S.A. (former Vattenfall Heat Poland S.A.) in H1 2012, the PGNiG Group expanded the scope of its operations to include electricity and heat generation. A new segment, Generation, was thus established and includes PGNiG TERMIKA S.A. and PGNiG SPV 1 Sp. z o.o..

INVESTGAS S.A. was transferred from the Trade and Storage segment to the Other Activities segment. INVESTGAS S.A. specialises in the provision of comprehensive design services, construction and assembly services, construction supervision services for projects involving construction of gas storage facilities and pipelines, as well as gas storage facility operation services.

PGNiG Energia S.A. and PGNiG Finance AB, previously reported under the Other Activities segment, were transferred to the Trade and Storage segment. PGNiG Energia S.A.'s core business consists in wholesale trade in electricity as well as trade in carbon and other greenhouse gas allowances. PGNiG Finance AB's business involves servicing PGNiG's Euronotes issues.

The chart below presents the consolidated companies of the PGNiG Group as at June 30th 2012 (by segments).


KONSOLIDOWANE SPÓŁKI GRUPY KAPITAŁOWEJ PGNiG
PGNiG S.A.
POSZUKIWANIE I WYDOBYCIE
PNiG Jasło S.A. 100%
GK PNiG Kraków 100%
Oil Tech International - F.Z.E. 100%
Poltava Services LLC 99%
PNiG NAFTA S.A. 100%
GEOFIZYKA Kraków Sp. z o.o. 100%
GEOFIZYKA Toruń Sp. z o.o. 100%
PN „Diament" Sp. z o.o. 100%
ZRG Krosno Sp. z o.o. 100%
PGNiG Norway AS 100%
POGC - Libya B.V. 100%
OBRÓT I MAGAZYNOWANIE
Operator Systemu Magazynowania Sp. z o.o. 100%
GK PGNiG Sales&Trading 100%
XOOL GmbH 100%
PGNiG Energia S.A. 100%
PGNiG Finance AB 100%
DYSTRYBUCJA
Dolnośląska Spółka Gazownictwa Sp. z o.o. 100%
Górnośląska Spółka Gazownictwa Sp. z o.o. 100%
Karpacka Spółka Gazownictwa Sp. z o.o. 100%
GK Mazowiecka Spółka Gazownictwa 100%
Powiśle Park Sp. z o.o. 100%
Pomorska Spółka Gazownictwa Sp. z o.o. 100%
Wielkopolska Spółka Gazownictwa Sp. z o.o. 100%
WYTWARZANIE
PGNiG SPV1 Sp. z o.o. 100%
PGNiG TERMIKA S.A. 99,89%
POZOSTAŁA DZIAŁALNOŚĆ
Geovita Sp. z o.o. 100%
„INVESTGAS" S.A. 100%
PGNiG Technologie S.A. 100%
PGNiG Serwis Sp. z o.o. 100%
B.SiP.G „Gazoprojekt" S.A. 75%

4. Employment

The table below presents employment at the PGNiG Group as at June 30th 2012, by segments. As the PGNiG Head Office provides services to all segments in the Group, it is disclosed separately.

Employment by segments (no. of staff)

	Jun 30 2012
PGNiG Head Office	754
Exploration and Production	4,340
Trade and Storage	3,746
Other Activities	38
Total	8,878

5. Sale and acquisition of natural gas

The PGNiG Group recorded revenue of PLN 13.2bn, 94% of which was derived from sales of natural gas.

Sales revenue (PLNm)

	H1 2012
Natural gas, including:	12,338.9
- high-methane gas	11,620.2
- nitrogen-rich gas	718.7
Crude oil	589.7
Condensate	3.8
Helium	66.5
Propane-butane	31.2
Gas storage services	15.9
Other sales	122.1
Total	13,168.1

In H1 2012, the PGNiG Group sold 8.0 bn m^3 of natural gas, with 95% of that figure represented by sales from the transmission and distribution systems and the balance – by direct gas sales from the fields.

Natural gas sales (million m^3)

	H1 2012
Trade and Storage	7,660.2
Exploration and Production	365.5
Total	8,025.7

In H1 2012, the volume of natural gas acquired by PGNiG SA was 8.0bn m^3, with 72% of that amount sourced from imports, mostly from countries east of Poland. Natural gas production from fields in Poland represented 27% of the total volume of gas acquired. The table below presents the structure of natural gas supplies to the Group, measured as high-methane gas equivalent.

Supply sources of natural gas (million m^3)

	H1 2012
Imports	5,761.5
Domestic production	2,163.5
Domestic suppliers	69.2
Total	7,994.2

Chapter II: Company's Governing Bodies

1. Management Board

As at January 1st 2012, the composition of the PGNiG Management Board was as follows:

- Radosław Dudziński – Vice-President, Strategy
- Sławomir Hinc – Vice-President, Finance
- Marek Karabuła – Vice-President, Petroleum Mining
- Mirosław Szkałuba – Vice-President.

At its meeting on March 7th 2012, the Supervisory Board appointed Ms Grażyna Piotrowska-Oliwa to the position of President of the PGNiG Management Board, with effect as of March 19th 2012, for the joint term of office expiring on March 13th 2014.

On May 11th 2012, Mr Marek Karabuła resigned from his position as member of the PGNiG Management Board. The reason for the resignation was his appointment to the position of President of the Management Board of POGC Libya B.V.

As at June 30th 2012, 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.

2. Supervisory Board

As at January 1st 2012, the composition of the PGNiG Supervisory Board was as follows:

- Stanisław Rychlicki – Chairman of the Supervisory Board
- Marcin Moryń – Deputy Chairman of the Supervisory Board
- Mieczysław Kawecki – Secretary of the Supervisory Board
- Grzegorz Banaszek – Member of the Supervisory Board
- Agnieszka Chmielarz – Member of the Supervisory Board
- Mieczysław Puławski – Member of the Supervisory Board
- Jolanta Siergiej – Member of the Supervisory Board.

On January 5th 2012, Mr Stanisław Rychlicki, Chairman of the Supervisory Board, tendered his resignation from the position with effect as of January 10th 2012.

On January 12th 2012, the Extraordinary General Meeting of PGNiG SA removed Mr Grzegorz Banaszek from the Supervisory Board and appointed Mr Wojciech Chmielewski to serve on the PGNiG Supervisory Board. Also on January 12th 2012, the Minister of State Treasury, acting in consultation with the Minister of Economy, appointed Mr Janusz Pilitowski to serve on the PGNiG Supervisory Board.

On January 13th 2012, the PGNiG Supervisory Board appointed Mr Wojciech Chmielewski as its Chairman.

On March 19th 2012, the Extraordinary General Meeting of PGNiG SA appointed Ms Ewa Sibrecht-Ośka to the Supervisory Board.

As at June 30th 2012, 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.

Chapter III: Shareholder Structure

As at June 30th 2012, 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 2012 is presented in the table below:

Shareholder structure

Shareholder	Number of shares as at Jun 30 2012	% of share capital held as at Jun 30 2012	Number of votes conferred by shares held	% of total vote at GM as at Jun 30 2012
State Treasury	4,271,911,724	72.40%	4,271,911,724	72.40%
Other shareholders	1,628,088,276	27.60%	1,628,088,276	27.60%
Total	5,900,000,000	100.00,%	5,900,000,000	100.00,%

As at June 30th 2012, 728,088,275 shares in PGNiG SA were delivered to eligible employees or their heirs. The shares represented 97.1% of the pool of shares available to be acquired free of charge by eligible persons.

PGNiG shares and shares in PGNiG SA's related entities held by management and supervisory personnel

The table below presents PGNiG shares held by the management and supervisory personnel as at June 30th 2012.

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

Chapter IV: Regulatory Environment

1. Licences

As at June 30th 2012, PGNiG SA held the following licences granted by the President of the Polish Energy Regulatory Office under the Energy Law:

- one licence to 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.

By virtue of a decision issued by the President of the Energy Regulatory Office at the request of PGNiG SA on March 16th 2012, the Company’s licence to store gas fuel was changed to include “gas fuel storage in storage facilities”. The President of the Energy Regulatory Office also approved the changes in the working storage capacities of the Strachocina Underground Gas Storage Facility, the Wierzchowice Underground Gas Storage Facility and the Mogilno Cavern Underground Gas Storage Facility following their expansion; and of the Husów Underground Gas Storage Facility for technological reasons.

On May 16th 2012 the President of the Energy Regulatory Office granted a licence authorising Operator Systemu Magazynowania Sp. z o.o. to store gas fuel in storage facilities, valid from June 1st 2012 to May 31st 2022. In light of the above, by way of a decision of May 29th 2012 the President of the Energy Regulatory Office revoked as of May 31st 2012 PGNiG’s licence to store gas fuels in storage facilities.

As at June 30th 2012, PGNiG SA held the following licences, granted under the Polish Geological and Mining Law:

- 96 licences to explore for and appraise crude oil and natural gas deposits
- 1 licence to appraise a salt deposit
- 225 licences to produce crude oil and natural gas from deposits
- 9 licences to store gas in underground facilities (underground gas storage facilities)
- 3 licences to store waste.

2. Changes in PGNiG SA's tariffs

Until March 30th 2012, the Gas Fuel Tariff (Part A – Gas Fuel Supply Tariff No. 4/2011) approved by the President of the Energy Regulatory Office on June 30th 2011 was used in settlements with customers.

By virtue of a decision of January 11th 2012, the President of the Energy Regulatory Office refused to change the Gas Fuel Tariff (Part A – Gas Fuel Supply Tariff No. 4/2011) with respect to gas fuel prices, which was to be applied in settlements with customers from November 15th to December 31st 2011.

By virtue of a decision of March 16th 2012, issued following a request of PGNiG SA dated October 25th 2011, the President of the Energy Regulatory Office approved the Gas Fuel Tariff (Part A – Gas Fuel Supply Tariff No. 5/2012) which, in line with the request by PGNiG SA, was to be applied in settlements with customers from January 1st to March 31st 2012. The tariff became effective as of March 31st 2012 and, pursuant to the decision of the President of the Energy Regulatory Office, it will continue in force until December 31st 2012. 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 increased by 12.5%, 12.6% and 11.3%, respectively.

On June 15th 2012, PGNiG SA applied to the President of the Energy Regulatory Office requesting a change to the Gas Fuel Tariff (Part A – Gas Fuel Supply Tariff No. 5/2012). As at the date of this Report, the tariff proceedings were pending.

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

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

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1	2.5779	2.7648	7.3%
W-2	2.0167	2.2036	9.3%
W-3	1.8340	2.0209	10.2%
W-4	1.7036	1.8905	11.0%
W-5 - W-7C	1.5629	1.7507	12.0%
W-8A - W-10C	1.3185	1.5063	14.2%

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
S-1	1.8537	2.0010	7.9%
S-2	1.4415	1.5888	10.2%
S-3	1.3152	1.4625	11.2%
S-4	1.1911	1.3384	12.4%
S-5 - S-7B	1.1225	1.2677	12.9%
S-8 - S-10	1.0113	1.1566	14.4%

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
Z-1	1.4575	1.5830	8.6%
Z-2	1.3255	1.4510	9.5%
Z-3	1.1749	1.3004	10.7%
Z-4	1.0954	1.2209	11.5%
Z-5 - Z-7B	1.0825	1.2088	11.7%

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

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1	2.5468	2.7337	7.3%
W-2	2.0803	2.2672	9.0%
W-3	1.8014	1.9883	10.4%
W-4	1.7314	1.9183	10.8%
W-5 - W-7C	1.5854	1.7732	11.8%
W-8A - W-11C	1.3243	1.5121	14.2%

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

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1	2.4284	2.6153	7.7%
W-2	1.9928	2.1797	9.4%
W-3	1.7450	1.9319	10.7%
W-4	1.6960	1.8829	11.0%
W-5 - W-7C	1.5918	1.7796	11.8%
W-8A - W-10C	1.2933	1.4811	14.5%

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

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1	2.8082	2.9951	6.7%
W-2	1.9019	2.0888	9.8%
W-3	1.7044	1.8913	11.0%
W-4	1.6918	1.8787	11.0%
W-5 - W-7C	1.5658	1.7536	12.0%
W-8A - W-10C	1.2341	1.4219	15.2%

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

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1	2.6499	2.8368	7.1%
W-2	2.0396	2.2265	9.2%
W-3	1.8144	2.0013	10.3%
W-4	1.7530	1.9399	10.7%
W-5 - W-7C	1.6114	1.7992	11.7%
W-8A - W-10C	1.3075	1.4953	14.4%

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

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
W-1	2.6742	2.8611	7.0%
W-2	1.9479	2.1348	9.6%
W-3	1.8085	1.9954	10.3%
W-4	1.7181	1.9050	10.9%
W-5 - W-7C	1.5291	1.7169	12.3%
W-8A - W-10C	1.2698	1.4576	14.8%

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
S-1	1.8642	2.0115	7.9%
S-2	1.4032	1.5505	10.5%
S-3	1.2723	1.4196	11.6%
S-4	1.1974	1.3447	12.3%
S-5 - S-7B	1.1246	1.2699	12.9%
S-8 - S-10	-	-	

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
Z-1	1.6976	1.8231	7.4%
Z-2	1.2649	1.3904	9.9%
Z-3	1.1314	1.2569	11.1%
Z-4	1.0645	1.1900	11.8%
Z-5 - Z-7B	1.0184	1.1446	12.4%

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

Tariff group	Tariff No. 4/2011	Tariff No. 5/2012	Change (%)
	1	2	2/1
E-1A - E-2C	1.1818	1.3700	15.9%
Lw-1 - Lw-2	0.9130	1.0583	15.9%
Ls-1 - Ls-2	0.7564	0.8827	16.7%

On January 13th 2012, PGNiG SA applied to the President of the Energy Regulatory Office requesting approval of a new Gas Fuel Storage Services Tariff (Part B – Gas Fuel Storage Services Tariff No. 1/2012), which would be effective in settlements with customers from April 1st 2012 to Match 31st 2013. The tariff submitted for approval took into account the change in storage charge rates relating to the expected commissioning of new storage capacities (180m m^3 in the Strachocina Underground Gas Storage Facility and 34m m^3 in the Mogilno Cavern Underground Gas Storage Facility). On April 13th 2012 the President of the Energy Regulatory Office approved the proposed Tariff, to be effective until March 31st 2013. The Tariff was replaced by Operator Systemu Magazynowania Sp. z o.o.'s Gas Fuel Storage Tariff No. 1/2012, effective in settlements with customers as of July 1st 2012.

3. Regulatory risks

Polish Energy Law

In H1 2012, work was under way on a set of three acts which are to regulate the energy sector, i.e. the Gas Law, the Energy Law and the Law on Renewable Energy Sources. Work also continues on amending the Regulation of the Minister of Economy on detailed rules for determining and calculating tariffs for gas fuels and on settlement of transactions in gas fuels trading (the Tariff Regulation).

Changes of laws and delays in amending legal acts create risks stemming chiefly from uncertainty as to the final scope of the regulatory changes and short time for adaptation to such changes, which might adversely affect the financial performance and growth prospects of 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. In line with the provisions of the new act, PGNiG SA, as a trading company, is required to purchase energy efficiency certificates or, alternatively, to pay the non-compliance penalty. This 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 as unjustified. Moreover, the President of the Energy Regulatory Office does not always agree 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 2012, the President of the Energy Regulatory Office again unilaterally extended tariff's effective term (as was the case in previous tariff proceedings). The Company is of the opinion that such actions by the President of the Energy Regulatory Office create a 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 effective term is extended by the President of the Energy Regulatory Office. 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. Further, the President of the Energy Regulatory Office protracts tariff proceedings; consequently, a new tariff takes effect later than originally applied for by PGNiG SA. It was only on March 16th 2012 that Gas Fuel Supply Tariff No. 5/2012 was approved, while the Company had submitted the relevant application on October 25th 2011.

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 on 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 materially affect 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 changes of natural gas prices is encumbered with a high risk of error. There can be no assurance that despite the legal possibility of adjusting prices approved for a tariff term an increase in the price of imported gas may not be fully passed on to customers or the changes in gas selling prices may lag behind the changes in its import prices.

Chapter V: Exploration and Production

1. Exploration

In H1 2012, the PGNiG SA was involved in hydrocarbon exploration and appraisal projects in Poland and abroad. In Poland, work was carried out in the Carpathians, the Carpathian Foreland and the Polish Lowlands. The foreign projects involved Pakistan, Egypt and Denmark. The projects were executed by the Company acting on its own or in cooperation with partners.

Within its own licence areas, PGNiG SA performed 10,237 m of exploration and appraisal drilling, including 9,977 m in Poland and 260 m in Denmark. In Poland, drillings were performed in five wells: two exploratory wells, two research boreholes and one worked-over well. In H1 2012, three wells were tested on PGNiG license areas in Poland, including two drilled in 2011. The tests confirmed presence of gas in two wells – one exploratory well and one appraisal well. No hydrocarbon flow at commercial rates was recorded from the third well, and the well was subsequently abandoned. The Company continued to work on a well in the licence area in Denmark. Given the negative outcome of the drilling, the well was abandoned.

One of the positive wells was a 3,357 m appraisal well Kramarzówka-1 drilled in the Carpathian Foothills in 2011. The well produced a natural gas flow. The drilling of a deep well Dukla-1 in the Carpathians was completed. In the Lublin Province, drilling of a shale gas well Lubycza Królewska-1 commenced, marking the opening of a new shale gas exploration area.

The Company also carried out geophysical work as part of its exploration and appraisal operations. In H1 2012, the Company acquired 1,059 km of 2D and 34 $km^2$of 3D seismic data from its licence areas in Poland, and 1,793 km 2D seismic was acquired in Egypt.

As at June 30th 2011, the Group's recoverable reserves were as follows:
- 91.6bn m^3 of natural gas measured as high-methane equivalent,
- 21.0 million tonnes of crude oil.

<u>Joint ventures in Poland</u>

In H1 2012, PGNiG SA collaborated with other entities in licence areas awarded to PGNiG SA, FX Energy Poland Sp. z o.o., and Aurelian Oil & Gas PLC.

Under 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 – 51%, FX Energy Poland – 49%;
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under the Operating Agreement of Mining Users dated October 26th 2005; licence interests: PGNiG SA – 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 – 51%, FX Energy Poland Sp. z o.o. – 49%;
- "Bieszczady" – under the Agreement for Joint Operations dated June 1st 2007; licence interests: PGNiG SA – 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 – 51%, Orlen Upstream Sp. z o.o. – 49%.

In the first half of 2012, production continued from the Roszków field in the "Płotki" area, and from the Zaniemyśl field in the "Płotki" – "PTZ" area.

In the "Poznań" licence area, in H1 2012 gas production continued from the Środa Wielkopolska, Kromolice and Kromolice S fields. Work continued on development of the Winna Góra gas field, and development of the Lisewo field commenced. In the Pławce-2 tight gas exploration borehole preparations were under way to carry out a well stimulation operation. In the Żerków-Pleszew area, processing of the second stage 3D seismic survey data was completed and work began on interpretation of the data. Also, drilling of a 4,075 m deep Komorze-3K borehole commenced. The drilling operation was completed in July 2012; the well will be tested in H2 2012.

In the "Bieszczady" area, 2D field work in the Jaśliska-Baligród zone was completed. In the Hoczew-Lutowiska area, gravimetric field work and interpretation of the acquired data were completed. Partners in the project were also in discussions on the selection of the optimum procedure for testing the Niebieszczany-1 deep borehole.

In the "Sieraków" area, in H1 2012, after a revision of the scope of exploration work, the Sieraków-3 borehole was sited. The Sieraków-3 borehole will be drilled in H2 2012 instead of the previously planned Sieraków-2 borehole.

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

- "Warszawa-Południe" (blocks 234, 235, 254, 255, and 274N) – under the Agreement for Joint Operations dated May 26th 2011; licence interests: FX Energy Poland Sp. z o.o. – 51%, PGNiG SA – 49%;
- "Ostrowiec" (blocks 163 and 164) – under the Agreement for Joint Operations dated February 27th 2009; licence interests: FX Energy Poland Sp. z o.o. – 51%, PGNiG SA – 49%;
- "Kutno" – under the Agreement for Joint Operations dated September 30th 2010; licence interests: FX Energy Poland Sp. z o.o. – 50%, PGNiG SA – 50%.

In H1 2012, 235 km of 2D seismic was acquired in the "Warszawa-Południe" area. Analytical work continued for the "Ostrowiec" area. In the "Kutno" area, drilling of the Kutno-2 deep exploration borehole was carried on.

Under licences awarded to Aurelian Oil & Gas PLC, work was performed in the following areas:

- "Karpaty Zachodnie" under the Agreement for Joint Operations with Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (a subsidiary of Aurelian Oil & Gas PLC) dated December 17th 2009; licence interests: Energia Karpaty Zachodnie Sp. z o.o. Sp. k. – 60%, PGNiG SA – 40%;
- "Karpaty Wschodnie" under the Agreement for Joint Operations with Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (a subsidiary of Aurelian Oil & Gas PLC) dated December 17th 2009; licence interests: Energia Karpaty Wschodnie Sp. z o.o. Sp. k. – 80%, PGNiG SA – 20%.

In H1 2012, a prospectivity analysis was carried out in the "Karpaty Zachodnie" area in preparation for the planned future drilling work, and 2D field seismic work in the Bestwina zone commenced. In the "Karpaty Wschodnie" area, the 2D seismic acquired from the Jordanów zone was processed, and its interpretation began.

On July 4th 2012, PGNiG SA entered into a framework agreement concerning shale oil and gas exploration
and production in the Wejherowo licence area with four other Polish companies: Tauron Polska Energia S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A. and Enea S.A. Under the agreement, joint work will be conducted on a part of the Wejherowo licence area held by PGNiG, and specifically in the Kochanowo, Częstkowo and Tępcz zones, where preliminary surveys and analyses have confirmed the presence of unconventional gas. The joint effort will cover about 160 km^2 in the Wejherowo licence area. Expenditure on the Kochanowo-Częstkowo-Tępcz (KCT) project is estimated at up to PLN 1.7bn. PGNiG SA will be the licence operator throughout the exploration and appraisal phase.

Exploration abroad

PGNiG SA conducts exploration work in Pakistan under an agreement on 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 H1 2012, workover of the Hallel-1 borehole was completed,
as was the drilling of the horizontal Hallel-x1 borehole, where gas flow was obtained. Additional interpretation of 3D seismic data confirmed the presence of potential deposits in the northern part of the licence area. On July 6th 2012, the Directorate General of Petroleum Concessions (the Pakistani concession authority) classified the Rehman field as unconventional (tight gas). As a reult, the interest holders can raise gas prices by 50% relative to the price of gas produced form conventional reserves. For H2 2012, work is scheduled to commence on construction of a piping system necessary to run a joint production test on the Rehman-1 and Hallel-X1 wells.

Since the execution of the agreement on assignment of interests in 2007, PGNiG SA has conducted exploratory work in the 1/05 licence area in Denmark. Currently, the licence interests are: PGNiG SA (operator) – 80%, Nordsøfonden – 20%. Drilling of the Felsted-1 exploration well was completed in the early 2012. As no hydrocarbon flow at commercial rates had been obtained, the well was abandoned. However, the abandonment procedure proved ineffective. To repeat the abandonment procedure, PGNiG SA obtained a consent from the Danish Energy Agency to extending the licence's term. The Company plans to abandon the licence area by the end of 2012.

In Egypt, PGNiG SA conducts exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement (EPSA) with the government of Egypt of May 17th 2009. The Company holds a 100% interest in the licence. In H1 2012, the seismic 2D field work was completed and the processing of the seismic data commenced. By the end of H1 2012, 2,300 km of 2D seismic data was acquired. Plans for H2 2012 include completion of the processing and interpretation of 2D seismic data and commencement of drilling of an exploratory well.

2. Production

In the first half of 2012, PGNiG SA produced 2.2bn m^3 of natural gas (measured as high-methane gas equivalent) and 217.1 thousand tonnes of crude oil. The table below presents PGNiG SA’s production volumes in H1 2012.

Production volumes

		Unit	H1 2012
1	Natural gas, including:	million m^3 *	2,163.5
a	high-methane gas, including:	million m^3	807.9
	- Zielona Góra Branch	million m^3	0
	- Sanok Branch	million m^3	807.9
b	nitrogen-rich gas, including:	million m^3 *	1,355.6
	- Zielona Góra Branch	million m^3 *	1,317.2
	- Sanok Branch	million m^3 *	38.4
2	Crude oil	thousand tonnes	217.1
	- Zielona Góra Branch	thousand tonnes	193.5
	- Sanok Branch	thousand tonnes	23.6

* Measured as high-methane gas equivalent.

In the area covered by the Sanok Branch, the Rylowa i Rajsko fields came on stream and a new well was hooked up in the Zagorzyce field, where production is already under way. The total addition to gas production capacity from the newly hooked-up wells is approximately 7.5 thousand m^3 of gas per hour (measured as high-methane gas equivalent). No new wells were hooked up in the area covered by the Zielona Góra Branch.

In H1 2012, eight major repairs were performed to restore technological efficiency of producing wells. Thirty-eight well treatment operations (including well stimulations) were carried out to maintain or improve production capacities of producing wells or to restore technological efficiency of in-well extraction equipment.

The PGNiG Group processes crude oil and natural gas to obtain commercial products. 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. The largest amounts of natural gas were sold to industrial customers, which accounted for 85% of the total sales volume.

Sales of key products

		Unit	H1 2012
1	Natural gas, including:	million m^3	365.5
	- high-methane gas	million m^3	35.7
	- nitrogen-rich gas*	million m^3	329.8
2	Crude oil	thousand tonnes	221.5
3	Condensate	thousand tonnes	1.4
4	Helium	million m^3	1.7
5	Propane-butane	thousand tonnes	10.2
6	Nitrogen	thousand kilograms	245.4
7	Sulphur	thousand tonnes	11.8

*Measured as high-methane gas equivalent.

In H1 2012, PGNiG SA continued to sell crude oil to Rafineria Trzebinia S.A. and TOTSA TOTAL OIL TRADING S.A. under the agreements executed in 2009, and to Rafineria Nafty Jedlicze S.A. under a ten-year contract executed in 2007.

The Company's foreign customers accounted for 43% of the total volume of crude sales, and for 71% of helium sales. Crude oil was sold to a German refinery (through the Druzhba pipeline), while most of helium was sold in liquid form to foreign wholesale customers, who resell the product in the EU countries.

Underground gas storage facilities (Exploration and Production)

In H1 2012, 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 principal role of the underground gas storage facilities is to manage volumes of gas produced in periods of lower demand for the product. The table below presents working capacities of the underground storage facilities used by the Exploration and Production segment as at June 30th 2012.

Working capacities of the underground storage facilities used by the Exploration and Production segment (million m^3)

	Jun 30 2012
Daszewo UGSF (gas type Ls)	30.0
Bonikowo UGSF (gas type Lw)	200.0
Total	230.0

3. Planned activities

Exploration

In H2 2012, PGNiG SA plans to conduct geophysical work and drilling operations as part of exploration operations in Poland on a few dozen of prospects in the Carpathian Mountains, Carpathian Foothills and the Polish Lowlands. These operations will be carried out by PGNiG SA on its own and in cooperation with foreign partners. As part of these activities, PGNiG SA also intends to pursue projects focused on exploring new potential in the area of unconventional reserves (shale oil/gas and tight gas), where little appraisal has so far been made. In Pomerania, the Company plans to drill the Lubocino-2h well as part of the drilling campaign covering the Lubocino structure. In the Lublin Province, there are plans to continue drilling the Lubycza Królewska-1 well. In Carpathian Mountains, formation testing is to be performed in the Dukla-1 well. In Pomerania, a fracturing operation is planned to be carried out in the Piaski-3 well, and two new wells - Opalino-2 and Kochanowo-1 - are to be drilled.

In the second half of 2012 PGNiG SA plans to continue its operations in Pakistan and Egypt. The Company intends to withdraw from Denmark by the end of 2012.

Natural gas production

In the entire 2012, PGNiG SA plans to produce 4.4 bn m^3 of natural gas in Poland (measured as equivalent of high-methane gas with calorific value of 39.5 MJ/m^3. In Poland in H2 2012, once the extension of the Kościan node is completed and the newly built Kościan-Szczyglice gas pipeline is placed in service, it will be possible to sell additional quantities of type Lw gas to customers buying gas directly from the fields and to the distribution system. There are also plans to hook up new fields and wells with an aggregate production capacity of approximately 19 thousand m^3 per hour (measured as high methane gas equivalent). In the area covered by the Sanok Branch, the Góra Ropczycka, Wola Rokietnicka and Lubliniec fields will come on stream, and new wells will be hooked up in producing fields, including Rudka, Pruchnik, Mirocin and Cierpisz. In the area of the Zielona Górza Branch, two wells in producing fields (Bogdaj-Uciechów and Jarocin) are planned to be hooked up. A new well in the Winna Góra field is planned to be connected to the system (in cooperation with FX Energy Poland Sp. z o.o.).

Crude oil production

In 2012, after three new wells in the BMB (Barnówko-Mostno-Buszewo) field come on stream in the second half of the year, PGNiG SA expects to produce ca. 480 thousand tonnes of crude from domestic fields.

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 reserves, i.e. the exploration risk. This means that not all the identified potential deposit sites 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.

Exploration for unconventional gas

The risk associated with exploration for unconventional gas 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.**

Competition

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 of 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.

Delayed work

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. Moreover, prior to the commencement of field work, the Company is 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. In addition, 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 order to reduce costs of drilling work, PGNiG SA applies the Daily Rate system in selecting drilling contractors.

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.

Unpredictable 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 problems to 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 PGNiG SA 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 PGNiG SA 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.

Chapter VI: Trade and Storage

1. Purchases

In H1 2011, PGNiG SA imported gas and, to a limited extent, purchased the fuel from domestic suppliers. PGNiG SA imported 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 sales of natural gas to the Republic of Poland, dated September 25th 1996, which remains in force until December 31st 2022
- individual transactions for natural gas supplies (using reverse flow) with PGNiG Sales & Trading GmbH
- Individual Agreement with Vitol S.A. for sales of natural gas, dated May 13th 2011, which remains in force until October 1st 2014
- Agreement with VNG-Verbundnetz Gas AG for sales of the Lasów natural gas, dated August 17th 2006, which remains in force until October 1st 2016.

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

Structure of natural gas purchases by supply sources (million m^3)

	H1 2012	%
Imports, including:	5,761.5	98.8%
- Gazprom Export	4,570.1	79.3%
- Other foreign suppliers	1,191.4	20.7%
Domestic suppliers	69.2	1.2%
Total	5,830.7	100.0%

New agreements

In order to reduce natural gas acquisition costs, PGNiG SA executed an agreement with OGP GAZ-SYSTEM S.A. for the provision of virtual reverse services on the Yamal gas pipeline in the period from January 1st 2012 to December 31st 2015. In H1 2012, PGNiG SA and PGNiG Sales & Trading GmbH executed 11 sets of individual transactions for the supply of natural gas using the reverse flow service on the Yamal Pipeline, for a total of ca. 510 million m^3.

On March 19th 2012, in exercise of its contractual rights, PGNiG SA requested VNG-Verbundnetz Gas AG to lower the price of gas under the Lasów gas sales agreement of August 17th 2006. On March 29th 2012, VNG-Verbundnetz Gas AG requested PGNiG SA to review the pricing terms of the agreement and increase the price of gas. As at the date of this Report, renegotiations of the gas price were pending.

2. Sales

In H1 2012, PGNiG SA executed comprehensive gas fuel supply contracts, both from the transmission system and from the distribution system, with 33.4 thousand new customers.

The key products sold by the Trade and Storage segment are high-methane gas and nitrogen-rich gas. In H1 2012, sales of natural gas rose ca. 5% year on year. The strongest growth was seen in sales to industrial customers, primarily in the oil refining and petrochemical sector. PGNiG SA sold gas on the Polish market. The structure of sales of the Company's Trade and Storage segment in H1 2012 is presented in the table below.

Structure of sales of key products

	Unit	H1 2012
Natural gas, including:	million m^3	7,660.2
- high-methane gas	million m^3	7,383.5
- nitrogen-rich gas*	million m^3	276.7
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) as well as 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 4.5% year on year. Industrial customers had the largest share in the sales volume, with sales to this group having grown by 6% on H1 2011. 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 (million m^3)

	H1 2012	%
Industrial customers	4,401.3	57.4%
Trade and services	925.6	12.1%
Households	2,213.4	28.9%
Wholesale customers	119.9	1.6%
Total	7,660.2	100.0%

In the first half of 2012, PGNiG SA continued a gas distribution project consisting in LNG distribution of gas fuel to Ełk and Olecko. This project is a part of an initiative to switch Pisz, Ełk, Suwałki and Olecko to high-methane gas (the PESO project). The project involves construction of an LNG regasification station and two-step pressure reduction and odorising stations in Ełk and Olecko, and switching customers in Ełk and Olecko to high-methane gas. The construction work is set for completion by the end of 2013. On June 29th 2012 an agreement was signed for co-financing of the project with EU funds under the Infrastructure and Environment Operational Programme.

3. Storage

The Trade and Storage segment used for its own needs 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 is not a storage facility within the meaning of the Polish Energy Law, was made available to OGP GAZ-SYSTEM S.A.

Short-term peak fluctuations in demand for natural gas are balanced out with the supplies from the Mogilno Underground Gas Storage Cavern 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.

In addition, the capacities of the Wierzchowice, Husów and Mogilno facilities are 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 2012, PGNiG SA completed extension of the Strachocina Underground Gas Storage Facility. The facility's working capacity was increased from 150m m^3 to 330m m^3. PGNiG SA also placed in service one of the caverns of the Mogilno Underground Gas Storage Cavern Facility, which increased the facility's working capacity to 411.9m m^3. Following these extensions, as of May 1st 2012 PGNiG SA made available for third party access additional 214m $m^3$of working storage capacity. The table below presents working capacities of the storage facilities as at June 30th 2012.

Working capacities of the storage facilities used by the Trade and Storage segment (million m^3)

	Jun 30 2012
Brzeźnica Underground Gas Storage Facility	65.0
Husów Underground Gas Storage Facility	350.0
Mogilno Cavern Underground Gas Storage Facility	411.9
Strachocina Underground Gas Storage Facility	330.0
Swarzów Underground Gas Storage Facility	90.0
Wierzchowice Underground Gas Storage Facility	575.0
Total	1,821.9

On May 11th 2012, PGNiG SA and Operator Systemu Magazynowania Sp. z o.o. executed an agreement for exclusive operation of storage facilities and designation of the storage system operator. Execution of such agreement was required under the Polish Energy Law and was a precondition for appointing OSM Sp. z o.o. the storage system operator.

Until May 31st 2012, the function of the storage system operator had been performed by PGNiG SA. By virtue of a decision by the President of the Polish Energy Regulatory Office's of May 22nd 2012, Operator Systemu Magazynownia Sp. z o.o. was appointed the system operator for the period from June 1st 2012 to May 31st 2022. On May 16th 2012 the President of the Polish Energy Regulatory Office granted to OSM Sp. z o.o. a licence to store gas fuel in storage facilities, valid from June 1st 2012 to May 31st 2022.

4. Planned activities

<u>Purchases of natural gas</u>

In H2 2012, PGNiG SA will continue to purchase of 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 optimise the costs of gas fuel acquisition, the Company will purchase natural gas through PGNiG Sales & Trading GmbH on the German market, under short-term agreements. The gas will be delivered using the virtual reverse flow service on the Yamal gas pipeline.

<u>Storage</u>

In H2 2012, PGNiG SA will continue work on extending the Mogilno Underground Gas Storage Cavern Facility and the Wierzchowice Underground Gas Storage Facility. The Wierzchowice Underground Gas Storage Facility is to be placed in service in Q4 2012, while first volumes of gas are to be injected and drawn from the facility in the 2013/2014 season. On May 21st 2012, a decision was made to extend the Mogilno Underground Gas Storage Cavern Facility by constructing five new caverns. The Company will also continue construction of the Kosakowo Underground Gas Storage Cavern Facility, designed to store high-methane gas. Completion of the leaching process in the first storage chamber is scheduled for 2013.

5. Risks related to Trade and Storage

<u>Requirement to diversify supplies of imported gas</u>

In 2010, the President of the Energy Regulatory Office imposed a PLN 2m fine on PGNiG SA for breaching the terms of its licence for international trade in natural gas, by failing to comply with the requirement to diversify supplies of imported gas in 2007 and 2008. The maximum share of gas imported from one country in total gas imports 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. On January 4th 2011, PGNiG SA filed (through the agency of the President of the Energy Regulatory Office) an appeal against the decision imposing the fine with the Competition and Consumer Protection Court at the Regional Court of Warsaw. The Company challenged in full the decision of the President of the Energy Regulatory Office, citing, among others, breach of the Constitution as well as erroneous interpretation and improper application of the Energy Law. The appeal proceedings are pending. In 2011, the President of the Energy Regulatory Office instigated administrative proceedings to impose a fine on PGNiG SA for its failure to comply with the requirement to diversify supplies of imported gas in 2009. Similar administrative proceedings concerning PGNiG SA’s failure to comply with the requirement to diversify supplies of imported gas in 2010 were instituted on May 11th 2012. The 2009 and 2010 proceedings were suspended ex officio until conclusion of the 2007 and 2008 proceedings, held before the Competition and Consumer Protection Court.

In order to avoid similar situations in the future, 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).

<u>Deregulation of gas prices for customers</u>

PGNiG SA is the largest supplier of natural gas in Poland. Its share in the gas market is estimated at approximately 96%, while the remaining share of 4% is held by suppliers from outside the PGNiG Group which usually purchase gas from PGNiG SA. However, in 2012-2013, major changes are expected to take place on the natural gas market and in its legal environment. In H1 2012, PGNiG SA commenced development of the Gas Release Programme which provides for release of gas prices paid by institutional customers as of January 1st 2013, followed by release of gas prices for households (in 2–3 years' time). Additionally, a set of three energy acts, including the Gas Law, is to be enacted in 2012. As a result of the expected changes, the Company's share in the natural gas sales volume may significantly fall to the benefit of the existing as well as new gas trading entities. On the other hand, following the deregulation process, gas prices will be chiefly market-driven.

Storage

Pursuant to the Act on Mandatory Stocks, as of October 1st 2012, the volume of mandatory stocks must be increased from 20 to 30 days of the average annual imports. As a result, there is a risk that the Company will not be able to meet its obligations under the existing gas supply contracts, given that significant storage capacities which will have to be used for storage of the increased mandatory stocks.

Chapter VII: Other Activities

PGNiG SA’s organisational unit classified in the “Other Activities” segment is the Central Measurement and Testing Laboratory Branch. The Branch provides services ensuring accurate and reliable measurements of natural gas, comprising in particular calibration of measurement devices, attestation of gas meters and gas volume converters, natural gas quality testing, testing of new gas equipment as well as measurement and analytical supervision over process analyser systems and equipment installed in transmission and distribution networks, and in gas storage facilities. The Branch also offers advisory services, issues opinions, prepares expert reports, and validates and supervises field quality-testing laboratories.

In H1 2012, the Branch’s main areas of activity included:

- metrological inspections of measurement systems on the Yamal-Europe transit gas pipeline (Polish section),
- metrological inspections of measurement systems at industrial customers’ metering stations (28 facilities),
- checking natural gas measurement systems for the purposes of assessment of CO_2 emissions by large industrial emitters,
- measurement oversight over the process analyser systems for the evaluation of gas quality in the 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.

The Branch provided its services mainly to EUROPOL GAZ S.A., OGP GAZ-SYSTEM S.A. and the companies of the PGNiG Group.

Planned activities

The Branch intends to maintain its position as the leading research laboratory and an attestation centre carrying out metrologic 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 biogas; evaluation of measurement and process analyser systems used to estimate CO_2 emissions; and in the area of measurement supervision of the field laboratories.

Further, the Branch plans to expand research activities concerning gas volume converters and establish itself as a leading research centre in the area of quality assessment of natural gases and biogas.

Risks

Liberalisation of the gas market poses a risk that other Polish and foreign laboratories will enter the domestic market of natural gas measurement and analysis services (competition risk). In H1 2012, the number of accredited laboratories in Poland providing services similar to the services offered by the Central Measurement and Testing Laboratory continued to grow.

Chapter VIII: Environmental Protection

Well and mining pit abandonment

Pursuant to the Polish Geological and Mining Law, PGNiG SA is required to properly abandon worked-out mining pits, eliminate the danger and repair any damage caused by mining activities, 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 to water courses. Furthermore, if gas wells remain unplugged, there is a risk that escaping gas could accumulate inside, posing a fire hazard. In H1 2012, four mining pits were plugged.

Carbon credit trading system

In the first half of 2012, PGNiG SA reviewed annual reports on carbon dioxide emissions for 2011. After reconciling its CO_2 emissions with emission rights held and after cancelling used allocations for 2011, the remaining amount was 8,884 Mg CO_2 of free emission units. In 2011, the installations participating in the scheme were the Odolanów Branch, the Zielona Góra Branch and the Mogilno Underground Gas Storage Cavern Facility. Emissions from those installations amounted to 91,098 Mg CO_2.

Methane emissions

H1 2012 saw completion of the first stage of detailed recording of methane emissions from the gas distribution system, commenced in 2011. Its purpose is to estimate the volume of methane emissions from particular elements of the system, review the emission indicators applied to date, and develop uniform indicators and calculation methods for methane emissions. Standardised and reliable methane emission indicators will help reduce the cost of environmental fees and charges.

Land reclamation and non-productive asset surveying

Pursuant to the Environmental Protection Law, PGNiG SA conducts diagnosis tests and surveys and land reclamation work in the areas polluted in the course of past activities with a view to restoring them to the condition required under the environmental quality standards. In H1 2012, the Company monitored the environmental impact of the reclaimed landfill site in Zabrze-Biskupice and a property in Zabrze, and carried out supplementary tests and surveys on a property located in Szczecin.

REACH and CLP

In 2011, PGNiG SA took measures to ensure compliance of the labelling of substances produced by the Company 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). In H1 2012, PGNiG SA adjusted the Material Safety Data Sheets for natural gas, crude oil, hydrocarbon condensate, LPG, LNG, helium and nitrogen, to meet the CLP Regulation.

Integrated Management System and Environmental Management System

In H1 2012, a recertification audit of the Environmental Management System was carried at the PGNiG Head Office, with a positive result. The certificate confirming compliance of the system with PN-EN ISO 14001:2005 was extended until 2015. A recertification audit was also conducted at Mazowiecka Spółka Gazownictwa Sp. z o.o. to verify the company's Environmental Management System, implemented in 2011.

Chapter IX: Other Information

Distribution of the 2011 profit

On June 6th 2012, the Annual General Meeting of PGNiG SA adopted a resolution to allocate the 2011 net profit of PLN 1,615.7m and retained earnings of PLN 72.5m to the Company's statutory reserve funds.

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

On June 6th 2012, the Annual General Meeting of PGNiG SA approved the financial statements and the Director's Report on operations of PGNiG SA, as well as the consolidated financial statements and the Director's Report on 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 2011.

Issue of Euronotes

On February 10th 2012, PGNiG SA issued (through its subsidiary PGNiG Finance AB) five-year Euronotes for EUR 500m. The notes were assigned the Baa1 (Moody's) and BBB+ (Standard & Poor's) credit ratings. Further, in May 2012 PGNiG SA executed transaction documentation for a five-year PLN 4.5bn notes issuance programme addressed to investors in Poland. The first note issue under the programme, with a nominal value of PLN 2.5bn, took place on June 19th 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 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 as invalid. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, along with a petition to be exempt from court fees. On 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 appeal, which had not been accepted for consideration by the Supreme Court by the date of this Report.

Proceedings based on PGNiG SA's action against PI GAZOTECH Sp. z o.o. to rescind or declare 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 rescinded the resolution. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, along with a petition to be exempt from court fees. By virtue of its decision of June 22nd 2012, the Court of Appeals of Warsaw dismissed PI GAZOTECH Sp. z o.o.'s appeal. The decision was final. As at the date of these financial statements, PI GAZOTECH Sp. z o.o. has not lodged an appeal in cassation against that decision.

Proceedings based upon PGNiG SA's action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the General Meeting of PI GAZOTECH Sp. z o.o., dated October 6th 2005, whereunder PGNiG SA was obliged to pay additional contributions in the amount of PLN 6,552,000, were brought before the Regional Court of Warsaw. On May 30th 2008, the Regional Court dismissed the Company's claim and reversed the decision concerning implementation of measures to safeguard the claim (the temporary injunction order). The proceedings to rescind or declare invalidity of the resolution on additional contributions and to maintain the safeguarding measures have been held before the Court of Appeals and the Regional Court of Warsaw since 2008. By virtue of its decision of May 25th 2010, the Court of Appeals changed the Regional Court's decision concerning maintenance of the safeguarding measures dated May 30th 2008 and dismissed the request for reversing the final decision on implementation of the safeguarding measures. By virtue of its decision of May 21st 2012, the Regional Court of Warsaw declared the resolution of the General Meeting of PI GAZOTECH Sp. z o.o. on additional contributions invalid. As at the date of these financial statements, PI GAZOTECH Sp. z o.o. has not lodged an appeal against that decision.

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 abuse of dominant position by PGNiG SA on the domestic natural gas wholesale market, which consisted in inhibiting sale of gas against the interest of other business players or consumers and 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 UOKiK found these actions to be anti-competitive practices, concluded that PGNiG SA 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 UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw.

On July 4th 2011, the President of UOKiK instigated anti-trust proceedings concerning abuse of dominant position by PGNiG SA on the domestic retail natural gas market. In the President's opinion, the abuse consisted in frustrating the emergence or development of competition on the domestic natural gas wholesale and retail markets by limiting the customers' ability to terminate comprehensive gas fuel supply contracts. In the course of the proceedings, PGNiG SA voluntarily agreed to change certain contractual provisions. By virtue of the decision of April 13th 2012, the President of UOKiK resolved not to impose a fine on the Company and required the Company to change certain contractual provisions. PGNiG S.A has satisfied this requirement.

On February 9th 2012, the President of UOKiK instigated anti-trust proceedings concerning practices employed by PGNiG SA which infringe collective consumer interests. The President of UOKiK accused PGNiG SA of using in comprehensive gas fuel supply contracts a provision classified as illegal contractual clause. In the course of the proceedings, PGNiG SA voluntarily agreed to change certain contractual provisions. By virtue of a decision of August 10th 2012, the President of UOKiK resolved not to impose a fine on the Company and required the Company to start using a new form of comprehensive gas fuel supply contract containing revised general provisions.

Proceedings before the Court of Arbitration

On March 31st 2011, PGNiG SA requested OOO Gazprom Export to renegotiate the price of gas deliveries under the Contract dated September 25th 1996, providing for supplies of natural gas to the Republic of Poland, so as to reduce the price. Since the parties failed to reach an agreement in the period of six months, on November 7th 2011, PGNiG SA filed a request to OAO Gazprom and OOO Gazprom Export to start arbitration proceedings before the Court of Arbitration in Stockholm. In accordance with the Court's procedure, on February 20th 2012, the Company filed a suit against OAO Gazprom and OOO Gazprom Export. On May 24th 2012, OAO Gazprom/OOO Gazprom Export responded to the statement of claim and dismissed all the arguments put forward by PGNiG SA. As at the date of this Report, the proceedings before the Court of Arbitration were pending. PGNiG SA does not rule out a possibility of reaching an agreement in commercial negotiations, provided that OAO

Gazprom and OOO Gazprom Eksport agree to reduce the price of natural gas supplied under the Yamal Contract.

Chapter X: Financial Performance

The interim condensed separate financial statements of PGNiG SA for the six months ended June 30th 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at June 30th 2012.

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 2012.

1. Financial performance

In H1 2012, PGNiG SA reported a net loss of PLN 204.1m, i.e. its net result fell PLN 1,390.3m year on year.
Summary information on the PGNiG SA's financial standing in H1 2012 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 2012	Dec 31 2011
Non-current assets	25,851.4	22,160.6
Property, plant and equipment	12,555.2	12,281.1
Investment property	2.0	2.8
Intangible assets	114.9	91.7
Financial assets available for sale	7,267.9	6,460.3
Other financial assets	5,371.7	2,900.9
Deferred tax assets	462.8	347.5
Other non-current assets	76.9	76.3
Current assets	6,001.5	6,326.1
Inventories	2,157.3	1,897.4
Trade and other receivables	2,848.1	3,170.3
Current income tax receivable	-	5.3
Prepayments and accrued income	82.6	33.3
Financial assets available for sale	0.1	-
Derivative financial instrument assets	197.8	284.5
Cash and cash equivalents	714.9	934.6
Non-current assets held for sale	0.7	0.7
Total assets	31,852.9	28,486.7

Separate statement of financial position (PLNm) – continued

EQUITY AND LIABILITIES	Jun 30 2012	Dec 31 2011
Equity	19,344.2	19,647.6
Share capital	5,900.0	5,900.0
Currency translation differences on foreign operations	8.6	9.0
Share premium account	1,740.1	1,740.1
Other capital reserves	11,899.6	10,310.4
Retained earnings/(deficit)	(204.1)	1,688.1
Non-current liabilities	6,641.1	2,019.4
Loans, borrowings and debt securities	4,421.4	-
Provisions	1,381.7	1,250.6
Deferred income	323.6	256.5
Deferred tax liabilities	495.0	495.7
Other non-current liabilities	19.4	16.6
Current liabilities	5,867.6	6,819.7
Trade and other payables	2,206.3	2,674.9
Loans, borrowings and debt securities	3,067.4	3,590.8
Derivative financial instrument liabilities	399.1	416.8
Current tax liabilities	-	-
Provisions	191.6	135.1
Deferred income	3.2	2.1
Total liabilities	12,508.7	8,839.1
Total equity and liabilities	31,852.9	28,486.7

Separate income statement (PLNm)

	H1 2012	H1 2011
Sales revenue	13 168,1	11 023,5
Total operating expenses	(13,795.9)	(10,396.7)
Raw and other materials used	(9,677.3)	(6,625.7)
Employee benefits	(401.2)	(457.2)
Depreciation and amortisation	(274.2)	(279.2)
Contracted services	(3,020.8)	(3,027.8)
Cost of products and services for own needs	5.5	5.8
Other operating expenses, net	(427.9)	(12.6)
Operating profit/loss	-627.8	626.8
Finance income	492.2	734.7
Finance expenses	(161.2)	(39.6)
Pre-tax profit/loss	-296.8	1,321.9
Income tax	92.7	(135.7)
Net profit/loss	-204.1	1,186.2

Separate statement of cash flows (PLNm)

	H1 2012	H1 2011
Net cash provided by/(used in) operating activities	(31.7)	1,135.1
Net cash provided by/(used in) investing activities	(3,866.7)	(1,297.0)
Net cash provided by/(used in) financing activities	3,678.7	(94.3)
Net change in cash	(219.7)	(256.2)
Cash and cash equivalents at beginning of the period	934.6	565.9
Cash and cash equivalents at end of the period	714.9	309.7

Financial Ratios

Profitability

	H1 2012	2011
EBIT (PLNm) operating profit	-627.8	626.8
EBITDA (PLNm) operating profit + depreciation/amortisation	-353.6	906.0
ROE net profit to equity at end of the period	-1.1%	6.0%
NET MARGIN net profit to sales revenue	-1.5%	10.8%
ROA net profit to assets at end of the period	-0.6%	4.2%

Liquidity

	Jun 30 2012	Dec 31 2011
CURRENT RATIO current assets (net of prepayments and accrued income) to current liabilities	1.0	0.9
QUICK RATIO current assets (net of prepayments and accrued income) less inventories to current liabilities	0.6	0.6

Debt

	Jun 30 2012	Dec 31 2011
DEBT RATIO total liabilities to total equity and liabilities	39.3%	31.0%
DEBT/EQUITY RATIO total liabilities to equity	64.7%	45.0%

Year on year, the Company's EBIT decreased by PLN 1,254.6m. The decline was caused by the considerably lower profitability of high-methane gas sales. The margin on high-methane gas sales was driven down principally by:

- higher unit purchase price of imported gas.
- the level of average gas prices and related charges.

Following the rise of crude prices on the global markets, and with the USD exchange rate being much higher than in H1 2011, the unit purchase price of imported gas increased by 47%.

In a decision of March 16th 2012, the President of the Energy Regulatory Office approved the Gas Fuel Tariff, which was to be applied in settlements with customers in the period from January 1st to March 31st 2012. The absence of approval of the new tariff by the President of the Energy Regulatory Office as at the beginning of Q1 2012 prevented the Group from offsetting the higher cost of imported gas with higher gas prices charged to the customers. Consequently, the profitability of high-methane gas sales fell significantly below the break-even point. Although the new gas fuel tariff has been effective since March 31st 2012, the new prices of gas have not yet secured profitable sales of high-methane gas by the Company. Relative to H1 2011, average prices and charge rates for the supply of high-methane gas type E, nitrogen-rich gas type Lw and nitrogen-rich gas type Ls were increased by 13.1%, 12.6% and 10.5%, respectively.

Significant losses incurred on sales of high-methane gas were partially offset by the positive performance of the production business. Relative to H1 2011, the profitability of crude sales improved considerably, as crude oil selling prices rose by 23%, in line with the general trend on global markets. The Company also recorded an increase in profitability of nitrogen-rich gas sales, driven by increased selling prices of the fuel and a 5% rise in the sales volume. Further, profitability of helium sales improved driven by rising prices of the gas.

The operating loss is to a large extent attributable to other operating expenses (net), which went up PLN 415.3m year on year. The increase is attributable primarily to a negative valuation of derivative financial instruments and lower foreign exchange gains. In addition, the Company recognised an increase in provisions (following a fine being imposed on the Group by the Polish Office of Competition and Consumer Protection for monopolistic practices) and an increase in impairment losses on gas stocks. At the same time, the Company derived significant proceeds from the sale of pipelines to OGP GAZ-SYSTEM S.A.

The result on financing activities dropped by PLN 364.1m year on year, primarily due to dividends and profit distributions received being lower by PLN 282.8m. The decrease was driven by significantly lower dividends received from the Gas Distribution Companies, following a significant deterioration the Companies' performance in comparison with 2010.

Deterioration of the Company's financial position is reflected in the decline of the key financial ratios. Return on equity decreased from 6% to -1.1%, return on assets was -0.6% against 4.2% in H1 2011, and net margin dropped from 10.8% to -1.5%.

As at June 30th 2012, total assets were PLN 31,852.9m, up PLN 3,366.2m on the end of 2011.

Property, plant and equipment, of PLN 12,555.2m as at the end of June 2012 (up PLN 274.1m or 2% on December 31st 2011), was the largest item of the Company's assets. Property, plant and equipment rose principally on projects executed by PGNiG SA and changes following the revaluation of tangible assets.

Another significant item of the assets are financial assets available for sale, totalling PLN 7,267.9m as at June 30th 2012; the item grew PLN 807.6m on the end of 2011. The increase was primarily driven by the capital increase at PGNiG SPV1 Sp. z o.o. effected with a view to finalising the acquisition of 99.8% of Vattenfall Heat Poland S.A. shares.

As at June 30th 2012, the value of other financial assets was PLN 5,371.7m, PLN 2,470.8m up on December 31st 2011. The key driver of the increase was the loan advanced to PGNiG SPV1 Sp. z o.o. for the acquisition of Vattenfall Heat Poland S.A. shares. The change in other financial assets was also caused by an increase in loans advanced to related entities, mainly to PGNiG Norway AS, Elektrociepłownia Stalowa Wola S.A. and PSG Sp. z o.o.

As at June 30th 2012, current assets were PLN 6,001.5m, down PLN 324.6m (or 5%) on December 31st 2011.
Relative to December 31st 2011, the Company's inventories rose PLN 259.9m (14%). The inventories disclosed in the balance sheet comprise mainly gas stored in the underground storage facilities. Higher prices of purchased gas caused an increase in the value of inventories. At the end of the reporting period the Company recognised an impairment loss on inventories of high-methane gas stored in the underground storage facilities.

Trade and other receivables fell PLN 322.2m (10%) relative to the end of 2011. The drop resulted from the seasonal decrease in gas fuel sales volume, recorded concurrently with increases in receivables under short-term loans advanced and dividend receivable from subsidiaries.

Cash and cash equivalents stood at PLN 714.9m, down PLN 219.7m on the end of 2011. The drop occurred despite a considerable increase in the Company's borrowings and was principally due to high investment spending and operating losses.

The value and structure of current assets held by the Company guarantee its ability to settle liabilities in a timely manner. Current ratio was 1.0, compared with 0.9 as at the end of December 2011, while quick ratio remained at 0.6.

Equity is the primary source of financing of the Company's assets. Relative to the end of 2011, the Group's equity fell PLN 303.4m (or 2%). The change was chiefly an outcome of the net loss reported for the period (PLN 204.1m) and changes in other capital reserves.

As at June 30th 2012, non-current liabilities were PLN 6,641.1m, up PLN 4,621.7m on the end of December 2011. The rise is a result of a PLN 4,421.4m increase in long-term debt, following the contracting an on-loan from PGNiG Finance AB (EUR 500m) and the issue of five-year notes on the domestic market (PLN 2.5bn). Another driver of the increase in non-current liabilities was the PLN 131.1m increase in provisions, caused by higher provisions for well decommissioning and increased deferred income (up PLN 67.1m) from an investment subsidy for construction and extension of the underground gas storage facilities.

Compared with the end of December 2011, current liabilities fell PLN 952.1m (14%) following a PLN 523.4m decrease in loans, borrowings and debt securities (redemption of short-term notes) and lower trade and other payables (down by PLN 468.6m). Trade payables fell on the back of the seasonal drop in transmission and distribution services purchased, lower public dues and charges, and lower liabilities on purchase of non-financial non-current assets, accompanied by increased liabilities under gas imports.

Due to the significant increase in external financing used by the Company, the ratios of equity to liabilities changed. Debt to equity rose from 45.0% to 64.7%, and debt ratio (total liabilities to total equity and liabilities) went up from 31.0% to 39.3%.

Transactions concluded on non-arm's length terms

In H1 2012, 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 2012, PGNiG SA and its subsidiaries did not grant any loan 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 2012, the Company did not publish any financial forecasts.

2. Projected future financial performance

Key factors with a bearing on the PGNiG SA's financial performance will include crude oil prices on the international markets, 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 financial position of PGNiG SA is to a significant extent affected by the prices of crude oil and petroleum products, as they directly affect purchase prices of imported gas. In Q2 2012, crude prices were lower relative to Q1 2012. Prices of crude oil in subsequent months will depend on the general condition of the global economy and the political developments in countries which produce crude oil.

PGNiG SA is, to large extent, exposed to changes in foreign exchange rates, which are reflected in prices of imported gas in the złoty terms. In H1 2012, the currency market was highly volatile, and the Polish currency depreciated. Exchange rates may continue to fluctuate given the difficult economic conditions in several member states of the European Union.

Another factor with a bearing on the financial performance of the Company relates to the level of rates and charges provided for in gas fuel tariffs. The gas fuel supply tariffs effective in Q1 2012 were particularly detrimental to the financial performance of PGNiG SA. Pursuant to a decision of the President of the Energy Regulatory Office, the new gas fuel tariff became effective as of March 31st 2012 and will continue in force until the end of the year. As PGNiG SA generated losses on sales of high-methane gas even following the approval of the new tariff, in June 2012 the Company again applied for an increase in gas prices.

In 2011, PGNiG SA began to renegotiate the price of gas supplied under the long-term contract with OOO Gazprom Export and then referred the case to the Arbitration Court in Stockholm. In 2012, the Company approached VNG-Verbundnetz Gas AG of Germany with a similar request for lowering the price of gas and gas transmission charges. A favourable outcome of the arbitration proceedings and of the negotiations with VNG-Verbundnetz Gas AG would result in a significant reduction of the cost of acquisition of the gas fuel by the Company.

In June 2012, the General Meeting resolved to allocate the entire 2011 net profit and retained earnings, of PLN 1,615.7m and PLN 72.5m, respectively, to the Company’s statutory reserve funds. The increase in the Company’s equity will facilitate the financing of projects scheduled for 2012.

Given the high level of current and planned capital expenditure, PGNiG SA uses external financing raised by issuing debt securities on the domestic and foreign markets. The Company issued domestic notes first in 2010. The amount of financing available under the underwritten notes issue programme is PLN 7bn. In February 2012, the Company issued (through its subsidiary PGNiG Finance AB) five-year Euronotes for EUR 500m. Then, in May 2012 PGNiG SA executed transaction documentation for a five-year PLN 4.5bn notes issuance programme addressed to investors in Poland. The first note issue under the programme, with a nominal value of PLN 2.5bn, took place on June 19th 2012. PGNiG SA does not intend to issue any Euronotes or notes on the Polish market in H2 2012.

In the coming quarters, PGNiG SA intends to maintain a high level of capital expenditure. The spending will focus on projects involving extension of underground gas storage facilities, maintenance of hydrocarbon production capacities, and diversification of gas supply sources, as well as on 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

President of the Management Board	Grażyna Piotrowska-Oliwa	______________________
Vice-President of the Management Board	Radosław Dudziński	______________________
Vice-President of the Management Board	Sławomir Hinc	______________________
Vice-President of the Management Board	Mirosław Szkałuba	______________________