PGNiG Head Office
25 M. Kasprzaka St.
01-224 Warsaw
Phone 22 589 45 55
Fax 22 691 82 73
www.pgnig.pl

Communication Department
Phone 22 691 45 92
e-mail: pr@pgnig.pl

Investor Relations Division
Phone 22 589 46 51, 22 589 46 71,
22 589 43 22
Fax 22 691 81 23
e-mail: ri@pgnig.pl
www.ri.pgnig.pl

Annual Report 2015

Polish Oil and Gas Company (PGNiG)

Annual Report 2015
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en.pgnig.pl

PGNiG

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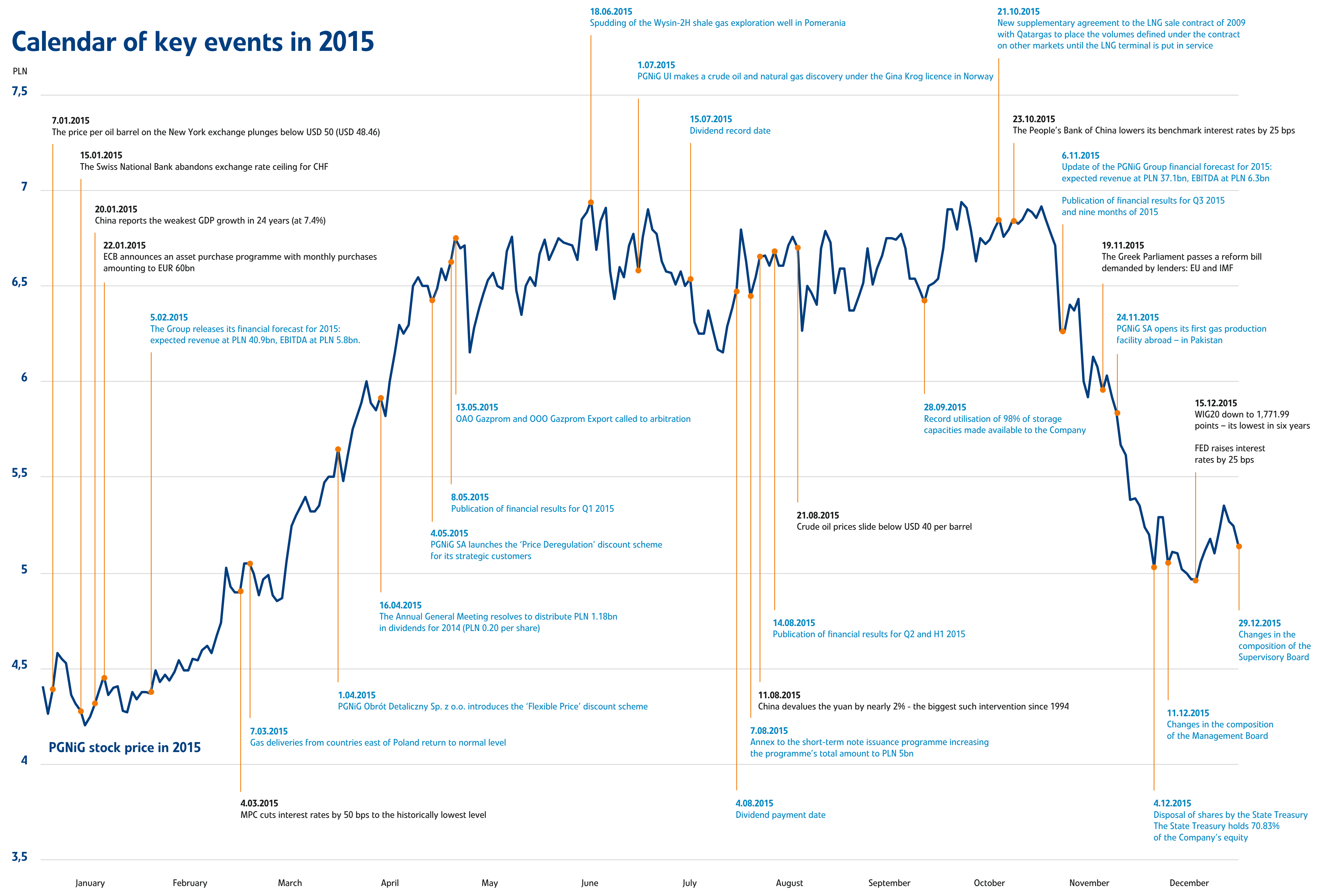
Legend

Notes in the margins refer to information highlighted in the Report.

- key to acronyms and abbreviations used in the Report
- websites containing additional information
- supplementary information, definitions and comments

Calendar of key events in 2015



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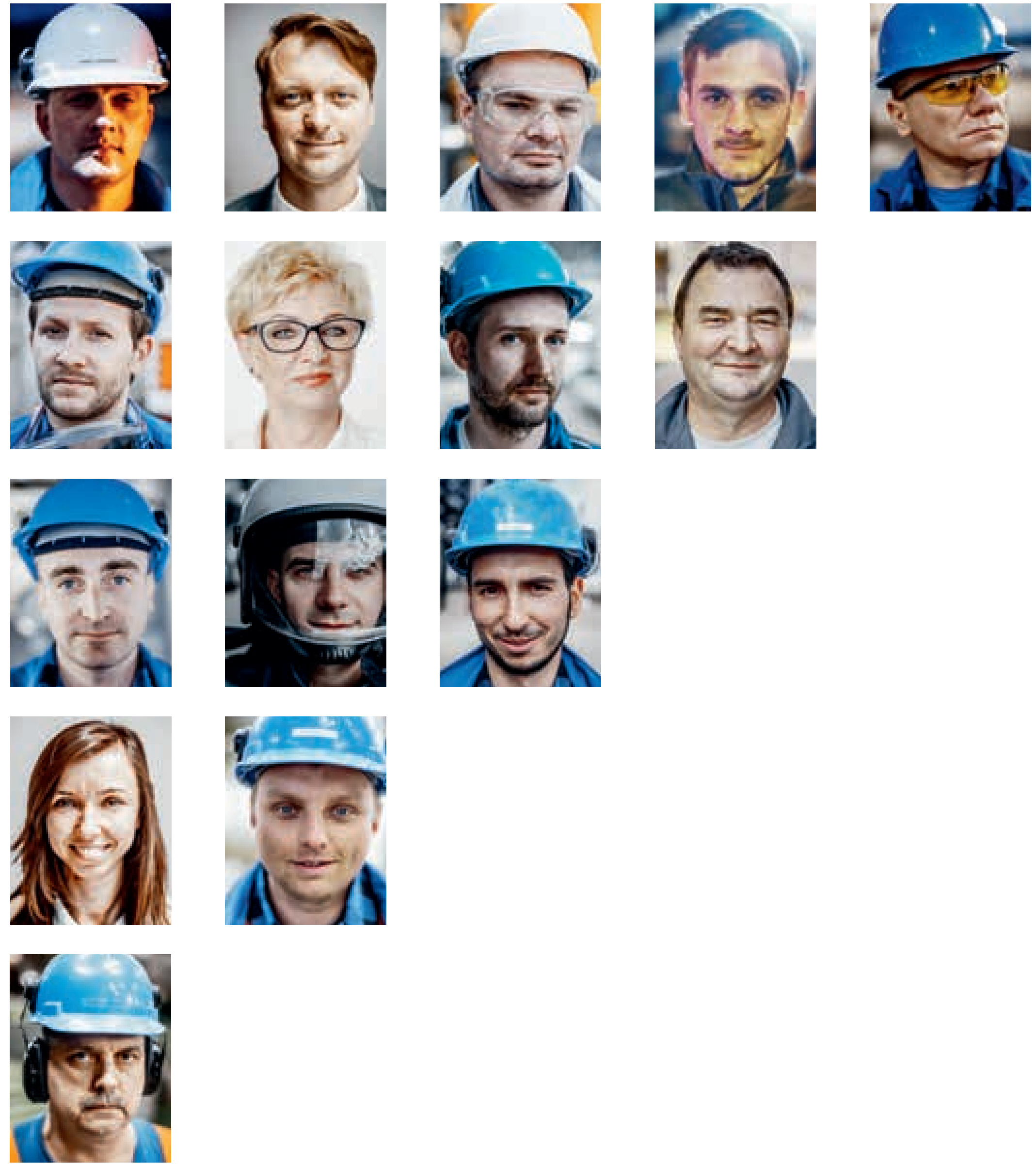
The ultimate value



The PGNiG Group's employees are its ultimate value. PGNiG employs top-class specialists: scientists, engineers, office personnel, staff responsible for distribution and sales. Synergies across all PGNiG companies are reflected in excellent financial results of the Group. Thanks to its employees' experience and commitment, PGNiG remains a market leader, developing and enhancing the quality of its services, and gaining new areas of business expertise.

Contents

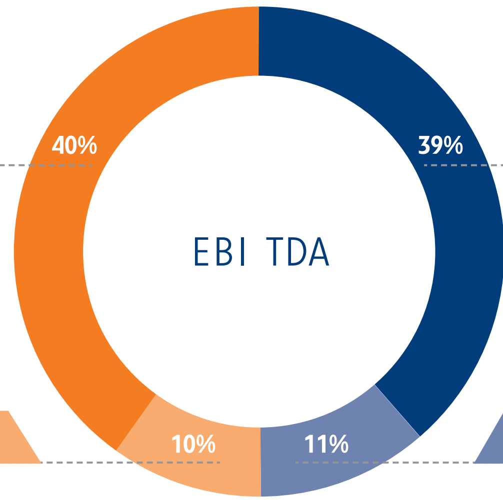
PGNiG key figures

Michał Szkudlarz
Operator Coordinator of Engine Compressors, PGNiG Odolanów Branch

His responsibilities include supervision, monitoring and coordination of operating parameters of machinery and equipment comprising the Gas Compressor Station of the Nitrogen Rejection Unit in Odolanów.

PGNiG Group in 2015

36.5 PLN bn sales revenue	6.1 PLN bn EBITDA	3.3 PLN bn EBIT	2.1 PLN bn net profit	49.8 PLN bn assets	6.9 % ROE	4.3 % ROA	25.4 ths. employees



Exploration and Production

1.4 million tonnes crude oil, condensate and NGL production

over 2 ths. production wells

4.6 billion cubic metres natural gas production

57 gas and oil production facilities in Poland

769 million boe hydrocarbons reserves

61 hydrocarbons exploration and appraisal licences

227 production licences

Trade and Storage

23 billion cubic metres natural gas sales

8.3 billion cubic metres gas sales on Polish Power Exchange

9.3 billion cubic metres natural gas imports

3.2 billion cubic metres storage capacity

Heat and Power Generation

3.5 TWh electricity output

1 GW electrical power

36.2 PJ heat output

4.8 GW thermal power

Distribution

96% participation in Poland's distribution network

99% participation in Poland's distribution connections

126 ths. kilometres distribution network length

6.9 million clients

9.8 million cubic metres gas distribution volume

PGNIG ON WSE

4 th	14.3	5.0	1.0	31 PLN bn	28 PLN m
largest company on WSE	P/E	EV/EBITDA	P/BV	market capitalisation	average daily turnover

Preface

Letter from the Chairman of the Supervisory Board

Ladies and Gentlemen,

for the PGNiG Group 2015 was a time of challenges, when it had to overcome the adversities brought on by unfavourable price trends on the international markets of energy commodities. In spite of the challenging environment, the Group was successful in accomplishing key projects which will serve as the foundation for delivery of its updated Strategy in the coming years.

Over the year, many steps were taken to increase the Group's documented gas reserves. In terms of international acquisition opportunities, the Group analysed a number of projects at various stages of development across the globe. This allowed it to accurately define its expectations towards prospective investments, including reserves at an advanced stage of development (producing reserves) and companies holding interests in such reserves. 2015 was marked by efforts to sustain the value of the Group's sales, by way of a broad range of dedicated discount offers mainly for business customers. A higher gas distribution volume was achieved on a growth in the number of new connections to the network and new customers, with the average distribution charge remaining at the level assumed in the Strategy. With potential acquisitions in mind, the Group also assessed the potential and conducted an in-depth analysis of the Polish heat market.

Particularly notable was the successful delivery of cost savings assumed in the Strategy of PLN 602m, up 14% on the target PLN 527m. Reduced costs driven by improved organisational and process efficiency coupled with the Group's robust financial standing and low debt level will serve as a springboard for its continued growth. To this end, the updated Strategy includes new initiatives designed to support the Group's value growth through diversification projects, development of international LNG trading and expansion of the sales operations of PGNiG Supply and Trading.

The consistent pursuit of initiatives outlined in the Strategy will deliver positive results for all of the PGNiG Group's stakeholders, and hence the Supervisory Board will support the Management Board in achieving these ambitious goals.

Yours faithfully,

Bartłomiej Nowak,
Chairman of the Supervisory Board of PGNiG

Letter from the President of the Management Board

Ladies and Gentlemen,

I am pleased to present the PGNiG Group's Annual Report for 2015.

Financially, 2015 was a good year – our operating profit of PLN 3.3bn translated into a net profit of PLN 2.1bn, with EBITDA coming in at PLN 6.1bn. We more than satisfied the statutory obligation to sell a specific volume of gas by auction or on the exchange market. The Company has retained its investment-grade rating, as confirmed by Moody's Baa3 score with a stable outlook. The available financing will allow us carry out our investment plans in 2016.

Following the collapse of crude oil prices on global markets, last year was a difficult time for all companies in the oil and gas industry. Despite an unfavourable business climate and regulatory pressures, the PGNiG Group has maintained its robust market position and improved performance in the distribution and generation segments.

Our strategy was consistently implemented. Thanks to further acquisitions in Norway, the PGNiG Group now holds 18 licences on the Norwegian Continental Shelf. Over the past year, the production of gas, oil and NGL grew by nearly a half – to 8.5 million barrels of oil equivalent. Our activities on the North Sea are benefiting the Group and offering prospects for the future, as the Management Board is working to best leverage our success in Norway.

PGNiG's import book requires a new strategy for procuring gas after 2022, and Norway appears to be the most promising source. At the same time, we are thoroughly analysing the possible use of LNG supplies. Both options were taken into account in the Group's updated strategy.

With its customers in mind, PGNiG has been pursuing an amendment to the prices of imported gas through an arbitration procedure. Given the growing competitive pressures on the domestic market, PGNiG must take special care to secure low purchase prices.

The task currently facing the Management Board is to adapt the Company's structure to the updated strategy. The Efficiency Improvement Programme and efforts to further professionalise our operations in each segment will be continued.

In the coming year, we will seek to strengthen our position on the Polish and European energy markets through value creation efforts. I would like to thank our Customers and Shareholders for the trust they have placed in us.

Kind regards,

Piotr Woźniak
President of the PGNiG Management Board

Macroeconomic environment

Mariusz Kubiak
Technical Specialist at the Analytical Laboratory at the PGNiG Odolanów Branch

Responsible for quality control as well as sampling and analysing natural gas.

Macroeconomic environment

See also: www.stat.gov.pl

See also: www.ec.europa.eu/eurostat

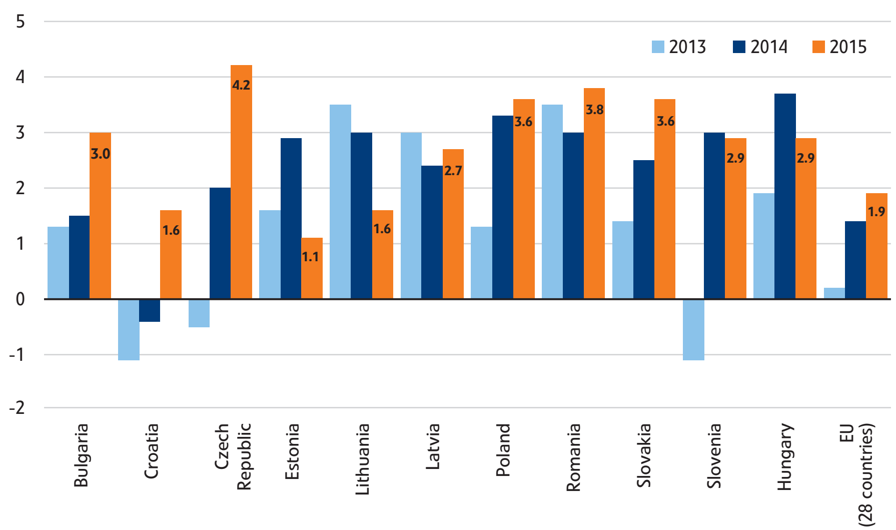
Preliminary estimates of Gross National Product (GDP) published by the Central Statistics Office of Poland indicate that in 2015 the Polish economy grew by 3.6%. This rate of growth is 0.3 pp higher compared with 2014, placing Poland among the seven fastest growing EU economies.

An important factor affecting GDP growth in 2015 was a robust household consumption growth of 3.1%, up 0.5 pp on 2014, and a positive foreign trade balance. Relative to the previous year, growth rates of the other GDP components, i.e. domestic demand and investments, were less remarkable, reaching 3.4% (down from 4.9%) and 6.1% (down from 9.8%), respectively.

In 2015, the EU average GDP growth rate was 1.9%, just above market expectations. Low interest rates and a decline in commodity prices suppressed the inflation rate. Of particular importance to European economies was a sharp fall in crude oil prices in the second half of 2015, causing an increase in real household incomes. This boosted private consumption, which became the main engine driving economic growth across the EU. Internal demand compensated for negative external factors, such as signs of a slump in the economies of China and developing countries, as well as a decline in global trade flows.

GDP growth rate of EU countries in 2015

%



Natural gas prices on European commodity exchanges

Wholesale gas prices were relatively stable to plummet in the other half of the year. As a result, end-of-year prices on Western European wholesale markets were lower by over a fifth and, on the Polish Power Exchange (TGE) – by over a fourth, compared with prices from early 2015.

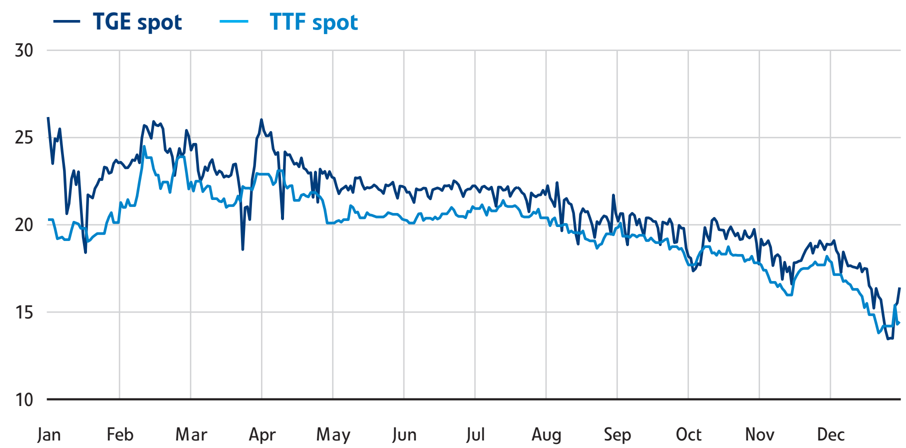
The decline in gas prices recorded in 2015 was partially attributable to weaker consumption in the EU, which in turn was chiefly due to high temperatures, lower demand for gas in the industry and a resulting increase in stock levels. Prices were also held down by announcements of LNG supplies from the USA and the Middle East. Nevertheless, Russia and Norway, whose price formulas are largely tied to crude oil prices, still remain the main suppliers for EU countries. Consequently, the falling crude oil prices in 2015 had a significant bearing on gas prices in both Poland and Western Europe.

Liquefied Natural Gas – Natural gas condensed into liquid form.

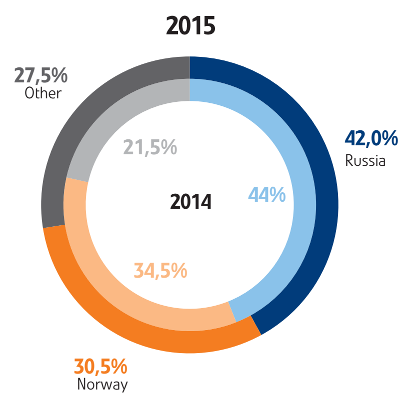
Polish Power Exchange, Towarowa Giełda Energii SA – a commodity exchange licensed by the Polish Financial Supervision Authority for trading in electricity, liquid and gaseous fuels, electricity generation and emission volume limits, property rights incorporated in certificates of origin for electricity, etc.

Natural gas prices on TTF and TGE

EUR/MWh



Sources of natural gas supplied to Europe in 2014 and 2015



Over 42% of natural gas supplied to Europe last year originated from Russia (2014: 44%). Norway was the second largest exporter of gas to Europe in 2015, accounting for nearly 30.5% of total deliveries, 4% less than in 2014. On the other hand, 2015 saw volumes of gas imported from northern Africa and LNG imports grow by 11% and 15%, respectively.

The average daily withdrawal of gas from Polish storage facilities in Q1 2015 amounted to 7.6 million cubic meters, compared with only 3 million cubic metres in 2014. As at March 31st 2015, Polish storage facilities were filled to 47% of capacity, which means they held approximately 1.2 billion cubic metres of gas. The withdrawal of gas from storage was slower than in Europe – as at the end Q1, European storage facilities

For more information on gas storage in Europe, see: www.transparency.gie.eu

Yamal contract – A multi-annual contract between PGNiG SA and OAO Gazprom/OOO Gazprom Export for supply of up to 10.2 bcm per year of Russian gas, effective until 2022 (85% take-or-pay).

Title Transfer Facility – Dutch energy exchange, a virtual natural gas trading point in the Netherlands.

Operator Gazociągów Przesyłowych Gaz-System SA – state-owned company whose key role is to handle the transport of gaseous fuels via the transmission network in Poland.

Brent oil – a blend of crudes produced from fields in the North Sea.

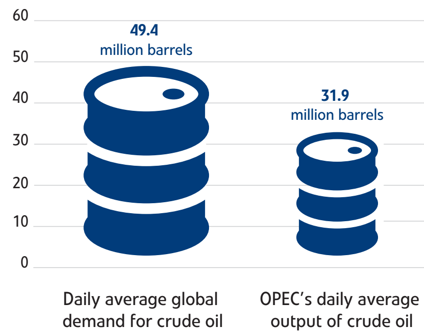
1 barrel is equal to approximately 0.136 tonnes or 159 litres.

were filled to 26% of capacity. In Poland, regular injections of gas into storage started in May, a month later than in most European countries. Until mid-October, when gas volumes in storage reached maximum levels, Poland's gas stocks were rising by a daily average of 0.3%, on par with the EU average.

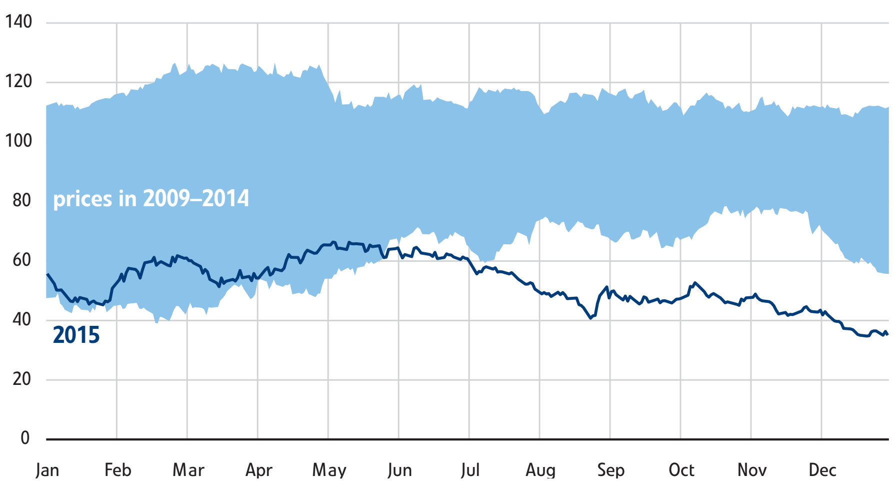
From September 2014 to the end of February 2015, there were unexpected reductions in the supply of gas from Russia to Europe, including Poland, under the Yamal contract. This led to a growing divergence in gas prices between the Polish and German markets – from the typical level of approximately PLN 5/MWh to over PLN 20/MWh. On the back of increased gas demand typical of the winter period, significantly higher prices on TGE relative to TTF were recorded, as well as a growth in auction premiums charged at auctions of transmission system operators. As additional transmission capacities for imports from Germany were made available by OGP Gaz-System S.A. in Q1 2015 and supplies from across Poland's eastern border returned to normal levels, prices quoted on TGE and European exchanges realigned. In early March, the spread between Polish and western gas markets narrowed down, to oscillate around PLN 5/MWh towards the end of the year.

Brent oil prices

In 2015, crude oil prices continued on the downward trend started a year earlier, due mainly to waning demand from developing Asian markets. The average global demand for crude oil in 2015 declined slightly compared with 2014, to 49.4 million barrels per day.



Brent oil prices
USD/bbl

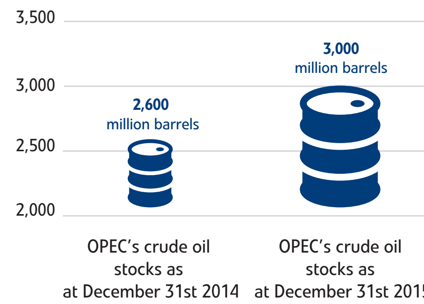


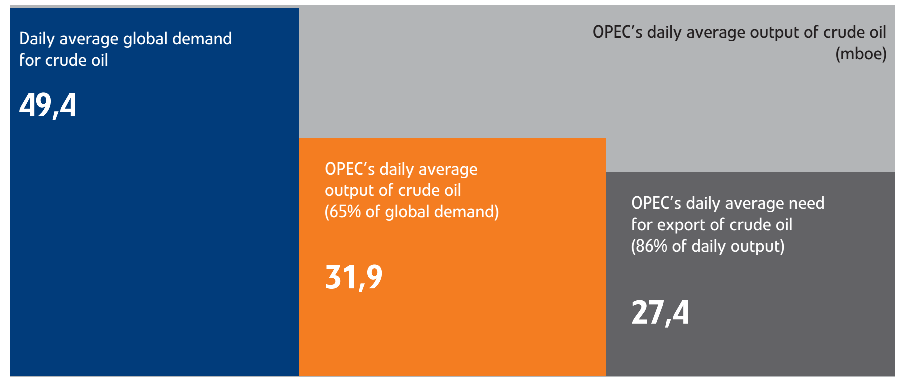
Organization of the Petroleum Exporting Countries, associating countries that account for about 40% of global oil production.

Dwindling demand was largely linked to a declining GDP growth in China (down from 7.4% in 2014 to 6.9% in 2015), whose share in global crude oil consumption is estimated at 12%, coupled with announcement of plans to phase out the resource-intensive industrial economy model focused on export.

At the same time, the world's major oil exporters maintained or even increased output, prompted mainly by OPEC's policy to ramp up oil production with the aim of stifling the shale gas revolution in the USA and grab a larger share of global exports. In 2015, OPEC's average daily output of crude oil was 31.9 million barrels, meaning that on average the cartel produced 4.5 million barrels per day in excess of their export needs. As a result, from January to December 2015, OPEC's crude oil stocks went up from 2.6 billion to nearly 3 billion barrels.

In late 2015, crude oil price reductions accelerated with the price of Brent crude averaging at USD 39 per barrel in December, on Iran's announced comeback to the global oil market.





Oil and gas market prospects in 2016

In 2016, gas prices in Poland and the remaining European markets should be lower than in the previous year, held down mainly by the oil price slump. Another factor was the fairly mild winter, which led to the relatively slow withdrawal of gas from European storage facilities. Moreover, the market does not perceive an increased risk of reductions in gas supplies to Europe due to geopolitical reasons. Towards the end of 2015, the market price of gas with delivery scheduled for 2016 was just over EUR 15/MWh. Falling gas prices on European markets will be reflected in low gas prices on the Polish wholesale market, which is strongly aligned with its Western European counterpart. Another factor which may affect gas prices in Poland will be the commercial launch of the Świnoujście LNG terminal, slated for mid-2016. It will help diversify the sources of gas imports to Poland, from Qatar and other directions. Towards the end of the year, the market in Poland valued natural gas with delivery in 2016 at a little over PLN 72/MWh.

Iran's impeding return to the market and no indications that oil-producing countries might decide to reduce their output are factors suggesting that prices will remain low in 2016. As at the end of 2015, the market valued futures contracts for delivery of oil in 2016 at USD 41/bbl.

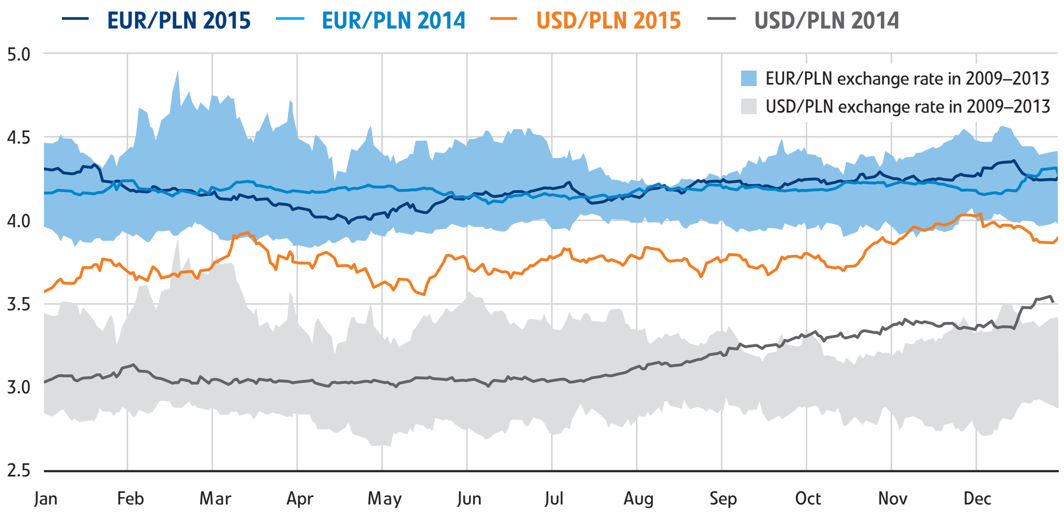
Due to economic sanctions and restrictions on oil exports to western countries over the last four years, Iran's only export direction was Asia, where it delivered approximately 0.9 million barrels per day. As sanctions are lifted, Iran is expected to up its production to 3 million barrels per day by the end of Q1 2016. In addition, Iran has oil stocks estimated at 40 million barrels, which can be readily supplied to the market.

EUR/PLN and USD/PLN exchange rates

Early 2015 saw a weakening of the euro against the złoty. Signals of Poland's stable economic growth coincided with the ECB's decision to initiate a bond purchase programme (quantitative easing). However, in the second half of the year, the European currency steadily appreciated. The end to the Greek crisis and economic downturn in China prompted investors to withdraw from developing countries, including Poland. In late December, the EUR/PLN exchange rate returned to the levels seen at the beginning of the year. An improvement in the US economy and expectations that Federal Reserve will raise interest rates triggered a major appreciation of the US dollar against the złoty. As at the end of 2015, the USD/PLN exchange rate rose by 11.2%, to PLN 3.9.

EUR/PLN and USD/PLN exchange rates

PLN



Mission Statement

By developing oil and gas production, making efficient use of our infrastructure, and diversifying natural gas supplies, we provide our Customers with environment-friendly energy and build the Company's value for our Shareholders and Employees.

Andrzej Pudrzyński

Senior Production Installations Operator, PGNiG Zielona Góra Branch, Oil and Gas Production Facility in Lubiatów

He directly controls the technological process of the facility. His responsibilities include operation, inspection and maintenance of equipment and installations. He carries out scheduled and ad hoc repairs and is responsible for removal of failures of equipment and installations. He is also responsible for taking test samples.

Strategy of the Group

Strategy of the PGNiG Group

See also:
www.en.pgnig.pl/strategy

Dual fuel – a formula where a customer is offered electricity and gas from one seller.

For more on the Trade and Storage segment, see p. 48

barrel of oil equivalent (1 barrel is equal to approximately 0.136 tonnes or 159 litres).

For more on the Distribution segment, see p. 68; for more on the Generation segment, see p. 76

2015 was another effective year of the PGNiG Group's Strategy for 2014–2022, approved by the PGNiG Supervisory Board on December 29th 2014. The strategy covered four business areas and ten strategic initiatives, which, when fully implemented, were to allow the Group to achieve the following objectives:

- earn EBITDA of ca. PLN 7.0bn by 2022,
- keep the net debt to EBITDA ratio below 2,
- pay out dividends at 50% of the consolidated net profit (with a reservation that in recommending dividend payments the PGNiG Management Board will always take into account the PGNiG Group's current financial standing and investment plans),
- incur capital expenditure on organic growth and acquisitions of PLN 40bn–50bn,
- achieve an increase in total hydrocarbon production of approximately 50–55 million boe in 2022, with the annual production in Poland maintained at the current level of approximately 33 million boe.

The business areas covered by the PGNiG Group's Strategy for 2014-2022 included:

A. Maintaining stable value of sales (both in retail and wholesale)

Within this area, the PGNiG Group will seek to maintain its leading position on the natural gas market and remain the preferred gas supplier across all customer segments. The Group intends to achieve these objectives by developing and implementing mechanisms to improve customer service quality and encourage customers to continue their business relationships with the Group.

The PGNiG Group also intends to maintain the high stability of gas supplies to end users and to enhance its product offering through initiatives such as the roll-out of dual fuel products. The priority in this area is to develop and implement mechanisms that would mitigate the risk related to the Company's long-term gas import contracts. The PGNiG Group will also seek to introduce more flexibility into its natural gas portfolio and adjust the portfolio to the changing pricing and supply/trading conditions on the market, while maintaining its ability to ensure energy security.

B. Maximising cash flows from the infrastructure and generation area

The PGNiG Group's gas storage, and electricity and heat generation assets are a source of predictable, stable revenues and deliver attractive rates of return relative to the risks. In the coming years, the assets will prove important in stabilising the Group's financial performance and enhancing its ability to finance new projects. In a highly competitive environment, it will be of key importance to maximise cash flows from this business area and to allocate any free cash to growth-oriented projects that will fully exploit the Group's potential and synergies available in new growth areas. The Group intends to pursue new, profitable transmission infrastructure projects (heat networks) as one of its development directions.

C. Strengthening and transforming the exploration and production area

The Exploration and Production segment will continue to play a major role in development of the PGNiG Group. The main objective is to maintain stable production of natural gas and crude oil in Poland. In addition, to secure a further meaningful growth of shareholder value, the Group intends to take active steps to build a portfolio of foreign exploration and production assets. The PGNiG Group will continue the exploration and appraisal of shale gas deposits in Poland within its most prospective licence areas, with a view to verifying the recoverable reserves of unconventional hydrocarbons and commencing their economically-viable production in the shortest possible time.

D. Laying foundations for growth along the value chain

To ensure further growth at each stage of its value chain, the PGNiG Group will take steps to improve its cost effectiveness and organisational efficiency. These measures will include cost rationalisation, development of new business areas, and focus on the Group's principal business activity, while disposing of non-core assets. Their implementation will improve the Group's ability to finance new projects and enhance its competitive position.

Summary of implementation of the PGNiG Group's Strategy for 2014–2022 in 2015

Despite the challenging and volatile environment, the key Strategy tasks for 2015 were accomplished. This was facilitated by the precisely defined and effectively monitored strategic initiatives. Particularly noteworthy was the achievement of planned cost savings on enhanced organisational and process-related efficiencies across the Group, providing a springboard for the Group's further growth. Initiatives taken as part of the Strategy helped improve the financial performance and reduce the debt ratio.

In 2015, in accordance with the Strategy, the PGNiG Management Board recommended, and the Annual General Meeting approved, dividend distribution. The dividend amounted to PLN 1.18bn, i.e. PLN 0.20 per share, which represented 62% of PGNiG's net profit and 42% of the PGNiG Group's consolidated net profit for 2014, the highest ever dividend paid by the Company.

The results achieved by the Group in 2015 with respect to maintaining a stable value of sales confirmed that its strategic idea to provide a wide range of dedicated discount offers, especially to business customers, was correct. At the end of 2015, the tariff price was in fact the maximum price, as customers benefited from a number of discounts. The results achieved in wholesale were better than originally assumed. Negotiations with Qatargas led to amendments to the contract with this supplier reducing the risk that PGNiG would have to cover the cost of gas volumes uncollected due to delays in the construction of the LNG terminal in Świnoujście. As a result, the losses were much lower than expected. Moreover, PGNiG commenced talks with Gazprom during a negotiation window provided for in the contract. In May 2015, PGNiG also filed for arbitration before the Arbitration Institute in Stockholm, which however does not preclude holding commercial negotiations with Gazprom to reach an agreement.

Gas distribution volumes grew faster than expected, on the back of a stronger growth in the number of new connections to the network and new customers, while the average distribution charge remained at the level assumed in the Strategy.

As part of plans to acquire further heat distribution assets, a detailed analysis of the heat market in Poland was performed. Following intensive search for acquisition targets, and based on discussions with the owners of municipal and private district heating businesses, the available acquisition opportunities were assessed.

In the generation area, a decision was made to proceed with the project to build a new 450 MWe CCGT unit at the Żerań CHP plant. The project will contribute to modernisation of the Żerań CHP plant, which will translate into improved reliability of heat and power supply in the Warsaw metropolitan area and a noticeable improvement in air quality. The CCGT unit is expected to come online in 2018. Technical parameters of the unit will meet the requirements of the IED, in force as of 2016, and BAT (Best Available Techniques). Furthermore, work on conversion of the K1 boiler at the Siekierki CHP plant was completed. On

Shale gas – a type of unconventional gas, produced from sedimentary shale rock located deep underground.

For more on the EIP, see p. 28

For more on dividends, see p. 100

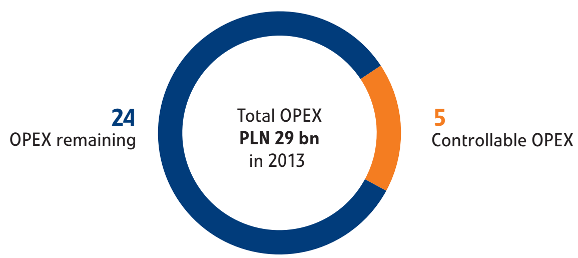
IED – directive 2010/75/EU of the European Parliament and of the Council of November 24th 2010 on industrial emissions (integrated pollution prevention and control).

completion of the first stage of the boiler start-up process, it was possible to commence the process of connecting the boiler to the steam collector and launch of biomass -fired generation, scheduled for 2016. The project will help reduce air emissions, as required by the IED.

2015 was a successful year for the PGNiG Group also in the exploration and production business. The Group took a number of steps with a view to increasing both its conventional and unconventional gas reserves. The objective is to maintain stable production volumes in Poland in the coming years and to keep the leading market position in the segment. New discoveries in 2015 added about 27 mboe to the Group's reserves, the highest amount in almost 10 years.

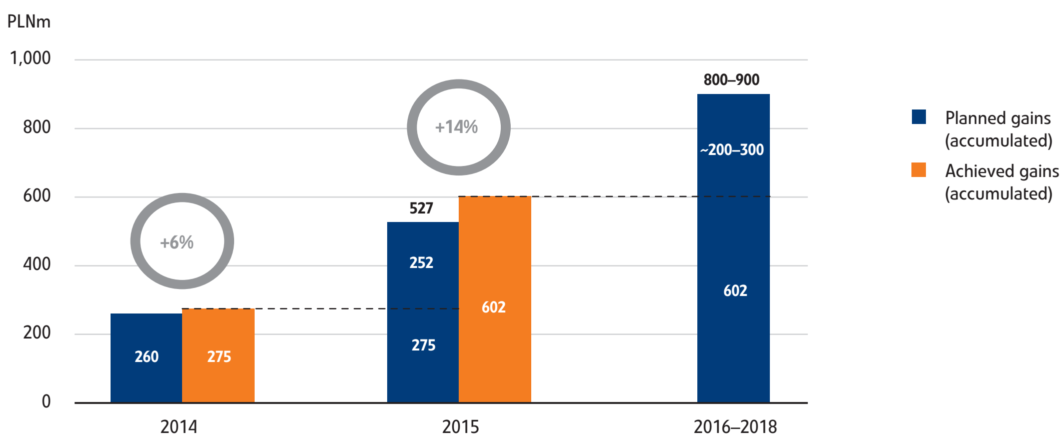
In the upstream area, a large number of acquisition opportunities in many parts of the world were analysed. The most attractive assets in the US and Canada were identified and shortlisted. The Company is primarily interested in acquiring reserves which are at an advanced stage of development (producing reserves), or companies holding interests in such reserves.

Efficiency Improvement Programme



Key non-controllable costs:

- gas purchase costs;
- other fuel purchase costs;
- transmission service costs;
- depreciation and amortisation expenses.



Update of the PGNiG Group Strategy for 2014–2022

In the first half of 2016, as part of updating the Group's Strategy, its implementation so far was reviewed and assessed, and the underlying assumptions were revised. Based on that, a detailed action plan was prepared, with the existing initiatives modified significantly and new strategic initiatives developed.

Efficiency Improvement Programme

Programme objectives:

- To set efficiency improvement targets for each segment and entity within the PGNiG Group and to define related benefits in terms of quality improvement.
- To define the scope of action and to assign specific tasks to each business segment based on identified areas for improvement.
- To implement initiatives designed to improve the PGNiG Group's operational efficiency by the end of 2016.

The Programme aims to permanently reduce the controllable cost base across core segments of the PGNiG Group.

Update of the PGNiG Group Strategy for 2014–2022

MISSION STATEMENT

To increase PGNiG's value through development of the production busmess area and efficient use of infrastructure while securing uninterrupted supplies of natural gas

VISION

Our vision is to grow from a guarantor of gas supplies into an active, profitable and competitive player on the hydrocarbon production and energy markets, while ensuring the diversity of as supply sources

PRIMARY OBJECTIVE

To maintain EBITDA at current levels until 2017 and increase it to ca. PLN 7.4bn in 2022

A Maintaining stable value of sales (both in retail and wholesale)

- 1a Optimising natural gas portfolio management and implementing a new wholesale model
- 1b Implementing new diversification projects
- 1c Developing international LNG trading
- 2a Developing and implementing a new retail model
- 2b Expanding PST's international sales operations

B Maximising cash flows from infrastructure and generation areas

- 3a Maximising value from transmission infrastructure – gas distribution
- 3b Maximising value from transmission infrastructure – heat distribution
- 4 Taking active part in developing energy market regulations

C Strengthening and transforming the exploration and production area

- 5 Maintaining the current volumes of domestic production from conventional deposits
- 6 Confirming the geological and economic potential of shale gas deposits in Poland
- 7 Expanding the upstream business outside of Poland

D Laying foundations for growth along the value chain

- 8a Efficiency Improvement Programme in core business
- 8b Disposal of non-core property
- 8c Disposal of non-core companies
- 9 Creating an organisation based on efficient human resource management, focused on objectives and resource acquisition
- 10 Stepping up R&D activities and searching for innovative areas of growth

New and modified initiatives are marked in blue

Exploration and Production

Exploration and Production

The segment's business focuses on extracting hydrocarbons from deposits and preparing the products for sale. It comprises the entire process of oil and gas exploration and production, both in Poland and abroad, from geological analyses, to geophysical surveys and drilling work, to field development and hydrocarbon production. The work is conducted by the segment on its own or jointly with partners, under joint operations agreements.

Segment companies: PGNiG SA, PGNiG Upstream International AS, Polish Oil and Gas Company – Libya BV, GEOFIZYKA Kraków Sp. z o.o., GEOFIZYKA Toruń Sp. z o.o., EXALO Drilling S.A.

For more on operations in Norway, see p. 40.

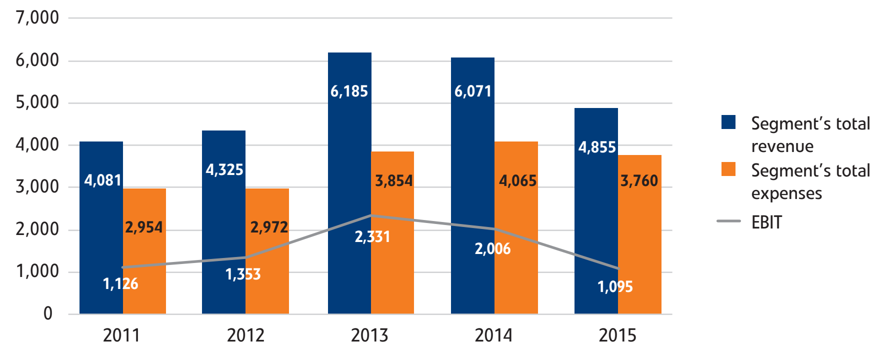
Financial analysis

Operating profit of the Exploration and Production segment was PLN 1,095m, down PLN 911m (45%) year on year. At PLN 2,426m, EBITDA was lower than the year before – by PLN 717m (23%).

The segment's revenue decreased by PLN 1,216m (20%) year on year, to PLN 4,855m, despite a 19% increase in the volume of crude oil sales (mainly from deposits in Norway, where sales grew by approximately 59%). The revenue decline reflected the fall in crude oil prices (in Polish złoty terms, the average price of Brent in 2015 was approximately 36% lower than in 2014). The decrease in crude oil prices, adversely affecting the profitability of exploration projects, also depressed demand for exploration services provided by the Exploration and Production segment. In 2015, revenue from geophysical and exploration services fell by PLN 416m year on year. The segment's operating expenses were down PLN 305m (8%) on the back of lower impairment losses on the segment's assets, which in 2015 lowered the segment's profit by PLN 846m (PLN 1,037m in 2014). In addition, reversal of provisions for well decommissioning costs added PLN 128m to the segment's operating profit, compared with a negative effect of PLN -38m in the same period of the previous year. The reversal was a result of the lower average decommissioning cost per well and the higher discount rate.

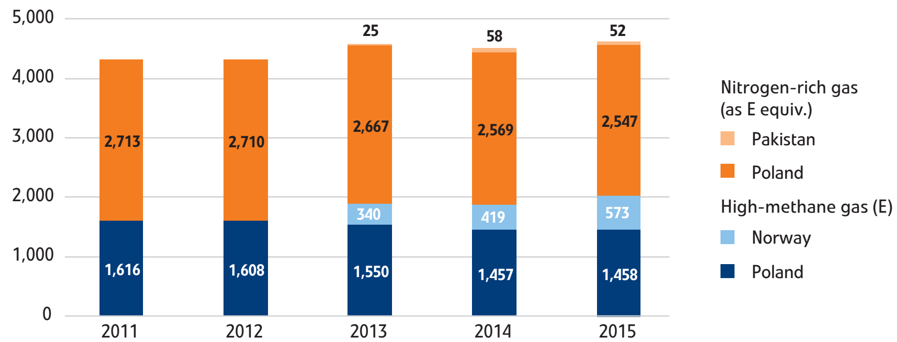
Segment's financial results

PLNm



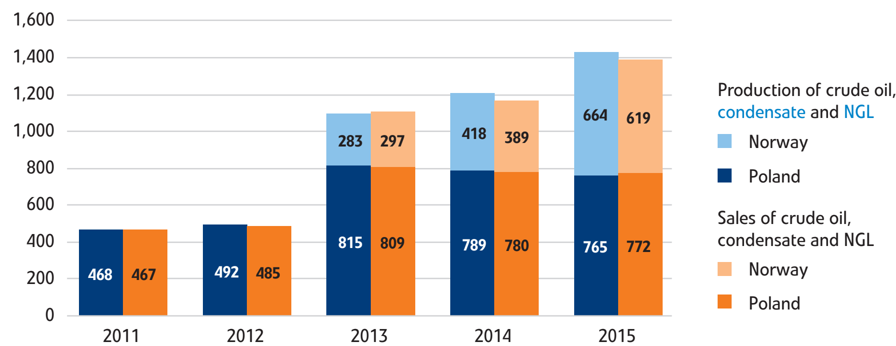
Natural gas production, PGNiG Group

mcm



Crude oil, condensate and NGL, PGNiG Group

thousand tonnes



Condensate – the liquid phase produced by condensation of any gas.

Natural gas liquids – components of natural gas that are separated from the gas state in the form of liquids.

Regulatory environment

1. Geological and Mining Law.
2. Act on Special Hydrocarbon Tax.
3. Regulation concerning measures to safeguard security of gas supply.
4. EPSA – Exploration and Production Sharing Agreement in Libya.
5. Norwegian licensing system.
6. Taxation of upstream activities in Norway.

Impact of the regulatory environment on the segment's activities

The main legislative act governing the hydrocarbon exploration and production business in Poland is the Geological and Mining Law. It regulates the ownership of minerals, the organisation and supervision of mining and geological work, and the responsibility for damage caused by mining operations. Geological and mining activities are subject to supervision by competent geological and mining supervision authorities. The Geological and Mining Law provides for criminal sanctions for a failure to comply with its regulations, and specifies the upper and lower limits of royalty fees.

On January 1st, an Act Amending the Geological and Mining Law came into force, with new or amended secondary legislation thereto taking effect as of May 2015, introducing a number of material changes to the regulatory environment of the Exploration and Production segment, including an integrated licence (covering hydrocarbon exploration, appraisal and production) and obligatory qualification procedures. It also allowed consortia to apply for licences and markedly increased royalty fees (while maintaining the previous royalty regime for marginal deposits).

The new licensing system may significantly slow down the administrative processes, leading to a decline in the number of hydrocarbon exploration and appraisal licences issued in Poland.

Under the new Act a qualification procedure was carried out for PGNiG during which the Company was reviewed and evaluated in terms of both the state's security and relevant experience. At the end of 2015, PGNiG and Lotos Petrobaltic SA were Poland's only companies to have been approved following the qualification procedure.

Underground gas storage facilities – storage facilities located in two different types of geological structures – salt caverns (underground gas storage cavern facilities) or partly depleted oil or gas reservoirs.

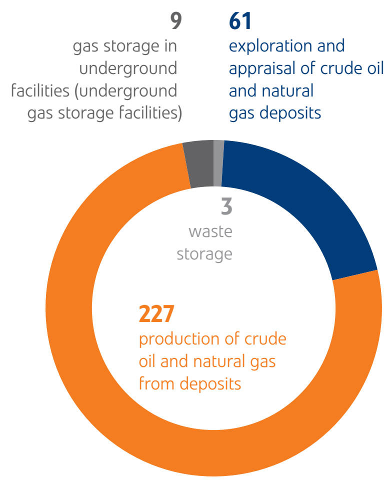
Marginal deposits – fields where production volumes do not exceed in any accounting period (six months):
• in the case of high-methane and other natural gas fields – 2,500 thousand cubic metres;
• in the case of oil fields – 1,000 tonnes.

The approval is required to apply for new licences for exploration and appraisal of hydrocarbon deposits and for production of hydrocarbons from deposits, which are to be awarded in 2016 in ex officio tender procedures announced by the Minister of Environment, and for the purposes of converting the hydrocarbon exploration and appraisal licences held by the Company into integrated licences.

As at December 31st 2015, PGNiG held the following licences, granted pursuant to the Geological and Mining Law:

- 61 licences for exploration and appraisal of crude oil and natural gas deposits;
- 227 licences for production of crude oil and natural gas from deposits;
- 9 licences for storage of gas in underground facilities (underground gas storage facilities);
- 3 licences for storage of waste.

Number of licences held by PGNiG as at December 31st 2015



The Act on Special Hydrocarbon Tax, passed on July 25th 2014, introduces to the Polish tax regime a tax on profits from hydrocarbon production and adds crude oil and natural gas production to the list of activities specified in the Act on Tax on Production of Certain Minerals of March 2nd 2012 subject to the tax on production of certain minerals. Under the Act, PGNiG is obliged to pay a *royalty* calculated based on the value of the extracted resource. The Act came into force on January 1st 2016. The obligation to pay the special hydrocarbon tax and the tax on production of certain minerals in respect of production of oil and gas will arise as of January 1st 2020. Introduction of those taxes will significantly increase PGNiG's tax burden, which may have an adverse effect on the Company's financial performance and, consequently, on its ability to invest.

The PGNiG Group's exploration and production operations abroad are regulated by local legislation and executed agreements (such as the Exploration and Production Sharing Agreement (EPSA) in Libya).

In Norway, a licence governs the holder's rights and obligations towards the Norwegian state. The document supplements the requirements provided for in the Petroleum Act and sets out detailed terms and conditions for cooperation. It grants exclusive rights to carry out surveys, exploration drilling and production of oil and gas within the defined geographical area and time frame. Each interest holder owns its share of the oil and gas produced under the licence.

Licences are awarded solely through Licensing Rounds (no bilateral talks may be held, which supports competitiveness of the process).

In Norway, there are two types of Licensing Rounds: (1) 'numbered' Rounds – in which new exploration areas are licensed (previously unavailable) – organised every two or three years; and (2) the APA Rounds – in which mature areas, relinquished by other interest holders, are re-licensed (held every year).

Each Round begins with the Ministry of Petroleum and Energy indicating the open exploration blocks (a list is prepared based on earlier nominations of companies and analyses carried out by the Norwegian Petroleum Directorate). Licences may be applied for by any company, individually or as part of a group.

The award process is based on the ranking of applications. The winning applications are the ones showing the best understanding of geology rather than those providing for the largest scope of work. It is in the Ministry's interest to award a licence to the most competent applicant.

The Norwegian petroleum tax system is based on two parallel regimes:

- 25% – CIT.
- 53% – Special Petroleum Tax.

Although the marginal tax rate on oil production is high, the effective tax rate is markedly lower and the tax solutions in place allow operators to see a relatively quick return on investment.

Risks

Resource discoveries and estimates (Poland)

Poland

Norway

The main risk inherent in exploration activities is the risk of failure to discover reserves, i.e. exploration risk, meaning that not all structures identified as potential hydrocarbon bearing formations actually contain a sufficient accumulation of hydrocarbons.

The reserves estimates and production projections may be erroneous due to imperfections inherent in the equipment and technology, which affect the quality of acquired information concerning the geological factors and reservoir characteristics. Irrespective of the methods applied, data on the volume and quality of commercial reserves of crude oil and natural gas are always 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 phase lasts from 10 to 40 years. Each downward revision of the size of reserves or estimated production quantities may lead to lower-than-expected revenue and adversely affect the PGNiG Group's financial performance.

The risk is managed by including in the economic analyses of exploration projects both the chance of success and various levels of recoverable reserves (P90, P50 and P10), representing the expected probability distribution of the size of reserves.

25% CIT and 53% SPT – 78% marginal tax rate.

Probability that the risk will materialise:
low
moderate
high

Risk materiality level:
low
moderate
high

APA – Awards in predefined areas

See also: www.npd.no

Recoverable reserves – values corresponding to probability (respectively 90%, 50% and 10%) that the actual volume of estimated gas reserves is larger than the estimate.

Shale gas – a type of unconventional gas, produced from sedimentary shale rock located deep underground.

Tight gas – natural gas trapped in isolated pores of low permeability rocks such as sandstones or carbonates.

Exploration for unconventional deposits of gas

A risk associated with exploration for unconventional gas in Poland relates to the lack of proved reserves of shale gas and tight gas. Even if the existence of in-place petroleum is confirmed, its production may prove uneconomic due to poor gas recovery and high investment expenditure necessary for well drilling and construction of production infrastructure. Another material factor is that access to unconventional gas plays may sometimes be difficult given the environmental regulations and the necessity to obtain the landowners' consent for access.

Delayed work

Poland

Norway

Under the applicable Polish laws and regulations, the process of obtaining a licence for exploration and appraisal of crude oil and natural gas reserves lasts from one to one and a half years. In the foreign markets, such procedures may take up to two years from the time that the winning bid is awarded until the relevant contract is ratified. Prior to the commencement of field work, the Company is also required to make a number of arrangements, for instance to obtain legal permits and approvals for entering the area, and to meet the environmental protection requirements and, in some cases, requirements related to the protection of archaeological sites. It is also required to hold tenders to select a contractor. All this delays the execution of an agreement with a contractor by another few months. Frequently the waiting time for customs clearance of imported equipment is very long.

Formal and legal hurdles, often beyond PGNiG's control, are factors that significantly delay its investment projects and on-site construction work, which increases the risk related to underestimation of capital expenditure.

The risk is managed by ongoing monitoring of the project status and taking action by the licence Operator whenever any issues arise.

See also: www.pgnig.ly/libya

Cost of exploration

Exploratory work is capital intensive, given the prices of energy and materials. The cost of exploratory work is especially sensitive to steel prices, which are passed onto the prices of casing and production tubing used in well completion. An increase in the prices of energy and materials drives up the cost of exploratory work. To reduce the cost of drilling operations, in 2011 PGNiG introduced a daily rate system into its procedure to select drilling contractors.

Competition

Poland

Norway

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

Political and economic situation in the regions where the PGNiG Group operates

In some countries where the PGNiG Group is engaged in exploration activities there are a number of risks, which may lead to limitation, suspension or even discontinuation of the exploration and production activities. These risks include armed conflicts, terrorist attacks, social or political unrest, internal conflicts and civil disturbance.

In 2011, all non-Libyan employees of POGC-Libya B.V. were evacuated from the country following the occurrence of a force majeure event. The company's operations were resumed in the second half of 2012. Another force majeure event was reported in January 2014. All Polish employees working in the Murzuq 113 licence area were withdrawn to Poland. The site was sealed and secured by Libyan government forces and was left to be overseen by local subcontractors.

In Pakistan, in 2014 PGNiG had to declare a force majeure event and suspend work on the Rizq-1 exploratory well on two occasions due to armed attacks in the region. Work on Rizq-1 was resumed in December 2014.

Unforeseen events

Hydrocarbon deposits developed by the PGNiG Group are often at great depths, which involves extremely high pressures and, in many cases, the presence of hydrogen sulfide. Consequently, the risk of hydrocarbon blowout or leakage is very high, which in turn may pose a threat to people (workers and local populations), the natural environment and production equipment.

The PGNiG Group and its partners are engaged in exploration for and production of hydrocarbons on the Norwegian Continental Shelf. Offshore operations are much more complicated than those carried out onshore. If a serious failure or uncontrolled release of hydrocarbons occurs at sea, remediation can be very costly.

Safety, environmental protection and health regulations

The need to ensure compliance with environmental laws in Poland and abroad may significantly increase the PGNiG Group's operating expenses. Currently, PGNiG incurs significant capital expenditure and costs on ensuring compliance of its operations with the 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 rendered the regulations governing the execution of projects which might affect 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.

Risk of adverse changes in the prices of hydrocarbons

Norway Poland

The PGNiG Group is highly exposed to the risk of falling hydrocarbon prices, which may translate into markedly lower margins delivered by the Group's Exploration and Production segment. This risk is highly material for PGNiG UI, a subsidiary. However, it is largely mitigated at the PGNiG Group level as falling gas and oil prices on global markets allow the Trade and Storage segment to generate higher margins on the sale of gas (thanks to lower purchase costs of imported gas).

PGNiG Upstream International – www.norway.pgnig.pl

Foreign exchange risk

Foreign exchange risk affects primarily PGNiG UI's revenue, which is derived in the euro (gas sales) and in the USD (oil sales). Additionally, a major part of costs and all tax expenses are settled in the Norwegian krone. Given the risk of adverse movements in foreign exchange rates, any exchange differences between revenue and costs may negatively impact PGNiG UI's financial performance. The risk is partially mitigated by external financing in the form of a bank loan (Reserve Based Loan), denominated in USD and EUR.

Operations in 2015

The PGNiG Group is the leader of the Polish hydrocarbon exploration and production market. Since 1990, hydrocarbon exploration in Poland has been based on a licensing policy which ensures equal access to exploration licences for all market participants. As at December 31st 2015, PGNiG held 61 licences for exploration and appraisal of crude oil and natural gas deposits. Over the past 25 years, a number of foreign companies have carried out exploration in Poland, including such global majors as Amoco, Texaco, Conoco and Exxon. New exploration companies were also established by Polish incumbents, i.e. PKN Orlen and Grupa LOTOS. At the end of 2015, 14 companies were engaged in hydrocarbon exploration in Poland. Despite

Dz.U. of June 27th 2005, No. 113, item 954.

Natura 2000 – a network of specific types of natural habitats and wildlife species which are considered to be valuable and endangered at the European level, covering almost 20% of Poland's onshore territory.

this highly competitive environment, the PGNiG Group has maintained its leading position – no foreign company has independently made a material discovery or become the operator under a production licence. At the end of 2015 PGNiG held 227 production licences, i.e. approximately 96% of all licences for the production of crude oil and natural gas. There are also a number of international companies – such as Schlumberger, Halliburton, Weatherford and United Oilfield Services – offering oilfield services in Poland. Despite the intense competitive pressure, PGNiG Group companies (GEOFIZYKA Kraków, GEOFIZYKA Toruń and Exalo Drilling) enjoy a strong position in this market area.

See also: www.exalo.pl

Exploration

Exploration activities in Poland

In 2015, PGNiG was involved in crude oil and natural gas exploration and appraisal projects in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands, both on its own and jointly with partners. Drilling work in areas covered by the licences awarded to PGNiG was performed on 26 wells, including 13 exploration wells, 3 research wells and 10 appraisal wells.

In 2015, 11 wells were drilled with positive results, including 2 exploration boreholes in Polish Lowlands, 4 exploration boreholes and 5 appraisal boreholes in Carpathian Foothills. 9 wells failed to yield a commercial flow of hydrocarbons and were abandoned.

As at December 31st 2015, PGNiG's recoverable reserves were:

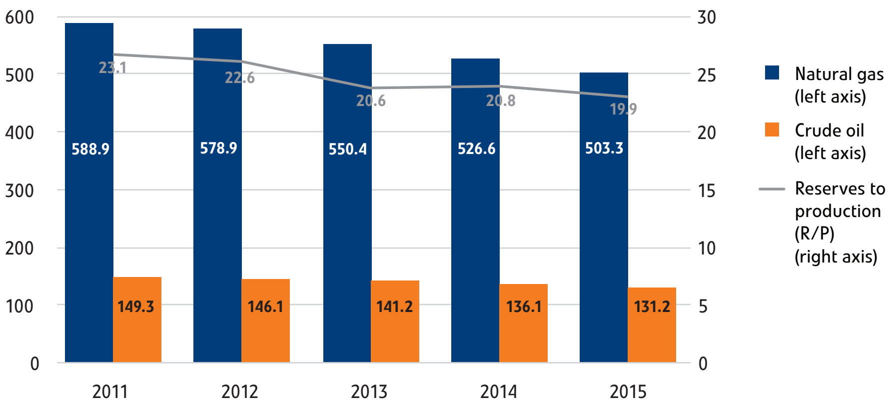
- 78.1 billion cubic metres of natural gas measured as high-methane equivalent.
- 17.9 million tonnes of crude oil with condensate.

Licence partners

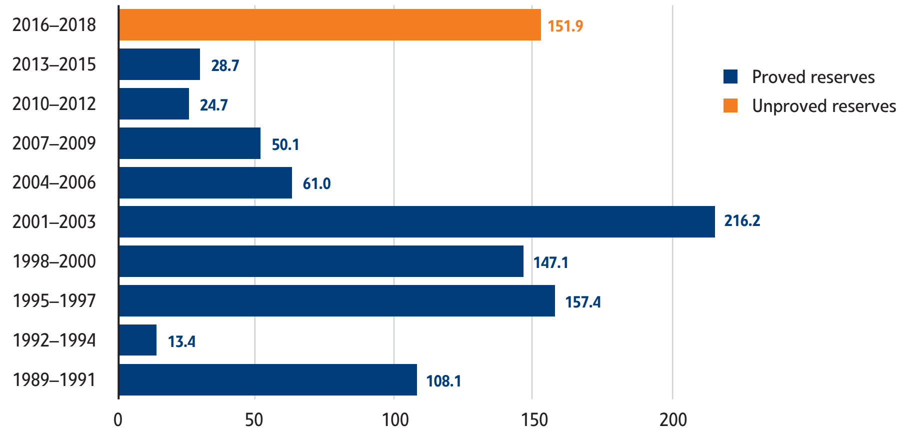
In 2015, PGNiG was engaged in joint operations with other entities in licence areas awarded to PGNiG, FX Energy Poland Sp. z o.o., San Leon Energy PLC, LOTOS Petrobaltic S.A., and ORLEN Upstream Sp. z o.o. Furthermore, PGNiG was collaborating with other entities on exploration work in Pakistan and Norway.

Reserves

Recoverable reserves in Poland in 2011–2015
mboe



Proved and unproved reserves in 1989-2018 in Poland
mboe



Exploration activities abroad

Libya

Polish Oil and Gas Company - Libya B.V., the Group's subsidiary, conducted exploration work in licence area No. 113 within the Murzuq petroleum basin in Libya, under an *exploration and production sharing agreement* of February 25th 2008 concluded with the Libyan government.

In the performance of its exploration commitments in Libya, the company has so far acquired over 3,000 km of 2D seismic data and over 1,000 km² of 3D seismic data. Two exploration wells have also been drilled and rendered positive results, as confirmed by the National Oil Corporation. The second phase of 3D seismic work (almost 500 km²) and the drilling of six exploration wells are yet to be completed.

Due to the tense political situation and growing threat to the safety of employees, the exploration work in Libya was discontinued in January 2014. In March 2014, NOC signed a second prolongation agreement, extending the term of the EPSA by a total of 830 days.

Germany

On August 4th 2015, PGNiG acquired a licence interest from Central European Petroleum Gmbh and became party to a joint operations agreement concerning a subdivision of a licence area in eastern Germany (Brandenburg). The joint operations relate to oil and gas exploration, appraisal and production. PGNiG acquired a 36% interest in future revenue from the potential production of crude oil and natural gas. PGNiG's project partners are Central European Petroleum Gmbh (39% interest and operatorship) and Austria's Rohöl-Aufsuchungs AG (25% interest). In December 2015, work began on the Markische Heide-1 exploration well.

Pakistan

PGNiG is engaged in exploration work in Pakistan under an agreement for hydrocarbon exploration and production in the Kirthar licence area executed between PGNiG 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 in proportion to the parties' interests in the licence: PGNiG (operator) – 70%, Pakistan Petroleum Ltd. – 30%.

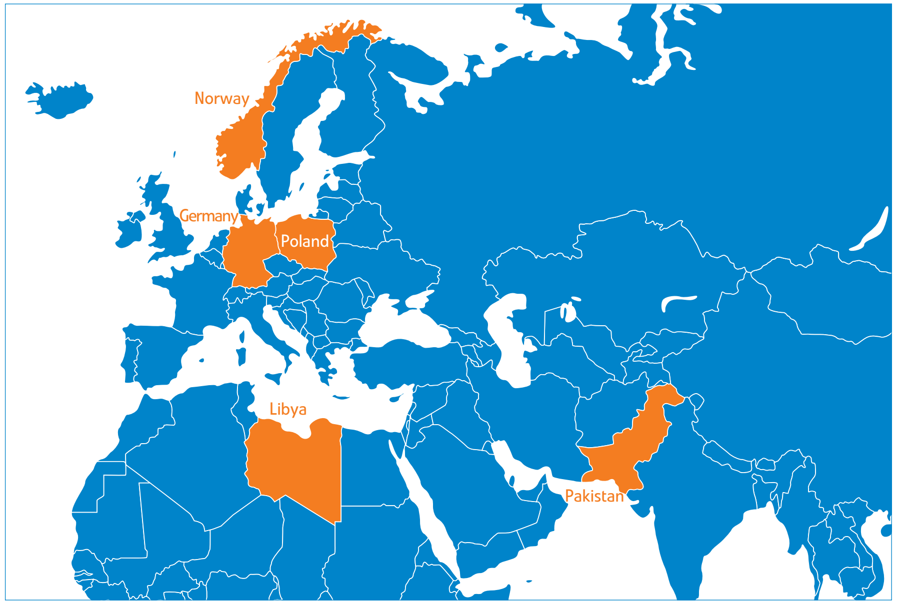
In H1 2015, the drilling of the Rizq-1 borehole was completed and a fracking operation was carried out. The maximum gas-flow rate recorded during the testing of the well was 206.5 cubic metres per minute. In September, the construction of surface installations was completed enabling

Seismic 2D – reflection seismology surveys consisting in registration of seismic waves generated from a point and recorded along a designated line.

Seismic 3D – reflection seismology surveys consisting in registration of seismic waves generated from a point and recorded over a designated area.

an increase in the production rate to 800 cubic metres/min. The Rizq-1 well discovered another unconventional gas accumulation comprising 4.5 bcm of tight gas. In order to utilise the potential of the new discovery, a joint development strategy for the Rehman and Rizq deposits was prepared, which in the first stage will involve the hook-up and start of production from Rizq-1 and the drilling of two further wells: Rehman-2 and Rehman-3 (scheduled to commence in H1 2016). In 2015, construction work was also carried out on a gas pipeline to connect Rizq-1 to the Rehman production facility. As part of further exploration and documentation work, work also began on a new 3D seismic survey. Furthermore, the Company continued production from the Rehman-1 and Hallel X-1 wells.

The production facility on the Rehman field, **the first one operated by the Company abroad**, was placed in service in November 2015.For the first time in its history, the Company carried out a complete project abroad – from obtaining a licence, through exploration and appraisal, to production launch. The facility construction is one of the stages leading to full development of the Rehman and Rizq fields.



Norway

PGNiG Upstream International AS, a PGNiG Group company, holds interests in exploratory and production licences on the Norwegian Continental Shelf, in the North Sea, in the Norwegian Sea and in the Barents Sea. Jointly with partners, the company has been producing hydrocarbons from the Skarv, Morvin, Vilje and Vale fields and working on development of the Snadd and Gina Krog fields located on the Norwegian Sea and the North Sea. In the other licence areas, the company is engaged in exploration projects.

Floating Production, Storage and Offloading Unit – a floating vessel used for offshore production of hydrocarbons, and for storage and offloading of the produced oil.

The company's main asset is the Skarv field, which has been developed using a floating production, storage and offloading (FPSO) vessel. The FPSO is owned by the licence interest holders, including PGNiG Upstream International AS, and is expected to continue is operations for the next 20 years. Other producing fields (Morvin, Vilje and Vale) comprise a group of wells hooked up to the existing production infrastructure.

Based on research and analyses carried out in 2015, the field models were updated. As a result, the estimated recoverable reserves controlled by PGNiG UI increased significantly. The company's total net reserves grew from 80.9 million boe at the end of 2014 to 87.3 million boe (5.1 thousand tonnes of crude oil and 6.6 million cubic metres of natural gas) at the end of 2015, although the production volume in 2015 reached 8.5 million boe.

In 2015, the company produced a total of 664 thousand tonnes of crude oil with condensate and NGL (measured as tonnes of crude oil equivalent) and 572.8 million cubic metres (i.e. 6.3 GWh) of natural gas from the Skarv, Morvin, Vilje and Vale fields. Production from all the fields was higher than initially planned. The increase was achieved primarily through the use on the Skarv field of a technique of injecting natural gas into a deposit to improve oil recovery.

Crude oil is sold directly from the fields to Shell International Trading and Shipping Company Ltd (crude from the Skarv, Vilje and Vale fields) and to Total Oil Trading (crude from the Morvin field). All the fields except for Vilje also produce associated gas, all of which is transferred via a gas pipeline to Germany, where it is collected by PGNiG Supply & Trading GmbH.

In 2015, PGNiG UI and its partners continued the development of the Gina Krog and Snadd fields as planned. Maersk, a new drilling rig placed in service in October 2015, is used to drill exploration and production wells on the Gina Krog field. A steel jacket was constructed over the Gina Krog field, on which a production platform will be placed. Most of the work to connect the Gina Krog field to the existing infrastructure was also carried out in 2015. Production from Gina Krog is scheduled to commence in 2017.

In 2015, as a partner in the PL029C licence area (in the vicinity of the Gina Krog field), the company was also involved in the drilling of an exploration well on the East-3 prospect. Data from the well confirm the presence of hydrocarbons.

In the case of the Snadd field, which is at the stage of selection of a development concept, work on selecting the optimum project scenario is under way. At the same time, a long-term production test is being carried out, which will help collect more detailed geological data to facilitate optimum development of the field.

In 2015, the company prepared and filed licence applications as part of two licensing rounds: APA 2015 and the 23rd Licensing Round. In January 2016, the company was awarded (in the APA 2015 licensing round) interests in four exploration and production licences, including one operatorship. Two of the licences (PL838 and PL839) are located in the Norwegian Sea, one in the North Sea (PL813), and one in the Barents Sea (PL850). The 23rd Licensing Round will be resolved in 2016.

For more information on PGNiG Supply & Trading, see p. 59

Upon conclusion of the APA 2015 licensing round (in January 2016), the complete portfolio of licences held by PGNiG UI was as follows:

Skarv and Snadd	
PGNiG's interest	12%
Partners	BP (Operator, 24%), Statoil (36%), EON (28%)
Reserves as at end of the year	58.7m boe (net for PGNiG)
2015 output	15.9 thousand boe (net for PGNiG)

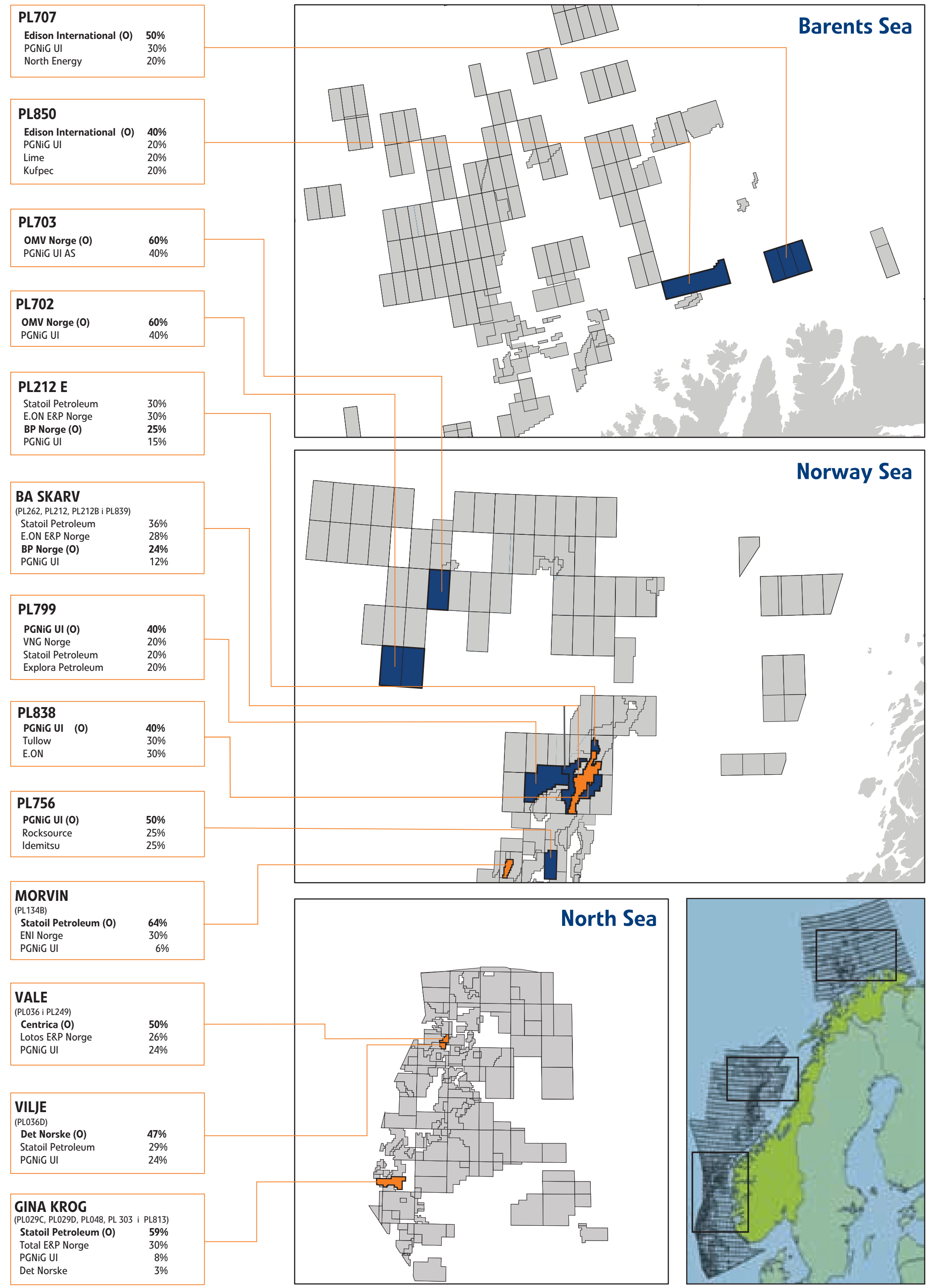
barrel of oil equivalent (1 barrel is equal to approximately 0.136 tonne).

Morvin	
PGNiG's interest	6%
Partners	Statoil (Operator, 64%), Eni (30%)
Reserves as at end of the year	3.0m boe (net for PGNiG)
2015 output	1.6 thousand boe (net for PGNiG)

Vale	
PGNiG's interest	24%
Partners	Centrica (Operator, 50%),
	Lotos (26%)
Reserves as at end of the year	2.9m boe (net for PGNiG)
2015 output	2.6 thousand boe (net for PGNiG)

Vilje	
PGNiG's interest	24%
Partners	Det norske (Operator, 47%), Statoil (29%)
Reserves as at end of the year	4.2m boe (net for PGNiG)
2015 output	3.3 thousand boe (net for PGNiG)

Gina Krog	
PGNiG's interest	8%
Partners	Statoil (Operator, 59%), Total (30%), Det Norske (3%)
Reserves as at end of the year	18.5m boe (net for PGNiG)
2015 output	Planned to be launched in 2017



Production

In 2015, the PGNiG Group produced a total of 4.6 billion cubic metres of natural gas (high-methane gas equivalent), of which 4.0 billion cubic metres was produced from fields in Poland, and 624 million cubic metres from fields abroad. Production of crude oil with condensate and NGL reached 1,429 million tonnes of crude oil equivalent, of which 664 thousand tonnes came from the Norwegian Continental Shelf. The increase in production at the Norwegian Continental Shelf was a result of PGNiG UI's acquisition in 2014 of interests in producing fields (Morvin, Vale and Vilje) and the use of a new production technique on the Skarv field.

Natural gas and crude oil in Poland is extracted by two PGNiG branches: the Zielona Góra Branch and the Sanok Branch. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 21 sites, including 12 gas production facilities, 6 oil and gas production facilities and 3 oil production facilities. The Sanok Branch produces high-methane and nitrogen-rich natural gas and crude oil at 36 sites, including 18 gas production facilities, 13 oil and gas production facilities and 5 oil production facilities.

In 2015, in the operating area of the PGNiG Sanok Branch, six wells were hooked up on producing fields, test production began from one well, and production from two new fields (Załęże and Białoboki) was launched. The total addition to production capacity was approximately 7 thousand cubic metres of gas per hour (high-methane gas equivalent).

In the operating area of the PGNiG Zielona Góra Branch, two gas wells and two oil wells were hooked up on producing fields and production from the new Grodzisk 26 field was commenced. The total addition to production capacity was approximately 4.3 thousand cubic metres of gas per hour (high-methane gas equivalent).

The working capacities of the underground storage facilities used by the Exploration and Production segment as at December 31st 2015

Nitrogen-rich gas	GWh	mcm*
Daszewo (Ls)	250	30
Bonikowo (Lw)	1,667	200

*in natural units

Underground gas storage facilities

In 2015, the Exploration and Production segment used the working capacities of the Daszewo and Bonikowo nitrogen-rich gas storage facilities. Storage capacities used for the purposes of production are not storage facilities within the meaning of the Polish Energy Law.

Prospects of development

Exploration in Poland

In 2016, PGNiG will carry out exploratory, geophysical and drilling work in Poland on a number of prospects in the Carpathian Mountains, Carpathian Foothills and the Polish Lowlands. The work will be conducted by PGNiG on its own or jointly with partners.

The Company also intends to pursue projects focused on exploring new opportunities, where little appraisal has so far been made. In Pomerania, fracturing is to be performed in two wells drilled in 2015. As part of exploration for *tight gas*, the Company is planning to drill wells both in the Polish Lowlands, the Carpathian Mountains, and Carpathian Foothills.

Exploration abroad

In 2016, in Pakistan, PGNiG will spud the Rehman-2 and Rehman-3 wells, and perform seismic work on the Rizq field. In the following years, under the Kirthar licence, the Company will perform work to gradually expand the capacity of the production installations as well as drilling work on the Rehman and Rizq fields. Furthermore, PGNiG plans to carry out exploration work within three potential fields: N2, W1 and W2.

Hydrocarbon production

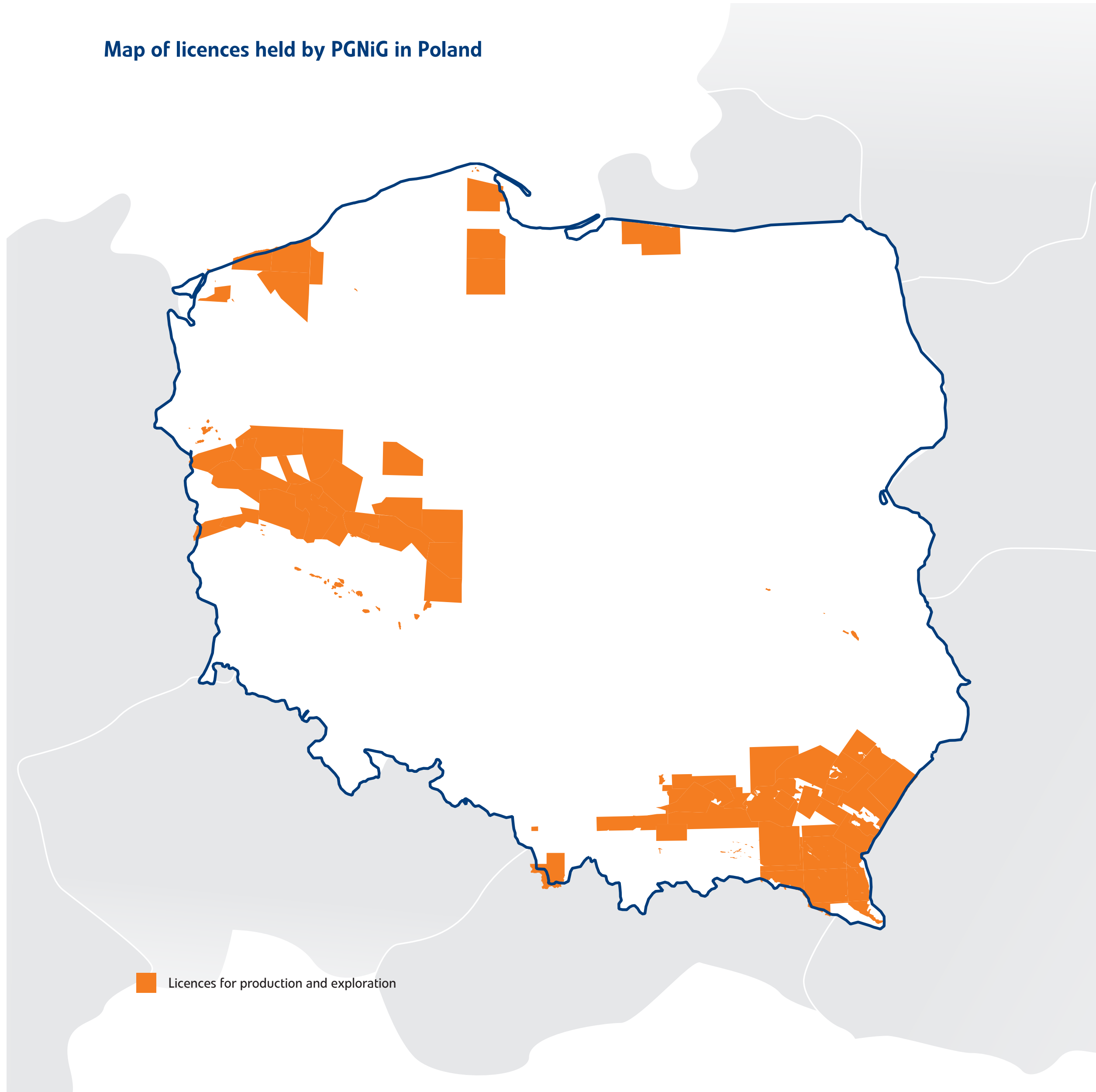
In 2016, the PGNiG Group will conduct hydrocarbon production in Poland, in the Norwegian Continental Shelf, and in Pakistan. The Group is implementing an investment programme to maintain, in a long-term perspective, its natural gas production capacity. As part of the programme, the PGNiG Group plans to develop new deposits and wells, modernise and expand the existing gas production facilities, build new underground gas storage facilities and expand the existing ones.

In the Sanok Branch area, plans for 2016 include the hook-up of one new well on the Markowice field and hook-up of wells on the Przemyśl, Pruchnik-Pantalowice, Lubliniec, Przeworsk, Smolarzyny, Kielanówka-Rzeszów, Blizna-Ocieka, Draganowa, and Siedleczka fields.

In the Zielona Góra Branch area, production is to be launched from the new Karmin field (in partnership with Orlen Upstream) and from wells on the Gajewo, Brońsko, and Połęcko fields.

On the Norwegian Continental Shelf, PGNiG UI will continue to produce hydrocarbons from the Skarv, Vilje, Vale, and Morvin fields and will proceed with the development of the Snadd and Gina Krog fields. The company will continue its exploration work under the licences it currently holds. It may also decide to acquire new licence areas by participating in annual licensing rounds. The company may also acquire interests in other producing fields and in fields under development, and may become involved in infrastructure projects.

Map of licences held by PGNiG in Poland



Danuta Górska
Customer Service Officer,
PGNiG Obrót Detaliczny,
Pomerania Region,
Gdańsk Customer Service Office

Provision of direct service to retail customers. Responsibilities: execution of gas and electricity supply agreements with customers, explaining terms of settlement and payment, answering other questions about agreements. Acceptance of connection requests.

Trade and Storage

Trade and Storage

See also:
www.tge.pl

Polish Power Exchange, Towarowa Giełda Energii SA – a commodity exchange licensed by the Polish Financial Supervision Authority for trading in electricity, liquid and gaseous fuels, electricity generation and emission volume limits, property rights incorporated in certificates of origin for electricity, etc.

The segment's principal activity is trade in natural gas. In Poland it sells natural gas produced from domestic fields or imported, and the PGNiG Group is the largest gas supplier on the Polish market. Through PGNiG Sales and Trading GmbH (wholesale) and PST Europe Sales GmbH (retail sale), the PGNiG Group has also been dynamically developing its operations in Germany and Austria in natural gas wholesale and sale to end users.

The segment also trades in electricity, certificates of origin for electricity, and CO_2 emission allowances. and operates seven underground gas storage facilities (Brzeźnica, Husów, Mogilno, Strachocina, Swarzów, Wierzchowice and Kosakowo).

Companies of the Trade and Storage segment include PGNiG SA, PGNiG Obrót Detaliczny Sp. z o.o., PGNiG Sales and Trading GmbH, PST Europe Sales GmbH and Operator Systemu Magazynowania Sp. z o.o.

Financial analysis

In 2015, the Trade and Storage segment's operating profit was down PLN 202m year on year, to PLN 381m.

The segment's revenue in 2015 was up by PLN 2,917m (or 10%) year on year, driven principally by higher revenue from gas sold on the Polish Power Exchange (TGE), whose volume was 9 billion cubic metres in 2015, relative to 4.3 billion cubic metres the year before. The segment's operating expenses in 2015 were up by PLN 3,119m (or 11%) year on year, mainly on higher costs of gas fuel purchases on the Polish Power Exchange (made by PGNiG Obrót Detaliczny Sp. z o.o.). Sale and purchase transactions carried out on the Polish Power Exchange by, respectively, PGNiG and PGNiG Obrót Detaliczny (which commenced operations on August 1st 2014) are not eliminated in the consolidated financial statements.

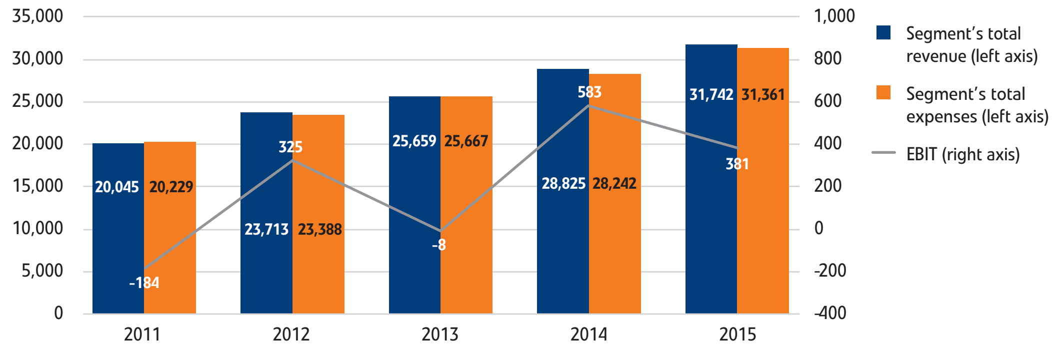
The decline in the segment's operating result is due to the ongoing deregulation of the Polish gas market, which allows the segment's largest customers to diversify their gas fuel supplies. In 2015, PGNiG and PGNiG Obrót Detaliczny changed their tariffs for fuel gas sales several times. As a result, the average tariff price of gas fuel in Q4 2015 was lower by ca. 10% compared with 2014. Additionally, in response to changing market conditions, the segment companies selling gas fuel in Poland launched discount schemes, making their offering more attractive to customers.

The decline in the segment's operating result was also attributable to a higher write-down of gas fuel inventories, up by PLN 190m in 2015.

As at December 31st 2015, the Group held ca. 1.7 billion cubic metres of gas in underground storage – approximately 19% less than at the end of 2014.

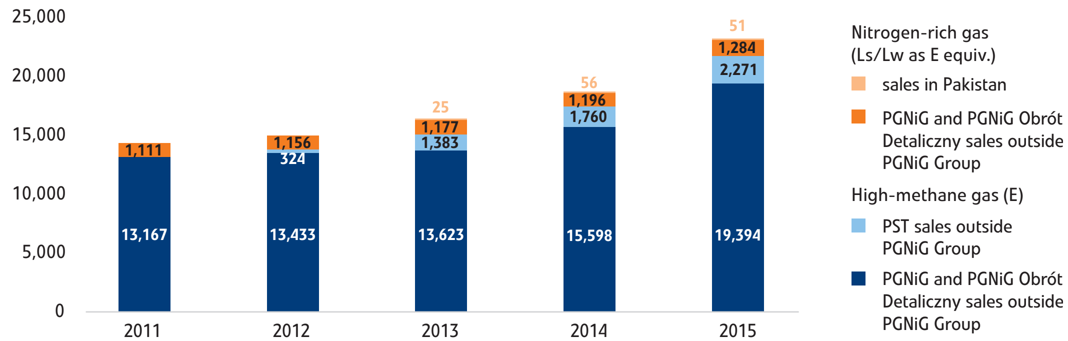
Segment's financial results

PLNm



PGNiG Group's gas sales volumes*

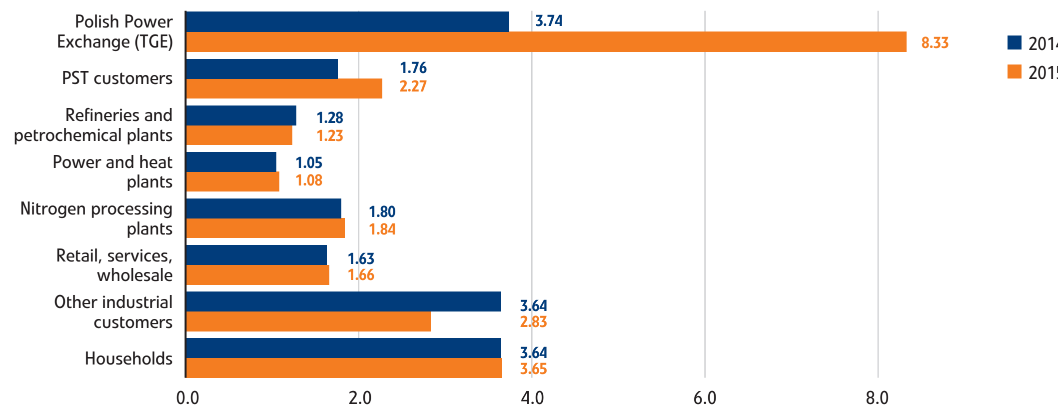
mcm



* Measured as high-methane gas equivalent, including direct sales from fields (Exploration and Production segment), after consolidation eliminations; volumes of PGNiG sales through the Polish Power Exchange (TGE) and of PGNiG Obrót Detaliczny sales were not eliminated due to the anonymity of trade on TGE.

PGNiG Group's gas sales volumes by customer group

bcm



Regulatory environment

The regulatory environment of the Trade and Storage segment is formed by a combination of national and EU laws. The most important Polish laws governing the PGNiG Group's operations in the trade and storage area include:

1. The Energy Law.
2. The Council of Ministers' Regulation of October 24th 2000 on the minimum level of diversification of foreign sources of gas supplies.
3. The Regulation of the Minister of Economy of June 28th 2013 on detailed rules for determining and calculating gas fuel tariffs and on settlements in gas fuel trading.
4. The Energy Efficiency Act.
5. The Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market.
6. Regulation (EU) No. 994/2010 concerning measures to safeguard security of gas supply.
7. Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25th 2011 on wholesale energy market integrity and transparency.
8. Regulation (EC) No. 715/2009 of the European Parliament and of the Council of July 13th 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No. 1775/2005.
9. Decisions by the President of the Energy Regulatory Office granting licence for storage of gas fuels in gas storage facilities.
10. The Regulation on Energy Market Integrity and Transparency (REMIT).

Energy Regulatory Office – Urząd Regulacji Energetyki.

Impact of the regulatory environment on the Company's activities

The Polish Energy Law with secondary legislation defines the basic rules for trade in natural gas, grant of licences and determination of energy tariffs. Its content takes into account the legal acts included in the Third Energy Package, in particular Directive 2009/73/EC of July 13th 2009 concerning common rules for the internal market in natural gas, and Regulation No. 715/2009 on conditions for access to the natural gas transmission networks.

Pursuant to the provisions of the Polish Energy Law, a licence issued by the President of the Energy Regulatory Office is required for trading in gas fuels and electricity.

PGNiG conducts its trade activities under the following licences:

- Licence to trade in gas fuels.
- Licence to trade in natural gas with foreign partners.
- Licence to trade in liquid fuels.
- Licence to trade in electricity.

As for PGNiG Obrót Detaliczny, it holds the following licences:

- Licence to trade in gas fuels.
- Licence to trade in electricity.

Energy companies holding licences to trade in gas fuels have the obligation to submit gas trading tariffs for regulatory approval. Such obligation does not apply with respect to gas trading on the Polish Power Exchange.

On September 11th 2013, an Act Amending the Energy Law (referred to as the 'Mini Three-Pack') took effect; under the amendment, an energy company trading in gas fuels is obliged to sell a part of its high-methane gas volume introduced to the transmission network in a given year on the exchange market (the exchange sale requirement).

Consequently, PGNiG, being the only entity actually bound by the obligation, is required to sell on the exchange market at least 30% (in the period from the amendment's effective date to the end of 2013), 40% (in 2014), and 55% (as of January 1st 2015) of the high-methane gas volume introduced to the transmission network in a given year.

In the period directly following the requirement's effective date, the demand for gas offered by PGNiG on the power exchange was lower than the supply, which meant that the Company was not able to fulfil its statutory obligation. In those circumstances, on June 26th 2014, the Energy Law was amended again by introducing the rule of general succession of agreements. Following its entry into force, on August 1st 2014 subsidiary PGNiG Obrót Detaliczny commenced operations, taking over from PGNiG the customers who use less than 25 million cubic metres of gas fuel per year. PGNiG Obrót Detaliczny acquires gas at the Polish Power Exchange. Since the launch of PGNiG Obrót Detaliczny's operations, a material increase in exchange gas sales has been observed.

A failure to meet the obligation to sell gas on the exchange market in the amounts specified by the Energy Law exposes the Company to the risk of financial penalty. Such penalty is imposed by the President of the Energy Regulatory Office in an amount of up to 15% of revenue from the licensed operations in gas fuel trading.

The initiatives taken by the Company allowed it to meet the exchange sale requirement in 2015, despite the increase of the proportionate volume required to be sold through the exchange from 40% to 55%.

Issues relating to the country's fuel security are regulated under Regulation (EU) No. 994/2010 of October 20th 2010 concerning measures to safeguard security of gas supply, and under the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market. The Act defines the rules for creating, maintaining and financing stocks of natural gas by energy companies.

From PGNiG's perspective, another important document is the Energy Efficiency Act of April 15th 2011, enacted to implement Directive 2006/32/EC on energy end-use efficiency and energy services. It establishes a national target for end-use energy savings and introduces a system of energy efficiency certificates (referred to as white certificates) as a means to achieve it. PGNiG and PGNiG Obrót Detaliczny, as trading companies, are obliged to purchase and redeem energy efficiency certificates or else pay the buy-out price.

The storage system operator Operator Systemu Magazynowania Sp. z o.o. ("OSM") operates on the basis of relevant decisions by the President of Energy Regulatory Office, i.e. a decision dated May 16th 2012 (as amended) to grant OSM a licence for storing gas fuels in gas storage facilities for the period from June 1st 2012 until May 31st 2022, and a decision of May 22nd 2012 (as amended) to designate OSM as the gas fuel storage system operator for the period from June 1st 2012 to May 31st 2022. OSM has conducted the licensed operations since June 1st 2012.

OSM – Storage System Operator

The gas fuel storage activities are conducted on the basis of EU and national laws, in particular the Energy Law of April 10th 1997 and Regulation (EC) No. 715/2009 of the European Parliament and of the Council of July 13th 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No. 1775/2005.

REMIT – Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25th 2011 on wholesale energy market integrity and transparency, which is binding on all participants of the electricity and natural gas wholesale markets.

Furthermore, Commission Implementing Regulation (EU) No 1348/2014 of December 17th 2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency (respectively the "Implementing regulation" and the "REMIT") took effect in the analysed period. As part of its disclosure obligations, in September the Company registered with the Centralised European Registry for Energy Market Participants (CEREMP) operated by the Agency for the Cooperation of Energy Regulators (ACER) and obtained ACER code A00037874.PL. The ACER code identifies the entity entering into transactions in the electricity and gas wholesale markets. Just like EIC codes, the ACER code is used to report data concerning OSM, in accordance with REMIT requirements. Furthermore, on September 3rd, the Rules for the performance of obligations resulting from Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25th 2011 on wholesale energy market integrity and transparency were implemented at OSM.

Energy Identification Coding Scheme – a system of codes which uniquely identify entities operating in the European energy market, assigned by the Central Issuing Office for Energy Identification Codes (ENTSO-E) and – in Poland – by Polskie Sieci Elektroenergetyczne SA.

White certificates – certificates incorporating property rights, traded on the power exchange, which confirm energy savings from implementation of energy efficiency projects.

Probability that the risk will materialise:

●○○ low
●●○ moderate
●●● high

Risk materiality level:

●○○ low
●●○ moderate
●●● high

Take-or-pay – a type of contract under which a party agrees to collect the entire volume ordered or its part and pay compensation to the supplier if it fails to collect a part of the volume ordered.

Risks

Energy Efficiency Act

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The Energy Efficiency Act came into force on August 11th 2011, implementing 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 use of energy which stipulates that the minimum level of end-use energy savings by 2016 should be 9% of annual national energy consumption. Starting from January 1st 2013, PGNiG and PGNiG Obrót Detaliczny, as trading companies, are obliged to purchase energy efficiency certificates or else pay the buy-out price. This obligation drives up the cost of regulated activities.

Tariff calculation

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Dependence of the PGNiG Group's revenue on tariffs approved by the President of the Energy Regulatory Office is the key factor affecting the Group's regulated business. Tariffs are crucial to the Company's ability to generate revenue that would cover its reasonable costs and deliver a return on the capital employed. Currently, a significant portion of that revenue depends on the selling prices of gas fuel, which – except to the extent that the gas is sold through the Polish Power Exchange – are regulated prices. The tariff determination rules are defined in the regulations issued under the Energy Law, including primarily the Tariff Regulation. The methodology used to determine tariffs consists in defining prices and charges against forecast costs and planned gas sales volumes. Inaccurate estimates of customer demand for gas (affecting the accuracy of projected purchase and supply volumes) and changes in imported gas prices, which cannot be accurately projected, may have an adverse effect on the financial performance of the Group.

Purchase prices of imported gas

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Prices of imported gas are denominated in USD or EUR and are based on indexation formulae reflecting the prices of petroleum products and/or gas on the liquid market of Western Europe. Accordingly, changes in foreign exchange rates or prices of petroleum products and gas materially affect the cost of imported gas. Any precise forecast of changes in natural gas prices carries a high risk of error. With respect to a part of volumes sold at tariff prices, the approved prices can be legally adjusted during a tariff term. However, there is a risk that a change in the price of imported gas may not be fully passed on to customers or that changes in gas sale prices may lag behind changes in gas import prices.

In the case of exchange sales, which, given the statutory obligations under the Energy Law, concern a material part of imported volumes, and in the case of sales to end users at prices indexed to exchange prices, there is a risk of negative decorrelation between the Polish Power Exchange (TGE) and the prices calculated in accordance with the formulae stipulated in import contracts. If this risk materialises, it may lead to the need to sell gas at prices lower than the acquisition cost, which in turn will adversely affect the company's financial performance.

Gas purchase prices at the Polish Power Exchange

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Fluctuations in gas fuel prices on the wholesale market are an important factor affecting the financial performance of PGNiG Obrót Detaliczny.

Gas fuel is acquired by the company mostly at the Polish Power Exchange (TGE). Throughout 2015, gas prices at the TGE followed a steady downward trend.

Take-or-pay import contracts

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In 2015, PGNiG was a party to three long-term take-or-pay contracts for gas fuel deliveries to Poland. The most important of these are the contracts with OOO Gazprom Export and Qatar Liquefied Gas Company Limited (3).

On December 9th 2014, PGNiG and Qatargas executed a supplementary agreement to the long-term contract for sale of liquefied natural gas (LNG) of June 29th 2009. Under the supplementary agreement, the parties altered the terms on which the contract was to be performed throughout 2015. On October 21st 2015, PGNiG and Qatar Liquefied Gas Company Limited (3) executed another supplementary agreement which extended the effective term of the amended (in 2015) terms of the contract until June 30th 2016.

The gas volumes originally intended for PGNiG SA in 2015 and H1 2016 were sold by Qatar Liquefied Gas Company Limited (3) on other markets. PGNiG covers the potential difference between the LNG price specified in the contract and the obtained market price. Should the price be lower than PGNiG finds satisfactory, any unsold LNG supplies may be shifted to subsequent years of the contract.

Obligation to diversify imported gas supplies

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The Council of Ministers' Regulation of October 24th 2000 on the minimum level of diversification of foreign sources of gas supplies prescribes the maximum share of gas imported from a single country in total gas imports in a given year. In 2015–2018, the share may not exceed 59%.

For failing to comply with the obligation to diversify supplies of imported gas in 2007–2008, the President of the Energy Regulatory Office imposed on PGNiG a fine of PLN 2m, which – as a result of legal steps taken by the Company – was reduced to PLN 0.5m. In May 2015, PGNiG filed a cassation complaint against a decision of the Warsaw Court of Appeals, which is still being examined.

By virtue of his decisions of December 30th 2015 and December 31st 2015, the President of the Energy Regulatory Office imposed on PGNiG fines, respectively of PLN 2m and PLN 4m, for failing to comply with the obligation to diversify supplies of imported gas in 2009 and 2010. The Company filed appeals against these decisions with the Competition and Consumer Protection Court at the Regional Court of Warsaw.

If the Regulation is not amended, the President of the Energy Regulatory Office may in continue to impose 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).

Competition in gas sale

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The advancing deregulation of the natural gas market in Poland has brought about changes in the competitive, regulatory and legal environments, and a strong intensification of activity of other market operators. Currently, gas trading licences in Poland are held by 175 companies not belonging to the PGNiG Group. In 2011–2012, 22 new licences were awarded. In 2013–2014, another 63 licences (excluding PGNiG Obrót Detaliczny), and in 2015–26 licences were issued. Additionally, 60 companies (excluding PGNiG) hold licences to trade in natural gas with foreign partners, allowing them to import gas for resale to customers in Poland. 17 and 14 such licences were awarded respectively in 2014 and 2015. According to information published on the website of gas pipeline operator OGP Gaz-System SA, at least 102 entities have entered into a transmission agreement with the operator.

In 2012, trading in natural gas commenced on the Polish Power Exchange (TGE). According to information published on the exchange's website, the number of registered participants of the TGE gas trading market is 23.

An important development promoting competition on the gas market was the launch, as of April 1st 2014, of the physical reverse flow to Poland from sources west of our country through the Mallnow entry point. Under the reverse flow service provided on a continuous basis, it is possible to import 2.3 billion cubic metres of natural gas. On January 1st 2015, the technical capacity for continuous gas imports through the Mallnow entry point was further increased to 5.5 billion cubic metres.

Despite dynamic changes that have followed as a result of the market deregulation process, PGNiG continues to be the largest supplier of natural gas in Poland.

Competitors of PGNiG Obrót Detaliczny offer, besides traditional network supplies, modern solutions to supply natural gas in the liquefied form (LNG).

They offer gas fuel at competitive prices, and also sell bundled gas and electricity. The largest sellers of electricity in Poland are diversifying their business into natural gas sales, becoming active players in this market.

The company's main competitors whose offerings are targeted at large business customers include DUON Marketing & Trading SA, RWE Polska SA, PKPEnergetyka SA, Hermes Energy Group SA, Enea SA, Energa SA and Tauron SA. On the other hand, the main competitors targeting households and small businesses include DUON Marketing & Trading SA, Energetyczne Centrum SA, ENERGA-OBRÓT SA, Energia dla firm SA and Tauron SA.

In response to growing competition, the PGNiG Group companies selling gas fuel in Poland launched discount schemes to make their offering more attractive to customers.

Mandatory stocks of natural gas

The obligation to maintain mandatory stocks of natural gas is stipulated in Art. 24 of the Act on Mandatory Stocks. Pursuant to the Act, an energy company engaged in the business of importing natural gas for its resale to customers is required to maintain mandatory stocks of gas in an amount equal to at least 30-day average daily gas imports into the territory of Poland. Companies which import less than 100 million cubic metres of gas per year and supply the gas to not more than 100 thousand customers are exempt from the obligation to maintain mandatory stocks. Meeting the statutory requirement as to mandatory stocks exposes PGNiG to financial and technological risks, and endangers the fulfilment of its contractual obligations.

The balancing risk is mainly connected with the inability to cover peak demand for natural gas in autumn and winter if low air temperatures persist. The presence of mandatory stocks limits the commercial use of the storage capacity and deliverability.

As mandatory gas stocks may be withdrawn only with the consent of the Minister of Economy and only after gas supply limits have been introduced, the Company is exposed to the risk of a temporary significant imbalance in its gas portfolio. Notwithstanding that, withdrawal of gas from mandatory stocks may lead to a situation where users face gas supply limits (the introduction of such limits being a formal requirement) despite relatively high volumes of gas held in storage.

Technology risk

The technology risk follows from the fact that the need to maintain mandatory stocks has a negative impact on the operating parameters of underground storage facilities. A situation where gas is not drawn from storage for a longer period of time may result in gas migrating to the reservoir section with poorer porosity and permeability, leading to a decrease in gas withdrawal capacity. It may take several years to restore the original operating parameters of the facility (entailing additional costs) and in extreme cases such restoration may even prove impossible.

Deregulation of natural gas prices

The deregulation of the Polish gas market is bound to trigger major changes, in the market itself and in the related legal framework. In 2012, gas sales were launched at the Polish Power Exchange (TGE). Under a decision of the President of the Energy Regulatory Office, gas trading on the exchange is exempt from the tariff obligation. It is also expected that prices of gas for end users will be gradually liberalised as the deregulation process advances. In the first place, the tariff requirement is to be disapplied with respect to wholesale customers and the largest industrial customers.

Despite earlier announcements by the President of the Energy Regulatory Office, 2015 saw no significant developments related to the planned deregulation of gas prices for customers.

In response to the changes in the natural gas market, the PGNiG Group introduced a number of discount schemes, enabling its customers to purchase gas at prices lower than the tariff prices.

Disruptions to gas supplies from countries east of Poland

In the period from September 2014 to March 2015, the quantities of natural gas supplied by OOO Gazprom Export were lower than those ordered by PGNiG. The reductions ranged from 6% to 46% per day and affected gas supplies passing through the entry points in Drozdovitse, Vysokoye, Kondratki and Teterovka (since December 2014). To meet customer demand for gas, the Company imported the missing volumes from the west (through Mallnow, Lasów) and the south (Cieszyn). Moreover, between October 2014 and April 2015 the Company withdrew gas from underground storage as part of the commercially available capacities. Throughout the period when gas supplies were reduced, the stability of gas supplies to PGNiG customers was not affected and the Company did not default under its contractual obligations towards customers. Given the continuing political instability in Ukraine, there is a risk of further limitations in gas supplies.

Operations in 2015

GAS TRADING – POLAND WHOLESALE

Gas imports

PGNiG is the largest importer of natural gas into Poland.

The existing gas infrastructure makes it possible to import natural gas from the following directions:

- East – through the cross-border connections in Drozdovitse and Zosin (on the Polish-Ukrainian border), Kondratki, Vysokoye and Teterovka (on the Polish-Belarusian border);
- West – through the cross-border connection in Lasów and using the virtual reverse flow service on the Yamal pipeline;
- South – through cross-border connections located in the vicinity of Cieszyn and Branice, or alternatively through the cross-border connection in Głuchołazy.

On January 1st 2015, OGP Gaz-System SA added new technical capacities for importing gas to Poland from across its western border using the virtual reverse flow service on the Yamal gas pipeline. It became possible as a result of extension of the Włocławek entry point. At present, gas may be imported to Poland through the Mallnow-reverse point on a continuous basis at a rate of up to 5.5 billion cubic metres per annum.

In addition, transmission capacity at the Mallnow-reverse point is offered on an interruptible basis, which makes it possible to import an additional 2.7 billion cubic metres of gas per annum if the Yamal gas pipeline is delivering gas to Germany.

The system connections (the Lasów terminal and the interconnector with the Czech Republic, near Cieszyn, commissioned in 2011) enable free trade flows between countries of the European Union, strengthening economic integration among the EU member states. Development of the interconnector infrastructure has also significantly improved Poland's energy security, providing a potential source of emergency supplies.

In addition, Polskie LNG SA (a wholly-owned company of OGP Gaz-System SA) is in the process of starting up the LNG terminal in Świnoujście. In the initial phase, the terminal's capacity will amount to 5 billion cubic metres of gas. PGNiG has been involved in the terminal start-up and cooling process. In order to procure LNG for the process, PGNiG entered into a contract for two LNG shipments with Qatargas Operating Company Limited (acting on behalf of Qatar Liquefied Gas Company Limited (2)) and a contract to sell these LNG volumes to Polskie LNG SA.

The first of the LNG shipments was delivered to the Świnoujście terminal in December 2015, and the second one arrived in February 2016. In January 2016, PGNiG, OGP GAZ-SYSTEM SA and Polskie LNG SA began testing the delivery of gas from the LNG terminal into the Polish transmission system.

The volume of gas received under the Yamal Contract in 2015 was lower than in previous years, due to temporarily reduced supplies. In spite of that, throughout the period of limited gas supplies, the stability of gas supplies to PGNiG's customers was not affected and the Company did not default under its contractual obligations towards customers.

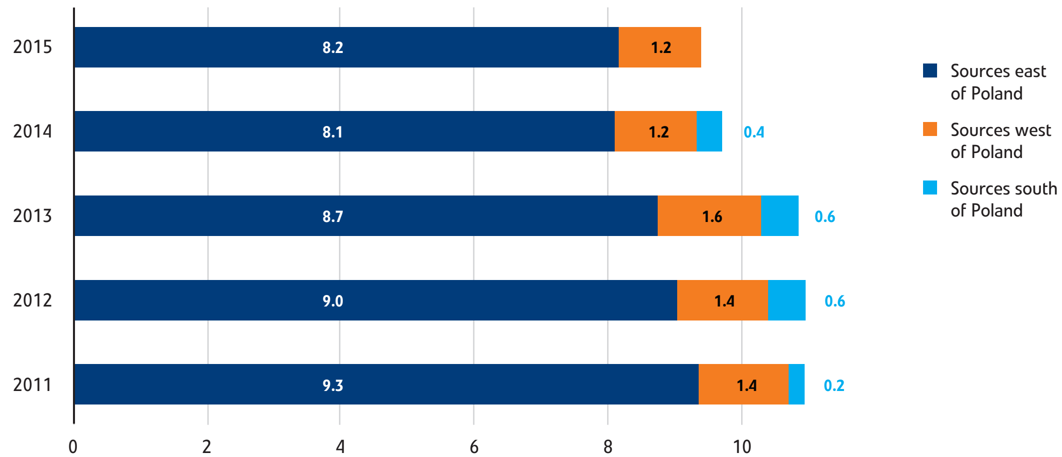
Interconnector – an interconnection between the infrastructures of neighbouring countries, through which it is possible to send electricity or natural gas between these countries.

Virtual reverse – possibility of collecting gas from a trading partner from a direction opposite to the direction of supply, possible in the case of transit lines crossing a country.

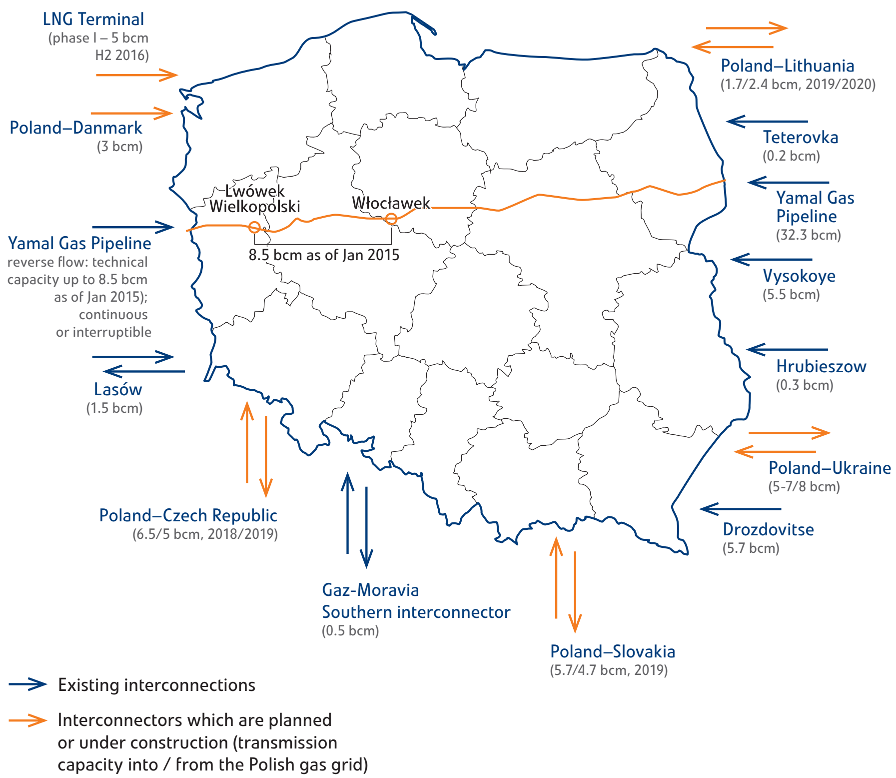
Yamal contract – a multi-annual contract between PGNiG SA and OAO Gazprom/ OOO Gazprom Export for supply of up to 10.2 bcm (measured according to Polish standard: PN) per year of Russian gas, effective until 2022 (85% take-or-pay).

Imports of natural gas to Poland in 2011-2015

bcm



Schematic map of the Polish transmission system entry points



Gas wholesale

Tariff

In 2015, the bulk of high-methane and nitrogen-rich natural gas sold by PGNiG was subject to regulatory price control (only high-methane gas traded at the Polish Power Exchange (TGE) was not subject to regulatory approval of tariffs).

Natural gas trading (other than at the TGE) is subject to regulation by the President of the Energy Regulatory Office, who approves gas fuel tariffs, including the underlying prices of gas fuel and fees, and oversees their application for consistency with the provisions of the Polish Energy Law. The tariff approval process involves an analysis of costs which are considered reasonable by energy companies and are relevant for the calculation of the prices and fee rates included in tariffs. Notwithstanding the Company's obligation to sell a portion of its gas volumes through the exchange market, tariffs have a significant effect on the Company's financial performance. The methodology used to determine tariffs is based on an analysis of forecast costs and planned sales volumes of both domestically produced and imported gas.

Gas fuel is supplied to customers connected to the transmission network and the distribution network under comprehensive service contracts, which are settled based on a tariff specifying:

- prices and subscription fees applicable to settlements with customers receiving gas fuel from the networks;
- manner of determining price reductions in the event of a failure to maintain gas fuel quality parameters or quality standards in customer service.

In 2015, the following Gas Fuel Tariffs were in place:

- PGNiG SA's Gas Fuel Supply Tariff No. 7/2015, approved by a decision of the President of the Energy Regulatory Office on December 17th 2014 (the tariff was effective from January 1st 2015 to April 30th 2015 and applied to companies purchasing the fuel for resale and end users with an annual consumption in excess of 25 million cubic metres),
- PGNiG SA's Amended Gas Fuel Supply Tariff No. 7/2015 (effective from May 1st 2015 until July 31st 2015), in which the average high-methane gas price (price of the gas fuel and subscription fee) was reduced on average by 7.1%, while the nitrogen-rich gas price was reduced by 3.2%. The price of 1 kWh of high-methane gas was finally made equal with the price of 1 kWh of nitrogen-rich gas;
- PGNiG SA's Gas Fuel Supply Tariff No. 8/2015 (effective from August 1st 2015 until December 31st 2015), in which the average prices of high-methane and nitrogen-rich gas were reduced by 5% and 4.9%, respectively. Moreover, the new tariff introduced separate prices for customers reselling gas fuel.

Furthermore, on December 16th 2015, by virtue of a relevant decision, the President of the Energy Regulatory Office approved Gas Fuel Supply Tariff No. 9/2016, which was effective from January 1st 2016 until March 30th 2016, reducing the average prices of high-methane and nitrogen-rich gas by 6.6% and by 6.1%, respectively.

Discounting policy in 2015

In May 2015, PGNiG launched the 'Price Deregulation' discount scheme for its strategic customers, in response to customer expectations and as a reaction to intensified competition and evolution of the gas market. The discount scheme covered gas purchased between May 1st 2015 and December 31st 2015. The scheme was voluntary, and customers who opted out continued to pay for gas according to PGNiG's then effective tariff. Those opting for the scheme received a discount on the tariff price, which was indexed to prices at the Polish Power Exchange and depended on the offtake volumes and stability. The highest discounts were offered to customers off-taking large volumes of gas at stable rates. As a condition for joining the scheme, customers had to submit relevant declarations and collect at least 80% of the previously ordered gas volumes.

The 'Price Deregulation' discount scheme proved very popular, attracting more than 30 of PGNiG SA's strategic customers, whose aggregate orders account for 85% of the total gas volume sold by the Company.

On July 1st 2015, PGNiG launched the 2015/2016 edition of the 'Price Deregulation' scheme. The scheme covers gas purchased between August 1st 2015 and the earlier of December 31st 2016 or the date when PGNiG is released by the President of the Energy Regulatory Office from the obligation to submit gas tariffs for regulatory approval. Just like in the previous edition, participation in the scheme is voluntary and customers receive a discount on the tariff price. Key differences include: the rules of settling the minimum offtake obligation, option to obtain fixed or indexed prices (indexed to the price of an exchange-traded product selected by the customer), and introduction of 'flexible' and 'base' products.

Given the introduction of the discount schemes and execution by PGNiG customers of new agreements with individual pricing terms, at the end of 2015 most of the high-methane gas grid volumes were sold by the Company at market prices.

Operations on the Polish Power Exchange (TGE)

In 2015, PGNiG continued to actively trade at the Polish Power Exchange. The Company continued to generate a vast proportion of futures and spot trading, and contributed to improving the liquidity of the exchange market. Given the stable trading at the TGE, the exchange market was one of the key sales channels for the Company.

Since November 2013, PGNiG has also continuously acted as a Gas Market Maker at the Polish Power Exchange, committing to regularly place buy and sell orders on the gas futures market. The key role of a market maker is to enhance the market's liquidity and transparency.

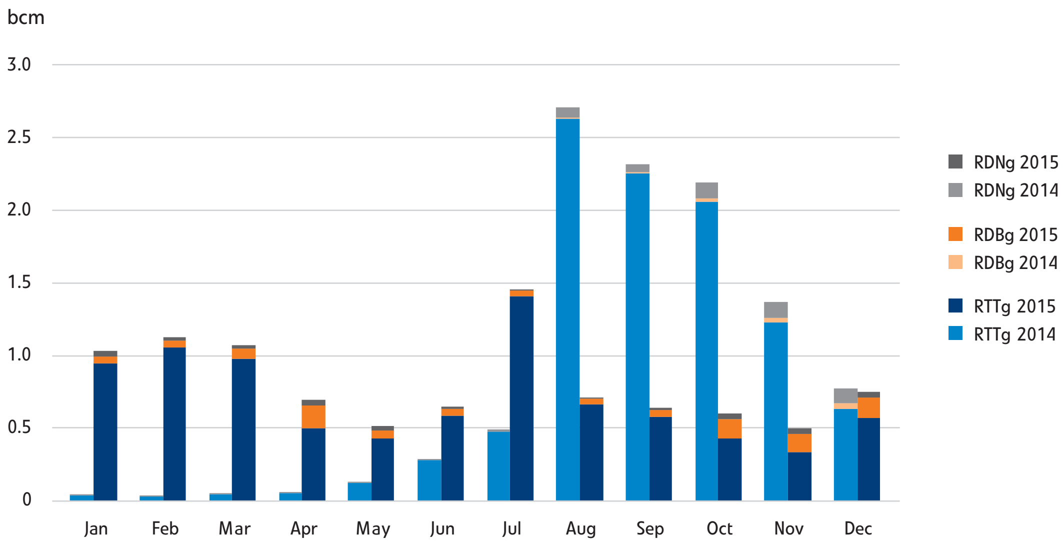
In exchange trading, both the selling and the buying party remain anonymous. This results in prices being set at the market level, or a level at which supply matches demand.

In 2015, the structure of monthly trading volumes at the TGE changed considerably compared with the previous year. One of the key reasons was that 2015 was the first full year of the activity of PGNiG Obrót Detaliczny, which had launched its operations in August 2014 to become one of the key operators purchasing gas through TGE markets.

The chart below presents monthly trading volumes at the gas exchange in 2014-2015. Trading is dominated by the Commodity Futures Instruments Market (CFIM), which is used to hedge positions in the medium and long term. The Day-Ahead Market (DAM) and the Intraday Market (IDM) are used to balance short-term positions.

The separation of retail trading has contributed to a significant shift in sales channels. To a large extent, transactions executed on the power exchange have replaced bilateral contracts. 2014 saw trading volumes soar in the period from August until the end of the year, following spin-off of the retail trading company. In 2015, trading volumes were spread more evenly throughout the year. Concurrently, there was a noticeable increase in trading volumes on the Day-Ahead Market compared with the previous year.

Natural gas trading volumes at the Polish Power Exchange (TGE) in 2014 and 2015



GAS TRADING, POLAND – RETAIL

Supply sources

The table below presents the natural gas acquisition sources of PGNiG Obrót Detaliczny

Item	Share
Supplies on the Polish territory, including:	100%
• from the PGNiG Group	11%
• from non-PGNiG Group sources	89%

Tariff

In the period from January 1st 2015 to August 31st 2015, PGNiG Obrót Detaliczny Gas Fuel Trading Tariff No. 1, approved by the President of the Energy Regulatory Office on December 17th 2014, was in effect.

On August 13th 2015, the President of the Energy Regulatory Office approved PGNiG Obrót Detaliczny Amended Gas Fuel Trading Tariff No. 1, in which the average prices of gas fuel (including the price of gas fuel and subscription fee) were reduced by 6.5% in the case of high-methane gas, 2.5% in the case of nitrogen-rich gas (Lw), and by 0.8% for customers receiving Ls nitrogen-rich gas (group Z-7B). The amended tariff came in force on September 1st 2015 and was effective until December 31st 2015.

On December 17th 2015, the President of the Energy Regulatory Office approved PGNiG Obrót Detaliczny Gas Fuel Supply Tariff No. 2, effective from January 1st 2016 to March 31st 2016.

The average prices of gas fuel were reduced by:

- 3.3% in the case of high-methane gas, including 3.5% for households (tariff groups W-1 to W-4) and 2% for business customers (the other tariff groups);
- 2.8% in the case of nitrogen-rich gas (Lw);
- 2.1% in the case of nitrogen-rich gas (Ls).

The full text of the tariffs, including the prices and fee rates, is available at www.oferta.pgnig.pl and www.ure.gov.pl.

Discounting policy in 2015

In 2015, PGNiG Obrót Detaliczny Sp. z o.o. launched a number of promotional schemes for its largest customers. In April 2015, the 'Flexible Price' offer was in place, as part of which customers were given a discount on the tariff price of gas fuel and the possibility to change the due dates for payment and the number of preliminary invoices. Given the considerable interest in the offer among its customers, in June 2015 the company launched a new edition of the scheme – 'Flexible Price II'. In June 2015, a 'Constant Savings for Business' offer was also introduced, with a number of optional solutions for the Company's largest customers. Another discount scheme, 'Automatic 5% Promotion', was intended for those customers who did not take advantage of any of the offers described above. The scheme, covering the period from July 1st 2015 to December 31st 2015, envisaged a 5% discount on the tariff price of gas fuel.

In view of the considerable interest in the discount schemes among its customers, in 2015 PGNiG Obrót Detaliczny Sp. z o.o. launched new editions of the 'Flexible Price' and 'Constant Savings for Business' schemes, designed for a broad base of the company's business customers.

Moreover, in December 2015, a special offer was rolled out to procurement groups, offering the same pricing terms to all customers forming a procurement group. A new product, the 'Indexed Offer', was also added for business customers with special expectations with respect to gas consumption billing based on their own pricing formulas or specific exchange-traded products.

Gas sales – customer overview

PGNiG Obrót Detaliczny's business customers include chemical and petrochemical companies, glass and steel works and other entities which require process gas for the manufacture of products, as well as businesses buying gas for heating purposes, operating on the heat generation, industrial, services and retail markets. The breakdown of the company's customer base by tariff groups reveals a very large presence of small and medium-sized customers. A similar relation has been found between sales volumes and the number of customers.

The largest group of customers by number are businesses operating in the retail and services segment, whereas industrial customers lead in terms of gas volumes received.

As at December 31st 2015, PGNiG Obrót Detaliczny supplied gas to **more than 6.8 million retail customers** (households and small businesses), mostly for domestic uses. Small business customers also use natural gas in manufacturing processes conducted as part of their business.

Sales of electricity – customer base

PGNiG Obrót Detaliczny sells electricity both to retail and business customers, mostly small and medium-sized companies.

Electricity is sold through a network of Business Consultants and Customer Service Offices.

Customer service

Throughout 2015, PGNiG Obrót Detaliczny continued to work on enhancing customer satisfaction and minimising the risk of losing its customers to competitors.

In the retail customer segment (which includes households and small businesses), relevant measures consisted mostly in developing electronic customer service channels to enable faster and easier contact with the company, with a key focus on the company's website (the online customer service) and the e-BOK (electronic Customer Service Point) system.

2015 saw an increase in the number of customers using the 'eco-invoice' service (allowing customers to receive an electronic image of their invoice), which considerably improved the efficiency and speed of invoice transfer to customers, while generating savings in the correspondence delivery process.

Gas supplier change statistics

According to the Energy Regulatory Office, in 2015 nearly 23 thousand customers in Poland changed their gas fuel supplier, with the figure expected to rise in the years to come.

Year	Customers changing their gas supplier
2011	4
2012	210
2013	429
2014	7,007
2015	23,000

Source: Energy Regulatory Office

TRADING – FOREIGN MARKETS

Market Environment of PGNiG Supply & Trading GmbH

With a share of 85% of its total business, the German gas market is the most important market for PST.

Warm weather, full storages, weak commodity prices in addition to increasing LNG flows to Europe were the adverse factors affecting the markets in 2015. Demand from Eastern European countries in Q1 2015 due to the supply reduction by Russia acted as a counterbalance.

After a slight upward trend at the beginning of 2015, when prices under futures contracts on the German wholesale gas market (the GASPOOL hub) increased between January and February, in the period from March to June only minor changes in prices were recorded. From July onwards the bearish factors had a full grip on the gas market and the prices – in line with other commodity markets – started to slide significantly, with many commodity contracts reaching new all-time lows.

During 2015, the average spot price for natural gas at the GASPOOL hub amounted to EUR 19.9/MWh, with a falling tendency throughout the year. Q4 was the lowest quarter, with an average spot price of EUR 17.1/MWh. The Cal 16 contract traded at the year end at EUR 15.2/MWh.

Cal 16 – a term (annual) contract for supplies in 2016.

Key drivers of natural gas prices in Europe for the coming months will include

- further development of oil prices;
- impact of increased LNG deliveries to Europe;
- filling level of the storages in Europe and;
- possible decision regarding expansion of the Nord Stream pipeline.

Nord Stream – a gas pipeline from Vyborg in Russia to Greifswald in Germany, with an annual capacity of approximately 55 bcm.

The conflict between Russia and Ukraine has currently no major impact on gas price developments. Supportive for the gas market in Europe in 2016 can be further production cuts on the huge Groningen gas field in the Netherlands (currently capped at 27 billion cubic metres/year) and an increasing role of gas in the power production mix due to the progressive switch from coal to gas fuel.

(Trading) Sales of products via exchange and OTC markets

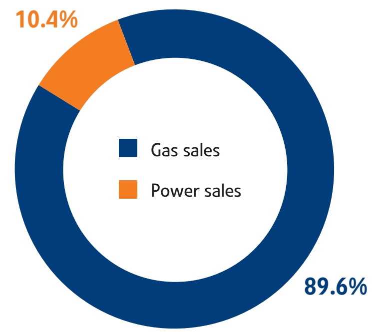
PST actively participated in trading on organised markets (exchanges) and Over the Counter (OTC) with over 50 counterparties based on EFET or similar agreements. It is active in Germany and its neighbouring countries: Poland, Austria and the Netherlands. PST started the registration process for trading at the UK's virtual gas hub (NBP) and achieved operational readiness for this market by the end of 2015. PST is also registered in the Czech Republic, through the territory of which gas was transferred to Poland.

EFET – framework for agreements, an example of the standard contract for the energy market.

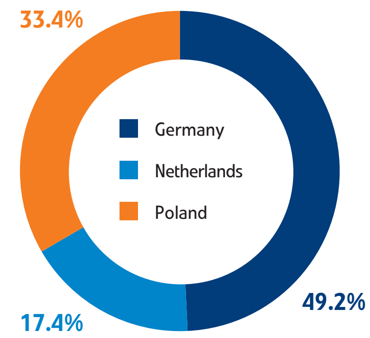
NBP – Net Balancing Point

PST is appointed by PEGAS as market maker for the German natural gas hub GASPOOL.

PST's sales breakdown by products



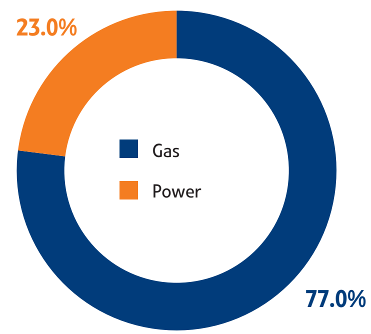
PST's sales breakdown by country



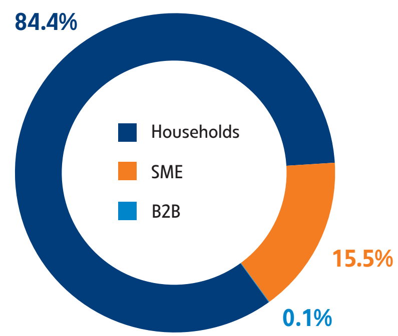
Retail sales to end users

PST sells – via its newly established retail sales affiliate PST Europe Sales GmbH (PSTES) – gas and power to end users in Germany and Austria. Target customers are SME entities and households with consumption based on standard load profiles.

PST's customers breakdown by products



PST's customers breakdown by type



Services provided to other entities of PGNiG Group:

PGNiG

Under existing agreements, PST is securing natural gas deliveries to PGNiG at the German/Polish and Czech/Polish borders to support supply diversification and security. Furthermore, PST shares with PGNiG its own and external analyses and price developments on natural gas and other commodity markets. Thanks to PST, the PGNiG trading department has direct access to its real time energy price screen.

PGNiG Upstream International

Under existing agreements, PST takes off natural gas produced by PGNiG Upstream International (PGNiG UI) from the Skarv, Vale and Morvin fields at the entry point to the German gas grid (Emden/Dornum). Additionally, on a 24x7 basis, PST actively manages supply interruptions in real time, in order to minimise PGNiG UI's trading losses. PST supports PGNiG UI in preparing transfer price documentation and provides it with its own and external analyses and price developments on natural gas and other commodity markets.

www.osm.pgnig.pl/en

Underground gas storage facilities – storage facilities located in two different types of geological structures – salt caverns (underground gas storage cavern facilities) or partly depleted oil or gas reservoirs.

TPA – the principle that the owner/operator of infrastructure has the obligation to make this infrastructure available to third parties to enable them to provide supplies to their own customers.

Trading in electricity – transactions settled without physical delivery

The company continued its activities at EEX for power (and emission certificates) and at PEGAS and ICE Endex for gas products. PST is able to trade on the Polish Power Exchange (TGE) under its agreement with the broker Noble Securities.

STORAGE

Operator Systemu Magazynowania Sp. z o.o.

(OSM) executed in 2015, the following planned investment projects:

- In March 2015, extension of the Wierzchowice UGS was completed. After completion of the construction work and acceptance of the extended storage facility, a working capacity totalling 1.2 billion cubic metres became available in 2014. In 2015, the electrical section underwent start-up and the project was settled.
- Building of three caverns (Z-15, Z-26 and Z-17) at the Mogilno UGSC was completed, adding a total of 200 million cubic metres in working capacity; the facility's working capacity was thus increased to 600.7 million cubic metres.
- Construction work was continued on the K-5 cavern at the Kosakowo UGSC, with a target working capacity of at least 25 million cubic metres. The work is scheduled to end in 2016.
- Extension work was continued on the Brzeźnica UGS, increasing its working capacity from 65 to 100 million cubic metres. The work is scheduled to end in 2016.
- Construction work was continued on three caverns (K-6, K-8 and K-9) of Cluster B at the Kosakowo UGSC. The construction of Cluster B is scheduled to end in 2016.
- Steps were taken to secure EU funds supporting the construction of further two or three caverns as part of the Mogilno UGSC extension to 800 million cubic metres of working capacity.

Under the European Union's Infrastructure and Environment Operational Programme 2007–2013, projects providing for the construction/extension of underground gas storage facilities (Strachocina UGS, Husów UGS and Wierzchowice UGS) were co-financed with a total amount of PLN 589m.

In addition, EU funds of approximately PLN 114.7m were granted for the Kosakowo UGSC construction project.

Regulated activities

Access to working capacities

All working capacities are made available by OSM on the TPA (third party access) basis. In 2015, following extension by PGNiG of its gas storage facilities, OSM made available, in the form of packages, new working capacities totalling 137 million cubic metres (1,503 GWh) on a continuous basis and 110 million cubic metres (1,207 GWh) on an interruptible basis.

As at December 31st 2015, OSM operated storage facilities with a combined capacity of 2,795.6 million cubic metres (30,673 GWh), of which 2,749 million cubic metres (30,162 GWh) is covered by long-term services contracts.

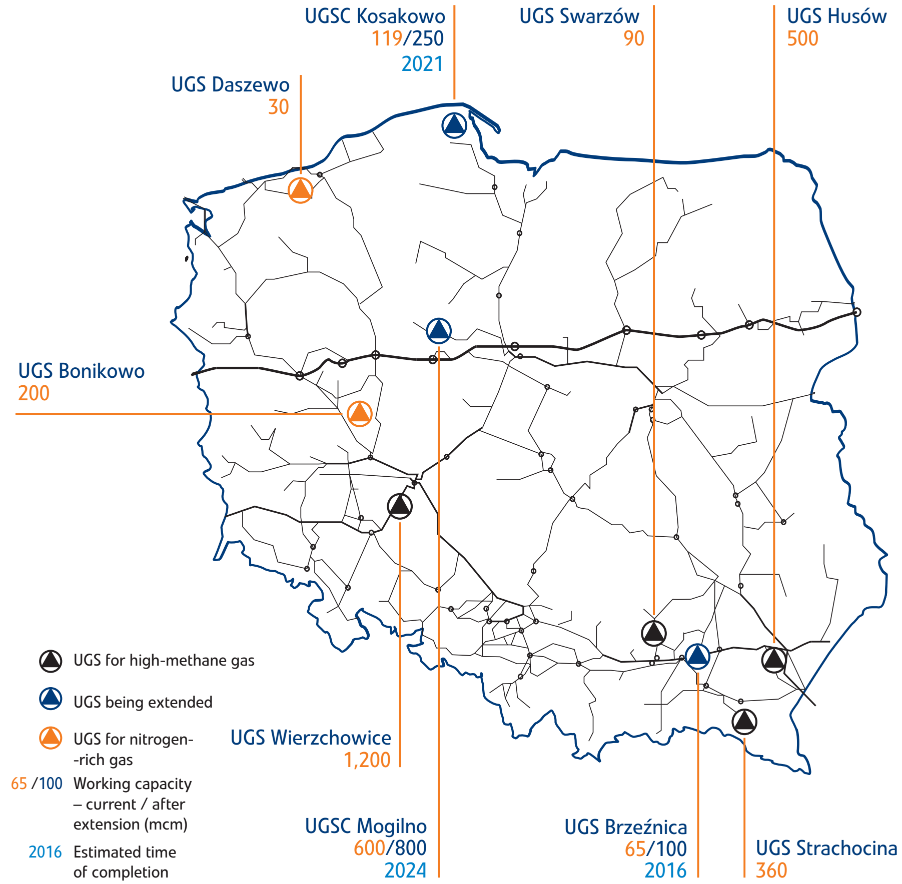
Tariff

Until July 1st 2015, OSM's settlements related to the provision of storage services were based on the rates provided for in Gas Fuel Storage Tariff No. 1/2014, approved by a decision of the President of the Energy Regulatory Office on July 2nd 2014. On May 21st 2015, the President of the Energy Regulatory Office approved Gas Fuel Storage Tariff No. 1/2015, effective from July 1st 2015 to March 31st 2016. The new tariff covers storage services provided through the following Storage Facility Groups (SFG): Kawerna SFG (Kosakowo and Mogilno underground gas storage facilities) and Sanok SFG (underground gas storage facilities in Husów, Strachocina, Swarzów, Brzeźnica and Wierzchowice).

Compliance Programme

OSM's operations are conducted in line with the programme for ensuring non-discriminatory treatment of storage facility users ("Compliance Programme"), approved by a decision of the President of the Energy Regulatory Office dated May 14th 2014.

Location of underground gas storage facilities



Non-regulated activities

Key projects run by OSM in 2015 as part of its non-regulated activities (construction projects) included the construction and extension of two underground gas storage cavern facilities owned by PGNiG: Mogilno UGSC and Kosakowo UGSC. OSM is the only Polish company specialising in comprehensive construction of underground gas storage cavern facilities, from design to construction and mining work.

In 2015, OSM's construction projects also included gas transmission lines, but OSM decided to discontinue its activities in that segment by completing the running projects and signing no new contracts.

Prospects for development

Wholesale trade

In 2016, PGNiG will face a number of challenges related to the ongoing deregulation of the gas market in Poland.

In gas sales to end users, the Company focuses on development of its products and discount schemes launched in 2015 with a view to maintaining its strong position on the liberalised gas market.

Given the changing regulatory environment, including elimination of tariffs and plans for extended support under the energy efficiency scheme (white certificates).

White certificates – certificates incorporating property rights, traded on the power exchange, which confirm energy savings from implementation of energy efficiency projects.

As regards sales through TGE, PGNiG focuses on offering competitive prices compared with those quoted on deregulated Western markets. Such policy should guarantee it an ability to meet the statutory exchange sale requirement.

Retail trade

Steps have also been taken to improve the efficiency and speed of invoice transfer from PGNiG Obrót Detaliczny to customers, through promotion of the 'eco-invoice' service and improved functionalities of the IT systems used to support customer service.

With respect to new gas products, the company is working on its dual fuel offering, gas products tailored to specific customer requirements and, in cooperation with other PGNiG Group companies, gas-fired cogeneration.

In addition, it has intensified work to develop a product offering for customers in areas where the gas distribution network is being or will soon be rolled out, as well as for customers who intend to switch from coal-fired energy sources to gas, for instance through improved reach of customers.

PGNiG also intends to further develop the CNG segment by cooperation with external partners interested in building new compressed gas filling stations and initiatives to promote this environmentally-friendly fuel, especially among municipal transport providers.

Compressed Natural Gas – natural gas compressed to a pressure of 20-25 Mpa.

PST

The company will further develop its business activities in retail sales and wholesale of energy commodities. In retail sales, it intends to substantially increase the portfolio of end users and start sales activities in Poland to win back customers for the PGNiG Group. To support these plans, PST successfully finalised the process of a spin-off (in October 2015, retroactively as of January 1st 2015) of its sales activities into a separate subsidiary of PST. For this purpose PST Europe Sales GmbH was founded. Furthermore, PST stepped through its partner Premio Energie GmbH into 'branded sales' of PST products on exclusive terms.

In order to reduce the 'cost to serve' (CTS) per customer, PST has chosen a new CRM system to secure planned growth by streamlining its sales processes. The implementation of the new system is to be finalised in Q2 2016. As a result, CTS per customer is expected to be halved.

In wholesale trading, in addition to activities on the OTC and exchange markets, the company wants to expand its business with utilities and resellers by offering standard and structured trading products and related services (e.g. balancing group services).

In 2016, PST plans to expand its trading market presence into UK by trading natural gas on NBP after finalising all required documentation and passing internal approvals.

OSM

As regards construction of the Kosakowo UGS, work will be continued leading to the completion of five caverns of Cluster A (K-5 cavern) and final settlement of the contract. Concurrently, work on the construction of Cluster B will be continued (increasing the facility's working capacity to 250 million cubic metres). Execution of the contract includes preparation of the design documentation, construction of gas pipelines and leaching pipelines together with auxiliary infrastructure and initial gas infusion into the caverns. The contract provides for final completion of work in 2021.

In 2016 and further years, the company plans to increase the volume of available storage capacities by:

- Completing the expansion of the Brzeźnica UGS to reach a working capacity of 100 million cubic metres.
- Completing the construction of K-5 cavern at the Kosakowo UGSC, with a working capacity of at least 25 million cubic metres.
- Continuing the construction of Cluster B at the Kosakowo UGSC with a total target working capacity of at least 250 million cubic metres. The project is scheduled to be completed in 2021.
- Continuing endeavours to secure EU funds for co-financing the construction of further two or three storage caverns as part of the extension of the Mogilno UGSC and commencing drilling of two or three wells at the Mogilno UGSC.

Distribution

Patryk Sałamacha
Leader of the Drilling Team, Tanker Driver, PGNiG Zielona Góra Branch, Oil and Gas Production Facility in Lubiatów

He is responsible for transport of dangerous materials, including sulfur. He is also responsible for the process of tanker refuelling.

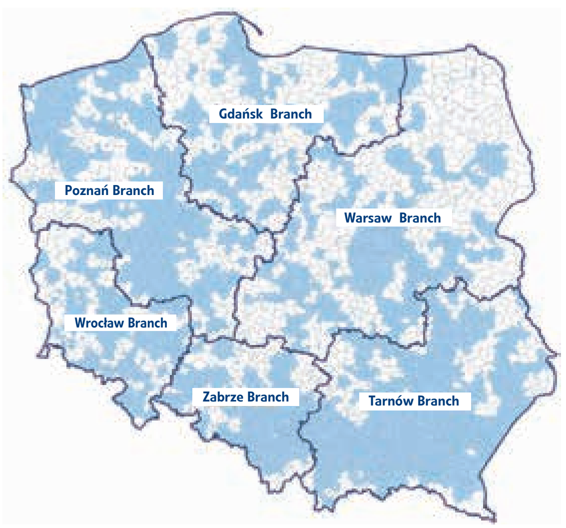
Distribution

POLSKA
SPÓŁKA GAZOWNICTWA

The segment's principal business activity consists in the transmission of high-methane and nitrogen-rich gas, as well as of small amounts of propane-butane and coke-oven gas, over the distribution network. Also, the segment is engaged in extending and upgrading the gas network and connecting new customers to the existing network and to new sections of the network.

PSG's business consists in natural gas distribution. As the Distribution System Operator, the company conducts its business in all provinces of Poland. The company enjoys a dominant share in the market and supplies gas to customers all over the country. PSG owns approximately 96% of Poland's distribution network and nearly 99% of the connections.

Gas networks in Poland

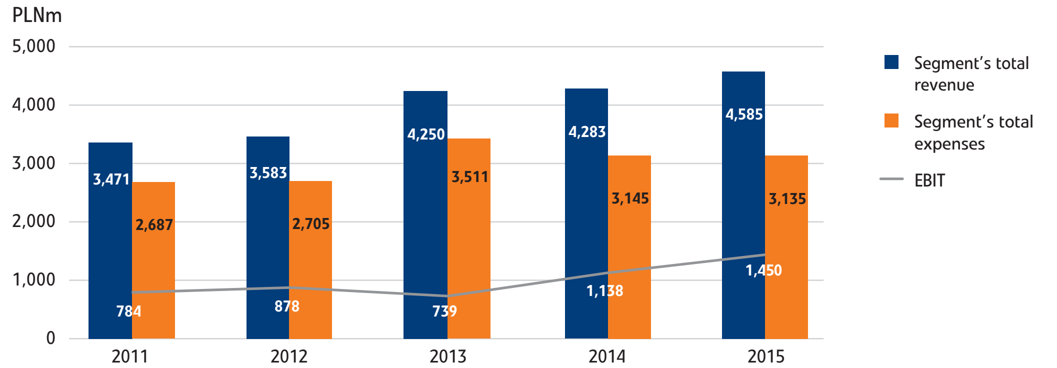


Financial analysis

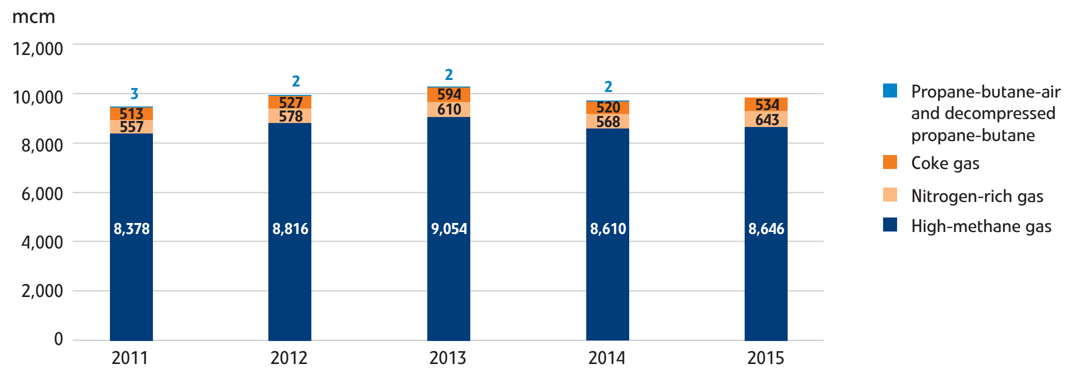
The Distribution segment's operating profit in 2015 increased 27% year on year, to PLN 1,450m, while its EBITDA came in at PLN 2,339m, up by PLN 337m on the year before. The performance improved partly on the back of a PLN 302m (7%) rise in revenue, primarily driven by: (1) a higher tariff for gas fuel distribution services, with the average year-on-year rise of 3%, and (2) the lower quarterly average air temperature in Q1 2015 relative to the same quarter of the previous year.

Despite the PLN 302m increase in revenue, the segment's operating expenses remained virtually the same – down by PLN 10m (0.3%), which is primarily attributable to reduced employee benefits expenses following the 2015 workforce streamlining as part of the voluntary redundancy programme.

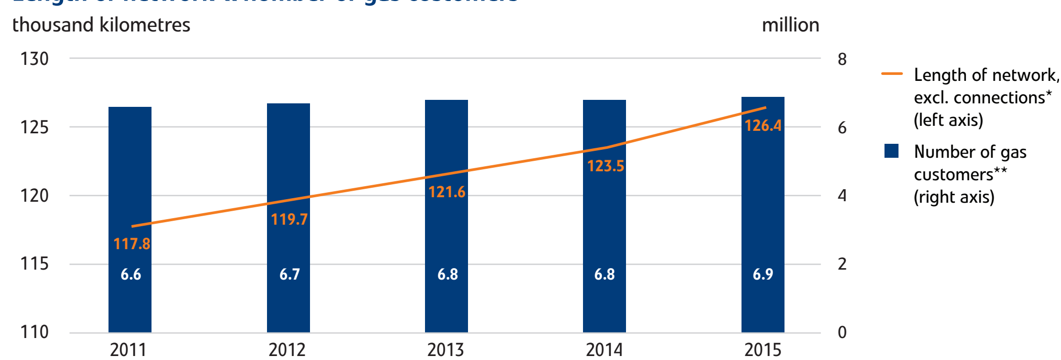
Segment's financial results



Volume of gas transmitted via the distribution system in natural units



Length of network & number of gas customers



* Own networks.
** Customer – anyone receiving or drawing gas fuel under an agreement with a gas supplier.

Probability that the risk will materialise:

●○○ low
●●○ moderate
●●● high

Risk materiality level:

●○○ low
●●○ moderate
●●● high

Regulatory environment

The Distribution segment is regulated by a combination of Polish and EU laws. The laws of key importance for the natural gas distribution segment include:

1. The Energy Law.
2. The Regulation of the Minister of Economy of June 28th 2013 on detailed rules for determining and calculating gas fuel tariffs and on settlements in gas fuel trading.
3. The Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market.
4. The Regulation of the Minister of Economy of July 2nd 2010 on detailed conditions of operation of the gas system.
5. The Regulation of the Council of Ministers of September 19th 2007 on the method and procedure of introducing restrictions on the consumption of natural gas.

Impact of the regulatory environment on the Company's activities

URE – Energy Regulatory Office, Urząd Regulacji Energetyki

As a natural monopoly, the distribution activity of Polska Spółka Gazownictwa Sp. z o.o. (PSG) is regulated by tariffs, imposed by the President of the Energy Regulatory Office, calculated in accordance with detailed rules specified in the Tariff Regulation.

On December 17th 2014, the President of the Energy Regulatory Office approved Tariff No. 3 for Gas Fuel Distribution Services and LNG Regasification Services, effective from January 1st to December 31st 2015. The average charge rates for distribution services increased by 3% relative to the previous year's tariff.

Regasification – The process of conversion of gas from liquid to gaseous form by heating.

On December 16th 2015, the President of the Energy Regulatory Office approved an amendment to Tariff No. 3 and extended its term until June 30th 2016.

On February 16th 2015, the President of the Energy Regulatory Office approved a new Distribution Grid Code, in effect as of March 1st 2015. The new code specifies the detailed rules of cooperation with the operators of other distribution systems and regulates in detail the rules for managing system limitations in the event of any discrepancies between gas fuel supply or offtake and transport forecasts prepared by the operators of distribution systems.

Risks

PSG makes consistent efforts to limit potential threats and to mitigate attendant risks and their negative consequences. Some of the key identified risks relate to:

Tariff policy

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In Poland, there is no tariff policy applicable to companies engaged in natural gas distribution that would include detailed rules and methodologies for determining the level of regulatory revenue acceptable to the regulator. The prevailing practice consists in determining short-term tariffs based on annual negotiations with the President of the Energy Regulatory Office. In 2015, PSG approached the President of the Energy Regulatory Office with its proposal of a "Long-Term Strategy with respect to Regulation and Tariffs at PSG for 2016–2018". Due to the lack of final solutions and regulations concerning the 'socialisation' of costs of the LNG terminal, any final arrangements with the Energy Regulatory Office concerning the proposal have been postponed until 2016.

By setting tariffs, the President of the Energy Regulatory Office, citing social considerations, limits the growth of regulated revenue which is the basis for calculation of charge rates for gas fuel distribution services. This extends the period in which PSG may earn a full return on the capital employed in its activities based on the approved tariff.

Risk of PSG's major customers reconnecting to the transmission network operated by OGP Gaz-System S.A.

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Amid growing competition in the sector, major customers may want to reconnect to the transmission network operated by OGP Gaz-System S.A. to reduce costs. The departure of some customers would mean a loss of distributed gas volumes and thus also of revenue from sale of distribution services, and, as a consequence, would cause the need to cover any resulting excess of costs over revenue, for instance by increasing tariff rates.

Claims raised by land owners

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More and more frequently, PSG is facing excessive financial claims raised by the owners of land where the gas network was developed in the past. Transmission easement serves as a basis for determining the extent of use of third-party property by a transmission company, for which relevant consideration is due to the owner. Furthermore, land owners raise compensation claims for extra-contractual use of land by the company. The owners' claims give rise to additional, frequently considerable costs, and thus may adversely affect the financial performance of the segment.

Sources of gas supply for the distribution system

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PSG's distribution network is connected to the transmission system operated by OGP Gaz-System SA, which is its main source of gas supplies. The transmission system's constraints in terms of the volume and pressure of gas supplied hinders, or sometimes renders impossible, any further development of the gas grid over a major part of the company's catchment area.

Substitution

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The strong competitive position of substitute energy sources (coal, wood) in some areas where PSG operates hampers growth in demand for natural gas as a fuel.

Continuing low prices of coal, hydrocarbons (fuel oils, heating oils) and other energy sources used for municipal heating are hardly an incentive (in particular for retail customers) to switch to environmentally friendly gas fuel. In this situation, support to the company's plans to increase its revenue from sale of distribution services comes from local authorities, which implement various programmes aimed at reducing emissions from sources below 40m, in which financial support is offered to those willing to change their heating system. Among institutional customers, decisions to switch to a different fuel for heating purposes are made based on an analysis of the economics of such change, taking into consideration a possible reduction in staff costs.

Dwindling average gas consumption among small customers

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The decline is largely attributable to the improving energy efficiency of buildings, reduced usage of individual gas-fired boilers for heating water, and migration.

Unstable gas demand in the power generation sector

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The growing competitiveness of natural gas may encourage its use for power generation purposes, which would increase the distribution volumes and revenue from PSG's core operations. In the event of a sudden increase in demand for natural gas, the distribution network may be unable to handle supplies due to its limitations, which can be removed by expanding the distribution system's exit points and/or constructing new gas lines.

Operations in 2015

In 2015, PSG completed 18 projects involving construction, extension and modernisation of its distribution networks, worth a total of PLN 500m, for which agreements for EU co-financing (of PLN 170m) under the Infrastructure and Environment Operational Programme for 2007–2013 had been signed.

In 2015, the company also completed 20 investment projects co-financed under the Regional Operational Programmes for 2007–2013. The total value of the projects is approximately PLN 32m, with co-financing of PLN 10m.

As part of the projects, the company constructed and modernised gas pipelines, and also rolled out the gas network to new areas. More than 1,100 km of distribution gas pipelines with auxiliary infrastructure were built or modernised.

As a result, gas infrastructure was built in areas where no such infrastructure had existed before; additionally, some gas pipelines were upgraded. The projects eliminated the supply gap resulting from insufficient transmission capacities of the existing infrastructure managed by PSG. This will increase the amount of supplied gas and improve the security of supplies. Including the non-refundable grant in economic analyses of the projects improved their expected results and was a key argument in favour of their implementation.

The infrastructure built as part of the projects co-financed with EU funds serves both retail and institutional customers. Following completion of the projects co-financed with EU funds, approximately 5,000 new gas connections will be constructed.

The projects have also improved the quality of life in local communities, increased the attractiveness of areas where no gas infrastructure had existed before for potential investors, and helped protect the environment by reducing emissions of harmful substances.

Prospects for development

In 2015, PSG adopted the Strategy for 2015–2022, whose key objective is to enhance the company's value by maximising EBITDA. The strategy builds on the PGNiG Group's Strategy to ensure maximum value of the network infrastructure.

PSG also intends to consistently leverage the opportunities opening up in its business, regulatory and social environment with regard to:

- introduction of new regulations supporting the development of cogeneration and commercial power plants;
- changes in the regulatory framework that would facilitate implementation of the company's key investment projects;
- growing demand for natural gas from large and medium-sized customers (heat plants and CHP plants, manufacturing and industrial plants, service centres);
- reduction, in the mid term, of gas fuel prices due to liberalisation of the gas market and situation in the global markets, stimulating an increase in demand for gas and consequently for distribution services;
- influencing the formation of the gas market (for instance through participation in regulatory consultations with the Energy Regulatory Office and the Ministry of Energy);
- obtaining EU co-financing for PSG's key investment projects and deployment of innovative technologies;
- further network roll-out and connection of customers in regions characterised by poor gas supply infrastructure (e.g. central Poland, north-eastern regions of Poland), also based on the LNG technology.

In 2016, PSG will continue to pursue projects consisting in construction and extension of gas networks and connection of new customers, including projects based on the LNG technology.

In the coming years, the company wants to implement an investment model promoting accretion in the volumes of transferred gas and speed up its key investment projects. In order to carry out its plans, PSG intends to rely on external financing, for example under the Infrastructure and Environment Operational Programme in the new multiannual financial framework 2014–2020. Particular emphasis will be placed on intensifying the processes aimed at finding new customers for gas, and on improving the reliability of gas networks and security of gas supplies.

The company is also planning to develop its research, development and innovation activities (R+D+I). These activities will focus on research into ways of improving the reliability, ensuring safety and raising efficiency of the gas infrastructure, and will be conducted mainly through demonstration projects (promoted in the current multiannual financial framework 2014–2020), as well as based on any other model allowing the company to tap into external funds. Such approach will enable the company to optimally utilise the EU funding and take advantage of certain tax incentives introduced as of January 1st 2016 to support innovation.

Moreover, the company has been looking for opportunities to commercialise new innovative technologies and create innovative services and thus expand into new markets or increase market share. PSG has been analysing issues (both from the technological and regulatory point of view) related to broadening the functionality of its gas infrastructure to make it capable of transporting natural gas with an admixture of other gases, including biogas, synthetic natural gas (SNG), CO_2 and hydrogen. An upgrade of the gas networks to so expand their functionality would permit the company to launch new services and connect customers from the power generation sector (stabilisation of the power system, fuel supply to portable and local electrical appliances powered by fuel cells), as well as the automotive sector and other industries where hydrogen is used in production processes.

Generation

Marcin Nurek

Duty Operation Engineer – Head of Żerań and Wola Branch of PGNiG Termika

He manages ongoing operation of the CHP Plant with respect to implementation of heat and electricity production targets. His responsibilities include coordination of overhaul shutdowns and re-launch of equipment and installations. He supervises production equipment, plant safety and compliance with environmental protection standards. He manages a team of employees responsible for continuous operation of the CHP Plant.

Generation

PGNiG TERMIKA S.A. serves as the Group's competence centre for heat and electricity generation and execution of heat and power projects.

Its main revenue sources are sales of heat, electricity, system services, and certificates of origin for energy. With the installed capacity of its generating assets at 4.8 GW of achieved thermal power and 1 GW of achieved electrical power, the company satisfies approximately 70% of the heat demand on the Warsaw metropolitan market.

On the path to the achievement of a major strategic goal of growing its Generation segment's business, the PGNiG Group continues to embark on new projects, both large and small, involving construction of new gas-fired capacity.

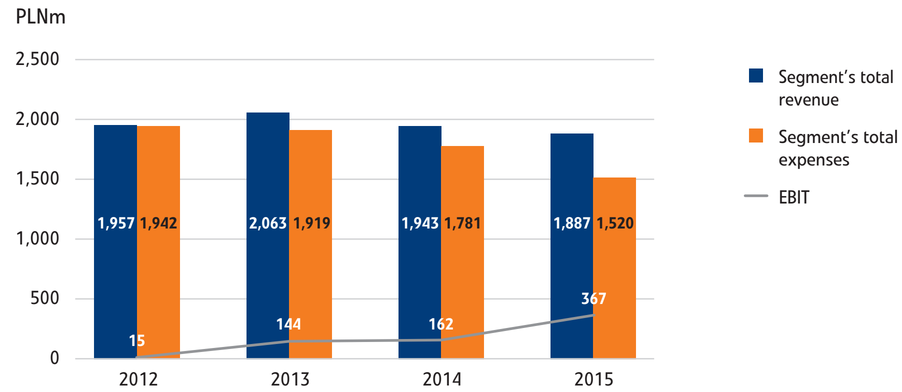
Financial analysis

The Generation segment's operating profit for 2015 was PLN 367m, up PLN 205m year on year. EBITDA was PLN 679m, an improvement of 47% year on year. Key factors that contributed to the improved segment performance included: (1) higher revenue from sales of heat, resulting mainly from a higher heat tariff (an increase on average of 7% in August 2014 and 5% in August 2015) and (2) lower procurement costs of coal, the segment's main fuel for heat production (the average price of coal in Q1–Q3 2015 was 6% lower than in the same period of the previous year).

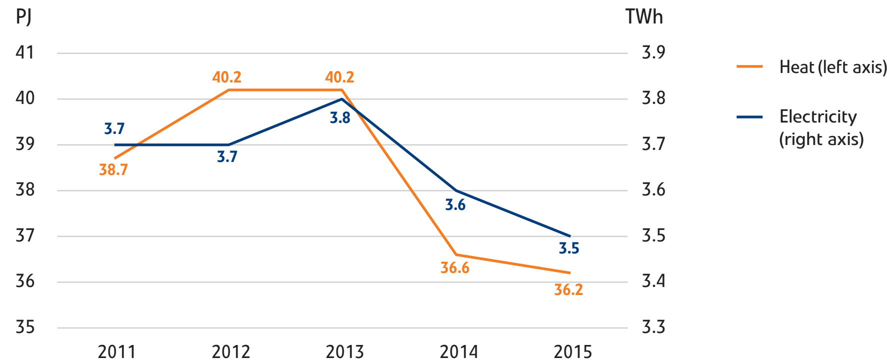
Achievable capacity as per licence

Generating unit	Heat [MW]	Electricity [MW]
PGNiG TERMIKA SA	4,782	1,015
Siekierki CHP plant	2,078	620
Żerań CHP plant	1,580	386
Pruszków CHP plant	186	9
Kawęczyn heating plant	465	–
Wola heating plant	465	–
Regaty heating plant	8	–

Segment's financial results



Heat and electricity sales volume from own generation sources



Regulatory environment

The legal framework for the generation business is defined mainly by:

1. The Energy Law.
2. The Regulation of the Minister of Economy of September 17th 2010 on detailed rules for determining and calculating tariffs and on settlements in heat supply.
3. Support for cogeneration.
4. EU regulations.

Impact of the regulatory environment on the Company's activities

Licences

The business of electricity and heat generation requires a licence. PGNiG TERMIKA SA holds an electricity trading licence valid until December 31st 2030, as well as the following licences, each valid until December 31st 2025:

- for production of heat;
- for transmission and distribution of heat;
- for production of electricity.

Tariffs

A tariff applicable to PGNiG TERMIKA's sales of heat generated at the Żerań CHP plant, Siekierki CHP plant, Pruszków CHP plant, Wola heating plant and Kawęczyn heating plant and to the transmission and distribution of heat via the heating network supplied from the Pruszków CHP plant was effective until July 31st 2014. On July 8th 2014, the President of the Energy Regulatory Office approved a new tariff, effective since August 1st 2014.

Energy Regulatory Office – Urząd Regulacji Energetyki

IGCP – Izba Gospodarcza Ciepłownictwo Polskie, Chamber of the Polish Heat Industry
PTEZ – Polskie Towarzystwo Elektrociepłowni Zawodowych, Polish Association of Commercial Power Plants
IGG – Izba Gospodarcza Gazownictwa – Chamber of the Natural Gas Industry
IEPiOE – Izba Energetyki Przemysłowej i Odbiorców Energii, Chamber of Commercial Power Generation Industry and Electricity Buyers

Concurrent generation of heat and electric energy, delivering primary energy savings of more than 10%.

Unit buy-out price – Ozg – not less than 15% and not more than 110% of the average electricity sales price on a competitive market; OZK – not less than 15% and not more than 40% of the average electricity sales price on a competitive market; Ozm – not less than 30% and not more than 120% of the average electricity sales price on a competitive market.

December 31st 2014, the company was required to apply the following tariffs for the transmission of heat through the heating network in the areas of Marsa Park, Annopol, Marynarska, Chełmżyńska, Jana Kazimierza. On November 18th 2014, the President of the Energy Regulatory Office approved new heat transmission tariffs for those areas. The new tariffs will be in effect from January 1st 2015 to July 31st 2016.

Since April 30th 2015, the company is also required to apply the tariff for the production of heat at the Regaty heating plant and transmission of heat through the heating network in the Regaty residential estate.

Support for high-efficiency cogenerationin 2015 was provided by a mechanism based on certificates of origin. Following amendments introduced in 2014, which allowed, inter alia, to confirm fulfilment of the obligation to produce a certain portion of electricity from cogeneration by redeeming exclusively certificates of origin awarded in a single year, the market value of such certificates approximates the buy-out prices set by the President of the Energy Regulatory Office, which were as follows:

- buy-out price Ozg = 121.6 [PLN/MWh];
- buy-out price Ozk = 11.0 [PLN/MWh];
- buy-out price Ozm = 63.3 [PLN/MWh].

The current mechanism was reinstated in 2014 and will remain in effect until the end of 2018. However, the European Commission is still analysing its compliance with EU laws.

Thanks to sale of property rights incorporated in certificates of origin, producers derive additional revenue that makes production of electricity from high-efficiency cogeneration economically viable.

The system of awarding certificates of origin is due to expire shortly (December 31st 2018), which means that it fails to encourage investment.

Currently, work is under way to prepare a system supporting high-efficiency cogeneration units in the long-term horizon, i.e. beyond 2018. Four bodies, comprising all major producers of energy from cogeneration, namely IGCP, PTEZ, IGG and IEPiOE, are involved in the development of a new system supporting cogeneration. The newly developed system will be compliant with the European Union's new state aid rules. It will also ensure the economic viability of investment in new cogeneration capacities and will help achieve the energy and climate policy objectives until 2030.

Allocation of free-of-charge emission allowances

In 2015, the company was allocated free-of-charge emission allowances:

- For heat generation in 2015, under the Regulation of the Council of Ministers of April 10th 2015, amending the regulation listing installations other than those for electricity generation covered by the greenhouse gas emissions trading scheme in the trading period beginning on January 1st 2013, along with the number of allowances allocated to them (Dz.U. item 558).
- For electricity generation, pursuant to the report on the scope and cost of its new build and upgrade projects implemented in July 1st 2013–June 30th 2014, as submitted to the National Investment Plan, under the Regulation of the Council of Ministers of April 13th 2015, amending the regulation listing installations for electricity generation covered by the greenhouse gas emissions trading scheme in the trading period beginning on January 1st 2013, along with the number of allowances allocated to them (Dz.U. item 555), as per the allocations for 2014.

EU regulations

Conclusions from the European Council meeting, adopted on October 23rd–24th 2014, set out the energy and climate policy objectives for 2020–2030. The new targets provide for a 40% reduction in greenhouse gas emissions by 2030 (relative to 1990), a 27% increase in the share of energy from RES (EU binding target), as well as a 27% improvement in energy efficiency (indicative target).

ETS – European Union Emission Trading Scheme

Amendment to ETS Directive

In mid-2015, a draft amendment was proposed to the Directive establishing a scheme for greenhouse gas emission allowance trading for the period beyond 2021. The amendment upholds the 43% target reduction in CO_2 emissions by ETS-covered sectors by 2030 (relative to 2005), at a proposed pace of 2.2% beyond 2021 (currently 1.74%). It also provides that the list of sectors exposed to CO_2 leakage should be shortened (to approximately 50). Further, under the amendment, the benchmarks serving as the basis for emission allowance allocation are to be lowered by 1% each year starting from 2008 (in which historical data was acquired) until the middle year of the trading period, which means they may change by 17%. The Commission reserves the right to adjust this trend by +/- 0.5%, which may necessitate technological progress acceleration of up to 1.5% per year.

Under the draft amendment, Poland is to receive as much as 43% of funds from the Modernisation Fund. The mechanism governing the allocation of free emission allowances is being negotiated between the Ministry of Economy and the European Commission.

Amendment to BAT requirements for the LCP sector

Late 2015 saw the conclusion of negotiations on a draft amendment to the BAT reference document concerning large combustion plants. Given their implementation into Polish law, the agreed BAT Conclusions (the key part of the BAT reference document) will set out the environmental framework for defining the future of the LCP sector from 2020 onwards. The emission limits, as defined in the document, and methods of their monitoring and settlement will be a binding criterion in procedures for awarding integrated (IPPC) permits. The BAT requirements markedly tighten the emission standards for hard coal-fired sources exceeding 50 MW. Moreover, the BAT Conclusions add emission standards for, inter alia, Hg, HCl, HF and N_2O to the existing list of controlled pollutants.

The cost of adapting installations so they meet the emission caps set out in the draft BAT Conclusions may in many cases undermine the economic viability of their further operation. Where it is impossible to bring an installation in line with the BAT requirements, a derogation may be used as the last resort. However, such derogation will only be granted where justified on a case-by-case basis, based on a technical and financial analysis. As planned, the document is to be formally adopted by the EU in mid-2016, which means that the emission requirements set forth therein will apply as of 2020.

Conclusions of the COP21 Climate Summit in Paris

Key conclusions of the COP21 Summit held in Paris, which in December 2015 were included in the new climate agreement:

- acknowledging that only joint efforts of all countries, consistent with nationally determined targets and actions, may ensure sustainable development, especially for the poorest countries, and guarantee security for the present and future generations of inhabitants of our planet;
- ensuring stable greenhouse gas concentration in the atmosphere at a level that would hold the increase in the global temperature on the surface of the planet below 2°C;
- a joint effort is required from all countries, especially the largest economies, to achieve that goal. A need was also recognised to provide support to developing countries to help them achieve the goals of the global climate policy.

Following conclusion of the new climate agreement, the EU will uphold its emission reduction targets for 2030.

Environmental protection

The implementation into Polish law of the Industrial Emissions Directive (IED) as well as the BAT conclusions which are currently being developed require the Company to reduce its industrial emissions. These challenges are being met by Company's long-term capex plan, which addresses the identified requirements of the tightened environmental laws.

BAT – Best Available Technologies, reference document for LCP.

LCP – Large Combustion Plant

Hg – mercury, HCl – hydrochloric acid, HF – fluoride, N_2O – nitrous oxide

Probability that the risk will materialise:

●○○ low
●●○ moderate
●●● high

Risk materiality level:

●○○ low
●●○ moderate
●●● high

Risks

Maintaining share in the municipal heat market

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As the Warsaw municipal waste incineration plant is expanded, the quantity of heat supplied to the city's municipal network will increase. As a result, PGNiG TERMIKA's share in total heat supplies to the Warsaw municipal network will fall from the current 98%, to 95% in 2019.

Joint marketing efforts with Veolia Energia Warszawa SA (VEW) and connection of further districts of western Warsaw to the municipal heating network should significantly mitigate a potential future decline in the volume of heat produced by PGNiG TERMIKA SA.

In November 2014, PGNiG TERMIKA and VEW SA signed an energy partnership agreement covering the city of Warsaw. The agreement set out the general terms of cooperation between the parties in optimising and advancing the development of the city's heating network. As an outcome of the shared effort, the parties agreed the terms of contracts for the provision of services promoting the development of the heat market in Warsaw and for the design and construction of a heat main linking Warsaw's and Pruszków's heating systems, scheduled for completion by December 31st 2020. The main is to serve as the key source of heat supply for Pruszków, with at least 770 TJ of heat produced by PGNiG TERMIKA's Warsaw plants expected to flow to the town every year through the new infrastructure.

The agreement for the provision of services promoting the development of the heat market in Warsaw rewards VEW for its effective efforts leading to a net growth of the market. The 'success fee' formula was adopted to encourage the service provider to maximise its efforts to achieve the defined goals of increasing the capacity contracted from PGNiG TERMIKA sources and, consequently, the volume of heat sold. Concurrently, the efforts are to promote increased utilisation of efficient cogeneration sources, leading to a higher electricity output. The agreement is a fixed-term agreement due to expire in 2027. The market is expected to grow by 152 MW in net terms over the initial three years (2016–2018).

More stringent gas and dust emission standards

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Tighter gas and dust emission standards in effect from 2016 and the upcoming BAT Conclusions to be implemented after 2020 force operators to undertake extensive upgrades of their power and CHP assets. In order to meet the more stringent emission requirements, PGNiG TERMIKA has been gradually modernising its generation assets under its Long-Term Capex Plan. The technical and economic aspects of bringing the company's installations in line with the new requirements involve certain risks. In addition, procedures for seeking a derogation from the BAT Conclusions are not yet known.

Operations in 2015

The fluctuations in heat output from year to year are caused by fluctuations in outdoor temperatures: in 2009, the average outdoor temperature for the months of the heating season was 3.2°C and was equal to the 10-year average. In 2015, the average outdoor temperature was 4.9°C and was higher by 1.7°C compared with the long-term average, which resulted in a 7% lower heat output compared with the figure for 2009. 2015 was the warmest year on record. Electricity output fell by 3.0% in 2015 compared with 2009 as a combined effect of lower heat production and plant upgrades (e.g. conversion of boiler No. 1 at the Siekierki CHP plant to biomass firing).

In 2015, electricity sales and commercial balancing for PGNiG TERMIKA was performed through PGNiG, which enters into spot and dated power purchase contracts on the Commodity Derivatives Market. In addition, PGNiG was the key customer for and supplier of electricity generated at PGNiG TERMIKA's plants.

In 2015, the company made progress on its Regaty project (installation of a gas-fired cogeneration unit – general contractor selection procedure was held) and the Przemyśl Cogeneration project (design work was in progress, business contracts were signed). PGNiG TERMIKA is also seeking out and planning further gas-fired cogeneration projects, as an effort written into its business strategy.

In pursuit of the objectives and sub-initiatives under the Efficiency Improvement Programme, PGNiG TERMIKA implemented measures to reduce its controllable costs to enable and facilitate further growth. These measures included renegotiation of the Collective Bargaining Agreement, cuts to fixed costs in support functions, and identification of operational synergies within the PGNiG Group. The company's 2016 Business Plan and 2017–2018 projections assume continued effort to deliver cost efficiency improvements across all areas of activity.

Starting from 2016, Poland and PGNiG TERMIKA will be subject to more stringent standards of gas and dust emissions, which necessitates upgrades to CHP assets. In 2015, capital expenditure of the Generation segment amounted to PLN 363.8m, of which PLN 65.2m was spent on environmental protection projects. Furthermore, in 2015 the segment continued some of the investment projects commenced in previous years. The most important of these were:

Construction of a ca. 450 MW CCGT unit at the Żerań CHP plant (Żerań CCGT)

In 2015, a final building permit was secured for the CCGT unit and site preparation work continued. A grid connection/power evacuation agreement was signed with PSE SA, which will also build a 110/220 kV switchgear in the existing Żerań CHP plant substation. A contractor was selected for the project to adapt and connect the existing equipment of the Żerań CHP plant to PSE SA's new 110 kV switchgear, with the scope of work specified in the connection agreement. In October 2015, an annex was signed to the connection agreement with OGP Gaz-System SA, providing that OGP Gaz-System SA would build the required gas pipeline under special-purpose legislation, based on design documentation furnished by PGNiG TERMIKA. A contract for the alteration of the cooling water system at the Żerań CHP plant was signed. Negotiations were held and final terms of reference for the delivery and installation of the new unit were issued. The deadline for submitting firm binds was end of March 2016.

Conversion of the K1 boiler in the Siekierki CHP plant to biomass combustion

2015 saw the final stage of construction and installation work related to biomass unloading, storage and feeder systems and the boiler's ancillary equipment and electrical systems. Commissioning of the boiler and biomass unit was in progress. Work on a detailed engineering design was completed. A non-final building permit and a permit to operate the unit were secured. The boiler setting was dried and Technical Inspection Office acceptance procedures were performed. Electricity required to obtain green certificates was produced. A licence application was filed with the Energy Regulatory Office.

Office of Technical Inspection – Urząd Dozoru Technicznego

Pruszków CHP plant refurbishment

Construction and installation work was completed, and a new water treatment station was placed in service. Fitting of a cyclone filter at the K9 steam generator continued. A contract was awarded and signed for the construction of a cyclone filter for the K7 steam generator, and demolition and construction work commenced. Work on updating the concept for refurbishment of the Pruszków CHP plant is under way.

Construction of a gas- and oil-fired peak-load and reserve boiler house at the Żerań CHP plant

A tender was announced for the delivery and construction of the boiler house. Site visits were held with prospective contractors. The bid submission deadline expired on the last day of January of 2016.

Construction of a CCGT unit in Stalowa Wola

In 2015, as part of the 'Construction of a CCGT Unit in Stalowa Wola' project, executed jointly with Tauron Polska Energia SA, the Group continued the installation of the steam and gas turbines and construction and assembly work in the cold water pumping station, as well as the installation of cable ducts, cabling and wiring, conductor lines and the lightning. The Group also performed a water test of the recovery boiler and the condenser and completed construction work on the San river weir. The project was delayed by damage to the underground reinforced-concrete canal in September 2015.

In 2015, the general contractor for the project, Abener Energa SA, committed a material breach of the contract with EC Stalowa Wola. In December 2015, EC Stalowa Wola demanded that the contractor perform the contract properly or face its termination. As the contractor failed to rectify the breach on time, the employer resolved to terminate the contract. EC Stalowa Wola intends to call on the general contractor to carry out a detailed as-built survey, which will serve the company, its external adviser, TAURON Polska Energia SA, PGNiG and financing banks as the basis for preparing a detailed plan for continuation and completion of the project.

Prospects for development

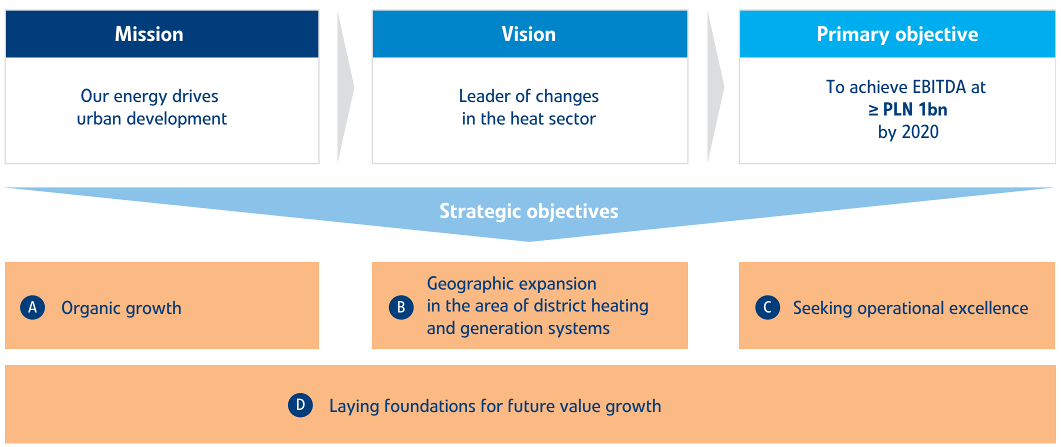
Strategy

In November 2015, the Management Board of PGNiG accepted information on PGNIG TERMIKA's strategy until 2022. As part of the now completed strategy operationalisation process, PGNiG TERMIKA defined its operational plans and identified tasks and people responsible for their delivery for all initiatives outlined in the strategy. PGNiG TERMIKA's strategy until 2022 is a natural extension of the PGNiG Group strategy for 2014–2022 and a response to market risks and challenges the company is expected to face in the years to 2022.

Confronted with a number of challenges in its market and regulatory environments, PGNiG TERMIKA needs to implement a modernisation programme to meet new environmental re-quirements and raise its production potential. The company has also identified new business opportunities, which can be exploited to grow its value and expand its presence to markets beyond Warsaw. The company will take proactive steps towards geographical expansion, which it intends to achieve through heating network acquisitions and development of generation operations outside Warsaw. The company will seek to grow its value by implementing capital investment programmes focused on building new cost-efficient capacities powered by a diversified mix of fuels and on retrofitting existing generation sources with low-emission technologies. The company has identified strategic and operational initiatives within its strategic action areas.

The initiatives to be implemented over the time horizon defined in the strategy are to:

1. Maintain the position of a leading heat producer in Warsaw.
2. Implement a capital investment plan to improve profitability and diversify fuel mix.
3. Take over the management of generation assets within the Group and implement projects based on coal mine and off-network gas sources.
4. Play a central role in the development of a cogeneration support system and the regulatory framework for the heat generation sector.
5. Expand business into new areas through:
   – Heating network acquisitions.
   – Development of generation operations outside Warsaw.
6. Optimise O&M cost base.
7. Implement the Efficiency Improvement Programme and divest non-core assets.
8. Grow the trading business by building up wholesale trading (OTH) and fuel procurement strategy capabilities.
9. Streamline business processes and achieve business-IT alignment.
10. Build employee commitment and promote management development.



PGNiG TERMIKA's aspirations until 2022

1. Increase EBITDA to PLN 1bn by 2020.
2. Implement the Capital Investment Plan to ensure that generation assets comply with current and future environmental requirements.
3. Secure a leading position among Poland's heating companies in terms of network infrastructure.
4. Assert the role of moderator of regulatory and market change in the sector.
5. Achieve market benchmarks for organisational efficiency in Poland.

Segment CAPEX

Capital expenditure planned for the coming years will be spent on funding business growth, environmental compliance and asset upgrades. The key business expansion projects will include construction of a CCGT unit at the Żerań CHP plant (scheduled for completion in 2019) and conversion of the K1 boiler at the Siekierki CHP plant to biomass co-firing (scheduled for completion in 2016).

The most important environmental protection projects will include construction of FGD and SCR units at the K2 boiler in the Siekierki CHP plant (scheduled for completion in 2017), implementation of a flue gas denitrification programme for water tube boilers at the Siekierki CHP plant, and modernisation of dust collectors in the KFA and KFB fluidised bed boilers at the Żerań CHP plant (scheduled for 2013–2016).

Key asset upgrade expenditures will include projects to modernise boilers at the Wola heating plant, the Pruszków CHP plant, boilers and turbine generation sets at the Siekierki CHP plant, switchgears, process systems and pressure components, as well as capitalised turnarounds at the Żerań and Siekierki plants.

O&M – operation and maintenance costs.

OTH – Obrót Towarami Hurtowymi, Wholesale Trading.

Corporate Social Responsibility

Andrzej Zegarowski
Shift Manager
PGNiG Zielona Góra Branch,
Oil and Gas Production Facility in Lubiatów

Responsible for supervising production from the crude oil and gas field in the area specified by the Facility Manager. He is also responsible for administration and technical matters.

Andrzej Pudrzyński
Senior Production Installations Operator, PGNiG Zielona Góra Branch,
Oil and Gas Production Facility in Lubiatów

He directly controls the technological process of the facility. His responsibilities include operation, inspection and maintenance of equipment and installations. He carries out scheduled and ad hoc repairs and is responsible for removal of failures of equipment and installations. He is also responsible for taking test samples..

CSR (Corporate Social Responsibility)

Ethics

The values recognised as fundamental in the development of the Code of Ethics for PGNiG Employees include credibility, accountability, partnership and quality. These values have always been cherished by PGNiG's employees, as they form an integral part of the miners' ethos, in which our tradition is grounded. The Code of Ethics, forming an element of a wider ethics programme, defines specific rules of conduct to be followed by employees; rules which are implied by the values we have embraced and follow the industry's global best practice.

See also: www.en.pgnig.pl/code-of-ethics-and-rules-of-conduct

At the PGNiG Head Office, there is an Ethics Officer and Ethics Committee comprising the heads of key areas. Employees consult the Ethics Officer about their doubts and to report misconduct. The Ethics Officer also runs a blog, where ethical challenges and other topics are discussed. The PGNiG Group companies have adopted their own codes and appointed their ethics officers.

Taking into account the nature of the PGNiG Group's business and its mission, the PGNiG Code of Responsible Shale Gas and Oil Production has also been adopted to supplement the Code of Ethics. It sets the standards of conduct for the Group companies involved in hydrocarbon exploration and production. Apart from saying how to communicate with local communities, the Code also gives examples of good practice in this respect.

2015 also saw the launch of training programmes, addressed to the management boards and managers of PGNiG branches and companies, on preventing workplace mobbing and on other ethical issues.

ETS – European Union Emission Trading Scheme

Underground gas storage facilities – storage facilities located in two different types of geological structures – salt caverns (underground gas storage cavern facilities) or partly depleted oil or gas reservoirs.

Environmental protection

Well and extraction pit abandonment

Pursuant to the Geological and Mining Law, PGNiG is required to properly abandon worked-out extraction pits, eliminate the danger and repair any damage caused by mineral extraction, and restore the land to its original condition. The 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, posing a fire hazard. In 2015, a total of 51 wells and 41 extraction pits were abandoned.

Carbon credit trading system (EU ETS)

In 2015, PGNiG TERMIKA S.A. (the Siekierki, Żerań and Pruszków CHP plants and the Kawęczyn and Wola heating plants), the PGNiG Branches in Odolanów (gas compressor station, boiler house and process gas heaters) and in Zielona Góra (LMG oil and gas production facility, Wierzchowice underground gas storage facility, boiler house and oil and gas production facility in Dębno), and the Mogilno and Kosakowo underground gas storage cavern facilities were covered by the carbon dioxide emission trading scheme (ETS). In 2015, CO_2 emissions from these installations reached 5,560.5 thousand tonnes, and in 2014 – 5,788.8 thousand tonnes. After reconciling its CO_2 emissions with emission rights held, and after redeeming the allowances allocated for 2014, a deficit of 2,152.8 thousand tonnes of CO_2 free emission units was identified. The deficit was covered with reserve allowances accumulated in the accounts of the Group's installations (unused free allocations from previous years) and with allowances purchased on the Intercontinental Exchange Futures Europe.

In the current trading period (2013-2020), the free allocation of CO_2 emission allowances covers only a part of the actual emissions. The free allocations will be phased out, reaching zero in 2027.

Land reclamation and non-productive asset surveying

Pursuant to the Environmental Protection Law, PGNiG conducts evaluation and land reclamation work in areas which have become polluted in the course of its earlier operations (including those related to traditional gas production), with a view to restoring them to a condition prescribed by environmental quality standards. In 2015, following amendments to the Environmental Protection Law, land properties underwent another review to classify them as requiring reclamation, additional surveys or monitoring.

Environmental protection in drilling operations

Drilling operations performed as part of exploration for and production of hydrocarbons affect the environment in the area where they are performed. Drilling operations cause a temporary change in the character of the land, increased emissions of gases and exhaust fumes, higher noise intensity and generation of waste.

To protect land surface, drilling equipment is installed on tightly insulated ground, and any waste generated in connection with borehole drilling or human presence on the drilling site is collected in tightly-sealed vessels and transferred to authorised waste management operators. Diesel oil tanks are stored in special containers. Emissions of gases and exhaust fumes into the atmosphere are limited by maintaining the drilling rig engines in excellent operating condition and using quality fuel to run the engines. Noise intensity is reduced by using new-generation machinery and equipment. Special devices are used to minimise the volume of drilling waste, for instance through drilling mud recycling. On the other hand, the volume of waste generated in connection with the operation of the units (drilling equipment) is limited through the use of modern long-life engine, gear and lubricating oils.

In 2015, as part of the effort to limit the environmental impact of its drilling operations, Exalo Drilling S.A. incurred capital expenditure of approximately PLN 1.3m.

Environmental impact of the Kosakowo underground gas storage cavern facility

One of the stages in the construction of the Kosakowo underground gas storage cavern facility consists in washing out (leaching) salt from halite deposits. The process creates brine, which is transported to the Puck Bay (Mechelinki region) through a pipeline equipped with diffusers releasing the brine 2,300 metres from the coastline at a rate of (average flow rate) Qav hour = 300 cm/h and Qav day = 7,200 cm/d, and with a salt concentration of 250 kg/cm. The leaching of caverns at the Kosakowo underground gas storage cavern facility began in September 2010 and is scheduled for completion by 2021.

Land and sea monitoring activities are carried out in the vicinity of the Kosakowo underground gas storage cavern facility to assess the project's environmental impact. These activities are conducted as part of two programmes: the environmental monitoring programme (of May 2009) and the basic and emergency control programme for the Kosakowo underground gas storage cavern facility (of April 2014). The programmes cover the monitoring of underground and surface water, soil, vertical earth surface movements, the condition and operation of the brine discharge installation at the Kosakowo underground gas storage cavern facility, and the impact of the discharged brine on waters of the Puck Bay. The storage facility's tightness is also monitored by measuring soil air at selected locations. The surveys and observations conducted so far indicate that the operations of the Kosakowo underground gas storage cavern facility do not have a negative impact on the environment. The monitoring activities are conducted by two independent bodies: the Maritime Institute of Gdańsk and the Institute of Hydroengineering of the Polish Academy of Sciences of Gdańsk, as well as by personnel of the Kosakowo underground gas storage cavern facility.

Environmental protection – CO_2 emissions, biomass

In 2015, PGNiG TERMIKA emitted 5,404 thousand tonnes of CO_2 accounted for under the EU Emissions Trading Scheme. The lower volume of emissions compared with previous years (ca. 6m tonnes) was caused by a drop in production attributable to weather conditions.

In 2015, PGNiG TERMIKA plants emitted:

- 11.6 thousand tonnes of SO_2.
- 6.0 thousand tonnes of NO_x.
- 0.6 thousand tonnes of dust.

In 2015, the amount of biomass co-combusted or combusted at PGNiG TERMIKA was 9,393 tonnes (Żerań CHP plant) and 6,409 tonnes (Siekierki CHP plant), respectively. Thanks to the use of biomass as a fuel, CO_2 emissions were reduced by 14,420 tonnes in 2015.

Employees

The PGNiG Group is one of the largest employers in Poland. It employs individuals with extensive experience and high qualifications, but is also the first employer for many young people. This human capital is the key resource enabling the Group to provide its customers with the highest quality service. The Group's employees are provided with opportunities for continual professional development to ensure that PGNiG's operations remain competitive and innovative. This approach to human resources management ensures a steady growth in productivity.

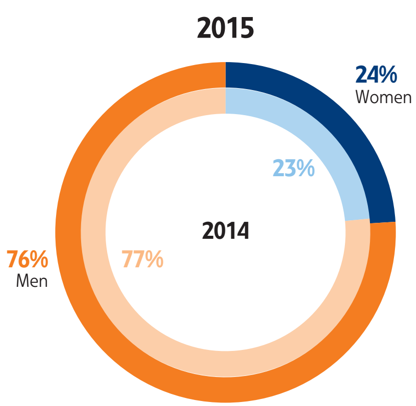
In 2015, the PGNiG Group's headcount was 25,419. This represents a change of 3,577 in employment levels from the Group's 2014 headcount of 28,996.

Group's headcount as at the end of 2015, by segment

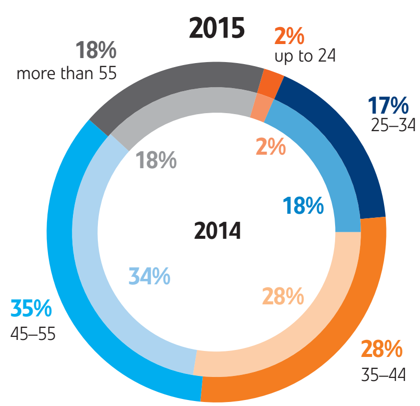
number of persons

	2015	2014	2013	2012	2011
PGNiG Head Office	675	689	606	617	838
Exploration and Production	8,903	10,221	10,754	10,990	12,054
Trade and Storage	2,787	3,240	3,464	3,780	3,841
Distribution	10,678	12,173	13,050	13,255	13,865
Generation	1,071	1,068	1,066	1,069	–
Other Activities	1,305	1,605	1,990	2,327	2,185
Total	25,419	28,996	30,930	32,038	32,783

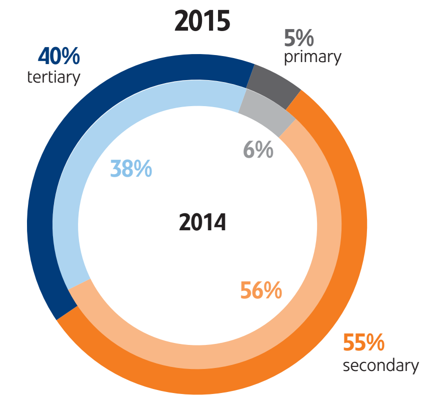
Sex of workers



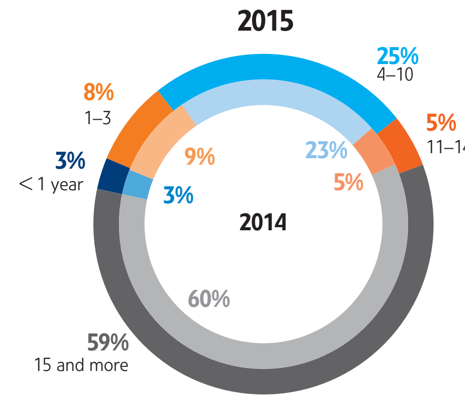
Age of employees



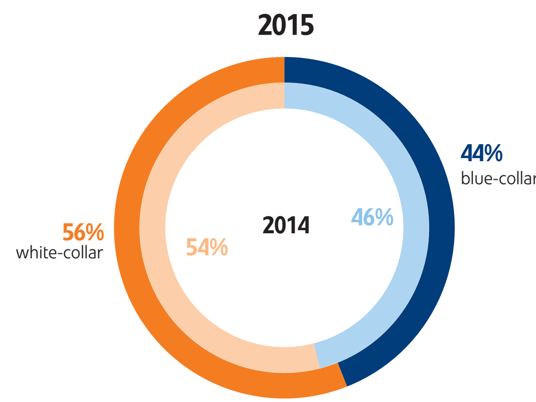
Education employees



Work experience in PGNiG Group



Type of work



Professional advancement

Investment in human resources furthers PGNiG's plans, but also supports the personal ambitions of employees. The training management system in place plays a vital role in developing human resources. Our employees are given opportunities to improve their professional qualifications through a range of training programmes, postgraduate studies, trade conferences, seminars and symposia, and also through occupational training.

Depending on their respective responsibilities and individual needs, employees can participate in a variety of training courses in all aspects of modern business, including risk management, legal environment analysis and customer service. Training courses which focus on soft skills, such as communication, teamwork, team management and task management, are also an important part of the process.

In addition, courses are conducted to enable acquisition and development of practical skills in human resources management.

In 2015, another edition of the Managers Academy was held. Initially (2013), it was designed to train the PGNiG management staff in the seven competencies of a good leader. The second edition was meant to support them in pursuing the

For more information on human capital development programmes, see: www.en.pgnig.pl/eu-funds objectives set out in the 'PGNiG Group's Long-Term Value Creation Strategy in 2014–2022' through:

- identification of the top management's potential, attitudes and competencies in human resources management in respect of implementation of the Group's strategic projects;
- identification of important areas and development directions in human resources management;
- changes in the organisational culture: improving communication and cooperation through feedback provided to managers, e.g. on their management style.

As part of last year's edition, 37 people participated in Development Center sessions, which were followed by courses in situational leadership. The extensive training programme furthers the development and enhancement of employees professional qualifications, with subsequent benefits to the Group from higher productivity levels. Human resources development translates into higher value of the PGNiG Group, which is viewed positively by investors and customers. It also makes us a more desirable employer to potential newcomers.

PGNiG Group – the largest employer

The PGNiG Group takes utmost care to fulfil its obligations towards employees and their families. These obligations, related chiefly to social welfare, healthcare and group life insurance, include:

- Organisation and co-financing of holidays for employees and their children.
- Financial assistance and material support for families experiencing economic hardships and health problems.
- Repayable housing assistance.
- Organisation and co-financing of a wide variety of recreation activities (sports, leisure and cultural activities).
- Subsidies of private healthcare services for employees and their family members.
- Group life insurance for employees and their families.

Performance assessment

In 2011, we launched the PGNiG Performance Assessment System, which was developed as part of a broader initiative, the 'Implementation of the New Group Management Model', under the 'PGNiG Group's Value Based Management (VBM) Programme for 2009–2015'. In 2014, the Performance Assessment System was modified to bring it more into line with the dynamic situation in the current marketplace. Revisions were made both to the principles of assessment and the software supporting the assessment process, to more effectively support managers in achieving their strategic objectives. Key features of the system implemented at PGNiG are clarity and transparency of its criteria, simplicity and universality, and the cyclical nature of the assessment process.

In 2015, a pilot skill assessment project using the 360° method was launched for top management. It was carried out as one of the priorities of the PGNiG Group Strategy for 2014-2022 assuming improvements to our HR policy.

Occupational safety

An employer who conscientiously invests in occupational health and safety knows that by doing so it not only prevents accidents, work-related diseases and major industrial incidents, but also enhances the Company image with positive impact on its success.

An employer has a duty to protect the life and health of its employees using the latest in science and technology, in areas such as ergonomics, sociology, psychology, occupational health and general good practice.

The issue of occupational health and safety is a humanitarian as well as an economic one. In the course of their work, employees are exposed to risks arising not only from the work itself, but also from the environment in which they operate. Consequently, better working conditions create the feeling among employees that their work is less arduous, making the working day a more productive one.

However, the most important thing is to assess the gravity of risks to health and life occurring at the workplace and to determine if sufficient measures are in place to prevent them. For this purpose, we have the tool of workplace risk assessment. On the basis of the assessment, both protective and preventive measures are taken ranging from collective and personal protection, modernisation of plant and equipment, renovation and modernisation of premises, to specialist training, staff health checkups, implementation of occupational health and safety management systems, to development of instructions and procedures, all for the purpose of elimination or mitigation of risks.

In economic terms, OHS solutions implemented following a risk assessment have a positive effect on diverse elements, such as productivity, output, insurance premiums and workplace accident costs.

Furthermore, OHS activities are not only subject to basic internal regulations, but also to specific laws such as the Geological and Mining Law, the Construction Law and also the Act on Mine Rescue Operations, as well as legislation on fire safety, environmental protection and more besides. Knowledge of these can ensure the best possible working conditions and their continuous improvement.

All these laws and regulations are reflected in the OHS policy work carried out at the PGNiG Group by both the Management Board and individual employees.

In addition, to meet the highest international standards in winning new contracts and business partners and improving Company ties with foreign entities, the Company has in place the HSE (Health, Safety and Environment) Operator System. The system safeguards the health of workers, ensures safe working conditions, and helps protect the environment. Although there is no legal obligation to implement a HSE System, PGNiG has done so voluntarily beyond its obligations and duties. In 2015, by virtue of Resolution 15/2015 of the PGNiG Management Board, work was started to develop and deploy a Company-wide integrated Quality, Health, Safety and Environment (QHSE) Management System, with a view to maintaining the highest level of safety of the employees, local communities and environment by carrying out the operations in a safe manner and with all risks minimised. The system is scheduled for implementation in 2016.

Work placements and internships

In 2015, PGNiG offered work placement and internship opportunities to winners of the 'Win a Work Placement' competition, the 'We build the value of Polish economy. Work for us!' internship programme organised by the Ministry of State Treasury, as well as selected students of the Cracow University of Economics.

For four years now, the Group has also run 'GeoTalent', a trainee programme for students of technical universities interested in working in the oil&gas industry. It involves a number of initiatives, including paid work placements in the upstream segment during summer holidays.

At the same time, in the second half of 2015, preparations began for a new project designed to attract talent from outside the organisation. It will be addressed to the best students and graduates of selected universities of technology and economics, who will be offered paid several-month-long internships with the Company. The projects seeks to reinforce the human potential of the Company's businesses other than exploration and production.

While being an attractive way to gain professional experience and new skills and to learn more about working in the industry, work placements and internships offered by PGNiG are also a chance to gain employment with the PGNiG Group. Companies of the PGNiG Group also provide apprenticeships to students and graduates from across Poland.

GeoTalent

GeoTalent
Program Edukacyjny PGNiG

PGNiG is the organiser of the GeoTalent Educational Programme, created for students interested in the oil&gas industry. It is addressed to students of four faculties of the AGH University of Science and Technology in Kraków:

- The Faculty of Geology, Geophysics and Environmental Protection.
- The Faculty of Drilling, Oil and Gas.
- The Faculty of Mining, Surveying and Environmental Engineering.
- The Faculty of Mining and Geoengineering.

as well as students of:

- The Faculty of Geographical and Geological Sciences of the Adam Mickewicz University in Poznań.
- The Faculty of Geology of the Warsaw University.

GeoTalent involves summer internships during which students, under the supervision of mentors, gain professional experience and have a chance to learn about the ins and outs of working in the industry. In 2015, as part of the GeoTalent Summer Internship Programme, 48 students completed paid internships with the Geology and Production Branch, as well as with the Zielona Góra, Sanok and Odolanów Branches of PGNiG SA.

GeoTalent also comprises an annual industry knowledge competition. In 2015, it spanned seven disciplines (geology, geophysics, drilling, reservoir engineering, geodesy and cartography in mining, geological cartography + GIS, environmental protection) and saw 50 students competing in practical tasks and a knowledge test.

What the Programme strongly emphasises is the sharing of expert knowledge with students. Through the involvement of mentors, all of them PGNiG employees, A visit of GeoTalent participants at a drilling site and the Gas and Oil Production Facility in Lubiatów.

in 2015 fourteen hard skill workshops and four soft skill workshops were organised, seeing nearly 600 participants. Given an opportunity to interact directly with industry experts, students had a chance to confront knowledge gained in the course of their studies with reality on the example of projects pursued by PGNiG SA.

GeoTalent participants can also take part in educational trips.

The Programme is supported by GeoTalent ambassadors, selected students of partner universities who promote GeoTalent and the image of PGNiG as a good employer among students, and can pursue their own initiatives under the Programme such as the GeoTournament, a team oil&gas knowledge competition, the first edition of which held in 2015 attracted 79 three-person teams.

Recruitment

PGNiG gives preference to internal recruitment, which allows us to make full use of our employees' potential, and also motivate them to work more productively and develop their skills. External recruitment is carried out only when specialist expertise is needed that is not available in-house.

Recruitment is split into the following stages:

1. Applicant selection.
2. Qualification procedure with selected candidates invited for interviews and competence tests.
3. Interview to learn about the professional situation of candidates, their experience, motivation to work.
4. Discussion with the head of a unit seeking an employee, resulting in the final decision regarding the candidate.

Social dialogue

The key to long-term business relations and success is to operate in a manner that drives value creation for both the Company and all its stakeholders. PGNiG's operations span many domestic and foreign locations, having a direct or indirect impact on the communities living near its project sites. Consequently, the PGNiG Group strives to build lasting relations and engage with its stakeholders, also at the local and regional levels.

Local communities are a special group of PGNiG's stakeholders. Our strategic approach to fostering relations with local communities is characterised by a focus on meeting their actual needs and expectations and on supporting their economic development. In 2015, we continued our social dialogue related to shale gas exploration in Pomerania, meeting with local authorities, operating information centres for inhabitants and participating in open dialogue sessions.

Through our local activities, we pursue our strategic goal of sustainable development: that of effective, dialogue-based interaction with social partners. In building our relations with local communities, we comply with all legal requirements imposed by the legislators. In Poland, the rights of local communities are guaranteed to the fullest extent by the Act on Disclosure of Information about the Environment and its Protection, Public Involvement in Environmental Protection and Environmental Impact Studies, dated October 3rd 2008.

More information about the management approach to sustainable development and social dialogue is available in the PGNiG Group CSR Report 'Responsible Energy' 2014, in the section entitled 'Our approach to sustainable development'.

See also: www.en.pgnig.pl/csr-report/-/raporty/2014

PGNiG supports Polish handball

PGNiG's partnership with the Polish Handball Association began in 2010. Handball has established itself as one of the most popular sports in Poland, ranking fourth behind volleyball and football (ARC Rynek i Opinia, January 2015). PGNiG S.A. is partner of men's and women's, both senior and youth, national teams.

The highlight of 2015 was the World Championship. The tournaments kept fans on the edge of their seats until the very last day. In Qatar, the team won a bronze medal. The women's national team finished fourth in Denmark.

2015 also spelled success for PGNiG Superliga teams in European club competitions. The Champions of Poland, Vive Tauron, advanced to the Champions League Final Four, ultimately coming in at third place. Pogoń Baltica Szczecin reached the final of the Women's EHF Cup. The Azoty-Puławy handballers were knocked out in the quarter-finals of the tournament.

The competition for the championship of the PGNiG Superliga ended in a convincing victory for Vive Tauron. The Kielce handballers were leading the table after the regular season, and in the play-offs final beat their age-old rival, ORLEN Wisła Płock, 3:0. In the women's league, MKS Selgros became champions. In the final game for the championship of the PGNiG Superliga, MKS Selgros defeated Vistal Gdynia.

We could get a glimpse of the changes to come during the Polish Cup Final Four. As a title sponsor of the competition, PGNiG made sure that the audience at Warsaw's Torwar remained entertained not only by the events on the court, but also during breaks in gameplay. We provided a host of engaging attractions, especially for the youngest fans. Vive Tauron Kielce won the men's and Vistal Gdynia the women's Polish Cup.

The popularity of beach handball has been growing year by year. Fans are most attracted by how spectacular the sport is. Teams receive additional points for goals scored in an acrobatic manner. Polskie Górnictwo Naftowe i Gazownictwo S.A. has organised a series of PGNiG Polish Beach Handball Tour tournaments for the title of Champions of Poland.

2015 was marked by preparations to professionalise handball in Poland. PGNiG Superliga operates under a proprietary format. As the Strategic Sponsor of Polish Handball, PGNiG is committed to developing Polish handball by transplanting solutions from the NBA or NHL and professionalising the competition, to build a league of the highest quality. Game organisation, professional teams incorporated as joint stock companies, new solutions (such as the League Commissioner) and the in-game fan experience will also resemble that encountered in the USA.

PGNiG Foundation

The PGNiG "Ignacy Łukasiewicz" Foundation was established in November 2004 by PGNiG SA as the only founding donor.

The scope of activities of the Foundation includes broadly termed support to national heritage and culture, but also to science and education in the field of basic and technical sciences and sports. The objectives of the Foundation also include promotion of historical education, the building of national identity and activities aimed at guarding the memory of Polish heroes.

In the currently launched programmes of the Foundation a particular role is played by:

- learning about Polish history,
- education and science – history and technical sciences,
- promotion of sports among children and young people,
- educational programmes launched for children and youth,
- support to schools bearing the name of Ignacy Łukasiewicz,
- support of cultural and historical events in memory of the Doomed Soldiers (soldiers of Poland's anti-communist underground after WWII).

In February 2016 the PGNiG Foundation launched a new programme "Warming up Polish hearts" .

As a Polish capital company, PGNiG decided to increase its engagement in service to Poles and their history. Under the "Warming up Polish hearts" motto the PGNiG company and it Foundation will implement programmes presenting, in a modern way, issues of national identity, history and patriotism. Special care has been devoted by the PGNiG Foundation to the memory of the Doomed Soldiers whose deeds were forgotten over many decades. Veterans will be provided support under the programme and educational and cultural events will be held.

'We Warm Up Polish Hearts' TV spot

'Honour to the Unbroken' concert on TVP1 television channel

Polish Handball Team during the game

PGNiG
SPONSOR STRATEGICZNY
POLSKIEJ PIŁKI RĘCZNEJ

KIBICUJEMY
KOCHAM RĘCZNĄ
RAZEM

Sponsorship

As a socially responsible business, for six years PGNiG has been supporting the Polish Handball Team. The Company also acts as an informed sponsor of the Super League to ensure dynamic development of the discipline and professional top-level tournaments. It is safe to say that PGNiG is a patron of the Polish handball and contributes to the successes achieved in this discipline. In January 2015, the Polish Handball Team won a silver medal at the World Championships in Doha, Qatar, qualifying for the XXXI Olympic Games in Rio de Janeiro.

Apart from sponsorship activities, the Company is engaged in extensive communication to increase the popularity of handball. With this in mind, the 'I love handball' project has been developed, along with social media channels on Facebook, Twitter and You Tube, and a website www.kochamreczna.pgnig.pl. All the communication channels are used by handball fans to keep in the loop with news about the Polish team, take part in competitions, and actively comment on the events related to the national team.

PGNiG has also been involved in a number of handball-related initiatives. In 2015, the PGNiG Ignacy Łukasiewicz Foundation launched the Handball Training Centres project, providing financial support to initiatives associated with training of teenage handball talent in local government-supported centres. The aim of the project is to make the sport accessible to the widest possible group of school children and youth, sparking their interest in handball. The training sessions are run by qualified coaches.

For the past three years, PGNiG has also helped organise the qualifying rounds for the Polish Beach Handball Championships. This spectacular sport is becoming increasingly popular among Polish audiences and recreational athletes. In 2017, beach handball will be one of the disciplines of the 2017 Wrocław World Games.

PGNiG is also a generous supporter of a range of artistic and cultural events, either nationwide or of local community interest. The Group takes active part in congresses, conferences, symposia and other academic events fostering transfer of knowledge. It works with higher education institutions, such as the AGH University of Science and Technology in Kraków, the Warsaw University of Technology and the University of Gdańsk. PGNiG's sponsorship activity is based on the PGNiG Group Sponsorship Strategy for 2015-2016 and Sponsorship Management Policy. In the near future, the Company plans to increase its support of projects aimed to promote the knowledge of Poland's modern history.

See also:
www.pgnig.pl/csr

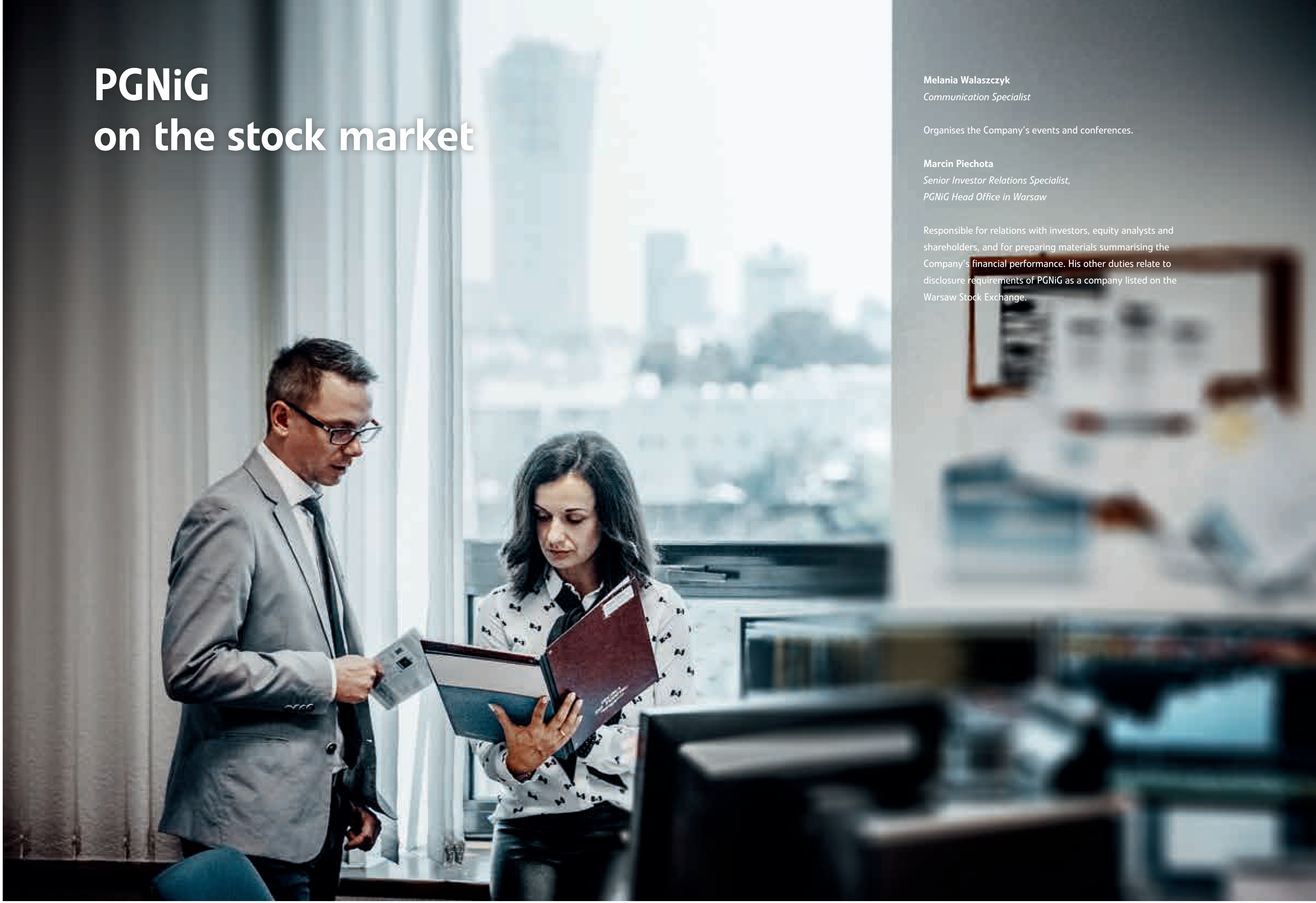
PGNiG on the stock market

Melania Walaszczyk
Communication Specialist

Organises the Company's events and conferences.

Marcin Piechota
Senior Investor Relations Specialist, PGNiG Head Office in Warsaw

Responsible for relations with investors, equity analysts and shareholders, and for preparing materials summarising the Company's financial performance. His other duties relate to disclosure requirements of PGNiG as a company listed on the Warsaw Stock Exchange.



PGNiG on the stock market

The PGNiG stock delivers stable, long-term growth, attributable to the increasing Company value, which translates into a higher share price and dividend distributions. Since 2005, PGNiG has been a pillar of the Polish stock market.

1 barrel is equal to approximately 0.136 tonnes or 159 litres.

Position on the Warsaw Stock Exchange

From the day PGNiG shares were first listed on the Warsaw Stock Exchange (September 23rd 2005), they have been among the most recognisable and credible listed securities. They have been included in the WIG20 index since 2005 and are an important component – from the perspective of the Polish market – of regional developing market indices such as MSCI and FTSE, as well as RESPECT, the only social responsibility index on the Warsaw Stock Exchange. PGNiG has been included in the RESPECT Index since its inception, with its CSR policies recognised again in 2015, in the ninth edition of the Index. Since June 1st 2015, PGNiG has been a part of the MSCI Global Sustainability Index, listing companies with a strong focus on sustainable development.

See also: www.odpowiedzialni.gpw.pl/

Performance of the PGNiG stock in 2015

Relative to the 2014 closing price, the PGNiG shares moved within the range from -6% to +56%, while WIG20 fluctuated between -24% and +10%. Key reasons of this volatile performance included:

- deepening crude oil price slump since July 2015;
- drop in gas prices on the Polish Power Exchange since April 2015;
- further deregulation of Polish gas market.

A multi-annual contract between PGNiG SA and OAO Gazprom/OOO Gazprom Export for supply of up to 10.2 bcm (measured according to Polish standard: PN) per year of Russian gas, effective until 2022 (85% take-or-pay).

Throughout the year, the price of PGNiG shares ranged from PLN 4.20 to PLN 6.95. Strong volatility was seen at the beginning of the year, when the price per oil barrel on the New York Stock Exchange slid below USD 50, to its lowest since April 2009. On January 16th 2015, the Company stock hit the year's low of PLN 4.20 to later rebound on a trend supported by its 2014 financial results, much better than analyst expectations, released on March 5th 2015. A 47% yoy improvement in net profit was driven by a higher margin on high-methane gas sales and strong operating performance of the Distribution segment. Investors also welcomed the PGNiG Annual General Meeting's decision of April 16th 2015 on payment of record-high dividends of PLN 1.18bn (PLN 0.20/share).

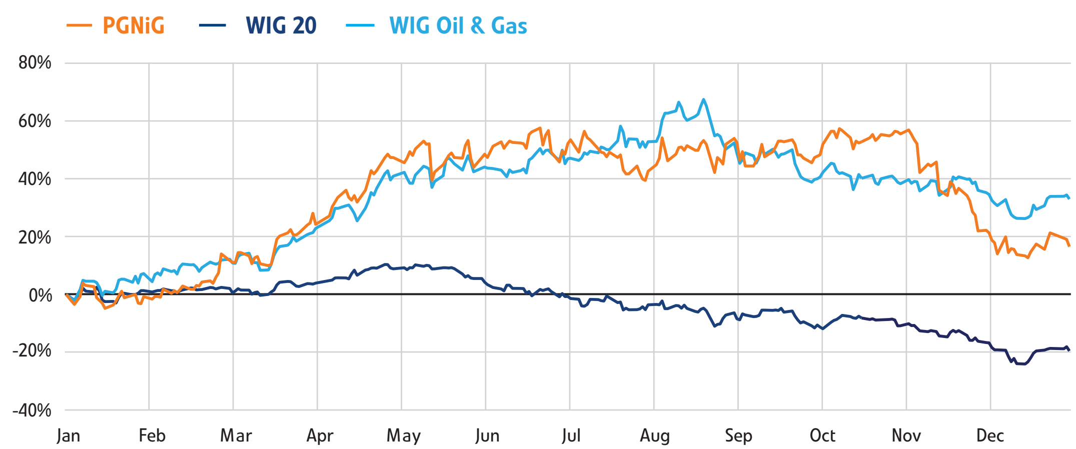
On May 6th 2015, the price of PGNiG shares was PLN 6.59, hitting a new high from the former peak of PLN 6.55 in August 2013. The share price remained stable after the Q1 2015 results were released on May 8th 2015, showing a 7% EBITDA growth year on year. The robust operating performance in the quarter was supported by a lower unit cost of gas. The 11% drop in crude oil prices in USD was accompanied by a 22% hike in the USD/PLN exchange rate quarter-on-quarter. Further, on May 13th 2015 the Company released a notice of calling Gazprom to arbitration, thereby opening an arbitration procedure provided for under the Yamal Contract regarding the pricing terms of the long-term gas supply contract of September 25th 1996. Investors were able to price in the agreement with Gazprom anticipating a one-off compensation similar to the one received in 2013, and continued buying PGNiG shares. As regards macroeconomic factors boosting performance of the PGNiG stock, we should note the robust performance of emerging market stocks in H1 2015 and the relative weakness of other sectors comprising the WIG20 index on the WSE (banks and the Swiss Franc crisis, energy companies and the coal sector).

On June 22nd 2015, the shares closed at an all-time high of PLN 6.95. At the close of trading on October 6th 2015, PGNiG was the largest company listed on the WSE in terms of market capitalisation.

Until the performance figures for Q3 2015 were published, the Company stock had constantly traded at above PLN 6.00. On November 6th 2015, it dipped by nearly 7%, marking a downward trend which persisted until the end of the year. The fact that PGNiG's financial performance fell short of expectations was attributable to a decline in gas and oil prices, resulting in a retail tariff cut as well as a reduction in the wholesale tariff announced by the President of the Energy Regulatory Office twice in 2015. Furthermore, to retain customers and sales volumes, the Company launched discount schemes for wholesale customers (in May 2015) and for SMEs (in June 2015), the effects of which were seen in the Q3 2015 performance.

On December 30th 2015 (the last session day in the year), the PGNiG stock price closed at PLN 5.14.

The price was nearly 72.5% above the issue price of 2005 and 35% above the closing price on the first day of listing. Factoring in the dividends of PLN 1.28 per share paid in 2005–2015, the investors who acquired PGNiG shares at the issue price and held them until the end of 2015 saw a profit of 115%.



Performance of WSE indices and PGNiG stock

Index	Value/price as at Dec 30 2014	2015 high	2015 low	Value/price as at Dec 30 2015	PGNiG's weight in the index as at Jan 7 2016
WIG	51,416 points	57,379 points	43,887 points	46,467 points	3.3%
WIG20	2,316 points	2,549 points	1,755 points	1,859 points	5.1%
WIG Oil & Gas	3,381 points	5,626 points	3,289 points	4,468 points	25.5%
Respect Index	2,674 points	3,055 points	2,145 points	2,269 points	9.8%
PGNiG	PLN 4.45	PLN 6.95	PLN 4.20	PLN 5.14	–

Source: gpwinfostrefa.pl.

Rates of return on WSE indices vs PGNiG stock in 2015 and from PGNiG's IPO

	Rate of return in 2015	Rate of return from PGNiG's IPO[1] to Dec 31 2015
WIG	-9.6%	39.9%
WIG20	-19.7%	-24.3%
WIG Oil & Gas	32.2%	25.5% [2]
Respect Index	-15.2%	126.9%[3]
PGNiG	15.5%	34.9% [4]

Source: WSE.
[1] Closing price on September 23rd 2005.
[2] Calculated in relation to the reference value of the index (reference date: December 30th 2005).
[3] Calculated in relation to the reference value of the index (reference date: December 31st 2008).
[4] Relative to the issue price of PLN 2.98, PGNiG shares yielded a rate of return of 68.5%.

Shareholding structure

As at December 31st 2015, the share capital of PGNiG stood at PLN 5.9bn, and comprised 5.9 billion shares, with a par value of PLN 1 per share. 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 State Treasury remains PGNiG's majority shareholder.

On December 2nd 2015, following the Minister of State Treasury's acquisition of new shares in the increased share capital of Towarzystwo Finansowe Silesia Sp. z o.o., the State Treasury's interest in the share capital decreased to 70.83% of the share capital and total vote in the Company.

On June 26th 2008, a disposal by the Minister of State Treasury of one PGNiG share in accordance with general rules triggered the eligible employees' rights to acquire for free a total of up to 750 million PGNiG shares. The start date for executing agreements on acquisition of free Company shares was April 6th 2009 and the rights to acquire free PGNiG shares by eligible employees expired on October 1st 2010. As at December 31st 2015, almost 60,000 eligible employees subscribed for 728,292,000 shares. The free Company shares acquired by eligible employees were locked up until July 1st 2010, while trading in free shares acquired by members of the Company's Management Board was restricted until July 1st 2011.

Shareholding structure at the end of 2015

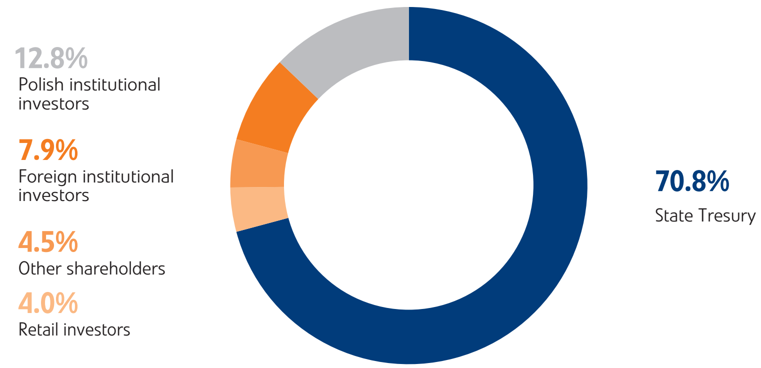
Shareholder	Number of shares/votes attached to the shares as at Dec 31 2015	Percentage of share capital/total vote at the GM as at Dec 31 2015
State Treasury	4,178,771,608	70.8%
Other shareholders	1,721,228,392	29.2%
including OFE:	543,721,767	9.2%
Total	5,900,000,000	100.0%

Share of open-end pension funds in PGNiG shareholder base down to 9.22% (2014: 11.00%)

Apart from the largest shareholder, the State Treasury, over 20% of the shares are held by institutional investors, 60% of whom are Polish investors. As regards the investment style and frequency, PGNiG shares are favoured by investors who believe that the Company will grow faster than the market or its sector, and investors who buy shares to hold them for more than two years.

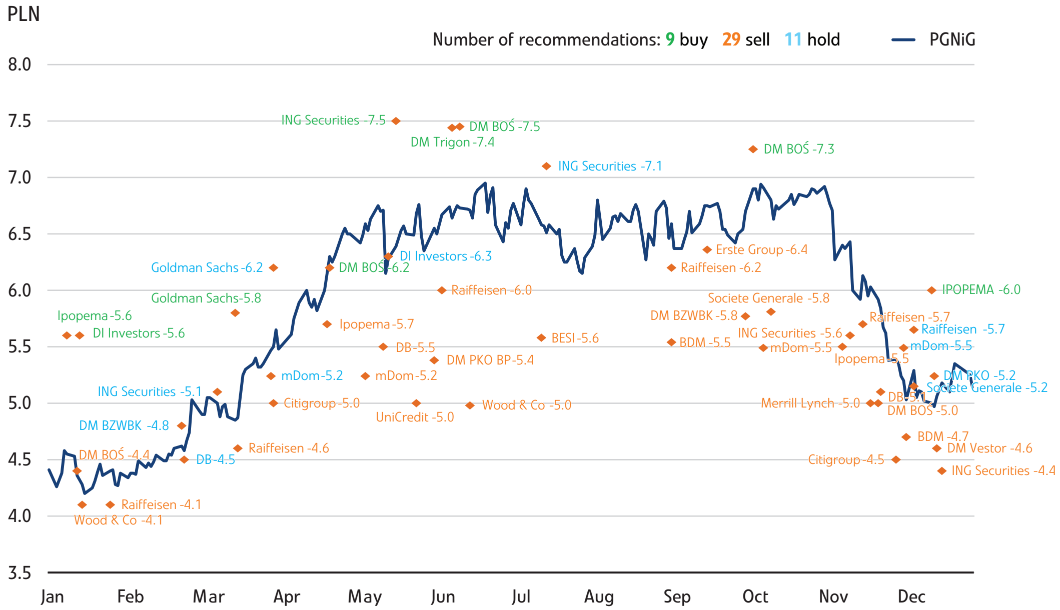
15% of PGNiG shares are held by foreign investors, chiefly institutional investors from Europe (nearly 50% of them from the UK). Every 25th PGNiG shareholder is a retail investor buying and selling securities through his/her own brokerage account.

Shareholding structure by investor type



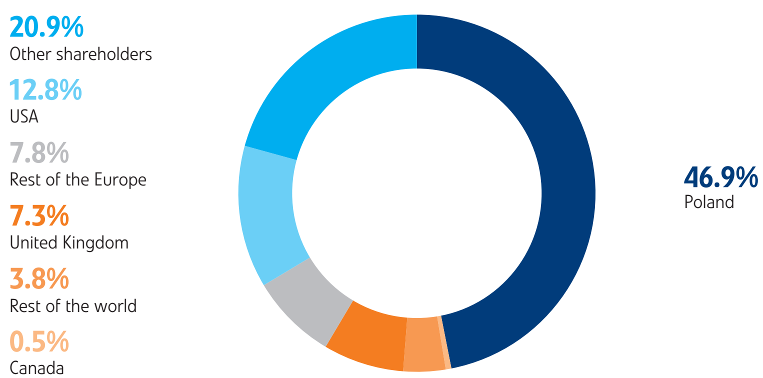
Substantial holdings of PGNiG shares are included in the portfolios of open-end pension funds. As at the end of 2015, these long-term investors held more than 9% of PGNiG's equity, valued at just under PLN 3bn. Relative to 2014, the number of shares held by open-end pension funds declined by 17%. The sale of PGNiG shares may have been prompted by the PGNiG Group's financial results for Q3 2015, reported in November, which were below market expectations on account of falling gas and crude oil prices. Moreover, negative analyst recommendations prevailed throughout the period (13 out of 19 recommendations were to 'Sell') .

Analysts recommendations with target price in 2015



The funds holding the largest equity interests in PGNiG were those which manage the largest portfolios of future pensions, that is ING, Aviva and PZU Złota Jesień. The share of open-end pension funds in the PGNiG shareholder base rose significantly from the IPO in 2005, when it accounted for 3.5% of the share capital (valued at PLN 711m). Pension funds are typically long-term investors whose equity portfolios are characterised by low turnover, especially with respect to large dividend-paying companies, such as PGNiG. They have a stabilising effect on the Company's shareholding structure, while limiting its free float, which can translate into lower trading volumes. The average daily value of trading in PGNiG shares in 2015 was PLN 28m, which is a solid result considering the low free float.

Geographical free float analysis



Top 3 for Rest of Europe: Netherlands (1.6%), Sweden (1.5%), France (1.3%)
Top 3 for Rest of the world: Singapore (1.9%), Japan (1.0%), China (0.7%)

Investor relations

Investor relations is an area of business activity constantly gaining in importance, reflecting the rapid growth of the Polish capital market evidenced by the growing NAV of investment funds and the rising number of publicly-traded companies, now close to 490. There are almost 1.5m investment accounts registered in Poland, including a dynamic group of retail investors who invest their capital through the Warsaw Stock Exchange. The importance of investor relations also follows from increasing legal and regulatory requirements, imposed by such bodies as the Polish Financial Supervision Authority and resulting from the transposition of EU law into the Polish legal framework.

Since early 2015, work has been under way to enhance PGNiG's website. The Investor Relations section, revamped in 2014, contains all current and periodic reports, information on dividend payments and shareholding structure, current prices of PGNiG shares, and broker recommendations, as well as guidance reports compared with actual earnings, and selected financials, including quarterly financial and operating data since 2010. The website also features PGNiG's updated investor presentations, with a brief and accessible summary of the PGNiG Group's equity story, as well as the telephone and email contact details of the PGNiG Investor Relations Department. In 2015, the Investors Relations section was visited over 180,000 times.

PGNiG was among the finalists of the 8th edition of the Issuer's Golden Website (Złota Strona Emitenta) competition. The quality of the website was attested to by the highest marks received in 'technological' criteria: intuitiveness, ergonomics, navigability and appropriate use of technologies.

See also:
www.zse.seg.org.pl

In 2014, representatives of the Company held close to 130 meetings with investors and stock analysts. We also continued our involvement in the 'Shareholder Democracy' (Akcjonariat Obywatelski) project, initiated in 2012. PGNiG is taking active part in its 2015/2016 edition by attending meetings with retail investors, preparing educational materials on the Polish gas market for investors and providing financial support for the project.

Corporate Governance

Artur Sługocki
Production Installations Operator, Oil and Gas Production Facility in Lubiatów

His responsibilities include operation, inspection and maintenance of equipment and installations at the facility. He carries out scheduled and ad hoc repairs and is responsible for removal of failures of equipment and installations.

Corporate Governance

The PGNiG Group takes care to comply with corporate governance standards. We are honest and fair to our shareholders, treat them all on equal terms and make every effort to establish and maintain the best possible relations between our investors and governing bodies.

See also: www.en.pgnig.pl/corporate-governance/general-meeting

See also: www.en.pgnig.pl/corporate-governance/articles-of-association

General Meeting

The General Meeting is PGNiG's supreme governing body, through which shareholders exercise their corporate rights, including examination and approval of the Directors' Report, and adoption of decisions on the amount, form and payment date of dividends. The General Meeting grants its vote of approval to members of the other governing bodies of PGNiG, appoints members of the Supervisory Board and makes decisions concerning the Company's assets.

Supervisory Board

The Supervisory Board exercises continuous supervision over all areas of the Company's activities, in accordance with the Rules of Procedure for the Supervisory Board. It is composed of five to nine members (including one independent member) appointed by the General Meeting of PGNiG for a joint three-year term. The State Treasury is entitled to appoint and remove one member of the Supervisory Board, as long as it remains a shareholder of PGNiG. On a Supervisory Board composed of up to six members, two of them are elected by PGNiG employees. Where the Supervisory Board comprises seven to nine members, there are three members elected in this way.

See also: www.en.pgnig.pl/corporate-governance/best-practices

Management Board

The Management Board is an executive body managing the affairs of PGNiG and representing it in all matters in and out of court. The Management Board is composed of between two to seven members, with the number defined by the Supervisory Board. Members of the Management Board are appointed for a joint three-year term. Powers of the Management Board include all matters connected with the management of the affairs of PGNiG, where such matters are not explicitly reserved for other governing bodies by applicable laws or provisions of the Articles of Association. The Management Board operates in accordance with applicable laws and regulations, in particular the Commercial Companies Code, as well as the provisions of the Company's Articles of Association and the Rules of Procedure for the Management Board.

Audit Committee

The Audit Committee has operated as a standing body of the Supervisory Board since November 27th 2008. It is composed of at least three members of the Supervisory Board, including at least one member independent from PGNiG or any entity significantly affiliated with PGNiG and appointed by the General Meeting pursuant to PGNiG's Articles of Association. Such a person must be competent in accounting and finance matters. Members of the Audit Committee are appointed by the Supervisory Board.

Best practices

The Management Board of PGNiG is strongly committed to compliance with corporate governance standards. Since the IPO in 2005, the Company has followed the guidelines set forth in the "Code of Best Practice for WSE Listed Companies". On January 1st 2016, the "Code of Best Practice for WSE Listed Companies 2016" (WSE Supervisory Board's Resolution No. 26/1413/2015 of October 13th 2015) became effective and will apply for periods beginning on or after January 1st 2016. The Code of Best Practice 2016 was developed by experts representing various groups of capital market participants, who are members of the WSE Corporate Governance Consultative Committee. All changes in the Code of Best Practice 2016 were introduced so as to ensure the continuity of coverage of matters addressed in the previous versions of the Code. Also, to ensure clarity of the document and to emphasise the most important matters, a new thematic division was introduced. Further, a new classification of the document, compliant with the European Commission's recommendation, was adopted.

Special control rights

In accordance with the Articles of Association, as long as the State Treasury holds Company shares, the State Treasury, represented by the minister concerned with matters pertaining to the State Treasury, acting in consultation with the minister competent for economic affairs, has the right to appoint and remove one member of the Supervisory Board.

Additionally, pursuant to the Articles of Association, the State Treasury (as a shareholder) approves in writing: (i) any amendments to material provisions of existing trade agreements for import of natural gas to Poland and the execution of such agreements, and (ii) the implementation of any strategic investment projects by the Company or its involvement in investment projects which, permanently or temporarily, impair the economic efficiency of the Company's business activities, but which are necessary to ensure Poland's energy security.

Irrespective of the State Treasury's ownership interest in the Company, the State Treasury has the right to demand that the General Meeting be convened and that particular matters be placed on the agenda.

Limitations of voting rights

See also: www.gpw.pl/WSE_corporate_governance

On December 31st 2012, the amendments to the PGNiG Articles of Association introduced under a resolution of the Company's Extraordinary General Meeting of December 6th 2012 were entered in the Business Register. Under the amended Articles of Association, the voting rights of Company shareholders are limited so that at the General Meeting no shareholder can exercise more than 10% of the total vote at the Company as at the date of the General Meeting, with the proviso that such restriction of voting rights is deemed non-existent for the purpose of determining the obligations of buyers of large holdings of shares.

The voting rights restrictions do not apply to shareholders who were holders of shares conferring more than 10% of total voting rights at the Company on the date of the General Meeting's resolution imposing the restrictions, and to shareholders acting together with shareholders holding shares conferring more than 10% of total voting rights under agreements on voting in concert.

For the purpose of the voting rights restriction, votes of shareholders bound by a parent-subsidiary relationship are aggregated and if the aggregated number of votes exceeds 10% of total voting rights at the Company, it is subject to reduction.

Amendments to the Company's Articles of Association

Pursuant to the Commercial Companies Code and the Company's Articles of Association, amendments to the Articles of Association are introduced by virtue of resolutions passed by the General Meeting with the required majority of votes, whereupon they must be entered in the Business Register. Any amendment to the Articles of Association must be submitted by the Management Board to the Registry Court within three months from the date on which the General Meeting passed the resolution introducing the amendment. The consolidated text of the Articles of Association is drawn up by the Management Board and then approved by the Supervisory Board.

Appointment and removal of Management Board members

Pursuant to the Articles of Association, individual members of the Management Board or the entire Management Board are appointed and removed by the Supervisory Board. A member of the Management Board is appointed following a recruitment and selection procedure carried out pursuant to the Regulation of the Polish Council of Ministers of March 18th 2003 concerning recruitment procedures for members of management boards of certain commercial-law companies (Dz.U. No. 55, item 476, as amended). This procedure does not apply to Management Board members elected by employees.

As long as the State Treasury holds Company shares and the Company's annual average headcount exceeds 500, the Supervisory Board appoints to the Management Board one person elected by the employees, to serve for the Management Board's term of office. A person is considered to be a Management Board candidate elected by the employees if, during the election, 50% of valid votes plus one were cast in favour of that person, with the reservation that the election results are binding on the Supervisory Board if at least 50% of the Company's employees participated in the election.

Management Board members are appointed for a joint term of three years. A member of the Management Board may resign from his or her position by delivering a notice to that effect to the Supervisory Board, with a copy to the State Treasury (represented by the minister competent for matters pertaining to the State Treasury). To be valid, the resignation must be submitted in written form, or otherwise will be ineffective towards the Company.

The Management Board member elected by the employees may also be removed upon a written request submitted by at least 15% of the Company's employees. The Supervisory Board orders the voting and its results are binding on the Supervisory Board if at least 50% of the Issuer's employees participate in the ballot, and if the percentage of votes cast in favour of the removal is not lower than the majority required for the election of a member of the Management Board by the employees.

Information for shareholders concerning General Meetings

A shareholder or shareholders representing at least five percent of the share capital may request that certain matters be placed on the agenda of the General Meeting. Any such request should be sent to the Company in the Polish language, in writing, or in electronic form to the following email address: wz@pgnig.pl. The request should contain grounds or a draft resolution concerning the proposed agenda item and should be submitted to the Company's Management Board not later than 21 days before the scheduled date of the General Meeting. The shareholder or shareholders should prove that they are entitled to exercise this right by submitting relevant documents in writing.

Any shareholder or shareholders representing at least five percent of the Company's share capital may, before the date of the General Meeting, submit to the Company draft resolutions concerning items which have been or are to be placed on the General Meeting's agenda, in a written or electronic form to the email address: wz@pgnig.pl. Any such draft resolutions should be in the Polish language, in the form of a Word file. The shareholders should prove eligibility to exercise this right by submitting relevant documents in writing.

During the Company's General Meeting, each shareholder may submit draft resolutions for the items on the agenda. Such draft resolutions should be in the Polish language.

Shareholders may participate in the General Meeting in person or by proxy. Pursuant to Art. 4121.2 of the Commercial Companies Code, powers of proxy for participation in a General Meeting of a public company and exercise of voting rights must be granted in writing. Powers of proxy should be granted in writing or in electronic form, and should be in the Polish language. They may be sent to the Company prior to the General Meeting in electronic form as a PDF file (scanned document) to the email address: wz@pgnig.pl. While at the General Meeting, all shareholders and proxies should carry valid identity documents.

Given that the Company does not provide for the possibility of participating in the General Meeting by electronic means (including taking the floor at the General Meeting using means of electronic communication) or exercising voting rights by postal ballot or by electronic means, no proxy ballot forms will be published.

Representatives of legal persons should have on them the original or a copy (certified by a notary public) of an excerpt from the relevant register (issued within the last three months), and if their right to represent the legal person does not follow from the relevant register entry – they should have on them written powers of proxy (the original or a copy certified by a notary public) along with the original or a copy (certified by a notary public) of the excerpt from the relevant register which must be valid as at the date of granting the powers of proxy.

The General Meeting may be attended only by persons who are Company shareholders on the record date, i.e. 16 days prior to the General Meeting.

Persons entitled to participate in the General Meeting may obtain the full text of documents to be submitted to the General Meeting, along with draft resolutions and comments of the Management and Supervisory Boards, from the Company's registered office. Such persons may obtain copies of the Directors' Report on the Company's operations and of the Company's financial statements, as well as a copy of the Supervisory Board's report and the auditor's opinion, no later than 15 days prior to the General Meeting, while copies of recommendations and proposals concerning other items of the agenda begin to be distributed a week before the General Meeting.

In accordance with Art. 407.1 of the Commercial Companies Code, the list of shareholders entitled to participate in the General Meeting is available for inspection at the Company's registered office in Warsaw, ul. Marcina Kasprzaka 25, for three weekdays prior to the date of the General Meeting.

Information concerning the General Meeting is available on the Company's website at: www.pgnig.pl in the 'General Meeting – Information for shareholders' section.

PGNiG Management Board

Piotr Woźniak
President of the Management Board

The President directs the Management Board's meetings and coordinates the work of all its members in all areas of the PGNiG Group's activity; the President also supervises and coordinates the Company's operations with respect to internal control and audit functions, HR strategies, payment schemes and working time, employment policy and payroll, liaising with trade unions, the Employee Council and other employee organisations in respect of the Company and the PGNiG Group, allocation of shares to eligible employees, ensuring proper OHS and fire safety conditions, developing and overseeing implementation of the PGNiG Group's Strategy, optimising the PGNiG Group's structure, policy, objectives and projects related to hydrocarbon exploration, appraisal and production in Poland and abroad, overseeing all licensing processes related to hydrocarbon exploration, appraisal and production, as well as the storage of waste matter in rock mass and non-reservoir storage of substances in accordance with the geological and mining law, adopted assumptions and technical regulations, norms and standards applicable in the area of oil drilling, safety of production systems and underground storage facilities, standardisation and oversight of uniform quality systems within the Company, acquisition of foreign upstream assets, operations of the Geology and Hydrocarbon Production Branch, the PGNiG Branches in Odolanów, Sanok and Zielona Góra, Well Mining Rescue Station in Kraków, and the Company's foreign branches and foreign representative offices in Brussels and Moscow.

Piotr Woźniak graduated from the University of Warsaw in 1980 with a degree in geology. Until 1989, he was an assistant at the Geological Institute in Warsaw. In 1990–1991, he served as an adviser to the Minister of Agriculture and to the Minister of Industry. He was the Trade Commissioner of the Republic of Poland in Canada in 1992–1996. In 1998–2000, Woźniak was an adviser on infrastructure to the Polish Prime Minister. He served as a member of the PGNiG Supervisory Board in 1999–2000, and Vice-President of the Management Board from June 2000. In the 2002–2006 term, he was a member of the Warsaw City Council, and in 2005–2007 he was the Minister of Economy. From December 2011 to December 2013, Woźniak served as the Deputy Minister of Environment and Chief State Geologist. He is a lecturer at the Łazarski University and at the Warsaw School of Economics, and he is also a member of the Council of the Maria Grzegorzewska University in Warsaw. From December 2009 he served as the Chairman, and as of March 2014 the Deputy Chairman of the Administrative Board of the Agency for the Cooperation of Energy Regulators (ACER). On December 4th 2015, the Minister of State Treasury appointed Piotr Woźniak as member of the Supervisory Board of PGNiG SA. On December 11th 2015, the PGNiG Supervisory Board delegated Piotr Woźniak, member of the PGNiG Supervisory Board, to temporarily perform the duties of President of the PGNiG Management Board from December 11th 2015 to March 11th 2016.

With effect from February 11th 2016, Piotr Woźniak was appointed President of the Management Board of PGNiG SA.

Janusz Kowalski
Vice-President of the Management Board, Corporate Affairs

The Vice-President of the Management Board for Corporate Affairs supervises and coordinates the Company's operations in respect of comprehensive legal support protecting PGNiG's legal interests, uniform application of common law, including community law, issuance of official orders and circulars in the Company, organisational and technical support of the Company's governing bodies, protection of confidential information, protection of personal data, protecting and defending the Company's facilities, the Company's information policy and corporate communications, its Corporate Social Responsibility (CSR) programme, development and implementation of the Company's policy with respect to sponsorship and brand image-building in Poland and abroad, managing the PGNiG Group, including exercise of the owner's supervision within the PGNiG Group, establishing new companies within the PGNiG Group to pursue new projects undertaken as part of the PGNiG Group's strategy, and preparing and implementing privatisation plans for companies where PGNiG is a shareholder.

Janusz Kowalski was Deputy Mayor of Opole in 2014–2015. He holds master's degrees in law and in administration. In 2006–2007, Janusz Kowalski was an energy security analyst at the government proxy team for diversification of energy supply sources at the Ministry of Economy. Janusz Kowalski also served on the Supervisory Boards of Operator Logistyczny Paliw Płynnych, INVESTGAS S.A., Ostrołęckie Towarzystwo Budownictwa Społecznego Sp. z o.o., and Energetyka Cieplna Opolszczyzny S.A. of Opole. He worked as an energy security analyst at the National Security Office in 2008, and was a member of the energy security team at the Chancellery of President of Poland Lech Kaczyński from October 2008 to April 2010. He co-authored 'Lech Kaczyński. Biografia polityczna' [Lech Kaczyński. A Political Biography]. In 2009–2014, Janusz Kowalski served as a member of the Management Board of a sports marketing agency. He is also a columnist.

With effect from February 11th 2016, Janusz Kowalski was appointed Vice-President of the PGNiG Management Board, Corporate Affairs.

Łukasz Kroplewski
Vice-President of the Management Board, Development

The Vice-President of the Management Board for Development supervises and coordinates the Company's operations in the area of innovation and development projects involving PGNiG, analysing and monitoring opportunities to obtain EU funding for the Company's operations, cooperation with operators of transmission and distribution systems, procurement strategies within the Company and the PGNiG Group, oversight of standardisation efforts at the Company, development of technical assumptions, rules, norms and standards for the gas area.

Łukasz Kroplewski holds master's degrees in law and in administration. He has gained professional experience working in public administration – at the Tax Office, the Self-Government Board of Appeals, and the Chancellery of the Prime Minister. He has been a member of the Self-Government Board of Appeals since 2009. From 2014 to 2015, Łukasz Kroplewski worked as a legal and business consultant. He was also a lecturer at the Koszalin University of Technology. He worked in HR intermittently from 2005 to 2011, holding managerial and consultancy positions. Łukasz Kroplewski is one of the founders of the Mediation Centre at the Association of Merchants and Entrepreneurs in Koszalin, where he works as a business mediator.

With effect from February 11th 2016, Łukasz Kroplewski was appointed Vice-President of the PGNiG Management Board, Development.

Bogusław Marzec
Vice-President of the Management Board, Finance

The Vice-President of the Management Board for Finance supervises and coordinates the Company's operations in respect of its strategic economic and financial objectives, preparation and implementation of the Company's Business Plan, economic and financial evaluations and analyses of development and investment projects, planning and overseeing the financial aspects of the investment policy, monitoring the use of financial resources allocated to production, investment and repair work, the Company's internal settlement procedures, financing operations, cash flows of the PGNiG Group, budgeting, controlling the Company's costs and revenue, its credit policy, tax policy and tax liabilities, financial risk management, economic and financial analyses of new capital projects, implementation and development of accounting procedures, defining the rules of and overseeing the preparation of financial statements, investor relations, and planning, development and operation of the Company's IT systems, implementation of the PGNiG Group's strategic objectives at the Group companies in the areas of IT development and management.

Bogusław Marzec is a graduate of the Szczecin University of Technology and Szczecin University. He holds a master's degree in mechanical engineering and a PhD degree in economics. Bogusław Marzec was a senator of the Szczecin University. He has also completed a number of courses and training programmes, passed an examination for candidates to supervisory boards and is a certified quality management system lead auditor. He served as CEO at Morska Stocznia Remontowa SA of Świnoujście, Szczecińska Stocznia Remontowa Gryfia SA, Huta Bankowa Sp. z o.o. and other companies. Bogusław Marzec has twice served on the governing bodies of PGNiG – once as Vice-President and CFO, and once as President of the Management Board. He is a Grade I Mining Director. He has experience in corporate supervision. Bogusław Marzec served on the Supervisory Boards of EUROPOL GAZ S.A., INVESTGAS S.A., Polskie LNG, Walcownia Dziedzice S.A., Centrostal Lublin S.A. and other companies. He was also Deputy Chairman of the Supervisory Board and member of the Credit Committee of AmerBank SA.

With effect from February 11th 2016, Bogusław Marzec was appointed Vice-President of the PGNiG Management Board, Finance.

Maciej Woźniak

Vice-President of the Management Board, Trade

The Vice-President of the Management Board for Trade supervises and coordinates the Company's operations in respect of developing a regulatory policy in consultation with government authorities, EU authorities and industry organisations, planning and implementing the Company's trade policy, particularly in respect of natural gas and electricity sales, including the execution and settlement of contracts for the supply of natural gas, electricity and other products, guiding the development of the gas market, natural gas import policy, also in respect of supply diversification, establishing and maintaining long-term relationships with foreign companies, international organisations and foreign government authorities with respect to trade relations, monitoring and analysis of foreign markets, collaboration with OGP Gaz-System SA, Polskie LNG SA, the Maritime Office in Szczecin and the Management Board of Porty Morskie Szczecin i Świnoujście in respect of importing LNG to Poland, planning, executing and settling contracts for the provision of gas transmission and distribution services for PGNiG, preparing periodic gas fuel balance reports in accordance with contracts and gas sale plans, periodic settlements of gas deliveries, information services, including the receipt of information on events and crises in all areas of the Company's business, the Company's tariff policy, liaising with the Energy Regulatory Office in respect of preparing draft tariffs and prices of PGNiG's products and services, obtaining licences, and operations of the Wholesale Trading Division.

Maciej Woźniak is a graduate of the Cracow University of Economics (holding a master's degree in economics) and the National School of Public Administration. He also completed a post-graduate course in property valuation at the Warsaw University of Technology. He is a member of the Polish Civil Service Corps. In 2011, he participated in the International Visitor Leadership Program run by the US Department of State. In 2003–2008, he worked at the Ministry of Finance and at the Ministry of Economy, where he led the Oil and Gas Department and was responsible for implementation of the Act on Mandatory Oil, Gas and Fuel Stocks and for securing Poland's accession to OECD's International Energy Agency based in Paris. After it joined the IEA, he represented Poland at IEA Governing Board meetings a number of times. He also coordinated preparations ahead of implementation of the second package of the EU gas market liberalisation legislation and participated in the EU's work on the third package. In 2008–2010, he was Prime Minister's chief adviser on energy security and secretary of the Prime Minister's interdepartmental energy security policy team. He represented Poland in the V4 High-Level Group on Energy and the EC's Group for the Baltic Energy Market Interconnection Plan. He supervised the pre-construction phase of the Świnoujście LNG terminal project. He was on the team negotiating the intergovernmental gas supply contract between Poland and Russia. He resigned from the position of Prime Minister's adviser after the contract was signed in November 2010. In 2011–2013, he advised the Environment Minister and Chief Geologist on the geological and mining law reform. He sat on the Supervisory Boards of Operator Logistyczny Paliw Płynnych and Wielkopolska Spółka Gazownictwa and served as Chairman of the Supervisory Board of the Provincial Fund for Environmental Protection and Water Management of Warsaw.

With effect from February 11th 2016, Maciej Woźniak was appointed Vice-President of the PGNiG Management Board, Trade.

Waldemar Wójcik

Vice-President of the Management Board

The Vice-President of the Management Board elected by employees supervises and coordinates the Company's operations in the area of administrative management of the Company's property (excluding network assets, extraction assets and underground gas storage facilities), including the Company's real estate, and oversees the operations of the Central Measurement and Testing Laboratory and of the PGNiG foreign representative offices in Kiev and Vysokoye.

Waldemar Wójcik is a graduate of the Faculty of Drilling, Oil and Gas at the AGH University of Science and Technology in Kraków, and holds a degree of Master Engineer of Oil Mining. He has worked for PGNiG since 1981. First, he was employed at Sanocki Zakład Górnictwa Nafty i Gazu, initially serving as an administrative assistant at the Natural Gas Production Facility, then as a shift manager in the Well Workover Department, and after that as Head of the Administrative Centre for Oil and Gas Production Facilities in Przemyśl. From 1994 to 1996, he was a member of the PGNiG Employee Council. Between 2001 and his appointment as member of the Management Board of PGNiG, Waldemar Wójcik held the position of Director of Sanocki Zakład Górnictwa Nafty i Gazu of Sanok and then Director of the PGNiG Branch in Sanok.

Between January 2009 and August 2010, he served as Vice-President of the Management Board of PGNiG in charge of Petroleum Extraction. In September 2010, he was appointed to the Management Board of Polish Oil and Gas Company Libya BV.

Changes in Management Board

On December 11th 2015, the PGNiG Supervisory Board removed the following persons from office and from their positions on the PGNiG Management Board: Mariusz Zawisza – President, Jarosław Bauc – Vice-President, Finance, and Zbigniew Skrzypkiewicz – Vice-President, Exploration & Production. At the same time, the PGNiG Supervisory Board delegated Piotr Woźniak, a member of the PGNiG Supervisory Board, to temporarily perform the duties of President of the Management Board in the period from December 11th 2015 to March 11th 2016.

On December 11th 2015, the PGNiG Management Board appointed Janusz Kowalski, Bogusław Marzec and Maciej Woźniak as the Company's commercial proxies.

As at December 31st 2015, the composition of the PGNiG Management Board was as follows:

- Piotr Woźniak – member of the Supervisory Board delegated to temporarily perform the duties of President of the Management Board.
- Waldemar Wójcik – Vice-President.

At its meeting on February 10th 2016, the PGNiG Supervisory Board appointed the following persons to the PGNiG Management Board, as of February 11th 2016, for a joint term of office ending on December 30th 2016:

- Piotr Woźniak – President.
- Bogusław Marzec – Vice-President, Finance.
- Janusz Kowalski – Vice-President, Corporate Affairs.
- Łukasz Kroplewski – Vice-President, Development.
- Maciej Woźniak – Vice-President, Trade.

PGNiG Supervisory Board

Bartłomiej Nowak
Chairman of the Supervisory Board

Bartłomiej Nowak completed management studies at the Kozminski University of Warsaw and is a graduate in Law and Administration of the University of Warsaw. He also holds the degrees of Master of Arts in Management and International Business from Bradford University and Master de Recherche from the European University Institute. In 2009, Bartłomiej Nowak received a Doctor of Laws degree from the European University Institute, and in 2013 – a Habilitated Doctor degree from the Institute of Legal Sciences of the Polish Academy of Sciences.

Bartłomiej Nowak specialises in energy law, business law, competition law, and EU law. In 2007-2009, he worked for Directorate-General for Transport and Energy of the European Commission and as an adviser to the President of the Polish Energy Regulatory Office. In 2010-2014, he was an adviser at the Kancelaria Domański Zakrzewski Palinka sp.k. law firm and member of the Supervisory Board of PTE WARTA S.A.

Since 2009, he has worked for the Leon Kozminski University of Warsaw, initially as Assistant Professor and then Professor at the Law College, as well as Vice-Rector for Economic and Social Studies.

Bartłomiej Nowak is a member of the Scientific Boards of the Aviation Institute, Electron Technology Institute, and the National Centre for Nuclear Research.

Wojciech Bieńkowski
Deputy Chairman of the Supervisory Board

Wojciech Bieńkowski is a professor of economics and international economic relations at the Łazarski University of Warsaw, where he heads the US Economy and Transatlantic Relations Institute. For eight years (until July 2015), Wojciech Bieńkowski was also Dean of the University's Faculty of Economics and Management. Previously, he worked at the Warsaw School of Economics, where he obtained a PhD degree and habilitation. He spent many years as a visiting fellow, for example at Harvard (twice) and other renowned universities in the US, Japan and Europe.

Wojciech Bieńkowski's academic achievements cover the fields of economic politics, competitiveness and benchmark analysis of the effectiveness of social and economic systems. He is an author or co-author of many academic papers published by recognised academic publishing houses at home and abroad.

He has gained professional experience as head of international cooperation at the National Fund for Environmental Protection and Water Management and as supervisory board member at BOŚ, Famur, PAIiIZ, Elektrownie Szczytowo-Pompowe (currently PGE), and the Polish-American Corporation for Technology Transfer (PAKTO).

Magdalena Zegarska
Secretary of the Supervisory Board

Magdalena Zegarska has been a member of the Supervisory Board since May 15th 2014. Graduate of the Private University of Environmental Sciences (PWSOŚ) in Radom, where she received an Engineer degree in Occupational Health and Safety. She also obtained a certificate of completion of studies in the field of Management of Large Enterprises from the School of Management and Marketing of the Business Initiatives Association in Warsaw. She has completed numerous training programmes and courses in psychology of team management, as well as a course for supervisory board members, completed with a passed exam before the State Treasury Commission.

Secretary of the Employee Council of the second term of office. She is a Class I Mining Engineer. She joined PGNiG SA in 1998 as an employee of Mazowiecka Spółka Gazownictwa and then worked at the Mazovian Trading Division. From 2013, she held different positions at the Retail Trading Department, Infrastructure Department and Asset and Administration Department at the PGNiG Head Office.

She is the Representative of the Management Board for Quality, Health, Safety and Environment (QHSE) Management.

She is acting as Deputy Director for OHS at the Asset and Administration Department of the PGNiG Head Office.

In the course of her professional career, she has worked on numerous projects carried out for the benefit of PGNiG employees. She has received honorary awards for outstanding service to the Mazovian Trading Division, as well as to the Oil Mining and Gas Sector.

Sławomir Borowiec
Member of the Supervisory Board

Sławomir Borowiec graduated from the AGH University of Science and Technology in Kraków (Faculty of Drilling, Oil and Gas) in 1992 and in the same year joined Zielonogórski Zakład Górnictwa Nafty i Gazu. In 2001, he graduated from The Jacob of Paradyż University of Applied Sciences in Gorzów Wielkopolski – Institute of Management and Finance, where he completed studies in Management and Marketing. In 2014, he earned a degree from the Koszalin University of Technology, where his principal field of study was Accounting – Accounting of Business Entities. At present, he is Head of the Administrative Centre for Oil and Gas Production Facilities in Drezdenko. Sławomir Borowiec is also a licensed Mine Operations Manager.

In 2002, he passed an examination for candidates to supervisory boards of state-owned companies and in 2010 he received a title of Grade II Mining Director.

Ryszard Wąsowicz
Member of the Supervisory Board

Ryszard Wąsowicz graduated from the School of Law and Public Administration in Rzeszów with a Bachelor's Degree in Administration – Human Resources Management (continuation – Master's Degree programme). He started his professional career in 1978 at Sanocki Zakład Górnictwa Nafty i Gazu, working at the Husów gas extraction facility. In 1990–1992, he was a member of the Employee Council at Sanocki Zakład Górnictwa Nafty i Gazu, and in 1992–1996, for two (the fifth and sixth) terms of office, he was a member of the Employee Council at PGNiG. Until 1998, he was a member of the Consulting Board at PGNiG SA. In 1998, he completed a course for supervisory board members and passed a state exam before the State Treasury Commission. Since 1990, he has been delegated to work in trade union bodies. Ryszard Wąsowicz was nominated to the Supervisory Board of PGNiG by the President of the Trade Union of Workers of the Mining and Oil Industries (NSZZ Górników – Naftowców).

On May 15th 2014, he was appointed to the PGNiG Supervisory Board as a member elected by the employees.

Mateusz Boznański
Member of the Supervisory Board

Mateusz Boznański graduated from the Faculty of Law, Administration and Economics of the University of Wrocław. In 2002–2006, he completed legal training as an attorney-at-law at the Regional Bar Association in Wrocław. Since April 2007, he has worked as an attorney-at-law in his own law firm; in 2011–2015, he was also a partner in a law partnership.

In the course of his professional career, Mateusz Boznański has gained considerable experience in the provision of services to commercial-law companies (both Polish and foreign-owned) and to local government bodies.

As part of his duties, he has provided legal advice to capital groups across Poland, in particular with respect to civil, labour, EU, and commercial law. He provides ongoing legal advisory services with respect to construction law and related legal areas for companies operating in the property development sector. He also specialises in cases related to the protection of personal rights, acting as an attorney in major court trials. He has participated in bankruptcy proceedings of entities operating in the property development sector. Mateusz Boznański has also provided legal services as an attorney in proceedings before courts of general jurisdiction, as a lawyer in criminal proceedings, including with respect to criminal economic law, and criminal fiscal proceedings. He was (in 2010–2013) and, since 2013 to date, has been a member of the Human Rights Committee at the Polish Bar Council. Since 2013, he has been a member of the Audit Committee at the Regional Bar Association in Wrocław.

Mateusz Boznański has represented that he meets the independence criteria defined in Art. 36 of the Company's Articles of Association.

Andrzej Gonet
Member of the Supervisory Board

Andrzej Gonet graduated with honours from the Faculty of Drilling, Oil and Gas of the AGH University of Science and Technology in Kraków in 1975. He was then employed at the Faculty of Drilling, Oil and Gas, where in 1980 he defended with honours his doctoral thesis and in 1989 received the higher academic qualification of Doctor of Science. In 1998, he was awarded professorship and is now employed as a full professor at the AGH University of Science and Technology. He has completed several post-graduate programmes run by the AGH University of Science and Technology, Jagiellonian University and Polish Academy of Sciences, as well as a course for candidates to supervisory boards of state-stock companies. He was a member of the Supervisory Boards of ZUN Sp. z o. o. of Krosno (2000–2002) and PNiG Sp z o.o. of Kraków (2011–2013).

Andrzej Gonet has authored or co-authored over 300 publications, 260 unpublished research papers, 29 approved and submitted patents and 8 licences. He is a certified environmental impact assessment expert of the Kraków Province Governor, expert of the Polish Association of Oil and Gas Industry Engineers and Technicians, and has extensive professional experience gained in Poland and abroad. He has been a consultant and reviewer of many scientific papers and research projects. He is a member of the Drilling and Borehole Mining Section of the Mining Committee of the Polish Academy of Sciences.

Throughout his professional career he has held various positions, including head of the Drilling Department, Deputy Director of the Institute of Drilling, Oil and Gas, two terms of office as Vice-Dean and Dean of the Faculty of Drilling, Oil and Gas of the AGH University of Science and Technology, in which function he serves for the third term. In addition, Andrzej Gonet was a co-founder of the PWSZ Krosno State College, where he has served as Vice-Rector and Rector.

Anna Wellisz
Member of the Supervisory Board

Anna Wellisz is a graduate of the University of Warsaw. She has completed a postgraduate doctoral course at the Institute of Philosophy and Sociology of the Polish Academy of Sciences and a postgraduate course in Management at the Warsaw School of Economics. Holding a PhD in the humanities, she has received scholarships from Fondation Intellectuelle Européenne and the Czesław Miłosz Foundation. She is also a mediator licensed by the Minister of Family, Labour and Social Policy.

In the early 1990s, having defended her doctoral thesis, Anna Wellisz carried out academic research, principally into mass social movements, and then began to work as a consultant. As an expert at the NSZZ Solidarność Mazowsze Region's Consulting and Negotiation Office, she provided advice to company committees. As a partner of Grupa Gospodarcza Sp. z o.o., she was responsible for organisation, marketing and management projects, as well as regional restructuring and company restructuring programmes.

From 1996, Anna Wellisz held various management positions, working as Marketing Director at the Centrum Prywatyzacji Foundation, HR Deputy Director for employment policy and professional development at Polskie Sieci Elektroenergetyczne S.A., and CIECH S.A.'s Deputy Director of the Management Board Office (then the Owner Supervision and HR Policy Office).

In 2001, Anna Wellisz moved to New York to serve as First Secretary of the Economic and Trade Department of the Consulate General of the Republic of Poland. Since 2006, she has held various supervisory management positions in public administration – initially at the Ministry of Economy and then, since 2008, at the Ministry of Science and Higher Education. During her employment at the Ministry of Economy, she served as a member of the Supervisory Board of Spółka Restrukturyzacji Kopalń S.A. and Węglozbycie S.A.

Anna Wellisz is currently Deputy Director at the Department of Science of the Ministry of Science and Higher Education.

Piotr Sprzączak
Member of the Supervisory Board

Piotr Sprzączak is a graduate of the Maria Curie-Skłodowska University of Lublin and the National School of Public Administration of Warsaw. He began his professional career in 2011 at the Oil and Gas Department of the Ministry of Economy, and then the Ministry of Energy. He is currently Head of the Infrastructure Department at the Ministry of Energy.

His main professional focus is on matters related to security of natural gas supplies to Poland. As part of his professional duties, he negotiates EU laws and drafts legislation concerning security of gas supplies. He also coordinates activities related to Poland's membership in the EU and international organisations, energy agreements of which it is a signatory, as well as activities related to international cooperation. In 2011-2014, he was involved in preparing and updating the assessment of risk related to security of gas supplies, a prevention plan and an emergency response plan.

Changes in Supervisory Board

On April 16th 2015, the Annual General Meeting of PGNiG SA appointed Irena Ożóg and Maciej Mazurkiewicz as new Supervisory Board members.

On July 22nd 2015, Wojciech Chmielewski resigned from the position of Chairman and member of the PGNiG Supervisory Board.

On October 19th 2015, the Extraordinary General Meeting of PGNiG removed Agnieszka Woś from the PGNiG Supervisory Board and appointed Grzegorz Nakonieczny as a new Supervisory Board member.

On December 4th 2015, the State Treasury, acting pursuant to Art. 35.1 of the Company's Articles of Association, appointed Piotr Woźniak to the PGNiG Supervisory Board.

On December 11th 2015, the PGNiG Supervisory Board delegated Piotr Woźniak, member of the PGNiG Supervisory Board, to temporarily perform the duties of President of the PGNiG Management Board from December 11th 2015 to March 11th 2016.

On December 29th 2015, the Extraordinary General Meeting of PGNiG SA:

1. Removed the following persons from the PGNiG Supervisory Board:
   – Andrzej Janiak;
   – Maciej Mazurkiewicz;
   – Irena Ożóg;
   – Janusz Pilitowski; and
2. Appointed the following persons to the PGNiG Supervisory Board:
   – Wojciech Bieńkowski;
   – Mateusz Boznański;
   – Andrzej Gonet;
   – Krzysztof Rogala.

As Piotr Woźniak was appointed President of the Management Board of PGNiG, the Management Board and the Supervisory Board accepted his resignation from the position of member of the PGNiG Supervisory Board as of February 10th 2016.

On February 25th 2016, the Company received a letter of resignation from Krzysztof Rogala, in which he resigned as member of the PGNiG Supervisory Board.

On April 1st 2016, the State Treasury, acting pursuant to Art. 35.1 of the Company's Articles of Association, appointed Anna Wellisz to the PGNiG Supervisory Board.

On June 28th 2016, the Annual General Meeting of PGNiG removed Grzegorz Nakonieczny from the PGNiG Supervisory Board and appointed Bartłomiej Nowak and Piotr Sprzączak as the new Supervisory Board members.

Compliance policy

Compliance is to be understood as conformity with:

- Legal, regulatory and technical requirements binding on the Company as a business entity.
- Ethical standards based on codes of best practice, commitments and other forms of self-limitation adopted by the Company.
  jointly referred to as 'compliance standards'.

The separation of a compliance function is typical for developed organisations conducting their business in a complex legal environment. The practice of its separation originated in financial institutions, where the existence of dedicated compliance units is a regulatory requirement. For more information on the compliance function development, refer to a document prepared under the direction of the Polish Financial Supervision Authority.

As far as compliance is concerned, it is necessary to remember of the risk of non-compliance, i.e. the risk of infringement of compliance standards and its negative consequences. Violation of applicable laws may have adverse effects on many areas:

- The financial area, in the form of fines, damages, compensations and other liabilities that may arise for the Company.
- The Company's public image, the loss of which can be reflected in financial losses (e.g. in the case of environmental pollution).
- The Company's operations.
- The Company's value to stakeholders and shareholders (onerous sanctions imposed by the regulator or certain abusive practices may lead to a fall of the share price).

Non-compliance risk management system – Compliance at PGNiG

The formal basis for introduction of the compliance function at the Company is its compliance programme.

From among the various available solutions, the Company has adopted the one assuming that:

- Compliance is an special element of PGNiG's risk management, which is clearly demonstrated by implementation of the compliance function as part of the non-compliance risk management system.
- The Management Board appoints a Compliance Officer, responsible for coordination and information.
- Taking into consideration the wide scope of the Company's activities, each area at risk of non-compliance was assigned a non-compliance risk area manager (leader).
- Ultimately, responsibility for non-compliance risk management and performance of duties arising from the compliance programme lies with the risk owner (acting with the relevant non-compliance risk area manager, as applicable).

The compliance programme provides for certain regular obligations, such as periodic reporting on compliance standards, non-compliance risks (with their assessment as to materiality and probability of occurrence), and risk response (risk management method and cost of response).

Moreover, the programme imposes certain constant obligations, which consist mainly in monitoring of changes in compliance standards and reporting of material risks to the Compliance Officer.

Every employee can report suspected misconduct or abuse through the 'compliance line' established under the programme. When submitting such report, it is important to remember about the protection of confidential data; for more information, refer to 'Contacting the Compliance Officer'. An employee submitting such report will not face any disciplinary action.

Key non-compliance risk areas

Competition law

The Company has in place an antitrust and regulatory procedure, which every employee is obliged to follow.

A violation of antitrust law may result in serious consequences for the Company, and in some cases may involve liability on the part of persons managing the Company (particularly in the case of entering into cartel agreements or other antitrust agreements, failure to perform the antitrust authority's decisions, or absence of an obligatory notice of intended concentration, i.e. merger or acquisition).

Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25th 2011 on wholesale energy market integrity and transparency (REMIT), which is binding on all participants of the electricity and natural gas wholesale markets.

PGNiG's REMIT publications: https://komunikaty.pgnig.pl/Remit?lang=en

Sector regulations – REMIT

Regulation on Energy Market Integrity and Transparency (REMIT) entered into force on December 28th 2011. The regulation is binding in its entirety and directly applicable in all Member States, i.e. it does not require implementation into a Member State's legislation, and applies not only to Member States, but to all entities concerned.

REMIT provides for an obligation of public disclosure of inside information. Additional requirements coming into force upon adoption by the European Commission of the so-called implementing acts include an obligation to register as a market participant in a register maintained by the national regulatory authority, an obligation to disclose information on transactions and orders to trade (transaction reporting), as well as disclosure of fundamental data.

Investor relations and financial markets regulations

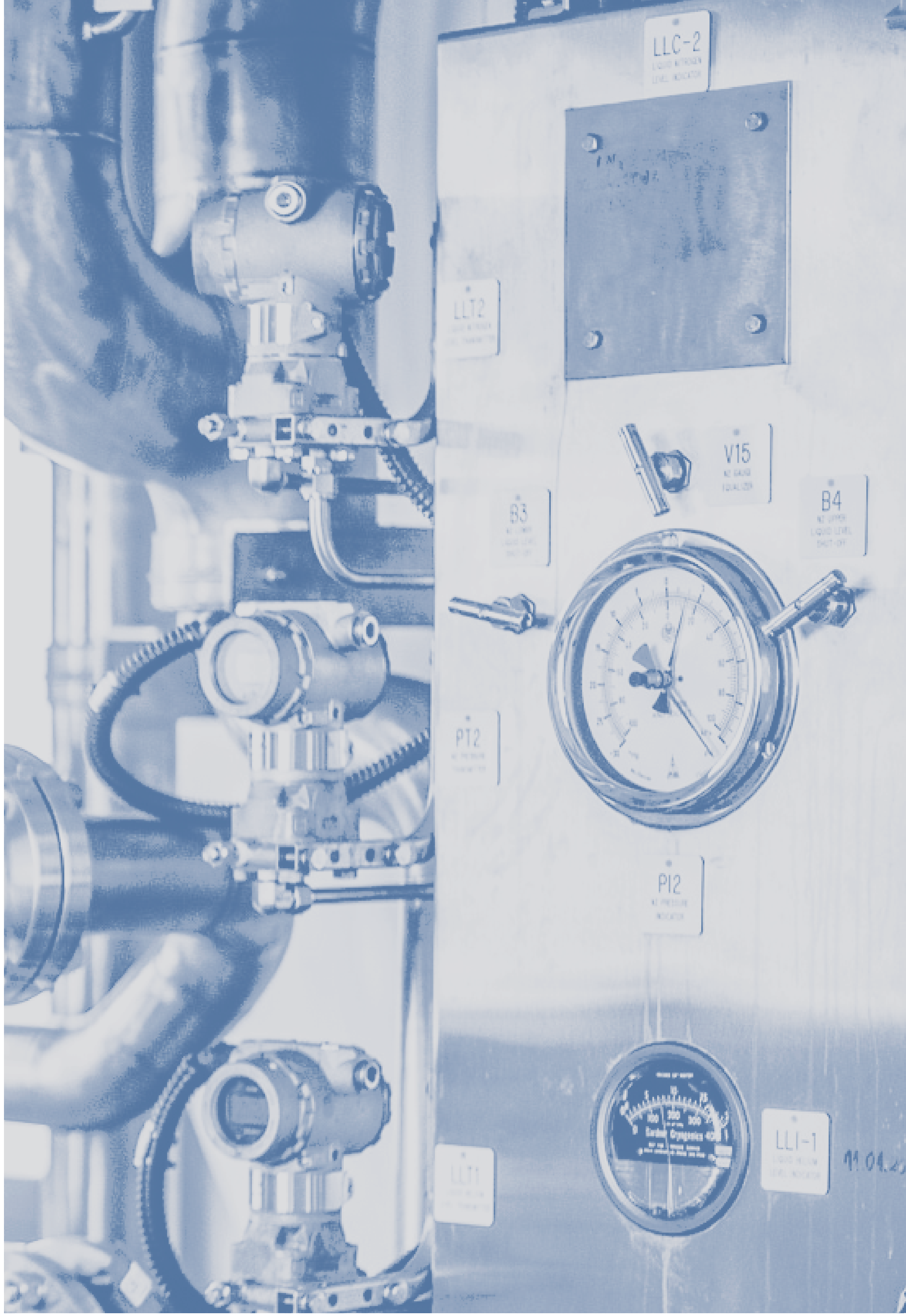
As a share issuer listed on the stock exchange, PGNiG is obliged to comply with the disclosure obligations under Polish laws: the Commercial Companies Code,

the Public Offering Act, the Act on Trading in Financial Instruments, the Accountancy Act and the Regulation on current and periodic information, as well as EU laws: the Market Abuse Regulation and the Transparency Directive.

The Company and the PGNiG Group have adopted a procedure for complying with the disclosure obligations of a public company, which every employee is required to follow.

Contacting the Compliance Officer

The compliance programme has established a compliance line – a special channel for communication with the Compliance Officer. Suspected abuse or misconduct can be reported by every Company employee, partner and external stakeholder.



Consolidated financial statements

Ewelina Wochnik
Chemist, PGNiG Zielona Góra Branch, Oil and Gas Production Facility in Lubiatów

Her responsibilities include sample taking. In the laboratory, she examines and marks the samples. She is responsible for quality of the production process, analysis of results and reporting.

Consolidated financial statements 2015

If we look at cumulative data for the year, we can see a growing impact of the price collapse especially in the case of oil prices. EBITDA fell 4% year on year, by over PLN 260m.

In a tough business environment affecting all upstream companies, our results were supported by increased output of crude oil and condensate in our Norwegian subsidiary, reaching almost 0.7 million tonnes, that is 250 thousand tonnes more than in 2014.

Revenue and expenses grew mainly as a result of fulfilment of the exchange sale requirement and growing volumes of gas traded through the Polish Power Exchange (TGE). To achieve pro-forma data comparability, an amount of approximately PLN 5.1bn should be subtracted from these items, in which case we would see revenue fall faster (9%) than expenses (8%) as a result of lower tariff prices.

One-off items also had a material impact on the Group's performance. In 2015, the net effect of impairment losses, write-downs, provisions and dry wells/seismic surveys written off was PLN -1,062m, compared with PLN -1,513m in 2014, which means a positive change of over PLN 450m.

A factor with a negative impact on net profit was income tax in the P&L increasing 9%, to almost PLN 880m, despite profit before tax being lower by over PLN 600m. The reason is the high tax rate in Norway. However, it should be remembered that no income tax is paid in Norway due to an accumulated tax asset of 1.1bn Norwegian krone.

For the past few quarters, we have seen shifts in the contributions of individual segments to consolidated EBITDA. Last year, our Exploration and Production business accounted for almost 50% of the Group's total, while the share of Distribution was around 31%. In 2015, these figures stood at 40% and 39%, respectively.

The strong result in the Distribution segment was driven by a 2% rise in the volume of distributed gas, a 3% increase in the distribution tariff, and a positive effect of system balancing amounting to PLN +64m (compared with PLN -49m the year before). The segment's EBITDA increased by over PLN 336m.

The Generation business also contributed to the Group's strong performance. Although heat and power output fell slightly compared with 2014, the segment's EBITDA rose by more than PLN 217m, driven by lower fuel prices (with the largest drops reported in the first quarter), higher heat tariff price, and a 6% rise in the price of electricity sold. It is important to note that almost all of the planned electricity output is sold before the start of a year, which has an impact on the selling prices.

The PGNiG Group's financial standing remains strong. At the end of December, the Group reported close to PLN 6bn in cash, with the net debt to EBITDA ratio close to 0. Net debt at the end of 2015 was PLN 142m.

2016 will be another challenging year for the PGNiG Group.

Oil and gas oversupply, further impairment of production assets and declining oil production volumes, coupled with low prices of hydrocarbons, are likely to exert a negative impact on performance in the Exploration and Production segment.

The discount policy pursued in the Trade and Storage segment should help retain and recoup the lost volumes of sales to business customers.

Stable performance in the Distribution area will be supported by rising volumes of distributed gas, driven by completed expansion projects and new connections, and by further cost efficiency improvements.

Lower prices of fuels for heat and power generation should boost profitability of the Generation business.

The consistent implementation of the Efficiency Improvement Programme is expected to have a positive impact on operating expenses across the Group.

Consolidated financial statements for the financial year ended 31 December 2015 is available on website www.en.pgnig.pl/investor-relations/reports/periodic-reports.

Opinion of the independent auditor

To the Shareholders and Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo S.A.

We have audited the accompanying consolidated financial statements of Capital Group PGNiG, seated in Warsaw at M. Kasprzaka 25 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility

Management of the Parent Entity is responsible for the correctness of the accounting records, the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by European Union, the requirements for issuers of securities admitted to trading on an official stock-exchange listing market and other applicable regulations and preparation of the Report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, No. 330 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the Report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements and on this consolidated financial statements accordance with the rules demanding to use Group's accounting policy of this consolidated financial statement and whether the consolidated financial statements are derived from properly maintained accounting records. We conducted our audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and in matters not regulated by the national standards on auditing, when determining the detailed methodology for the planning and performing the audit and if in doubt – International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and the accounting records from which they are derived are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of PGNiG Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Accounting Standards, International Financial Reporting Standards as adopted by the European Union and related interpretations issued in form of regulation of European Commission and to the extent not regulated by those standards – in accordance the Accounting Act and related bylaws, the requirements for issuers of securities admitted to trading on an official stock-exchange listing market, are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act, we also report that the Report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

Signed on the Polish original
Mariusz Kuciński
Certified Auditor No. 9802
Group's Key Certified Auditor
On behalf of PKF Consult Spółka z ograniczoną odpowiedzialnością Sp. k.
registration number 477
Orzycka 6 lok. 1B
02–695 Warsaw
Warsaw, 19 February 2016

The report supplementing the auditor's opinion of consolidated financial statements for the financial year ended 31 December 2015 is available on website www.en.pgnig.pl/investor-relations/reports/periodic-reports.

Financial highlights

for the year ended December 31st 2015

	PLNm		EURm	
Consolidated financial data	Year ended Dec 31 2015	Year ended Dec 31 2014	Year ended Dec 31 2015	Year ended Dec 31 2014
Revenue	36,464	34,304	8,713	8,188
Operating profit/(loss)	3,290	3,843	786	917
Profit/(loss) before tax	3,014	3,626	720	866
Net profit/(loss) attributable to owners of the parent	2,134	2,823	510	674
Net profit/(loss)	2,136	2,822	510	674
Comprehensive income attributable to owners of the parent	1,767	2,602	422	621
Total comprehensive income	1,769	2,601	423	621
Net cash (used in)/generated by operating activities	7,258	6,979	1,734	1,666
Net cash (used in)/generated by investing activities	(3,147)	(3,680)	(752)	(878)
Net cash (used in)/generated by financing activities	(829)	(3,169)	(198)	(756)
Net increase/(decrease) in cash and cash equivalents	3,282	130	784	31
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (in PLN and EUR)	0.36	0.48	0.09	0.11

	As at Dec 31 2015	As at Dec 31 2014	As at Dec 31 2015	As at Dec 31 2014
Total assets	49,825	48,926	11,692	11,479
Total liabilities	19,084	18,757	4,478	4,401
Total non-current liabilities	12,795	12,384	3,002	2,905
Total current liabilities	6,289	6,373	1,476	1,496
Total equity	30,741	30,169	7,214	7,078
Share capital	5,900	5,900	1,384	1,384
Weighted average number of shares (million)	5,900	5,900	5,900	5,900
Book value per share and diluted book value per share (in PLN and EUR)	5.21	5.11	1.22	1.20
Dividend per share declared or paid (in PLN and EUR)	0.20	0.15	0.05	0.04

Items of the statement of profit or loss, statement of comprehensive income and statement of cash flows were translated at the EUR/PLN exchange rate computed as the arithmetic mean of mid rates quoted by the National Bank of Poland (NBP) for the last day of each calendar month in a given reporting period.

Items of the statement of financial position were translated at the average EUR/PLN exchange rate quoted by the NBP at the end of a given period.

Average EUR/PLN exchange rates quoted by the NBP

	Dec 31 2015	Dec 31 2014
Average exchange rate in period	4.1848	4.1893
Exchange rate at end of period	4.2615	4.2623

Consolidated statement of profit or loss

for the year ended December 31st 2015

	3 months ended Dec 31 2015	Year ended Dec 31 2015	3 months ended Dec 31 2014	Year ended Dec 31 2014
	audited	audited	audited	audited
Revenue	**9,769**	**36,464**	**11,487**	**34,304**
Raw materials and consumables used	(6,722)	(24,216)	(8,027)	(21,229)
Employee benefits expense	(908)	(2,714)	(823)	(2,827)
Depreciation and amortisation expenses	(717)	(2,790)	(600)	(2,502)
Services	(813)	(2,674)	(818)	(2,843)
Work performed by the entity and capitalised	312	953	313	980
Other income and expenses	(867)	(1,733)	(773)	(2,040)
Total operating expenses	**(9,715)**	**(33,174)**	**(10,728)**	**(30,461)**
Operating profit/(loss)	**54**	**3,290**	**759**	**3,843**
Finance income	21	80	18	86
Finance costs	(92)	(305)	(149)	(432)
Share in net profit/(loss) of equity-accounted entities	–	(51)	129	129
Profit/(loss) before tax	**(17)**	**3,014**	**757**	**3,626**
Income tax	(4)	(878)	(71)	(804)
Net profit/(loss)	**(21)**	**2,136**	**686**	**2,822**
Attributable to:				
Owners of the parent	(21)	2,134	688	2,823
Non-controlling interests	–	2	(2)	(1)
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (PLN)	(0.004)	0.36	0.12	0.48

Consolidated statement of comprehensive income

for the year ended December 31st 2015

	3 months ended Dec 31 2015	Year ended Dec 31 2015	3 months ended Dec 31 2014	Year ended Dec 31 2014
	audited	audited	audited	audited
Net profit/(loss)	**(21)**	**2,136**	**686**	**2,822**
Other comprehensive income that will be reclassified to profit or loss if specific conditions are met, relating to:	**(208)**	**(334)**	**(193)**	**(197)**
• Exchange differences on translating foreign operations	16	15	(34)	18
• Hedge accounting	(277)	(431)	(196)	(265)
• Deferred tax	53	82	37	50
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**(46)**	**(33)**	**(13)**	**(24)**
• Actuarial gains/(losses) on employee benefits	(56)	(35)	(19)	(32)
• Deferred tax	10	2	6	8
Other comprehensive income, net	**(254)**	**(367)**	**(206)**	**(221)**
Total comprehensive income	**(275)**	**1,769**	**480**	**2,601**
Attributable to:				
• Owners of the parent	(275)	1,767	482	2,602
• Non-controlling interests	–	2	(2)	(1)

Consolidated statement of financial position

as at December 31st 2015

	As at Dec 31 2015	As at Dec 31 2014
	audited	**audited**
ASSETS		
Non-current assets		
Property, plant and equipment	32,967	33,528
Investment property	12	9
Intangible assets	1,138	1,113
Investments in equity-accounted entities	840	856
Other financial assets	275	243
Deferred tax assets	1,575	1,783
Other non-current assets	152	160
Total non-current assets	**36,959**	**37,692**
Current assets		
Inventories	2,229	3,189
Trade and other receivables	3,372	4,236
Current tax assets	7	5
Other assets	146	132
Derivative financial instrument assets	709	567
Cash and cash equivalents	6,239	2,958
Assets held for sale	**164**	**147**
Total current assets	**12,866**	**11,234**
Total assets	**49,825**	**48,926**
EQUITY AND LIABILITIES		
Equity		
Share capital	5,900	5,900
Share premium	1,740	1,740
Accumulated other comprehensive income	(637)	(270)
Retained earnings/(deficit)	23,733	22,794
Equity attributable to owners of the parent	30,736	30,164
Equity attributable to non-controlling interests	5	5
Total equity	**30,741**	**30,169**

	As at Dec 31 2015	As at Dec 31 2014
	audited	**audited**
Non-current liabilities		
Borrowings and other debt instruments	5,799	5,069
Employee benefit obligations	565	604
Provisions	1,728	1,803
Deferred revenue	1,511	1,581
Deferred tax liabilities	3,090	3,250
Other non-current liabilities	102	77
Total non-current liabilities	**12,795**	**12,384**
Current liabilities		
Trade and other payables	3,288	3,589
Borrowings and other debt instruments	583	769
Derivative financial instrument liabilities	1,165	593
Current tax liabilities	53	191
Employee benefit obligations	352	284
Provisions	694	720
Deferred revenue	154	227
Total current liabilities	**6,289**	**6,373**
Total liabilities	**19,084**	**18,757**
Total equity and liabilities	**49,825**	**48,926**

Consolidated statement of cash flows

for the year ended December 31st 2015

	Year ended Dec 31 2015	Year ended Dec 31 2014
	audited	audited
Cash flows from operating activities		
Net profit/(loss)	2,136	2,822
Adjustments:		
• Share in net profit/(loss) of equity-accounted entities	51	(129)
• Depreciation and amortisation expenses	2,790	2,502
• Net foreign exchange gains/(losses)	(24)	201
• Net interest and dividend	127	127
• Gain/(loss) on investing activities	578	739
• Current tax expense	878	804
• Other items, net	276	910
Income tax paid	(833)	(677)
Cash flows from operating activities before movements in working capital	**5,979**	**7,299**
• Movements in working capital:		
• Change in trade and other receivables	823	(128)
• Change in inventories	960	189
• Change in employee benefit obligations	29	11
• Change in provisions	(85)	130
• Change in current liabilities	(255)	(477)
• Change in other assets	(13)	(31)
• Change in deferred revenue	(180)	(14)
Net cash (used in)/generated by operating activities	**7,258**	**6,979**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment and intangible assets	77	30
Proceeds from disposal of shares in non-related entities	2	1
Payments for property, plant and equipment and intangible assets	(3,154)	(3,781)
Payments for shares in related entities	(59)	(1)
Interest received	-	4
Dividends received	2	3
Other items, net	(15)	64
Net cash (used in)/generated by investing activities	**(3,147)**	**(3,680)**

	Year ended Dec 31 2015	Year ended Dec 31 2014
	audited	audited
Cash flows from financing activities		
Proceeds from borrowings	1,639	152
Proceeds from issue of debt securities	309	377
Repayment of borrowings	(937)	(1,096)
Repayment of debt securities	(390)	(1,429)
Payment of finance lease liabilities	(38)	(50)
Proceeds from derivative financial instruments	84	84
Payment for derivative financial instruments	(81)	(98)
Dividends paid	(1,180)	(885)
Interest paid	(213)	(218)
Other items, net	(22)	(6)
Net cash (used in)/generated by financing activities	**(829)**	**(3,169)**
Net increase/(decrease) in cash and cash equivalents	**3,282**	**130**
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1)	1
Cash and cash equivalents at beginning of period	**2,956**	**2,826**
Cash and cash equivalents at end of period	**6,238**	**2,956**

Consolidated statement of changes in equity

for the year ended December 31st 2015

	Equity (attributable to owners of the parent)								
			Accumulated other comprehensive income, including:						
	Share capital	Share premium	Exchange differences on translating foreign operations	Hedging reserve	Actuarial gains/ (losses) on employee benefits	Retained earnings/ (deficit)	Total	Equity (attributable to non-controlling interests)	Total equity
As at Jan 1 2015 (audited)	**5,900**	**1,740**	**(66)**	**(216)**	**12**	**22,794**	**30,164**	**5**	**30,169**
Dividend	–	–	–	–	–	(1,180)	(1,180)	–	(1,180)
Purchase of shares from non–controlling interests	–	–	–	–	–	–	–	(2)	(2)
Changes in the Group – deconsolidation	–	–	–	–	–	(15)	(15)	–	(15)
Total comprehensive income	**–**	**–**	**15**	**(349)**	**(33)**	**2,134**	**1,767**	**2**	**1,769**
• Net profit/(loss)	–	–	–	–	–	2,134	2,134	2	2,136
• Other comprehensive income, net	–	–	15	(349)	(33)	–	(367)	–	(367)
As at Dec 31 2015 (audited)	**5,900**	**1,740**	**(51)**	**(565)**	**(21)**	**23,733**	**30,736**	**5**	**30,741**
As at Jan 1 2014 (audited)	**5,900**	**1,740**	**(84)**	**(1)**	**36**	**20,856**	**28,447**	**6**	**28,453**
Dividend	–	–	–	–	–	(885)	(885)	–	(885)
Total comprehensive income	**–**	**–**	**18**	**(215)**	**(24)**	**2,823**	**2,602**	**(1)**	**2,601**
• Net profit/(loss)	–	–	–	–	–	2,823	2,823	(1)	2,822
• Other comprehensive income, net	–	–	18	(215)	(24)	–	(221)	–	(221)
As at Dec 31 2014 (audited)	**5,900**	**1,740**	**(66)**	**(216)**	**12**	**22,794**	**30,164**	**5**	**30,169**

Operating segments

for the year ended December 31st 2015

	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Statement of profit or loss							
Sales to external customers	3,148	31,274	654	1,215	173	-	36,464
Inter-segment sales	1,707	468	3,931	672	152	(6,930)	-
Segment's total revenue	4,855	31,742	4,585	1,887	325	(6,930)	36,464
Depreciation and amortisation	(1,331)	(242)	(889)	(312)	(18)	2	(2,790)
Other costs	(2,429)	(31,119)	(2,246)	(1,208)	(313)	6,931	(30,384)
Segment's total costs	(3,760)	(31,361)	(3,135)	(1,520)	(331)	6,933	(33,174)
Operating profit/(loss)	**1,095**	**381**	**1,450**	**367**	**(6)**	**3**	**3,290**
Net finance costs							(225)
Share in net profit/(loss) of equity-accounted entities		(51)					(51)
Profit/(loss) before tax							**3,014**
Income tax							(878)
Net profit/(loss)							**2,136**
STATEMENT OF FINANCIAL POSITION							
Segment's assets	14,743	18,283	14,331	4,256	282	(5,240)	46,655
Investments in equity-accounted entities		840					840
Unallocated assets							755
Deferred tax assets							1,575
Total assets							**49,825**
Total equity							30,741
Segment's liabilities	4,065	4,616	2,515	2,016	128	(4,948)	8,392
Unallocated liabilities							7,602
Deferred tax liabilities							3,090
Total equity and liabilities							**49,825**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(1,460)	(171)	(1,180)	(353)	(7)	17	(3,154)
Impairment losses on assets	(2,947)	(1,797)	(121)	(56)	(18)	-	(4,939)
Impairment losses on unallocated assets							(46)

Operating segments

for the year ended December 31st 2014

	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Statement of profit or loss							
Sales to third-party customers	4,346	28,367	280	1,149	162	–	34,304
Inter-segment sales	1,725	458	4,003	794	163	(7,143)	–
Segment's total revenue	6,071	28,825	4,283	1,943	325	(7,143)	34,304
Depreciation and amortisation expenses	(1,137)	(181)	(864)	(301)	(20)	1	(2,502)
Other costs	(2,928)	(28,061)	(2,281)	(1,480)	(373)	7,164	(27,959)
Segment's total costs	(4,065)	(28,242)	(3,145)	(1,781)	(393)	7,165	(30,461)
Operating profit/(loss)	**2,006**	**583**	**1,138**	**162**	**(68)**	**22**	**3,843**
Net finance costs							(346)
Share in net profit/(loss) of equity-accounted entities		129					129
Profit/(loss) before tax							**3,626**
Income tax							(804)
Net profit/(loss)							2,822
Statement of financial position							
Segment's assets	15,442	18,299	14,142	4,184	387	(6,780)	45,674
Investments in equity-accounted entities		856					856
Unallocated assets							613
Deferred tax assets							1,783
Total assets							**48,926**
Total equity							30,169
Segment's liabilities	5,531	4,873	2,638	2,049	219	(6,427)	8,883
Unallocated liabilities							6,624
Deferred tax liabilities							3,250
Total equity and liabilities							**48,926**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(2,063)	(269)	(1,091)	(285)	(10)	(63)	(3,781)
Impairment losses on assets	(2,381)	(1,590)	(112)	(26)	(22)	–	(4,131)
Impairment losses on unallocated assets							(46)

Conversion factors

	1 bcm of natural gas	1 bn cf of natural gas	1 mn tonnes of crude oil	1 mn tonnes of LNG	1 mn tonnes of hard coal	1 x 10^{12} Btu	1 PJ	1 mn boe	1 TWh
1 bcm of natural gas	1	35,3	0,90	0,73	1,35	36	38	6,45	10,97
1 bn cf of natural gas	0,028	1	0,026	0,021	0,038	1,03	1,08	0,18	0,29
1 mn tonnes of crude oil	1,113	39,2	1	0,81	1,52	40,4	42,7	7,33	11,65
1 mn tonnes of LNG	1,38	48,7	1,23	1	1,86	52	55	8,68	14,34
1 mn tonnes of hard coal	0,74	26,1	0,66	0,54	1	26,7	28,1	4,66	8,14
1 x 10^{12} Btu	0,028	0,98	0,025	0,02	0,038	1	1,06	0,17	0,29
1 PJ	0,026	0,93	0,23	0,019	0,036	0,95	1	0,17	0,28
1 mn boe	0,16	5,61	0,14	0,12	0,21	5,8	6,04	1	1,70
1 TWh	0,096	3,41	0,086	0,07	0,123	3,41	3,6	0,59	1

Contact

Dariusz Świątek
Shift Manager,
PGNiG Zielona Góra Branch,
Wierzchowice Underground
Gas Storage Facility

He supervises the mining installation of Wierzchowice UGS Central Facility, with respect to its operational optimisation. On behalf of the UGS operator, he is responsible for reporting and supervising its operating parameters. He is a behavioural auditor of the Wierzchowice UGS.

Contact

PGNiG Head Office
25 M. Kasprzaka St.
01-224 Warsaw
Phone 22 589 45 55
Fax 22 691 82 73
www.pgnig.pl

Communication Department
Phone 22 691 45 92
e-mail: pr@pgnig.pl

Investor Relations Division
Phone 22 589 46 51, 22 589 46 71, 22 589 43 22
Fax 22 691 81 23
e-mail: ri@pgnig.pl
www.en.pgnig.pl/investor-relations

Wholesale Trade Branch in Warsaw
25A M. Kasprzaka St.
01-224 Warsaw
Phone 22 691 79 56
Fax 22 691 84 52

Geology and Hydrocarbon
Production Branch in Warsaw
25A M. Kasprzaka St.
01-224 Warsaw
Phone 22 589 45 75
Fax 22 589 43 78

Central Measurement
and Research Lab in Warsaw
25B M. Kasprzaka St.
01-224 Warsaw
Phone 22 691 87 53
Fax 22 691 87 59
e-mail: clpb@pgnig.pl
www.clpb.pgnig.pl

Branch in Sanok
12 H. Sienkiewicza St.
38-500 Sanok
Phone 13 465 21 11
Fax 13 463 55 55
e-mail: sanok@pgnig.pl
www.sanok.pgnig.pl

Branch in Odolanów
148 Krotoszyńska St.
63-430 Odolanów
Phone 62 736 44 41
Fax 62 736 59 89
e-mail: odolanow@pgnig.pl
www.odolanow.pgnig.pl

Branch in Zielona Góra
15 Bohaterów Westerplatte St.
65-034 Zielona Góra
Phone 68 329 14 00
Fax 68 329 13 37
e-mail: zielonagora@pgnig.pl
www.zielonagora.pgnig.pl

Well Mining Rescue Station in Kraków
25A Sołtysowska St.
31-589 Cracow
Phone 12 644 51 54, 695 188 498
Fax 12 680 26 75
e-mail: rsgo@pgnig.pl
www.rsgo.pgnig.pl

Operating Branch in Pakistan
House No 2, Street 40, Sektor F-6/1
Islamabad 44000, Pakistan
Phone +92 51 265 45 91
Fax +92 51 265 45 94

Representative Office in Brussels
Rond Point Schuman 6
1040 Brussels, Belgium
Phone +32 2 234 79 80
Fax +32 2 234 79 12
e-mail: brussels@pgnig.pl

Representative Office in Belarus
225081 Brzesk District
Region Kamieniec
village: Makarova, Republic of Bielarus
„Wysokoje" Gas Measurement Station
tel./fax +375 163 171 368

Representative Office in Kiev
вул. Ш. Руставелі 31 – 6, кв. № 16
01 333 Kiev/м. Київ, Ukraine/Україна
tel./fax +380 44 284 34 01
e-mail: kiev@pgnig.pl

Representative Office in Moscow
St. Wawilowa House No. 79, Sector 1, Office No. 5
ул. Вавилова д. 79, кор. 1, офис № 5
117335 Moscow/Москва, Russia/Россия
tel. +7 495 775 38 56
fax +7 495 775 38 57
e-mail: moscow@pgnig.pl

Tomasz Wanowski
Mining Engineer

Piotr Pożarski
Senior Production Installations Operator, PGNiG Zielona Góra Branch, Administrative Centre for Oil and Gas Production Facilities in Drezdenko, Sowia Góra well

Supervise production from the oil and gas well. Responsible for operation, inspection and maintenance of equipment and installations, ad-hoc and scheduled repairs and overhauls, repair of equipment and installation failures. Take oil and gas samples for testing.