Annual Report

PGNiG 2012

PGNiG
Polish Oil & Gas Company

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The following abbreviations and acronyms are used in this Report:

- PGNiG – the parent company of the PGNiG Group, i.e. Polskie Górnictwo Naftowe i Gazownictwo SA (Polish Oil and Gas Company)
- PGNiG Group – the PGNiG group of companies

Contents

Mission

Our mission is to provide reliable and safe supplies of clean and environmentally friendly energy, using competitive and innovative energy solutions.

We remain true and faithful to our tradition and to our customers who trust us, but at the same time we are open-minded and ready to face new challenges.

Acting in the best interest of our shareholders, customers and employees, we strive to be a reliable and trustworthy partner, and an organisation that delivers growth and ever-greater value in accordance with the principles of sustainable development.

The PGNiG Group's key figures

The PGNiG Group is the leader of the Polish natural gas market. The Group companies have approximately 32,000 employees. Outside Poland, where the PGNiG Group ranks among the largest employers, we are present across several continents, in multiple countries, including Belgium, Denmark, Egypt, Norway, Pakistan, Russia, Kazakhstan, Uganda, Czech Republic, Austria, Germany, Belarus, Ukraine, and Hungary.

The Group's core business is the production and sale of natural gas and crude oil. Both domestically and abroad, we are engaged in geophysical and geological research, exploration for and production of hydrocarbons, as well as preparation of products for sale.

The Group sells natural gas produced in Poland as well as imported gas. To secure stable and continuous supplies of natural gas, the PGNiG Group stores gas in eight modern underground gas storage facilities. Gas is supplied to our customers through thousands of kilometres of pipelines, owned and operated by six regional gas distribution companies.

Natural gas imports

11 bn m^3

Natural gas production

4.32 bn m^3

Production of crude oil and condensate

492 ths tonnes

Sales of natural gas

14.91 bn m^3

Distribution network length

121 ths km

Sales of heat

40.2 PJ

PGNiG has been listed on the Warsaw Stock Exchange since September 2005. The PGNiG Group has enjoyed growing trust and confidence of the capital market and has been assigned excellent credit ratings. Our strong position is confirmed by the fact that PGNiG shares are included in WIG20, the blue-chip index of the Warsaw Stock Exchange. Since October 2009, the shares have also been included in the "RESPECT Index" of socially responsible companies. Moreover, PGNiG was ranked fifth in the "Lista 500" of the largest Polish businesses for 2012, compiled by the Rzeczpospolita daily newspaper and published in April 2013.

Sales of electricity

3.7 TWh

Key Events

January

PGNiG, through its subsidiary PGNiG SPV1, acquired 99.8% of shares in Vattenfall Heat Poland SA (currently PGNiG Termika) for approximately PLN 3 bn. The acquisition was financed by PGNiG with proceeds from a notes programme. With this transaction, PGNiG has become a multi-utility group, supplying heat, electricity and gas to its customers.

For the fourth consecutive time, PGNiG was included in the prestigious group of companies making up the Respect Index, the CEE region's first index of socially responsible businesses, compiled by the Warsaw Stock Exchange.

February

In licensing round APA2011, the Norwegian Ministry of Hydrocarbons and Energy awarded PGNiG Norway interests in three exploration and production licences in Norway: licence PL648S (PGNiG Norway (operator) 50%, OMV Norge AS 50%), licence PL646 (Wintershall Norge AS (operator) 40%, PGNiG Norway 20%, Lundin Norway AS 20%, Norwegian Energy Company ASA 20%) and licence PL350B, which is extended licence PL350 (EON (operator) 40%, PGNiG Norway 30%, Statoil 30%). Being awarded with operatorship of the PL648S licence is a significant step forward for the company. It is the first operatorship awarded to PGNiG Norway, and it highlights the company's natural development.

PGNiG Finance issued the first, EUR 500 m tranche of five-year eurobonds as part of its Eurobond Programme established in August 2011.

PGNiG drafted the Gas Deregulation Programme, which was put to public consultation. The draft was prepared based on documents including the President of the Energy Regulatory Office's recommendations for gas deregulation in Poland, dated November 15th 2011, as well as the Natural Gas Prices Deregulation Roadmap, dated December 22nd 2011. The purpose of the Programme is to create market conditions under which gas prices for institutional customers can be deregulated. PGNiG is aware that the Polish gas market may be subject to major changes post-deregulation.

On February 20th 2012, the Company filed a suit against OAO Gazprom and OOO Gazprom Export with the Arbitration Court in Stockholm, in accordance with the relevant procedure. The suit relates to changes of the price terms in the long-term gas supply contract of September 25th 1996 executed by PGNiG with OAO Gazprom and OOO Gazprom Export.

March

The Supervisory Board appointed Ms Grażyna Piotrowska-Oliwa to the position of President of the PGNiG Management Board for the joint term of office expiring on March 13th 2014.

The President of the Energy Regulatory Office approved a new gas fuel tariff (Part A – Gas Fuel Supply Tariff No. 5/2012). On average, the prices and charge rates for the supply of high-methane gas type E, and nitrogen-rich gas types Lw and Ls were increased by 12.5%, 12.6% and 11.3%, respectively. The tariff came into force as of March 31st 2012.

April

PGNiG completed construction of a high-pressure pipeline between the Kłodawa mixing plant and the LMG oil and gas production facility. The pipeline will enable the transmission of natural gas from the Dębno region, through the Kłodawa mixing plant and LMG oil and gas production facility, to the Grodzisk mixing and nitrogen rejection unit, and will be used as a storage facility to cover temporary shortages of nitrogen-rich gas.

In accordance with a decision of the President of the Energy Regulatory Office, PGNiG implemented a new Gaseous Fuel Storage Tariff, effective until March 31st 2013. In the new Tariff, the average rate of charges for gas storage services was reduced by approximately 7.9%.

A notice was given by BP, the operator of the Skarv project, that the launch of oil and gas production on the Norwegian Continental Shelf would be postponed from Q2 2012 to Q4 2012. The postponement was caused by a delay in the installation of risers due to adverse weather conditions on the Norwegian Sea.

The Stalowa Wola CHP plant signed a contract with Abener of Spain, to be the general contractor for the CCGT unit in Stalowa Wola. The contract, valued at PLN 1.57 bn (VAT exclusive), provides for construction of Poland's largest gas-fired CHP plant and for long-term maintenance of the gas turbine.

The PGNiG Management Board resolved to recommend to the General Meeting transfer of the entire 2011 balance-sheet profit of PLN 1.62 bn to the Company's statutory reserve fund. The PGNiG Management Board also proposed to allocate retained earnings of PLN 72.5 m to the Company's statutory reserve funds. In May 2012, the PGNiG Supervisory Board endorsed the Management Board's proposal.

May

Mr Marek Karabuła resigned from his position as member of the PGNiG Management Board and took the position of President of the Management Board of POGC Libya, a PGNiG subsidiary conducting exploration activities in Libya.

PGNiG published its financial results for Q1 2012. The PGNiG Group posted a PLN 297 m net profit, down by 71% from PLN 1 bn in Q1 2011. One of the main reasons behind the decline, despite a 27% growth in revenue (to nearly PLN 9 bn), was a negative margin on sales of high-methane gas (-10%). This was, in turn, primarily attributable to a 41% increase in the unit purchase price of imported gas and the lack of a new tariff approval, for which PGNiG had already applied in October 2011. The Group's revenue was up 27%, to almost PLN 9 bn, mainly on the back of a sharp rise in gas sales volumes and inclusion of PGNiG Termika in the consolidated financial statements. Once again, the Exploration and Production segment recorded a two-digit increase in revenue from exploration services.

PGNiG executed documents on a five-year note programme for up to PLN 4.5 bn with ING Bank Śląski SA and Bank Pekao SA. Under the programme, PGNiG may issue for private placement fixed or floating rate notes with maturities of up to 10 years.

PGNiG Termika completed the construction of a wet flue gas desulphurisation unit at the Siekierki CHP plant. The unit supports eight of the 14 boilers installed at the CHP plant and desulphurises emissions from 70% of its generating capacity.

June

The Annual General Meeting of PGNiG approved the financial statements and the Directors' Reports on the operations of PGNiG, as well as the consolidated financial statements and the Directors' Report on the operations of the PGNiG Group, and granted discharge to members of the PGNiG Management and Supervisory Boards for the financial year 2011. The Annual General Meeting resolved to allocate the entire net profit and retained earnings for 2011, respectively of PLN 1.6 bn and PLN 72.5 m, to the Company's statutory reserve funds.

PGNiG issued the first tranche of long-term bonds under the bond programme launched in May 2012. The nominal value of bonds issued was PLN 2.5 bn. At the time it was the largest bond issue ever completed on the Warsaw Stock Exchange by a non-bank corporate issuer.

July

On July 4th 2012, PGNiG entered into a framework agreement concerning shale hydrocarbon exploration and production with KGHM Polska Miedź SA, PGE Polska Grupa Energetyczna SA, TAURON Polska Energia SA and ENEA SA. The agreement provides for joint exploration for, appraisal and production of hydrocarbons from geological formations covered by PGNiG's licence for oil and gas exploration and appraisal in the Wejherowo area. The area on which the parties will operate spans approximately 160 square kilometres. Estimated expenditure on gas exploration, appraisal and production at the first three sites (the Kochanowo, Częstkowo and Tępcz pads) will amount to PLN 1.7 bn.

PGNiG Norway discovered a new field, Snadd Outer, within the PL212E licence area. The field lies near the Snadd North gas field and borders the Skarv field.

On July 30th 2012, the notes issued by PGNiG in June 2012 were floated on the Catalyst market, on the multilateral trading facility operated by BondSpot.

PGNiG Termika executed documents on a five-year note programme for up to PLN 1.5 bn with four banks, i.e. PKO BP SA, Nordea Bank Polska SA, ING Bank Śląski SA and Bank Zachodni WBK SA. As part of the programme, PGNiG TERMIKA may issue (in private placements) discount and interest-bearing notes with maturities of up to one year and interest rates based on WIBOR+margin.

PGNiG Termika SA issued the first tranche of notes with a total nominal value of PLN 450 m.

August

For the fifth time in succession, the Warsaw Stock Exchange announced the list of companies included in the Respect Index. PGNiG was again in the prestigious group.

PGNiG published its financial results for H1 2012. In H1 2012, the PGNiG Group recorded a PLN 17 m loss, relative to a PLN 1 bn profit reported for the corresponding period of the previous year. The loss was incurred despite a 28% growth in revenue, to PLN 14.8 bn, and was chiefly caused by factors outside the Company's control, such as the rising cost of gas imports and adverse fluctuations in the złoty exchange rates, which the tariff approved by the President of the URE failed to offset.

On August 28th 2012, the PGNiG Management Board adopted a resolution concerning the Voluntary Termination Programme. Its adoption was a consequence of the Agreement concerning the process of PGNiG's reorganisation, concluded on August 24th 2012 between the PGNiG Management Board and PGNiG's Union Coordination Commission.

September

Standard & Poor's Financial Services ("S&P", the "Agency") reduced the rating of PGNiG from BBB+ to BBB and placed the Company on a watchlist with negative implications. It is S&P's opinion that PGNiG's 2012 performance will not stand up to the Agency's earlier expectations, because of the Company's reduced profitability brought about by the Polish system of gas fuel tariffs, preventing the Company from full and prompt covering of the cost of imported gas, and that the Company runs the risk of incurring operating loss in 2012. On the other hand, S&P assessed the Company's liquidity as adequate given PGNiG's investment programme, appreciating the available financing programmes of significant values.

PGNiG Norway and PST signed a contract on sale of gas produced from the Skarv field. The term of the contract, valued at approximately EUR 1.3 bn, is ten years. The selling price will be determined with reference to gas prices quoted on the European Energy Exchange (EEX), and payments for gas supply will be settled in EUR.

On September 13th 2013, PGNiG received a decision of the President of the Energy Regulatory Office, refusing to approve the changes in the gas fuel tariff.

Grupa LOTOS SA and PGNiG signed an agreement on joint commercial initiatives and cooperation in exploration for and production of conventional and unconventional oil and gas.

As exploration work in the PL350 and PL350B licence areas on the Norwegian Continental Shelf failed to confirm the assumed geology, PGNiG Norway discontinued work on the licences.

October

PGNiG and VNG-Verbundnetz Gas AG executed amendment No. 1 to the Lasów Gas Sales Agreement. The parties agreed on a new pricing formula based on the prices of petroleum products and current market prices of natural gas, and set a new capacity charge rate.

PGNiG put the Lubiatów oil field and the Międzychód gas field on stream. The fields were developed as part of the Lubiatów-Międzychód-Grotów project, whose purpose is to facilitate the transport, storage and sale of crude oil, natural gas, liquid sulphur and propane-butane mix from the LMG oil and gas production facility. The launch of production from the Lubiatów and Międzychód fields will contribute to increasing overall crude output. After testing and commissioning is completed, the LMG project will be subject to final acceptance.

PGNiG completed its exploration programme in Denmark. As no commercial hydrocarbon flow was identified, the Felsted-1 well was abandoned and licence 1/05 expired.

November

PGNiG and OOO Gazprom Export signed an annex to the contract for sale of natural gas to Poland. In connection with the agreement, the arbitration proceedings before the Stockholm Arbitration Tribunal were closed.

PGNiG completed the construction of a high-pressure gas pipeline and fibre-optic cable with related infrastructure from the Kościan gas production facility to KGHM Polkowice/Żukowice. The pipeline will be used to sell natural gas produced at Kościan directly to KGHM Polkowice/Żukowice.

PGNiG published its financial results for Q3 2012. The PGNiG Group reported PLN 48 m in net profit, compared with PLN 1.3 bn of net profit for the corresponding period of the previous year. In Q3 2012, the Group's net profit declined by 80% on Q3 2011, from PLN 319 m to PLN 65 m. Cumulative loss of PLN 1.8 bn posted by the Trade and Storage segment for the first nine months of 2012 was the key driver of the Group's operating result. In Q3 alone the segment, which is responsible for handling gas trading, reported a PLN 320 m slide in its operating result, which ultimately arrived in negative territory at PLN -350 m. In Q1-Q3 2012, the Exploration and Production segment generated an operating profit of PLN 1.2 bn , more than for the entirety of 2011, when the profit was PLN 1.1 bn. Key contributors included higher revenue from crude oil sales, continued operating expense discipline (particularly in the area of services and employee benefits) and fewer dry wells. Strong performance was also reported by the Distribution segment.

Moody's Investors Service ("Moody's", "the Agency") downgraded PGNiG's credit rating from Baa1 to Baa2 with a negative outlook. According to Moody's, the downgrade chiefly reflects the deterioration in PGNiG's operating performance versus 2011 due to the negative margin in its gas trade operations, coupled with higher debt levels on the acquisition of PGNiG Termika. The Agency pointed to the uncertain future set-up of the Polish gas market and its possible adverse impact on the Company's performance. Another factor taken into account is PGNiG's evolving business risk profile related to growing expenditure on hydrocarbon exploration and production, which are unregulated business lines. However, the rating agency also noted that the scale of future benefits from the execution of the annex with OOO Gazprom Export will depend on the price quoted to end users of gas.

Standard and Poor's ("S&P", "the Agency") downgraded PGNiG's credit rating from BBB to BBB- with a stable outlook. According to the agency, the Company sustained the largest gas trading loss on record as the national regulator failed to reflect in time higher prices of imported gas in the sales prices effective in Poland in 2012. The Agency pointed out that the Company's financial ratios have fallen since 2011 due to negative margins on gas sales and high investment expenditure. S&P believes that the execution of the annex to the Yamal contract for gas supplies with OAO Gazprom / OOO Gazprom Export will enable the Company to avoid further losses and will stabilise its financial performance and credit metrics. The Agency perceived PGNiG's liquidity as adequate and did not anticipate any significant changes in its business risk profile over the next two years, which was reflected in the stable outlook.

December

The President of the Energy Regulatory Office approved a change to Gas Fuel Supply Tariff No. 5/2012 and extended its effective term until September 30th 2013. On average, the prices and charge rates for the supply of high-methane gas type E, and nitrogen-rich gas types Lw and Ls were reduced by 6.7%, 8.0% and 10.9%, respectively.

The President of the Energy Regulatory Office approved new Tariffs for Gas Fuel Distribution Services for the Gas Distribution Companies.

PGNiG adopted a short-term value creation strategy for the PGNiG Group until 2014. Its objective is to prepare the Company for operating in a liberalised gas market. The PGNiG Group is intent on maintaining its lead in the upstream segment, while remaining the leading supplier of natural gas, who also offers heat and electricity. Thanks to its Short-Term Value Creation Strategy, the PGNiG Group will be able to pursue an ambitious investment programme, while servicing its debt.

PGNiG Norway launched production of oil and gas from the Skarv field.

Letter from the President of the Management Board

Ladies and Gentlemen,

on behalf of the Management Board of PGNiG SA, I have the privilege and pleasure to present to you the PGNiG Group's Annual Report for 2012. The satisfactory performance delivered by the Group is a solid foundation for the implementation of our ambitious development plans to further the Company's value in the future – an important factor from our shareholders' perspective.

In 2012, we again reviewed and assessed the objectives set out in the Company's strategy for 2011–2015. We considered all the variables pertinent to our business environment, such as new economic trends, tendencies in the gas market, and changes in the regulatory framework. As a result, some of the existing assumptions and plans had to be adjusted. The results of our review were used in our Short-Term Value Creation Strategy for 2012–2014, the priorities of which are to intensify exploration and production activities, ensure that the Group is well prepared for the gas market's deregulation, optimise our portfolio of natural gas sources, restructure the Group's business model and consistently grow the generation segment.

This means that despite a downturn driven by the global crisis, the prospects for natural gas remain bright. We consider the upstream and generation segments as being complementary to each other and as having a lot to offer in potential synergies, therefore we are continuing to develop both of them. Natural gas from indigenous sources should play an increasingly important role in the energy generation sector, and so we continue to uphold our strategic objectives for our own hydrocarbon production.

Furthermore, the Company aims to intensify exploration for conventional resources under 80 licences in Poland, and also plans to further optimise exploration and production operations abroad. We are also set to continue exploration for unconventional hydrocarbons, primarily in the Pomerania and Lublin regions, while the launch of production from the Norwegian Continental Shelf and the LMG field in Wielkopolska in late 2012 has considerably strengthened the Group's production potential.

Compared with the EU average, Poland's prospects for a marked growth in demand for electricity and natural gas as a fuel for power generation, particularly high-efficient co-generation, remain broad. With a view to diversifying our revenue sources in the future, we are actively engaged in projects seeking to add electricity to our product portfolio. The Group's entrance into the power generation segment and its involvement in the construction of new gas-fired CHP plants in Poland will enable us to attain that goal and meet the expected market demand. PGNiG's own generation capacity will facilitate entrance into the electricity trading market with maximum efficiency.

Securing a stable and uninterrupted supply of energy and natural gas for households and institutional customers remains our overriding concern. To attain that goal, we are implementing strategic investment projects to construct and expand our underground storage facilities and distribution pipelines. The increased underground gas storage capacity will enable us to respond flexibly to any disruptions to gas supplies.

Concurrently, we are consistently diversifying our gas import sources. All these measures enable us to procure gas supplies at lower prices and enhance Poland's energy security. The Moravia interconnector between Poland and the Czech Republic, the expanded Lasów point on the Polish-German border, and the virtual reverse flow through the Yamal pipeline have all contributed to an increased share of gas imported from countries lying south and west of Poland to 18%, which represents 2 bn m^3 of natural gas.

We are very satisfied with this past year. The Group's revenue came in at PLN 28.7 bn, a PLN 5.7 bn rise year on year. Net profit and operating profit amounted to PLN 2.23 bn and over PLN 2.5 bn, respectively. After difficult negotiations with Gazprom, we achieved a record reduction in gas prices in the Yamal Contract. We stepped up our exploration activities, including for shale gas. We are also preparing for the gas market's deregulation by remodelling our organisation. These efforts have already been acknowledged by the market. In just one year, our stock price gained nearly 30% and PGNiG SA was presented with a "Byki i Niedźwiedzie" (Bulls and Bears) award in the WIG-20 Company of the Year category by Gazeta Giełdy Parkiet. PGNiG has been included in the Warsaw Stock Exchange's RESPECT Index of socially responsible companies continuously since the establishment of the index, and in April 2012 the Company was named the most socially responsible business in the Fuels and Power category in a ranking compiled by the Dziennik Gazeta Prawna. Although it was a great honour to receive the accolades, we realise that there are still many challenges lying ahead, and so we treat our awards as incentives to our further efforts.

In 2012, we embarked on reorganising our Company's structure, as part of which we centralised business customer services at the branches and transformed the multiple units responsible for coordinating retail customer service into Regional Sales Offices. Simultaneously, we effected a series of changes in its upstream segment. This led to the establishment of the Geology and Production Branch, charged with coordinating exploration activities and making investment decisions on upstream projects in Poland and abroad. The geology and drilling functions, which had been previously carried out by the Sanok and Zielona Góra branches, were consolidated with the Hydrocarbon Production and Mining Work Department and the Exploration Department operating at PGNiG SA's Head Office. In Spring 2012, five drilling and well-servicing subsidiaries of the PGNiG Group – PNiG Kraków SA, PNiG Jasło SA, PNiG NAFTA SA, PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o. – were consolidated into a single company, PGNiG Poszukiwania. Since February 1st 2013, after completion of the legal and organisational merger, the combined entity has been trading under the name Exalo Drilling.

Faced with rapidly-changing energy and gas markets, the impending market liberalisation and the growing burden of new regulatory requirements (including legal obligation to sell gas through commodity exchange), the Group has to implement further changes in order to effectively match its competitors. These changes will affect both wholesale gas portfolio management and the retail sales structure. We will strive to make our offer even better for our customers and to further refine our sales force by leveraging the competitive advantage in the scale of the Company's operations, our existing customer relationships, and new opportunities offered by the power generation segment.

Finally, it is the people throughout a company's organisational hierarchy who are responsible for its success, and it is the everyday effort of each of our employees that contributes to the creation of the PGNiG Group's value. I would like to warmly thank all our employees and Supervisory Board members for their support in building the Company's current position.

Jerzy Kurella

Vice-President of the Management Board,
acting President of the Management Board
of PGNiG SA

Management Board

Jerzy Kurella

Vice-President of the Management Board,
acting President of the Management Board

(appointed to the Management Board with effect from June 14th 2013)

Jerzy Kurella is a graduate of the law and administration faculty at the University of Warsaw, and a legal counsel. In 2002–2007, he worked for PGNIG in a number of capacities, including as Managing Director for Legal Support and Managing Director for Negotiations. He was responsible for the legal aspects of the unbundling of the transmission system operator, debt restructuring, redemption of eurobonds, and listing of Company shares on the stock exchange.

From 2007, he served as Member of the Management Board, and then as Vice-President of the Management Board of BOT Górnictwo i Energetyka SA (BOT GiE), and was responsible for the BOT Group's strategy and integration, its management and development, including supervision of the IT Department and Central Procurement and Logistics Department, as well as for legal support of BOT. From September 2008, he served as President of the Management Board of Wojskowe Towarzystwo Budownictwa Społecznego Sp. z o.o., and from 2009 to June 2012 he was Vice-President of the Management Board of Bank Gospodarstwa Krajowego SA (BGK). From July 1st 2012, he worked as Adviser to the President of the BGK Management Board. He has served as a member or chairman of multiple supervisory boards, for example at PF-K Gaskon SA, Investgas SA, BOT GiE SA, BOT Elektrownia Turów SA, BOT Elektrownia Bełchatów SA, KUKE SA and Krajowy Fundusz Kapitałowy SA.
In June 2013 appointed as Deputy Chairman to the Supervisory Board of EuRoPol GAZ SA.

As at July 1st 2013

Marek Karabuła resigned from his position of Management Board Member with effect as of May 11th 2012.

Dr Sławomir Hinc resigned from his position of Management Board Member with effect as of March 31st 2013.

Grażyna Piotrowska-Oliwa was removed from her position as Member and President of the Management Board, and Radosław Dudziński was removed from his position as Member and Vice-President of the Management Board with effect as of April 29th 2013.

Jacek Murawski

Vice-President of the Management Board,
Chief Financial Officer

(appointed to the Management Board with effect from April 1st 2013)

Jacek Murawski graduated from the faculty of finance and accounting and completed a post-graduate programme in enterprise value management at the Warsaw School of Economics. He holds an EMBA from the Helsinki School of Economics. Mr Murawski attended a number of training courses in finance, management, marketing, and IT, including programmes run by INSEAD, the Ashridge Management Centre, Management Center Europe, France Telecom University and many others.

Over the twenty years of his career, Mr Murawski has held senior positions at various companies. In 1990–1995, he was responsible for finance at Bantex Poland Sp. z o.o. In 1995–2001, he served as Financial Controller and Management Board Member at Polskie Książki Telefoniczne Sp. z o.o., as well as Chief Accountant at Polkomtel SA, and then CFO at Tchibo Warszawa Sp. z o.o. In 2001–2007, he was in charge of finance and administration as Member of the Management Board, CFO at PTK Centertel Sp. z o.o., operator of the Orange mobile telephony network. From 2007 to 2008, he was President of the Management Board at Wirtualna Polska SA, the owner of Poland's leading online news portal.

Between 2006 and 2007, he was also Vice-President of the Employers of Poland organisation. Later on in his career, Mr Murawski was involved in investment and advisory activities in Poland and Central Europe as an Investment Partner at Poland's leading venture capital fund, MCI Management SA. Concurrently, he served as Member of the Supervisory and Management Boards, as well as Interim CFO, of the group's portfolio companies both in Poland and the Czech Republic.

Mirosław Szkałuba

Vice-President of the Management Board, IT

(appointed to the Management Board with effect as of March 20th 2008, reappointed for another term of office as of March 13th 2011)

Mirosław Szkałuba is a graduate of the faculty of drilling, oil and gas at the AGH University of Science and Technology in Kraków, with a degree of Master Engineer of Oil Mining. In 1998, he completed post-graduate courses in equity investments and corporate development projects at the Warsaw School of Economics. In 2004, he passed an examination for candidates to supervisory boards of state-owned companies. Mr Szkałuba joined PGNiG in 1994. From 2005, he worked at the Exploration Department as specialist responsible for planning, supervision and settlement of exploration activities. Later, he joined the Sanok Branch as Deputy Head of the Drilling Supervision Department. In 2005–2008, he served as a PGNiG Supervisory Board Member elected by the employees.

Letter from the Chairman of the Supervisory Board

Ladies and Gentlemen,

in 2012, the PGNiG Group faced major challenges due to the difficult macroeconomic environment and the launch of fundamental restructuring and streamlining of the Group's structure.

Given that in 2012 the PGNiG Group reported PLN 2.23 bn in net profit, relative to PLN 1.75 bn in the corresponding period of the previous year, we are satisfied to note that, irrespective of external conditions, the Company strengthened its market position and largely improved its financial performance in its key business segments.

Although the improvement was primarily driven by the execution of the Annex to the Yamal Contract, attention should be drawn to such facts as consolidation of PGNiG Termika's revenue, increased production and better results in the Distribution segment.

PGNiG's business activities perfectly fit with the Group's strategic objective, that is enhancing Poland's energy security. This particularly applies to two key initiatives, namely diversification of gas sources and expansion of underground gas storage facilities.

Thanks to the use of the extended interconnector in Lasów, the virtual reverse flow service on the Yamal pipeline, and the Moravia interconnector, the total volume of gas imported from the West and South rose to nearly 2 bn m^3 in 2012, that is ca. 400 m m^3 more than in 2011. In this way, the share of gas imported from countries lying south and west of Poland increased to 18%, compared with 14.5% in 2011.

As the underground gas storage facilities were expanded and, during the summer season, filled to capacity, gas stocks increased by almost 20%, to 1.8 bn m^3 at the end of 2012. These strategic activities will continue in the future.

The "Short-Term Value Creation Strategy for the PGNiG Group in 2012–2014", approved by the Supervisory Board in December 2012, sets the Group's development path for the coming years. The principal goals of the Strategy include intensification of exploration efforts, optimisation of the portfolio of gas sources, preparation to operate on the deregulated gas market, restructuring of the Group's business model, as well as development of the power generation business.

I am convinced that PGNiG is growing in the right direction, and that the adopted strategy will bear positive fruit in the context of Poland's economic policy.

At the same time, I would like to congratulate all those who contributed to PGNiG's success in 2012. In particular, I would like to express my gratitude to the Group's employees, whose work and commitment have helped to strengthen the Company's position as one of Poland's major companies.

Yours sincerely,

Wojciech Chmielewski
Chairman of the PGNiG Supervisory Board

Supervisory Board

Wojciech Chmielewski

Chairman of the Supervisory Board

(member of the Supervisory Board since January 12th 2012)

Wojciech Chmielewski graduated from the University of Wrocław in Polish philology (1995) and political sciences (1998). He also completed postgraduate studies at Universite Strasbourg III (in Politiques Publiques en Europe, 1997) and at the Warsaw National School of Public Administration KSAP (2000). Since 2000, Mr Chmielewski has worked at the Ministry of State Treasury and is currently the Director of the Privatisation Department. During his career, he has served on the Supervisory Boards of such companies as Stocznia Gdynia SA, Agencja Rozwoju Przemysłu SA, PKS Przemyśl Sp. z o.o. and Mostostal Wrocław SA. Since February 2009, he has served on the Supervisory Board of ENEA SA of Poznań and is currently its Chairman.

Marcin Moryń

Deputy Chairman of the Supervisory Board

(member of the Supervisory Board since June 19th 2006)

Marcin Moryń is a legal counsel, graduate of the law and administration faculty at the University of Łódź. Since 2001, Mr Moryń has worked for the Ministry of the State Treasury: in 2001–2006 as a division head at the Legal Department, and then from May 2006 to February 2007 as Director of the Department for Monitoring of Privatisation Obligations. In February 2007, he was appointed Director of the Legal and Litigation Department.

Mieczysław Kawecki

Secretary of the Supervisory Board

(member of the Supervisory Board since October 27th 2005)

Mieczysław Kawecki is a graduate of the AGH University of Science and Technology in Kraków. He has worked in the petroleum E&P industry since 1976, initially at the Wańkowa crude oil production facility of the Oil and Gas Extraction Plant in Sanok. He was the manager of the newly established Lublin oil and gas production facility, as well as Wielopole oil and gas production facility. Currently, he works at the PGNiG Sanok Branch, as manager of the Strachocina Underground Gas Storage Facility. Mr Kawecki is Grade III Mining Director.

Agnieszka Chmielarz

Member of the Supervisory Board

(member of the Supervisory Board since April 30th 2008)

Agnieszka Chmielarz is a graduate of the faculty of chemical technology and engineering at the Academy of Technology and Agriculture in Bydgoszcz, and completed postgraduate European studies at the Warsaw University's Centre for Europe. Ms Chmielarz worked at the Industry Restructuring Department and Energy Security Department of the Polish Ministry of Economy. She has worked for PGNiG for many years. Currently, she is Deputy Director of the Trade Department at the PGNiG Head Office.

Janusz Pilitowski

Member of the Supervisory Board

(member of the Supervisory Board since January 12th 2012)

Janusz Pilitowski graduated from the Warsaw School of Economics (formerly SGPiS). In 1985–2003, he worked for Mennica Polska SA (the national mint), where he held a number of roles, including Chief Accountant, Chief Financial Officer, Member and then President of the Management Board. In 2004, Mr Pilitowski joined the Brasco Group, where he was responsible for the biocomponent and liquid biofuel market. Since 2007, Mr Pilitowski has worked in public administration, first at the Energy Regulatory Office and then at the Ministry of Economy. Currently, he is Director of the Renewable Energy Department at the Ministry of Economy. He has considerable experience as a member of supervisory bodies.

Jolanta Siergiej

Member of the Supervisory Board

(member of the Supervisory Board since April 30th 2008)

Jolanta Siergiej is a graduate of the Szczecin University of Technology and postgraduate studies at the Poznań University of Economics and the Warsaw School of Economics. Ms Siergiej served on the Supervisory Boards of Geofizyka Kraków (1998–2000), and Poszukiwania Naftowe Diament (2001–2002) – both PGNiG subsidiaries. Ms Siergiej is Grade I Mining Director. In 1995, she was appointed Chief Accountant of the PGNiG Branch in Zielona Góra.

Józef Głowacki

Member of the Supervisory Board

(member of the Supervisory Board since January 12th 2012)

Józef Głowacki graduated from the Kielce-Radom University of Engineering, as well as from the faculty of management at the University of Warsaw. In 1974–1990, Mr Głowacki worked in the construction industry. In April 1990, he commenced work in public administration, first at the Ministry of Finance, and then – from 1990 to 1996 – at the Ministry of Ownership Transformations. Since 1996, he has worked at the Ministry of State Treasury. Currently, Mr Głowacki serves as Head of the Property Department at the Ministry of State Treasury. Since 1992, Mr Głowacki has served on the Supervisory Boards of a number of companies, including Petrobaltic SA (2004–2008) and Mazowiecka Spółka Gazownictwa Sp. z o.o. (2007–2012).

Ewa Sibrecht-Ośka

Member of the Supervisory Board

(member of the Supervisory Board since March 19th 2012)

Ewa Sibrecht-Ośka is a legal counsel, graduate of the law and administration faculty at the University of Łódź. From 1991 to 2001, she worked at the Legal Department of the Ministry of Finance. In 2001–2006, she worked at Nafta Polska SA. From May 2009, Ms Sibrecht-Ośka filled the position of Head of the Analysis Department at the Ministry of the State Treasury, and since September 2010 she has held the position of Head of the Department of Ownership Supervision. She has considerable experience as a member of supervisory bodies (Grupa LOTOS SA, CIECH SA, PGE Energia Jądrowa SA).

Zbigniew Skrzypkiewicz

Member of the Supervisory Board

(member of the Supervisory Board since June 26th 2013)

Zbigniew Skrzypkiewicz graduated from the faculty of chemical engineering of the Warsaw University of Technology. He also completed a postgraduate course in Business Administration at the Warsaw School of Economics. In 1993–1997, he served as deputy head for industrial fittings at KSB Pompy i Armatura Sp. z o.o. Between 1998 and 2000, he was head of sanitary and heating systems at Raab Karcher Materiały Budowlane Sp. z o.o. He also held an executive position at Otto Poland Sp. z o.o., and from May 2001 to December 2004 served in the capacity of President of the Management Board of Instal Lublin SA. Since 2005, he has been President of the Management Board of Finpol Rohr Sp. z o.o.

Stanisław Rychlicki resigned as Chairman of the Supervisory Board with effect as of January 11th 2012.

Mieczysław Puławski was removed from the PGNiG Supervisory Board with effect as of June 26th 2013.

POLISH SHALE GOOD GAS

CLEAN AND ENVIRONMENTALLY FRIENDLY

Natural gas is the cleanest and most environmentally friendly of all fossil fuels. Its combustion involves low emissions of air pollutants compared with fossil fuels, and generates no waste.

Emission of pollutants from heating a 100 square-metre dwelling, in kilograms per year (coal and gas)

sulphur dioxide SO_2
64.7
0.000

nitrogen dioxide NO_2
26.96
3.2

carbon monoxide CO
67.4
0.9

particulate matter PM10
229.2
0.038

PGNiG on the Stock Exchange

In 2012, the PGNiG stock price was very volatile. Generally, the year was a period of intense volatility on the capital markets, both in Poland and globally. Towards the end of 2012, PGNiG stock peaked at PLN 5.21 (up by 28% on the year's beginning), which was a good sign for the year ahead.

Our 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 December 15th 2005. Our stock is also included in the MSCI Emerging Markets Index, a global index of emerging market companies created by Morgan Stanley Capital International.

PGNiG was, for the sixth consecutive time, listed in the elite group of companies included in the RESPECT Index of socially responsible and sustainable businesses, the first such index in Central and Eastern Europe. Our stock is also a part of the WIG-Paliwa (WIG-Fuels) index of fuel sector companies, and of the WIG-div index of listed companies declaring dividend on a regular basis.

Performance of the PGNiG stock

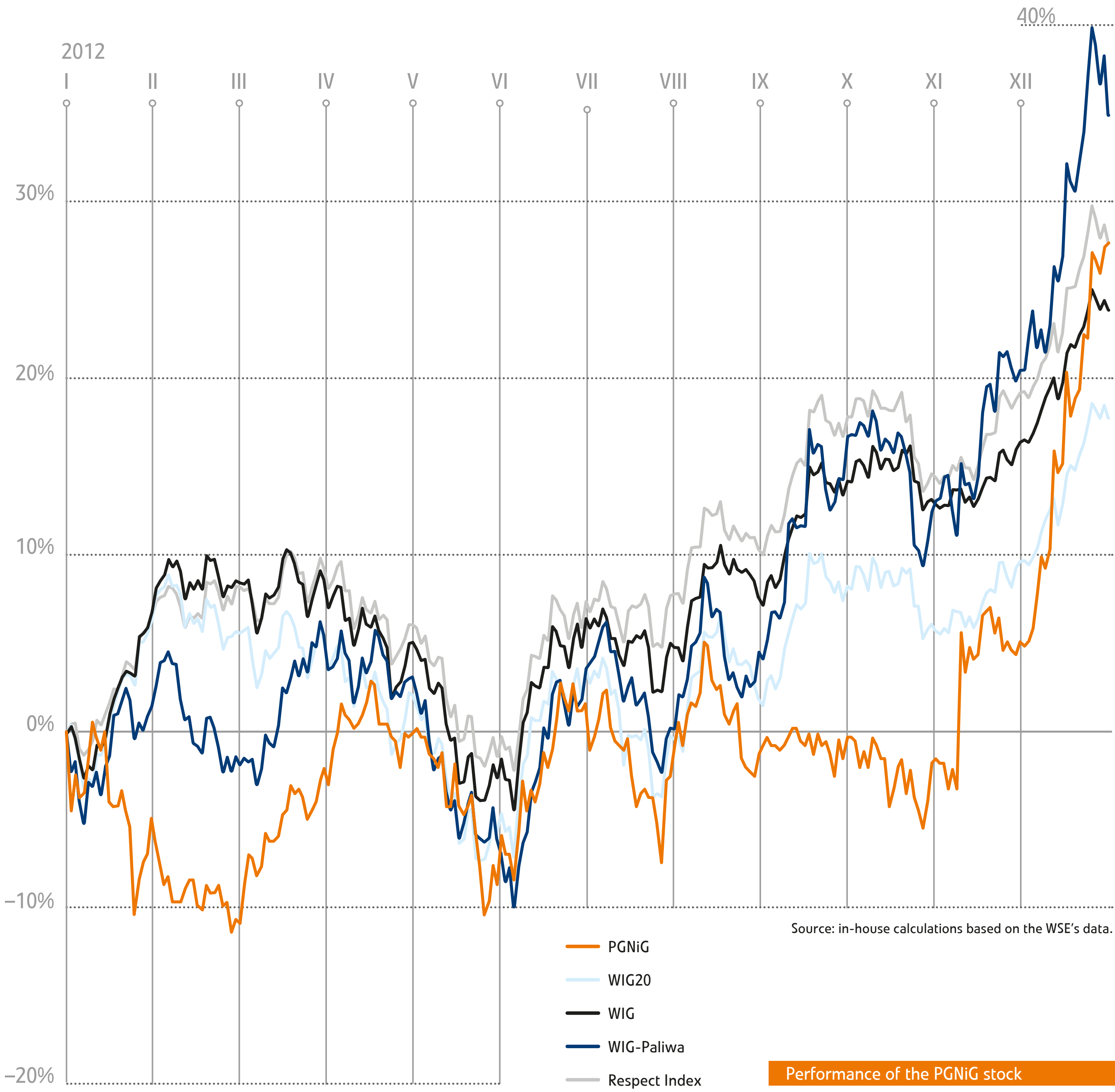
Over 2012, the PGNiG stock was trading within the PLN 3.62–PLN 5.21 range. For a major part of the year, it was fairly stable, oscillating between PLN 3.62 and PLN 4.29. However, until December 2012 its growth failed to keep pace with the WIG20 index of blue-chip names. The PGNiG stock bottomed out in the last week of February, when demand for gas was high, but the then effective tariff did not account for the cost of gas acquisition. A steep upward climb of its price started after amendments to the Yamal Contract were agreed in November 2012 – from then on it surged by 30%, reaching its high on the last trading day of the year.

The rate of return on PGNiG stock in 2012 was 28%. In 2012, no dividend was paid. The rate of return on the investment in PGNiG shares for investors who bought the shares at the issue price had reached 75% by the end of 2012 (excluding dividend yield). The broad-market WIG index and the blue-chip WIG20 index also ended the year in the green zone, having returned 24% and 18%, respectively. From among the indices which include PGNiG, the best performer was WIG-Paliwa, which gained nearly 35%.

Performance of WSE indices and the PGNiG stock

Index	Value/price as at Dec 31 2011	2012 high	2012 low	Value/price as at Dec 28 2012	PGNiG's weight in WSE indices
WIG	37,595.44 points	47,920.75 points	36,653.28 points	47,460.59 points	3.50%
WIG20	2,144.48 points	2,602.51 points	2,035.8 points	2,582.98 points	4.98%
WIG-Paliwa	2,567.58 points	3,707.76 points	2,387.66 points	3,571.11 points	31.32%
Respect Index	2,005.14 points	2,635.7 points	1,987.1 points	2,591.15 points	11.22%
PGNiG	PLN 4.08	PLN 5.21	PLN 3.62	PLN 5.21	-

Source: gpwinfostrefa.pl



Source: in-house calculations based on the WSE's data.

Performance of the PGNiG stock

Rates of return on WSE indices and the PGNiG stock in 2009–2012, and total return since PGNiG's IPO

	Rate of return in 2009	Rate of return in 2010	Rate of return in 2011	Rate of return in 2012	Rate of return since PGNiG's IPO
WIG	46.9%	18.8%	-20.8%	23.8%	42.8%
WIG20	33.5%	14.9%	-21.8%	17.7%	5.1%
WIG-Paliwa	28.9%	26.4%	-18.5%	34.8%	0.3% (1)
Respect Index	70.9%(2)	32.2%	-12.9%	27.6%	159.1%(2)
PGNiG	5.3%	-5.8%	14.3%	27.7%	36.7% (3)

Source: the WSE

[1] Computed in relation to the reference value of the index (reference date: December 31st 2005).

[2] Computed in relation to the reference value of the index (reference date: December 31st 2008).

[3] In relation to the issue price of PLN 2.98, the rate of return on PGNiG shares since the IPO stands at 74.8%.

Shareholder structure in 2011–2012

Shareholder	Number of shares/votes attached to the shares as at Dec 31 2011	Percentage of share capital/total vote at the GM as at Dec 31 2011	Number of shares/votes attached to the shares as at Dec 31 2012	Percentage of share capital/total vote at the GM as at Dec 31 2012
State Treasury	4,272,063,451	72.41%	4,271,810,954	72.4%
Other shareholders	1,627,936,549	27.59%	1,628,189,046	27.6%
Total	5,900,000,000	100.00%	5,900,000,000	100.00%

Shareholder structure

As at December 31st 2012, the share capital of PGNiG amounted to PLN 5,900,000,000. It comprised 5,900,000,000 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 Company's Articles of Association do not provide for any restrictions on the exercise of voting rights attached to the Company shares.

The State Treasury remains the Company's majority shareholder. On June 26th 2008, the Minister of the State Treasury disposed of one PGNiG share on general terms, which – pursuant to the Commercialisation and Privatisation Act of 1996 – triggered the eligible employees' rights to acquire free of charge a total of up to 750,000,000 PGNiG shares. The start date for executing agreements on free-of-charge acquisition of Company shares was April 6th 2009. The eligible employees' rights to acquire PGNiG shares free of charge expired on October 1st 2010.

By December 31st 2012, nearly 60,000 eligible employees had acquired 728,189,045 shares, conferring the right to 12.34% of the total vote. Consequently, the State Treasury's interest in PGNiG fell to 72.40%. The shares acquired free of charge by the eligible employees were locked up until July 1st 2010, while trading in the shares acquired by members of the Company's Management Board was restricted until July 1st 2011.

A significant percentage of PGNiG shares are held by open-end pension funds. As at the end of 2012, long-term investors held over 9% of PGNiG's equity, valued at over PLN 2.8 bn. Compared with the year before, their PGNiG shareholdings increased by nearly one-third, reflecting confidence in the Company's Strategy and recognition of its achievements in 2012, including renegotiation of the Yamal Contract and successful completion of the LMG and Skarv projects. The fact that pension funds, as stable financial investors, hold such a significant position in PGNiG confirms the Company's long-term potential to deliver value to shareholders. It should also be noted that the interest of open-end pension funds in PGNiG's equity has grown considerably since its IPO in 2005, when it stood at 3.5%, or PLN 711 m.

PGNiG shares in the portfolios of open-end pension funds

No.	Fund	Value/price as at Dec 31 2012	Number of shares as at Dec 31 2012	Equity interest	Change 2012/2011	Value/price as at Dec 31 2011	Number of shares as at Dec 31 2011	Equity interest
1	ING NATIONALE NEDERLANDEN OFE	671,009,587	128,792,627	2.18%	48.56%	353,709,223	86,693,437	1.47%
2	AVIVA OFE	593,151,534	113,848,663	1.93%	18.16%	393,106,490	96,349,630	1.63%
3	OFE PZU ZŁOTA JESIEŃ	530,368,190	101,798,117	1.73%	66.70%	249,151,287	61,066,492	1.04%
4	AMPLICO OFE	234,536,533	45,016,609	0.76%	34.00%	137,065,099	33,594,387	0.57%
5	AXA OFE	213,325,195	40,945,335	0.69%	9.21%	152,965,030	37,491,429	0.64%
6	AEGON OFE	100,016,193	19,196,966	0.33%	15.30%	67,928,389	16,649,115	0.28%
7	NORDEA OFE	102,827,332	19,736,532	0.33%	11.62%	72,138,982	17,681,123	0.30%
8	ALLIANZ POLSKA OFE	89,965,175	17,267,788	0.29%	13.66%	61,985,457	15,192,514	0.26%
9	GENERALI OFE	71,407,072	13,705,772	0.23%	10.97%	50,391,256	12,350,798	0.21%
10	BANKOWY OFE	77,013,465	14,781,855	0.25%	10.88%	54,392,908	13,331,595	0.23%
11	OFE POCZTYLION	41,785,242	8,020,200	0.14%	32.26%	24,741,536	6,064,102	0.10%
12	PEKAO OFE	38,752,027	7,438,009	0.13%	93.62%	15,673,145	3,841,457	0.07%
13	OFE WARTA	26,407,463	5,068,611	0.09%	-6.85%	22,199,574	5,441,072	0.09%
14	OFE POLSAT	18,356,711	3,523,361	0.06%	16.61%	12,328,112	3,021,596	0.05%
Total		**2,808,921,718**	**539,140,445**	**9.14%**	**31.89%**	**1,667,776,488**	**408,768,747**	**6.93%**

Source: Polish Press Agency (PAP)

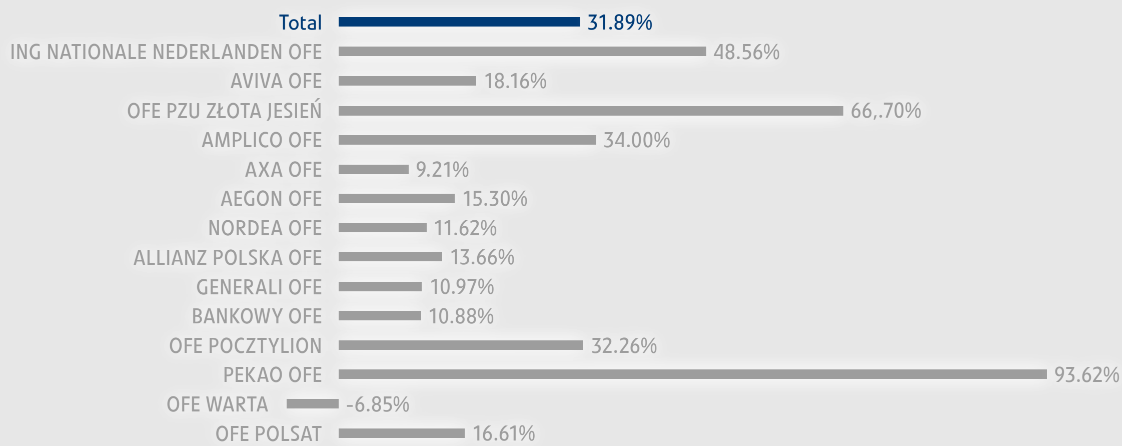
Investor relations

Investor relations is an increasingly prominent area of business activities. The importance of its role reflects the rapid growth of the capital market in Poland, which is evidenced by the growing value of assets held by investment funds, as well as the rising number of publicly-traded companies and retail investors who choose to invest their money through the Warsaw Stock Exchange.
It also follows from the increasing scope of legal and regulatory requirements imposed on companies by the legislator, and also by the market itself striving towards self-regulation. Last but not least, there is a growing awareness on the part of issuers that well-managed investor relations can support their financial strategy and foster their good image, which will eventually strengthen their competitive advantage.

In 2012, PGNiG released 191 reports, both periodic and current. It also kept updating and developing the Investor Relations section of its website (www.pgnig.pl) with the most up-to-date Group information, accessible to all capital market participants. In addition to detailed information on the Company and a complete database of its periodic and current reports, it also contains the prices and charted performance of the PGNiG stock, investor presentations, as well as a list of broker recommendations for PGNiG.

As part of its investor relations in 2012, the Company's representatives, including Management Board members and directors, held some 130 meetings with institutional investors and attended 14 conferences and road-shows. Apart from regular industry events (such as the Chemist Day or the Energy Sector Conference) and regional conferences, 2012 saw a number of meetings devoted to the debt market, in connection with the record issue of PGNiG notes on the Catalyst market and the need to build relations with investors who bought PGNiG eurobonds in 2011.

Change in the number of PGNiG shares held in the portfolios of open-end pension funds between 2011 and 2012



Strategy for the PGNiG Group

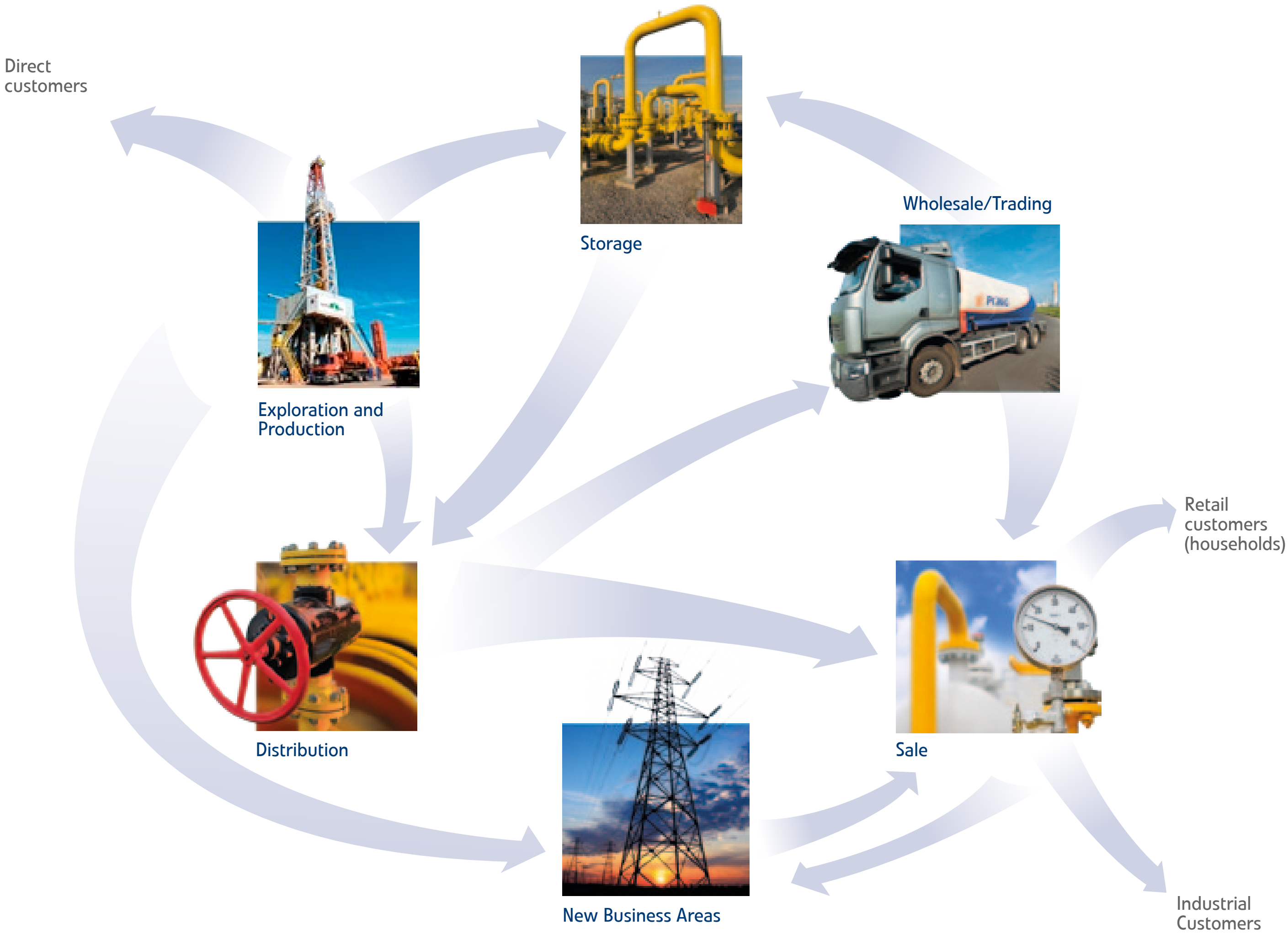
The ultimate strategic objective pursued by PGNiG SA is to deliver growth in shareholder value. In pursuit of that objective, in mid-2011 the Company adopted the "Updated Strategy for the PGNiG Group until 2015". The strategy is being implemented taking into account the need to ensure the long-term security of uninterrupted gas supplies to the Polish market. In December 2012, the Company adopted the "Short-Term Value Creation Strategy for the PGNiG Group in 2012–2014". This operational strategy is a set of coordinated activities geared towards achievement of the Group's primary strategic objective. The document, adopted in December, is consistent with the "Updated Strategy for the PGNiG Group until 2015".

PGNiG is one of the largest companies in Poland – in terms of revenue and earnings, it ranks among the largest and most profitable Polish businesses. It is also one of Poland's largest employers.

The Group's main strategic objectives make up its vision to become, by 2015, a modern and efficiently managed organisation, controlling almost the entire value chain in the gas sector, and holding assets in the fuel and power sectors.

Attaining these strategic objectives will depend on activities in three areas:
- hydrocarbon exploration and production domestically and abroad, to ensure access to new oil and gas reserves;
- the power sector, focusing on the development of gas-fired power generation in Poland;
- management of the natural gas portfolio in Poland and abroad.

The Short-Term Value Creation Strategy for the PGNiG Group until 2014 is a comprehensive document providing for a set of coordinated activities geared towards delivery of 19 initiatives broken down into three business areas:



Initiatives in the Upstream area:

- Appraisal and development of unconventional hydrocarbon reserves under licences held;
- Cooperation with external partners in the area of hydrocarbon exploration and production;
- Intensification of conventional hydrocarbons exploration in Poland;
- Optimisation of upstream operations outside of Poland.

Initiatives in the Market area:

- Enhancing efficiency in the marketing and customer service area;
- Implementation of an integrated product range;
- Implementation of a new marketing policy;
- Active participation in and support of the gas market deregulation programme;
- Development of the power segment;
- Change in pricing rules for gas import contracts;
- Change in the structure of imported gas sources;
- Centralisation of the wholesale trading function at the PGNiG Group.

Initiatives in the Business Model area:

- Optimisation of the HR management system at PGNiG;
- Implementation of a project/project portfolio management system;
- Establishment of a Shared Services Centre;
- Restructuring of the PGNiG Group's core businesses;
- Restructuring of the PGNiG Group's non-core businesses;
- Employment restructuring;
- Optimisation of the storage segment at the PGNiG Group.

Thanks to the Short-Term Value Creation Strategy for the PGNiG Group until 2014, the Company will be able to implement its ambitious investment programme, while reducing debt and generating surplus cash, which may be used to finance other investment projects.

Objectives of the short-term value creation strategy for the PGNiG Group

Increasing the value of the PGNiG Group

Maximising the potential of the PGNiG Group's upstream segment

- The upstream segment is currently prioritised in the PGNiG Group's investment and development activities. In particular, PGNiG puts enormous emphasis on development in the area of exploration for and production of unconventional hydrocarbons.
- In this area, a number of initiatives are planned, to be implemented both by the PGNiG Group independently and in cooperation with external (domestic and foreign) partners.

Preparing the PGNiG Group for the deregulation of the natural gas market

- Currently, the PGNiG Group enjoys the leading position on the natural gas market in Poland. However, in view of the planned deregulation, competition is likely to emerge on the market in the near future, posing a threat to the Group's position.
- It is PGNiG's intention to take steps designed to adapt the PGNiG Group to the expected developments on the gas market (e.g., enhancing brand recognition, improving customer service, building demand for natural gas in the power sector or enhancing product offering).

Optimising the portfolio of gas supplies

- Terms and conditions of gas import (including gas prices) have a decisive effect on tariff prices for end users. High tariff prices adversely affect the competitiveness of natural gas as an energy carrier and hinders the market growth.
- PGNiG sees it its priority to permanently restructure the gas supply portfolio by amending price formulae under the existing contracts, turning the contracts into more flexible arrangements or identifying new competitive gas suppliers.

Restructuring the business model of the PGNiG Group

- The PGNiG Group's current business model is not optimised, which prevents the Group from unlocking its full value growth potential.
- The extensive organisational structure, decentralised model of support functions and the high headcount adversely affect the Group's process and cost efficiency.
- Implementation of restructuring initiatives (such as consolidation of the core business, unlocking capital tied-up in non-core activities and function centralisation) is of key importance.

Upstream area

Our achievements to date

In 2012, the PGNiG Group was involved in exploration and appraisal work either on its own or in cooperation with partners. Eight wells were drilled in PGNiG's own licence areas. Three wells were tested in the Carpathian Foothills. The tests confirmed the presence of gas in two wells – one exploratory well (Kramarzówka-1) and one appraisal well (Lubliniec-12). No hydrocarbon flow at commercial rates was recorded from the third well (Łapanów-6K), and the well was subsequently abandoned.

Work was also under way on the Felsted-1 well in Denmark, but the well was subsequently abandoned as dry. Since the results of exploration in Denmark were discouraging, the PGNiG Group withdrew from that country, and licence 1/05 expired.

The PGNiG Group was also prospecting for unconventional gas. In 2012, the Lubocino 2-H horizontal well was drilled in the Wejherowo licence area, where in December 2012 a fracturing treatment had been performed in Ordovician formations. Fracturing operations have also been performed in Silurian rock formations in the Lubocino-1 vertical well, and the Opalino-2 well was drilled. In the Tomaszów Lubelski licence area, the Lubycza Królewska-1 borehole was drilled and it is the first exploration borehole designed to explore for shale gas in the areas of PGNiG's licences in the southern part of the Lublin Province.

In addition to projects carried out on its own, on July 4th 2012 PGNiG signed a framework agreement on the exploration for and production of shale gas and oil within the Wejherowo licence area with four other Polish companies: TAURON Polska Energia SA, KGHM Polska Miedź SA, PGE Polska Grupa Energetyczna SA and Enea SA. Pursuant to the agreement, the joint operations will focus mainly around the villages of Kochanowo, Częstkowo and Tępcz, on a part of the Wejherowo licence held by PGNiG. Currently, work is under way to amend the agreement setting out the detailed rules of cooperation between the parties.

The Group put on stream three oil wells on the BMB (Barnówko – Mostno – Buszewo) field, as a result of which crude oil production rose to 478 ths tonnes in 2012. In addition, the Lubiatów oil field and the Międzychód gas field were both put on stream. Their development was a part of the LMG (Lubiatów – Międzychód – Grotów) project.

On December 31st 2012, the PGNiG Group launched production from the Skarv field on the Norwegian Continental Shelf. Furthermore, a new field, Snadd Outer, was discovered within the PL212E licence area. The field lies in the vicinity of the Snadd North gas field and borders the Skarv field.

The PGNiG Group continued its exploration and appraisal work in Egypt and Pakistan. The exploration work in Egypt focused on the Bahariya licence (Block 3), and in Pakistan – on the Rehman field. In 2012, the Pakistani licensing authority (Directorate General of Petroleum Concessions) classified the Rehman field as a deposit of tight gas.

Market area

Our achievements to date

Imports

Following renegotiations of the pricing formula in import contracts, PGNiG signed annexes to two material gas supply contracts.

In October 2012, PGNiG and VNG-Verbundnetz Gas AG executed Amendment No. 1 to the Lasów gas sales agreement of August 17th 2006, effective until October 1st 2016. The parties agreed on a new pricing formula based on the prices of petroleum products and current market prices of natural gas, as well as a new capacity charge rate. The amendment came into force on October 1st 2012.

In November 2012, PGNiG SA and OOO Gazprom Export executed an annex to the contract for sale of natural gas to the Republic of Poland, dated September 25th 1996, effective until December 31st 2022, whereby the pricing terms for the gas supplies to Poland were changed, also retroactively with respect to the gas volumes purchased in previous periods. The new pricing formula reflects the developments that have occurred on the European gas market in recent years, and takes into account the prices of petroleum products and the market prices of natural gas. Following negotiations with OAO Gazprom/OOO Gazprom Export concluded in November 2012, PGNiG obtained an over 10% price reduction on the Russian gas.

In order to reduce gas acquisition costs, PGNiG entered into an agreement with OGP Gaz-System SA for the provision of virtual reverse flow services on the Yamal gas pipeline in the period from January 1st 2012 to December 31st 2015.

In an attempt to diversify the supplies of imported gas, the PGNiG Group increased the volumes of gas purchased under short-term contracts. The purchases were contracted chiefly by PGNiG Sales & Trading.

In 2012, PGNiG Sales & Trading started to trade in natural gas in Germany through the European Energy Exchange (EEX) and OTC transactions. Moreover, in 2012 the company acquired 100% of the shares in XOOL GmbH, whereupon it launched sales of natural gas to end customers in Germany.

Sales

PGNiG is the largest supplier of natural gas in Poland. PGNiG's share in the gas market is approximately 96%, the remaining 4% are suppliers from outside the PGNiG Group, which usually purchase gas from PGNiG. In 2012, the PGNiG Group sold 14.9 bn m^3 of gas, of which 13.9 bn m^3 were sold from the domestic transmission and distribution systems, 0.7 bn m^3 were sold directly from the fields, and 0.3 bn m^3 were sold on the German market.

In September 2012, PGNiG launched sales of electricity to business customers (tariff groups A, B and C), and soon afterwards, in the first quarter of 2013, it launched sales of electricity to households (tariff group G).

In December 2012, PGNiG commenced trading in natural gas on the Power Exchange. In accordance with a decision by the President of the Energy Regulatory Office, trading on the exchange is exempt from the tariff obligation.

The Company continued to work on the LNG-derived gas fuel E distribution project in the towns of Ełk and Olecko. The project involves construction of an LNG regasification station and two-step pressure reduction, metering and odorising stations in Ełk and Olecko, and switching customers in those towns to high-methane gas. In 2012, an agreement was signed for EU co-financing of the project under the Infrastructure and Environment Operational Programme.

Distribution

Also in 2012, the Gas Distribution Companies worked on extending and upgrading the gas network, and connecting new customers to both existing and newly built sections. They also replaced the most failure-prone sections of cast-iron piping and modernised the longest operating sections of the piping whose continued use posed a safety hazard and caused substantial gas losses.

The Gas Distribution Companies also worked on projects for which they concluded agreements for EU co-financing under the Infrastructure and Environment Operational Programme.

Storage

Until May 31st 2012, PGNiG acted as the storage system operator. In May 2012, Operator Systemu Magazynowania Sp. z o.o., a subsidiary of PGNiG, became the storage system operator. The company was also granted a licence authorising it to store gas fuels in storage facilities, valid from June 1st 2012 through May 31st 2022.

In 2012, PGNiG completed the expansion of the Strachocina Underground Gas Storage Facility and put in service one of the caverns of the Mogilno Underground Gas Storage Facility. As a result, the working capacities of the high-methane gas storage facilities increased to 1,821.9 m m^3 at the end of 2012. The Company continued to work on expanding the Wierzchowice Underground Gas Storage Facility, the largest facility of this kind in Poland, and on constructing the Kosakowo Underground Gas Storage Facility. The expansion of the Strachocina and Wierzchowice Underground Gas Storage Facilities and the construction of the Kosakowo Underground Gas Storage Facility received EU co-financing under the Infrastructure and Environment Operational Programme.

As at December 31st 2012, the PGNiG Group had made available a total of 1,821.5 m m^3 of working storage capacities for third party access and for OGP Gaz-System SA. Of this volume, 1,796 m m^3 were made available under long-term agreements and 25.5 m m^3 under short-term agreements. Additionally, 0.39 m m^3 of the storage capacity of the Mogilno underground gas storage cavern is used to cover the facility's own needs.

Power Generation

The PGNiG Group continued to work on the "Construction of a CCGT Unit in Stalowa Wola" project. In 2012, the general contractor for the Stalowa Wola unit was selected, the project execution agreement was signed and the credit facility agreements securing its financing were executed. In addition, preparations for the construction of a 450 MW CCGT unit at the Żerań CHP plant were launched in 2012.

Business Model area

Our achievements to date

Exploration and Production

In 2012, PGNiG consolidated its exploration and well services companies within the Group's Exploration and Production segment. PGNiG Poszukiwania SA (since February 2013 – Exalo Drilling SA) was merged with PNiG Kraków, PNiG NAFTA, PNiG Jasło, PN Diament and ZRG Krosno.

In 2012, PGNiG's exploration and production operations were reorganised. A Geology and Hydrocarbon Production Branch was established in Warsaw. Its role involves the coordination and expert supervision of hydrocarbon exploration and production projects, both in Poland and abroad.

Power Generation

In line with the strategic vision to transform the PGNiG Group into a modern multi-utility, in January 2012 PGNiG acquired from Vattenfall AB (through its subsidiary PGNiG SPV1) 99.8% of the shares in Vattenfall Heat Poland SA (whereupon the company was renamed PGNiG Termika SA). Following the acquisition of these assets, the PGNiG Group's business was extended to include electricity and heat generation.

In 2012, PGNiG Termika became the Group's competence centre for heat and electricity generation and for implementation of heat and power projects.

Distribution

In the first quarter of 2013, the PGNiG Management Board approved the composition of a new company, PGNIG SPV4, whose role is to combine the six distribution companies to form a single entity with the head office in Warsaw and six regional branches responsible for field operations.

On May 24th 2013, all the companies involved in the process held Extraordinary General Meetings, which approved the merger between PGNIG SPV4 (the Acquirer) and the six distribution companies (the Acquirees) under Art. 492.1.1 of the Commercial Companies Code. The procedure to register the merger in the National Court Register started on May 27th 2013.

Storage

As part of the reorganisation of the PGNiG Group's storage business, on May 22nd 2013 the Annual General Meeting of PGNiG gave its approval for PGNiG to acquire shares in the increased share capital of Operator Systemu Magazynowania as part of the merger between Operator Systemu Magazynowania and Investgas SA.

Support

In 2012, implementation of a shared services centre was begun. The centre will provide finance, accounting, HR and payroll as well as IT services. To that end, a new company under the name of PGNiG Serwis was established. The company will provide its services to certain PGNiG Group companies.

POLISH SHALE GOOD GAS

WELL DRILLING PAD

The size of a typical drilling pad is about

1 hectare

To compare, the floorage of an average shopping centre is

4.5 hectares

Well drilling pads are usually located in greenfield areas or in forests, far from human dwellings. The minimum distance to any nearby structures is one and a half the height of the derrick or mast.

Exploration & Production

2012 saw the launch of production from the Skarv field on the Norwegian Continental Shelf, as well as completion of the construction work on the Lubiatów-Międzychód-Grotów oil and gas production facility. Exploration work was carried out in Poland, and also abroad, in Norway, Pakistan, Denmark, Egypt and Libya. A 5% growth was achieved in crude oil production, with gas production volumes remaining largely unchanged.

Key achievements in 2012:

- Launch of production from the Skarv field on the Norwegian Continental Shelf
- Start-up of the LMG production facility
- Merger of drilling companies and establishment of PGNiG Poszukiwania

The PGNiG Group's activities in the Exploration & Production segment include geophysical and geological surveys, as well as drilling of wells and production of natural gas and crude oil. Currently, the PGNiG Group produces natural gas and crude oil from fields located in Poland and Norway. For its needs, the segment uses the capacities of the gas storage facilities in Bonikowo, Brzeźnica, Daszewo, Strachocina and Swarzów.

Financial performance

The Exploration & Production segment derives its revenues mainly from non-regulated sales of natural gas and crude oil, and also from geological, geophysical, drilling and well services.

In 2012, the segment posted PLN 1.35 bn in operating profit, up by PLN 38 m (nearly 3%) on 2011. This robust performance was delivered on increased volumes of crude oil production and sales, following the hook-up of new wells on the Barnówko – Mostno – Buszewo field, and high production rates from wells which had previously been brought on stream. As the prices of Brent oil went up to approximately USD 110/bbl, this had a direct effect on the segment's operating performance. A non-recurring factor which eroded the segment's operating result was the recognition of impairment losses on property, plant and equipment, which was tested for impairment in line with the adopted procedures.

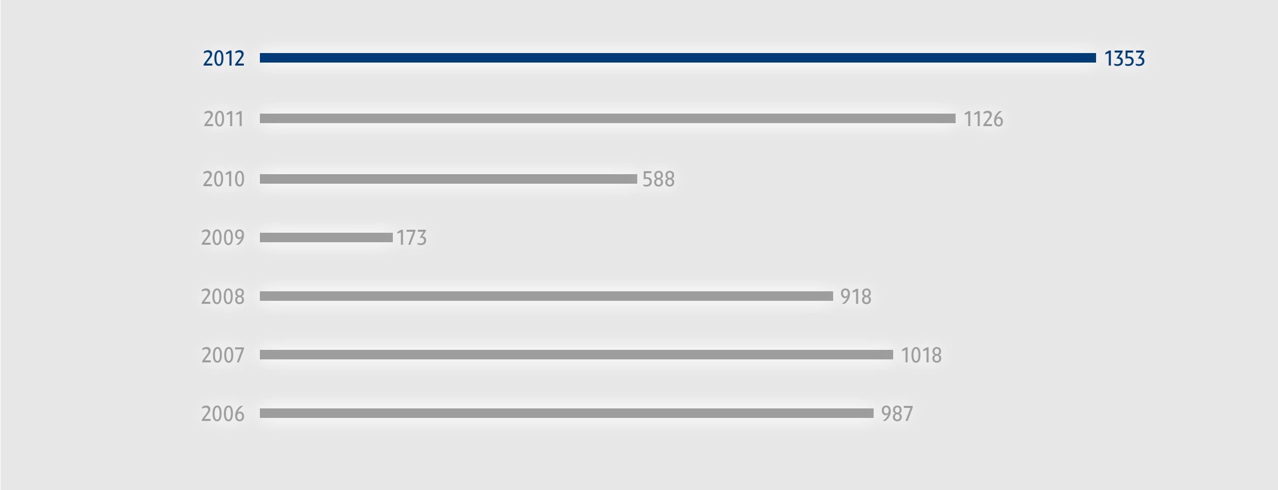
Geological, geophysical, drilling and well services

Exploration for natural gas and crude oil is carried out both in Poland and abroad. The exploration work involves analyses of historical and geological data, seismic surveys and drilling campaigns.

- Drilling services – performed by PGNiG, as well as PNiG Jasło, PNiG Kraków and PNiG Nafta;
- Geological services – seismic acquisition, processing and interpretation of seismic data and well logging services were performed by Geofizyka Kraków and Geofizyka Toruń;
- Well services – specialist services supporting the performance of exploration and production work were provided by Poszukiwania Naftowe Diament and Zakład Robót Górniczych Krosno.

As at the end of 2012, PGNiG held 95 licences for gas and oil exploration and appraisal, covering a total area of 62,360 sq km, 225 licences for gas and oil production in Poland, 9 licences for underground storage of gas, as well as 3 licences for storage of waste and 1 licence for salt deposit appraisal. In 2012, the Ministry of Environment extended the term of PGNiG's 23 licences for the exploration and appraisal of oil and gas deposits. In addition, 7 production licences were amended, 1 licence was awarded and 1 licence expired.

Exploration & Production segment's operating result (PLN m)



Work was carried out by the PGNiG Group on 28 boreholes in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands. Out of 23 wells with known test results, 11 were classified as positive (including 9 gas wells and 2 oil and gas wells), whereas the remaining 12 wells were designated as dry.

In 2012, geophysical work was conducted in PGNiG SA's licence areas in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands, as part of which 1,562.17 km of 2D seismic data and 468.51 sq km of 3D seismic data was acquired.

Consolidation of the exploration and service companies

In December 2012, PGNiG consolidated its exploration and service companies within the Group's Exploration and Production segment. PGNiG Poszukiwania SA was merged with PNiG Kraków SA, PNiG NAFTA SA, PNiG Jasło SA, PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o. The companies' assets were transferred to PGNiG Poszukiwania SA, which was renamed Exalo Drilling SA on February 6th 2013.

Natural gas from unconventional deposits

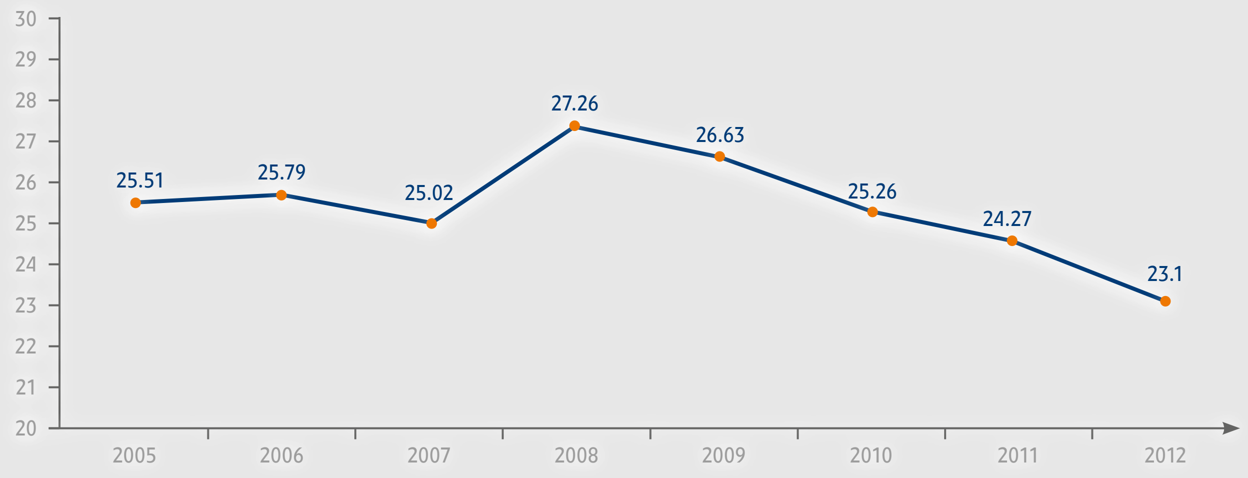
Unconventional gas sources include shale (shale gas), as well as rock formations (sandstone and lime) where gas is trapped in unconnected pores (tight gas). While unconventional gas-bearing rocks are encountered all over the world, so far they have only been commercially exploited in the US. Production of shale gas in that country has been on a steep upward trajectory – between 1996 and 2006, it grew from 8.5 bn m^3 to 25 bn m^3.

In Poland, too, there has been growing interest in shale gas, which – according to estimates – is buried at depths ranging from 3,000 metres to 4,500 metres, within a sidelong belt stretching from central Pomerania to the Lublin Province, and within the foreland of the Sudeten Mountains. In recent years, the Ministry of Environment has awarded more than 100 licences for unconventional gas exploration to over 40 entities, including 15 licences to PGNiG. Initial results of the fracturing operation and analysis have indicated the presence of shale gas in Pomerania. In 2012, the Lubocino 2-H horizontal well was drilled, where in December of the same year a fracturing treatment had been performed in Ordovician formations. Fracturing operations have also been performed in Silurian rock formations in the Lubocino-1 vertical well. In the Tomaszów Lubelski licence area, the Lubycza Królewska-1 borehole was drilled and it is the first exploration borehole designed to explore for shale gas in the areas of PGNiG's licences in the southern part of the Lublin Province.

Also in 2012, the Opalino-2 well was drilled in the Wejherowo licence area in pursuit of two exploration goals: to find shale gas in lower Paleozoic (Silurian and Ordovician strata) and to find conventional gas in upper Cambrian sandstone. The well has already encountered gas in the Cambrian formations. It has also been used to collect material to assess the shale gas potential of the overlying Silurian and Ordovician rocks.

In addition to projects carried out on its own, on July 4th 2012 PGNiG signed a framework agreement on the exploration for and production of shale gas and oil within the Wejherowo licence area with four other Polish companies: TAURON Polska Energia SA, KGHM Polska Miedź SA, PGE Polska Grupa Energetyczna SA and Enea SA. Pursuant to the agreement, the joint operations will focus mainly around the villages of Kochanowo, Częstkowo and Tępcz, on the part of PGNiG's Wejherowo licence area where preliminary surveys ad analyses confirmed the presence of unconventional gas. The joint effort will cover about 160 sq km in the Wejherowo licence area. Expenditure on the Kochanowo-Częstkowo-Tępcz (KCT) project is estimated at up to PLN 1.7 bn. PGNiG will be the licence operator throughout the exploration and appraisal phase.

Reserves to production (R/P) ratio in 2005–2012



Resources/reserves

Poland's resources are evaluated by the Mineral Resources Commission, and the evaluation is confirmed by the Ministry of Environment. As at the end of 2012, the combined reserves of natural gas and crude oil amounted to 727 m boe, including 576 m boe (89 bn m³) of gas and 151 m boe (20.7 m tonnes) of oil and condensate. In 2012, the total reserves to production ratio (R/P) stood at 23.1.

Production

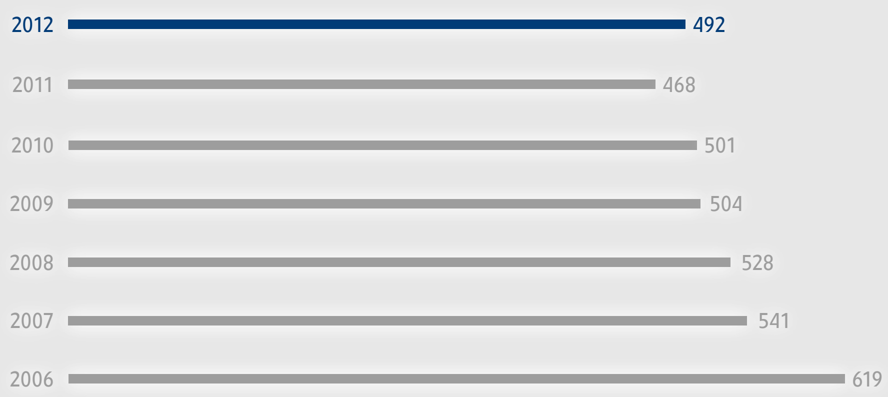
In 2012, the aggregate production of natural gas and crude oil with condensate was 31.42 m boe, of which gas accounted for 89% and oil with condensate – for 11% of the total output. The respective production volumes were 4.32 bn m³ of natural gas (27.83 m boe) and 491.6 ths tonnes of crude oil with condensate (3.59 m boe). Petroleum production is concentrated in north-western and south-eastern Poland and carried out by two PGNiG Branches – based in Zielona Góra and in Sanok.

PGNiG produces two types of gas with different calorific values – high-methane and nitrogen-rich gas – at 69 production sites located throughout Poland. In 2012, the Sanok Branch produced high-methane and nitrogen-rich gas as well as crude oil from 46 production sites, including 26 gas production facilities and 20 oil and gas production facilities. The Zielona Góra Branch produces crude oil and nitrogen-rich gas from 23 production sites, including 14 gas production facilities and 9 oil and gas production facilities. A portion of the nitrogen-rich gas is further processed at the nitrogen rejection units in Odolanów and Grodzisk Wielkopolski. Once nitrogen is removed, natural gas is pumped into the high-methane gas system. In 2012, the process of conversion of nitrogen-rich gas into high-methane gas yielded 1.42 bn m³ of the product. The process also yields by-products, including liquefied natural gas (LNG), liquid and gaseous helium and liquid nitrogen.

With a view to maintaining the current hydrocarbon production volume or limiting its natural decline, in 2012 major remedial treatments were performed on a total of 24 wells whose technical condition prevented their further operation. Of that number, 19 wells flowed hydrocarbons at commercial rates, 2 were used as injectors and 3 were converted to support underground gas storage. In 2012, well interventions were undertaken on a total of 63 wells, designed to maintain or improve production rates of producing wells or to restore sub-surface extraction equipment to working condition. Interventions were also made on wells supporting the underground gas storage and on injectors.

Crude oil production is concentrated in western Poland, including the currently largest field – BMB (Barnówko-Mostno-Buszewo), which in 2012 accounted for 75% of total oil production in the country (361 ths tonnes). In 2012, the volume of crude oil and condensate production was 491.6 ths tonnes, which represents a year-on-year increase of 24 ths tonnes (5%), up from 467.6 ths tonnes.

Production of crude oil and condensate (ths tonnes)*



* including condensate and test production

One of the major projects implemented in Poland in recent years to increase the production of oil and – to a lesser extent – of gas was the development of the Lubiatów-Międzychód-Grotów (LMG) fields in the vicinity of Gorzów Wielkopolski. The LMG production facility was commissioned in early December 2012. As part of the project, PGNiG constructed the LMG Central Facility (to serve as a hub for collection, separation and treatment of reservoir fluids), as well as the Dispatch Terminal in Wierzbno, to support collection and shipment of crude oil. Crude oil will be transported by rail tankers and injected into the Druzhba pipeline, through which oil flows to Germany. Additionally, any surplus gas production will be transmitted via the pipeline running from the production site to the Grodzisk nitrogen rejection unit. March 2013 saw the official launch of the LMG production facility, which is expected to result in a nearly twofold increase in domestic oil production.

The PGNiG Group's foreign expansion began in 2007 with the acquisition of an interest in the Skarv/Snadd/Idun exploration & production licence on the Norwegian Continental Shelf. Production from the field was launched in December 2012. The target production volume in 2013 is approximately 100 m m^3 of gas and approximately 370 ths tonnes of oil and other fractions. Natural gas will be transported to mainland Europe, whereas crude oil will be sold straight "from the wellhead".

Sale

Natural gas is sold by PGNiG's Exploration and Production segment directly from the fields (outside of the transmission system), from which it is supplied to specific customers via dedicated pipelines. Sales are transacted on market terms, and the delivery terms (including pricing) are agreed individually with the customers on a case-by-case basis, depending on the characteristics of a given project. The key group of customers buying natural gas directly from the fields are industrial users (such as Elektrociepłownia Zielona Góra SA, PGE Górnictwo i Energetyka Konwencjonalna SA, Zakłady Azotowe w Tarnowie-Mościcach SA or Arctic Paper Kostrzyn SA). This form of purchase is preferred by customers located in close proximity to the gas production sites. Sale of natural gas directly from the fields enables commercially viable development of gas reserves whose quality deviates from network standards and attracts customers in whose case deliveries of system gas are not feasible for technical or economic reasons.

In 2012, direct sales of gas accounted for approximately 5% of PGNiG's total sales and amounted to 723.4 m m^3, up by 6.1% on 2011. Direct sales from the fields are made both in the case of high-methane and nitrogen-rich gas – in 2012, 72.0 m m^3 of high-methane gas and 651.4 m m^3 of nitrogen-rich gas (measured as high-methane gas equivalent) were sold in this way.

PGNiG sells crude oil on free market terms, pricing it by reference to the crude prices on international markets. In 2012, crude oil was sold through the following channels:

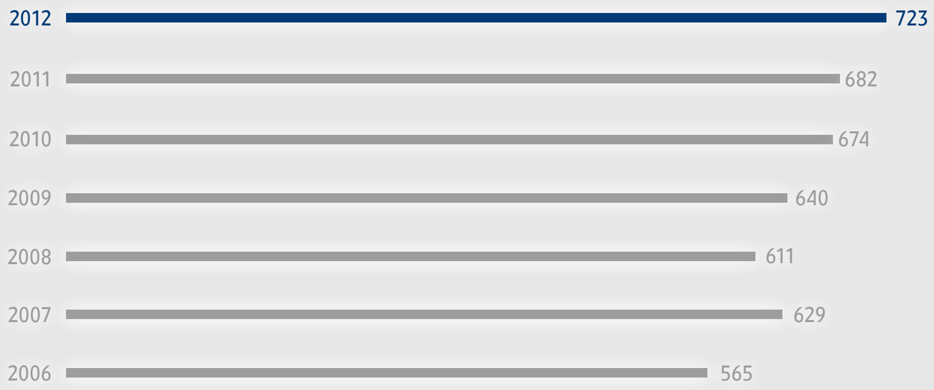
- via pipeline – to a foreign customer,
- using wheeled transport (by road and rail tankers) – to domestic customers.

In 2012, 43.8% of the total volume of crude sold was transported to a German refinery through the PERN Druzhba pipeline.

Apart from non-tariff sales of gas directly from the fields and oil sales, PGNiG's portfolio comprises a number of other products, such as helium, nitrogen, sulphur, condensate and propane/butane mix.

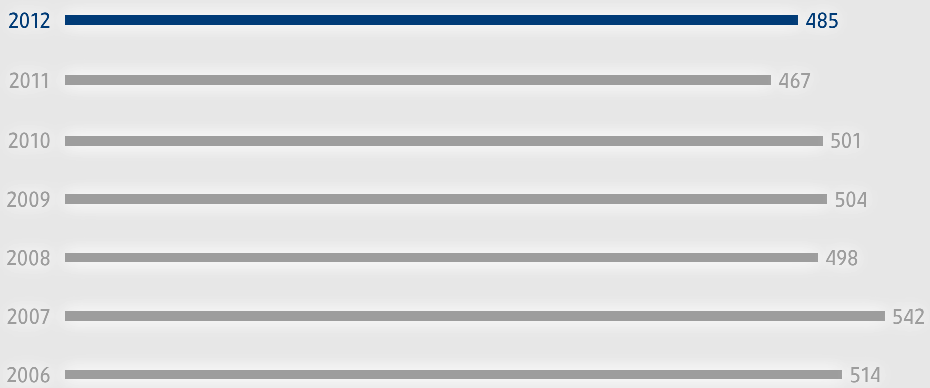
The launch of the Lubiatów-Międzychód-Grotów (LMG) project will increase PGNiG's potential with respect to crude oil sales in the coming years.

Sales of gas directly from the fields (m m^3)*



* measured as high-methane gas equivalent

PGNiG's sales of crude oil with condensate (ths tonnes)



Capex projects

The capital expenditure incurred in 2012 in the Exploration and Production Segment amounted to PLN 1.79 bn. The bulk of capital expenditure on the exploration for hydrocarbon deposits in Poland was incurred on seismic surveys, as well as two wells drilled with positive results, two dry wells and other wells on which work was still under way in 2012. Funds were also spent on the Skarv project, which involves the development of fields on the Norwegian Continental Shelf using a floating production, storage and offloading (FPSO) vessel.

Other key capex projects implemented in the upstream segment in 2012 included:
- the LMG project,
- the gas pipeline to KGHM,
- the Góra Ropczycka project,
- the Rylowa Rajsko project,
- projects implemented by the drilling and well services companies.

Other investment projects involved the development of proved or already producing gas reserves, projects executed in order to sustain or restore hydrocarbon production rates, and projects related to the operation of hydrocarbon production.

Starting from 2012, the accounting treatment of seismic work has changed. Under the new approach, expenditure on seismic work is accounted for as expenditure on tangible assets under construction. Previously, it was charged to costs.

Foreign licences

Denmark

Licence: 1/05
Interest holders:
PGNiG (80%)
Nordsofonden (20%)

Since the execution of the agreement for assignment of interests in 2007, PGNiG has been engaged in exploration activity in the 1/05 licence area in Denmark. Ultimately, the licence interests were: PGNiG (operator) – 80%, Nordsøfonden – 20%. Drilling of the Felsted-1 exploration well was completed in early 2012. As the well did not flow hydrocarbons at commercial rates, it was abandoned. However, as the first attempt to plug the well was unsuccessful. PGNiG obtained a consent from the Danish Energy Agency (DEA) to extend the licence term. The well was finally abandoned; the 1/05 licence was allowed to expire, and a decision was made to liquidate the Denmark Branch by the end of the first half of 2013.

Norway

Licence: PL159, PL212, PL212B, PL212E, PL262
Interest holders:
PGNiG Norway (11,9%)
BP Norge (23,8% – operator)
Statoil Petroleum (36,2%)
E.ON Ruhrgas Norge (28,1%)

Towards the end of 2012, PGNiG Norway, together with its partners, launched production of crude oil and natural gas from the Skarv, Idun and Snadd fields. Thus, PGNiG became the first Polish company to produce significant volumes of oil and gas under an international project. The project was also PGNiG's first offshore production venture.

The Skarv field is located in the Norwegian Sea, approximately 210 km west off the coast of Norway, where the depth ranges between 350 metres and 450 metres. It was discovered in 1998 and its recoverable reserves are estimated at 57.1 bn m³ of gas, 16.5 m m³ of crude oil and condensate, and 7.8 m tonnes of NGL (or 576 m barrels of crude and gas equivalent). PGNiG Norway holds an 11.9% interest in these reserves, or 68.6 m barrels of crude and gas equivalent.

The Skarv project is considered one of the largest investment projects under way in Norway. It involves the drilling of 17 deep wells, including 7 oil producers (horizontal wells), 6 gas producers and 4 injectors. At a later stage, the injectors will be converted into gas producing wells.

The field is exploited using a new geostationary floating production, storage and offloading vessel (FPSO). The FPSO, built in South Korea, is the largest FPSO vessel in the world, able to operate in rough weather conditions. Its hull is 292 metres long and 52 metres wide. The vessel's capacity is 140 ths m³ (880 ths barrels). The expected load capacity of the shuttle tankers operating on the Skarv field will be approximately 135 ths m³ (850 ths barrels).

Licence: PL521
Interest holders:
PGNiG Norway (35%)
Statoil (40% – operator)
Svenska Petroleum Exploration Norge (25%)

The licence was awarded in the 20th licensing round. It is located within the Helgeland basin. The Helgeland basin, which lies in the eastern part of the Norwegian Sea, has not been subject to any major exploration work so far.

From 2010 to the end of 2012, new 3D seismic was acquired, processed and interpreted, whereupon geological and geophysical analyses were performed in order to determine whether a well should be drilled or the licence dropped).

The decision is due in the first half of 2013. The licence is operated by Statoil.

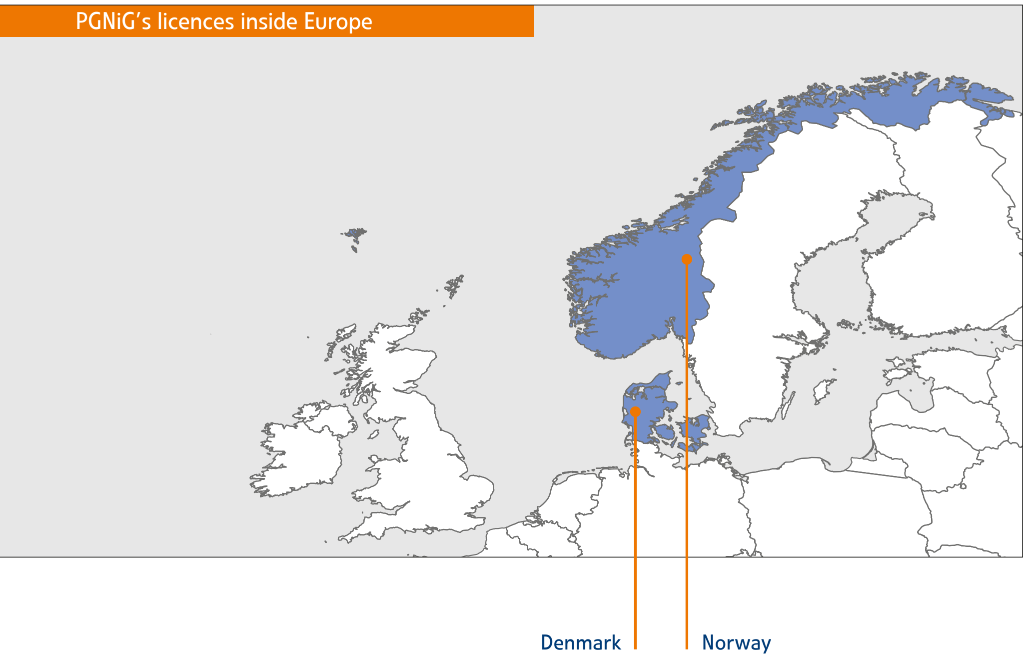
Licence: PL558
Interest holders:
PGNiG Norway (30%)
E.ON Ruhrgas Norge (30% – operator)
Det norske oljeselskap (20%)
Petoro (20%)

The licence, awarded in the APA 2009 licensing round in early 2010, is located in the immediate vicinity of the Skarv field. The close vicinity of the Skarv FPSO is likely to ensure profitable export of the gas and crude oil to be produced in the PL558 licence area.

Since the award of the licence, the existing 3D seismic profiles have been reprocessed and interpreted, and additional geological studies have been performed, confirming the prospectivity of the area. The area covered by the licence has considerable exploration potential, with crude oil and natural gas reserves likely to be discovered. At the beginning of 2012, the licence's interest holders resolved to drill an exploratory well. The drilling is scheduled for 2014.

The licence is operated by E.ON Ruhrgas Norge.

PGNiG's licences inside Europe



Licence: PL599
Interest holders:
PGNiG Norway (20%)
BG Norge AS (40% – operator)
Idemitsu Petroleum Norge AS (20%)
Norwegian Energy Company ASA (20%)

Licence: PL600
Interest holders:
PGNiG Norway (30%)
Dana Petroleum Norway AS
(70% – operator)

PGNiG Norway was awarded the PL599 and PL600 licences by the Norwegian Ministry of Hydrocarbons and Energy in April 2011, following conclusion of the 21st licensing round. Both licences are located within the Vøring basin, in the western part of the Norwegian Sea, in the immediate vicinity of the Aasta Hansteen gas field.

Under the licences held, PGNiG Norway and its partners undertook to reprocess the existing 3D seismic data. Based on the advanced seismic processing, as well as planned geological and geophysical surveys, it will be possible to assess the prospectivity of the area to make a "drill or drop" decision. The decision is due in 2013. If a decision to drill is made, the interest holders should drill a well within four years of the award date.

Licence: PL646
Interest holders:
PGNiG Norway (20%)
Wintershall Norge (40% – operator)
Lundin Norway (20%)
Norwegian Energy Company
(Noreco – 20%)

At the beginning of 2012, PGNiG Norway acquired interests in licence PL646 in the Norwegian Sea. The licence area is adjacent to the Skarv field, which is in line with the company's strategy. PGNiG Norway focuses its operations on key areas, such as the Skarv field, where it builds its position.

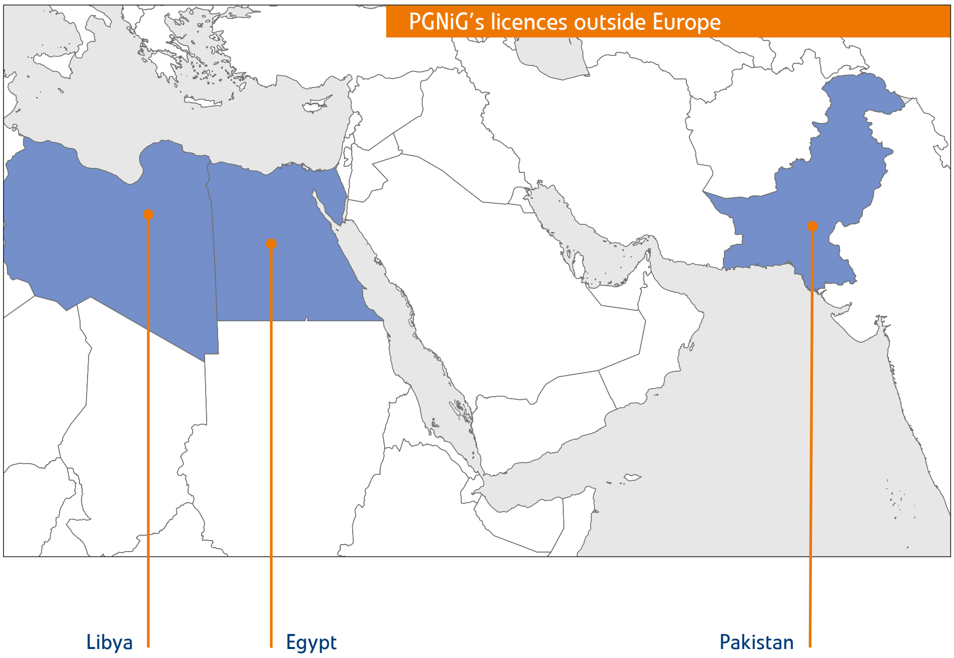
Since the award of the licence, 3D seismic profiles have been purchased and interpreted, and additional geological studies have been performed, confirming the prospectivity of the area. A decision whether to continue the work is due in the first quarter of 2014. If a decision to drill is made, the interest holders should drill a well within four years of the award date.

Licence: PL648S
Interest holders:
PGNiG Norway (50% – operator)
OMV Norge (50%)

The PL648S licence is of special importance, because for the first time ever PGNiG has assumed the highly responsible role of operator on the Norwegian Continental Shelf. Having been granted the status of licence operator marks an important step for the PGNiG Group. For us, this is the first operatorship of a project of offshore exploration for crude oil and gas; it emphasises PGNiG Norway's role as the PGNiG Group's competence centre for offshore operations.

The licence area is adjacent to the Skarv field. The acreage has huge exploratory potential, with probable discovery of natural gas. New 3D seismic was acquired over the licence area, and is currently being processed. The partners will also carry out geological and geophysical analyses in order to assess the prospectivity of the area.

A "drill or drop" decision is due in the first quarter of 2014. If a decision to drill is made, the interest holders should drill a well within four years of the award date.



Libya

Licence: block No. 113
Interest holders:
PGNiG (100%)

In February 2008, POGC-Libya signed an Exploration and Production Sharing Agreement (EPSA), enabling the company to carry out exploration work on Exploration and Production Licence No. 113 with an area of 5.5 ths sq km. The licence is located within the Murzuq crude oil basin, in western Libya.

When the civil war in Libya broke out in February 2011, all non-Libyan personnel of POGC-Libya were evacuated from the country. In March 2011, a notice of a force majeure event was filed with the National Oil Corporation, as a result of which performance of the EPSA was suspended. In 2012, POGC – Libya BV reopened its Tripoli office and commenced implementation of safety procedures necessary to ensure safety of employees of the Tripoli branch office and of field workers. In the second half of 2012, the force majeure event was declared to have ceased and exploration work was resumed. At the time of resuming the work, the company obtained all necessary drilling permits and ordered performance of preparatory work related to the planned drilling activities.

Egypt

Licence: Bahariya
Interest holders:
PGNiG (100%)

In Egypt, PGNiG conducts exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement (EPSA) executed with the government of Egypt on May 17th 2009. The Company holds a 100% interest in the licence. In 2012, the acquisition of 2D seismic data (in total, 2,300 km) was completed, with the 2D seismic image processed and interpreted. The first exploration wells are expected to be drilled in the first half of 2013.

Pakistan

Licence: Kirthar
Interest holders:
PGNiG (70%)
Pakistan Petroleum Limited (30%)

PGNiG conducts exploration work in Pakistan on the basis of 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 proportionately to the parties' interests in the licence: PGNiG (operator) – 70%, Pakistan Petroleum Ltd. – 30%. In 2012, workover of the Hallel-1 borehole was completed, as was the drilling of the horizontal Hallel-X1 borehole. After a gas flow was obtained from the well, work was begun to build facilities necessary to perform a double-well production test on the Rehman-1 and Hallel-X1 wells. Additional interpretation of 3D seismic data was undertaken, confirming the presence of potential deposits in the northern part of the licence area. On July 6th 2012, the Pakistani licensing authority (Directorate General of Petroleum Concessions) classified the Rehman field as a deposit of unconventional tight gas. In consequence, the interest holders can raise gas prices by 50% relative to the price of gas produced from conventional reserves. Following valuation of the Kirthar licence performed by Canadian firm DeGolyer&McNaughton, in 2012 the operator decided to move to the second exploration stage as part of which a new exploration well is to be drilled by August 2014.

POLISH SHALE GOOD GAS

SECURING OF WELL DRILLING PAD

A drilling pad as well as the adjacent pool are reinforced and tightened with concrete slabs. Protective foil is additionally laid where necessary.

Trade and Storage

In 2012, total sales of natural gas reached 14.9 billion cubic metres, of which 14.2 billion cubic metres was sold by the Trade and Storage segment. The gas was supplied to PGNiG's 6.7 million customers in Poland and 17 thousand customers in Germany, including households and industrial users. Approximately 4,000 PGNiG employees worked on ensuring an uninterrupted and secure service.

Key events in 2012:

- Conclusion, on November 5th 2012, of an agreement between PGNiG and OOO Gazprom Export on new pricing terms for gas supplied to Poland under the Yamal Contract. Thanks to the agreement, it was possible to close the proceedings before the Arbitration Court in Stockholm.
- Conclusion, on October 17th 2012, of an agreement between PGNiG and VNG-Verbundnetz Gas AG on new pricing terms for gas supplied to Poland under the Lasów Gas Sales Agreement of August 17th 2006. The agreement provides for a new gas pricing formula, which includes elements based on both the prices of petroleum products and the market prices. A new capacity charge rate was also agreed. The agreement took effect as of October 1st 2012.
- On December 20th 2012, the first trade was executed on the gas market launched on the Polish Power Exchange (Towarowa Giełda Energii, TGE). Transactions on the gas market can only be executed and settled through brokerage houses and commodity brokerage houses which are members of the TGE and the Warsaw Commodity Clearing House operated by Izba Rozliczeniowa Giełd Towarowych SA (IRGiT). The institution responsible for the clearing and settlement of gas market transactions is IRGiT. Clearing of transactions by IRGiT is a guarantee of payment for gas sold.
- An amendment to the Regulation on detailed conditions for the operation of the gas system, introducing the "virtual gas trading point", which enables virtual gas trading, including on the gas market.
- Approval of new rules for the provision of transmission, distribution and storage services, and the respective tariffs for such services. The documents define new rules for the organisation of the gas trading market in Poland, including the virtual market (exchange and over-the-counter markets).

The Trade and Storage segment sells natural gas imported from other countries and produced from domestic fields. Imported gas is sourced mainly from countries lying east of Poland (65% of demand), with gas volumes imported from countries to the west and south of Poland (approximately 11%) steadily increasing.

Natural gas is sold through the distribution and transmission networks, and its sale is regulated by the Energy Regulatory Office. For its own needs, the segment uses three underground gas storage facilities (in Mogilno, Wierzchowice, and Husów).

Financial performance in 2012

The Trade and Storage segment reported a marked improvement in its operating efficiency, with operating profit coming in at PLN 325 m, up by PLN 524 m on the previous year. The improvement was driven by higher margins on sales of high-methane gas. An increase in the gas fuel tariff in March 2012 was not sufficient to benefit the margin. What did help was the unit cost of imported gas, brought down in the annex to the Yamal contract. Signed in November, it revised the gas supply prices for Poland, also retrospectively. An adjustment to the segment's result, made in the fourth quarter, to account for the revised gas import terms offset the losses incurred in the first three quarters of the year.

Tariff groups

Tariff groups	Amendment to Tariff No. 3/2010 (effective January 1st 2011–July 14th 2011)	Tariff groups	Tariff No. 4/2011 (effective July 15th 2011–March 30th 2012)	Tariff No. 5/2012 (effective March 31st 2012–December 31st 2012)	Amendment to Tariff No. 5/2012 (effective since January 1st 2013)
	PLN/m^3			PLN/m^3	PLN/m^3
		E-1A – E-1C	1.1076	1.2945	1.2516
E-1A – E-4B	0.9827	E-2A – E-2C	1.1073	1.2942	1.2513
		Ls-1	0.7432	0.8687	0.8399
Ls-1 – Ls-4	0.6603	Ls-2	0.7430	0.8685	0.8397
		Lw-1	0.8717	1.0190	0.9851
Lw-1 – Lw-4	0.7745	Lw-2	0.8715	1.0188	0.9849

Tariff policy

Gas fuel trading is regulated by the President of the Energy Regulatory Office. The Office's regulatory powers include the right to approve gas fuel tariffs, including gas fuel prices and charge rates covered by the tariffs, and control their application in terms of compliance with the Polish Energy Law; to analyse and review costs which energy companies consider relevant for the calculation of tariff prices and charge rates, and to exercise overall supervision over energy companies. The level of tariff prices and charges is the key driver behind the Company's financial performance. The applied tariff preparation methodology is based on determination of prices and charge rates against forecast costs and gas sales targets, with the calculation of prices of gas fuels including the cost of acquisition of natural gas from all possible sources – both imported and domestically produced.

PGNiG supplies gas fuel to customers connected to the transmission network and those connected to the distribution grid, under comprehensive contracts settled based on a tariff specifying:

- prices, subscription fees and network charges applicable to settlements with customers receiving gas fuel from the transmission network;
- prices, subscription fees and network charges applicable to settlements with customers receiving gas fuel from the distribution networks;
- the manner of determining price reductions for failure to maintain the quality parameters for gas fuels and quality standards in customer service, and the manner of determining charges for exceeding the contracted capacity.

In the period from January 2011 to April 2013, the following Gas Fuel Tariffs were in effect:

- Amendment to Gas Fuel Supply Tariff No. 3/2010, approved by decision of the President of the Energy Regulatory Office No. DTA-4212-53(8)/2010/652/III/AG, dated December 16th 2010 (effective from January 1st 2011 to July 14th 2011);
- Gas Fuel Supply Tariff No. 4/2011, approved by decision of the President of the Energy Regulatory Office No. DTA-4212-12(11)/2011/652/IV/AG, dated June 30th 2011 (effective from July 15th 2011 to March 30th 2012);
- Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office No. DTA-4212-53(29)/2012/652/V/AG, dated March 16th 2012 (effective from March 31st 2012 to December 31st 2012);
- Amendment to Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office No. DTA-4212-48(9)/2012/652/V/AG, dated December 17th 2012 (effective since January 1st 2013);
- Amendment to Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office No. DTA-4212-5(21)/2013/652/V/AG, dated January 25th 2013.

Gas exchange

The gas exchange was launched on December 20th 2012, with the establishment of a gas futures market on the TGE. Products offered on the market include:

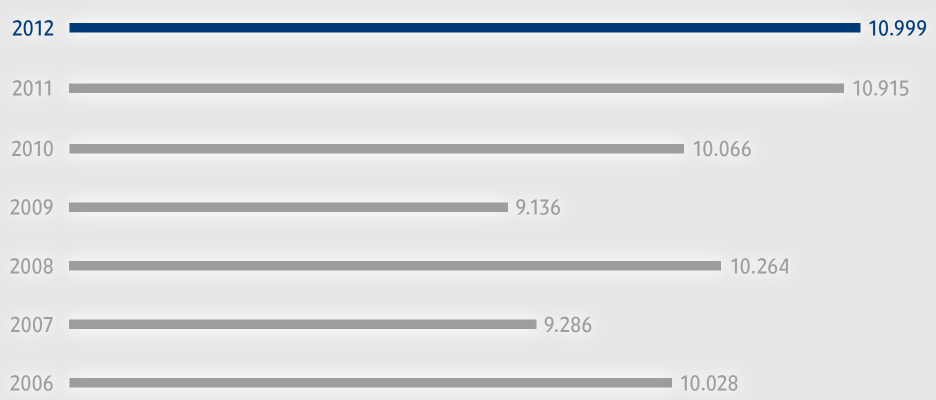
- monthly contracts with delivery one, two or three months ahead
- quarterly contracts with delivery one, two or three quarters ahead
- annual contracts with delivery one or two calendar years ahead.

Subsequently, on December 31st 2012, a day-ahead market was launched. The launch of the gas exchange had been previously delayed by the lack of an appropriate regulatory framework. The necessary condition for TGE to launch a gas exchange was the implementation of a new model for the Polish gas market, which would enable transmission of gas to and from a virtual gas trading point. While the new model – the new Transmission Grid Code drafted by OGP Gaz-System SA – was approved by the President of the Energy Regulatory Office as early as in July 2012, it could not be implemented until the President of the Energy Regulatory Office approved new tariffs for infrastructure operators (the Transmission System Operator, the Distribution System Operator, and the Storage System Operator), which enabled settlements for the transport of gas under the new market model. On February 8th 2012, the Ministry of Economy prepared a draft amendment to the Tariff Regulation, changing the rules of calculation for the new tariffs. However, due to protracted work on the Regulation, the President of the Energy Regulatory Office – in line with the market participants' expectations – decided to postpone the effective date of the Transmission Grid Code to January 1st 2013. As the amendment to the Tariff Regulation was not enacted within the prescribed time, the appropriate legal infrastructure for the new gas market model was instead based on an interpretation of the existing regulations.

A practical condition for the gas exchange's operation was exemption of the exchange from regulatory price control. On November 30th 2012, the President of the Energy Regulatory Office granted PGNiG's request, exempting it from the obligation to submit tariffs for exchange trading in gas fuels for approval. The first trade on the gas futures market was executed on December 20th 2013.

As no relevant amendment to the Commodity Exchange Act has been enacted, sellers and buyers of gas are not currently exchange members. As a practical consequence, trades have to be executed through brokerage houses. At present, in connection with ongoing work on a parliamentary draft amendment to the Energy Law and certain other acts (parliamentary paper No. 946), it is proposed that the catalogue of exchange members be expanded, thus eliminating one of the factors adversely affecting the popularity of the exchange as a trading platform. In addition to transaction fees and costs related to margin establishment, the overall cost of exchange-traded gas is impacted by costs associated with execution of transactions through brokerage houses.

Imports of natural gas to Poland in 2006–2012 (bn m³)



Imports

PGNiG is the largest natural gas importer in Poland. Gas is imported primarily from countries lying east of Poland, and also from Germany and the Czech Republic. With the existing gas infrastructure in place, it is possible to import natural gas from the following directions:

- East – through the cross-border interconnectors in Drozdovitse and Zosin (on the Polish-Ukrainian border), Kondratki, Vysokoye and Teterovka (on the Polish-Belarusian border);
- West – through the cross-border interconnector in Lasów and using the reverse flow service on the Yamal pipeline;
- South – through the cross-border interconnector in Branice or, alternatively, in Głuchołazy, and a newly built interconnector in the Cieszyn area, connecting the gas systems of Poland and the Czech Republic.

In 2012, the volume of PGNiG's imports to Poland reached approximately 10,999.95 m m³ of high-methane gas, including:

- 9,017.31 m m³ (81.98 %) – from OOO Gazprom Export;
- 366,03 m m³ (3.33%) – from Verbundnetz Gas AG (VNG);
- 640 m m³ (5.82%) – from Vitol SA;
- 890 m m³ (8.09 %) – from PGNiG Sales and Trading.

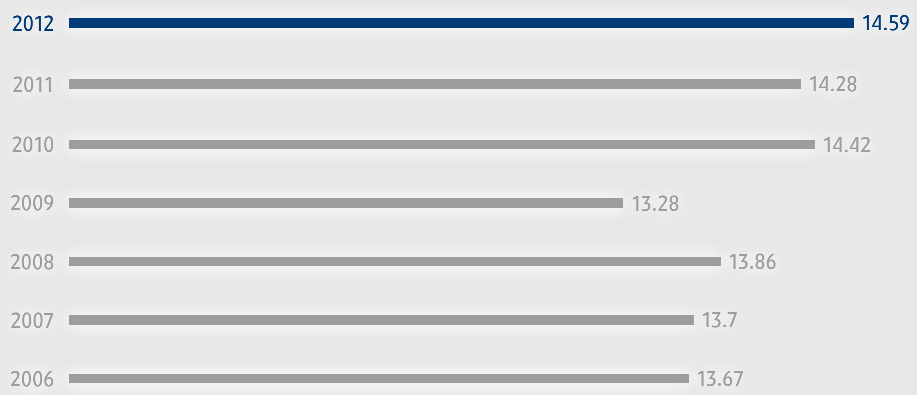
In 2012, PGNiG continued to make natural gas deliveries using the virtual reverse flow on the Yamal gas pipeline. PGNiG requested OGP GAZ-SYSTEM SA for the virtual reverse flow service on the Yamal gas pipeline in the period from January 2012 to December 2015. Following allocation of the available capacity of the Polish section of the Yamal pipeline to the long-term reverse flow service, OGP Gaz-System SA and PGNiG entered into an agreement on the provision of the reverse flow service on an intermittent basis. The contracted capacities are used to transport natural gas purchased on the German market (VTP Gaspool), which is relatively less expensive than gas purchased under the Yamal Contract.

Following completion in 2011 of the upgrade work on the existing interconnector on the Polish-German border in Lasów (two-way connection), its throughput capacity was expanded. As a result, the annual capacity for importing natural gas from Germany has increased by approximately 0.5 bn m³, to a total of approximately 1.5 bn m³. The increased throughput capacity at the Lasów point became available in January 2012.

The system interconnections (the Lasów terminal and the interconnection with the Czech Republic, near Cieszyn, commissioned in 2011) play a very important role in ensuring Poland's energy security, and may also be used as potential sources of emergency supplies. Further, the interconnectors support free trade flows between EU countries and foster greater economic integration of member states.

In addition, Polskie LNG SA (a wholly-owned subsidiary of OGP Gaz-System SA) is constructing an LNG terminal in Świnoujście. Initially (to 2014), the terminal's capacity will amount to 5 bn m³ of gas. The contracted supplies of 1 m tonnes of liquefied natural gas annually (approximately 1.34 bn m³) are due to commence in mid-2014.

Sales of natural gas by PGNiG Group in 2006–2012 (bn m³)*



* measured as high-methane gas equivalent

Sales

PGNiG is the largest domestic seller of natural high-methane and nitrogen-rich gas fed into the transmission and distribution networks. Gas trading is regulated by the Polish Energy Law, with prices established based on tariffs approved by the President of Energy Regulatory Office. In 2012, PGNiG sold 14.59 bn m³ of natural gas outside the Group, including 13.87 bn m³ (95.1%) sold by the Trade and Storage segment.

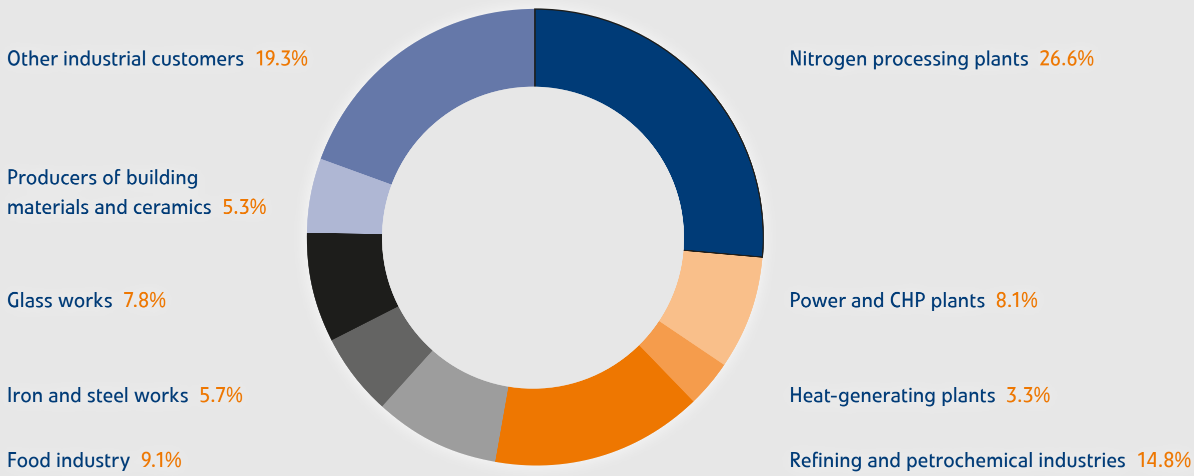
Sales of natural gas in Poland are based on the following two systems:

- The high-methane gas network used for imported gas, gas produced from fields in southern Poland, as well as gas fed into the network by nitrogen rejection units, produced from fields in western Poland;
- The nitrogen-rich gas transmission networks serve to route the gas from domestic reserves located in the Polish Lowlands to the nitrogen rejection units and customers.

In terms of sales volumes, PGNiG's largest customers in 2012 served by the Trade and Storage segment included industrial customers (chemical, refining, petrochemical and metallurgical plants), as well as households. Households are the largest group of customers purchasing natural gas, as they account for 97% of the entire customer base (approximately 6.5 m). Their share in the total volume of sales through the Trade and Storage segment was approximately 27.5%.

Natural gas is also sold in Germany via XOOL GmbH, acquired by PGNiG Sales & Trading in 2012. The acquired company sells natural gas to end consumers on the German market and has close to 17,000 customers).

Structure of PGNiG's sales of natural gas to industrial customers through the Trade and Storage segment in 2012



Working capacities of the underground gas storage facilities (m m³)

High-methane gas	Working capacity [m m³] 2012	Working capacity [m m³] Target capacity	Year extension/ construction completed
Brzeźnica	65	100	2016
Husów	350	500	2014
Kosakowo	0	250	2021
Mogilno	412	841	2023
Strachocina	330	330	-
Swarzów	90	90	-
Wierzchowice	575	1,200	2013
Nitrogen-rich gas			
Bonikowo	200	200	-
Daszewo	30	30	-

In 2012, the PGNiG Sales & Trading group sold 0.3 bn m³ of natural gas outside the PGNiG Group.

In the third quarter of 2012, PGNiG launched sales of electricity to business customers. In the first quarter of 2013, it launched sales of electricity to households (tariff group G).

Capex projects

The capital expenditure incurred in 2012 in the Trade and Storage segment amounted to PLN 574 m. Key projects focused on the construction and extension of underground gas storage facilities, and included:

- Construction of the surface part of the Wierzchowice Underground Gas Storage Facility;
- Cavern leaching as part of the construction of the Kosakowo Underground Gas Storage Cavern Facility;
- Construction of four caverns of the Mogilno Underground Gas Storage Cavern Facility.

Other capex projects carried out in the Trade and Storage Segment related to information and communication technologies, purchase and clarification of the legal status of property, as well as asset replacement and maintenance.

Storage facilities

PGNiG owns eight underground gas storage facilities, located in two different types of geological structures – salt caverns (underground cavern gas storage facilities) or depleted gas and oil reservoirs. Six of them are used to store high-methane gas (Wierzchowice, Husów, Mogilno, Strachocina, Swarzów and Brzeźnica Underground Gas Storage Facilities), and the other two are nitrogen-rich gas storage facilities (Daszewo and Bonikowo Underground Gas Storage Facilities).

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

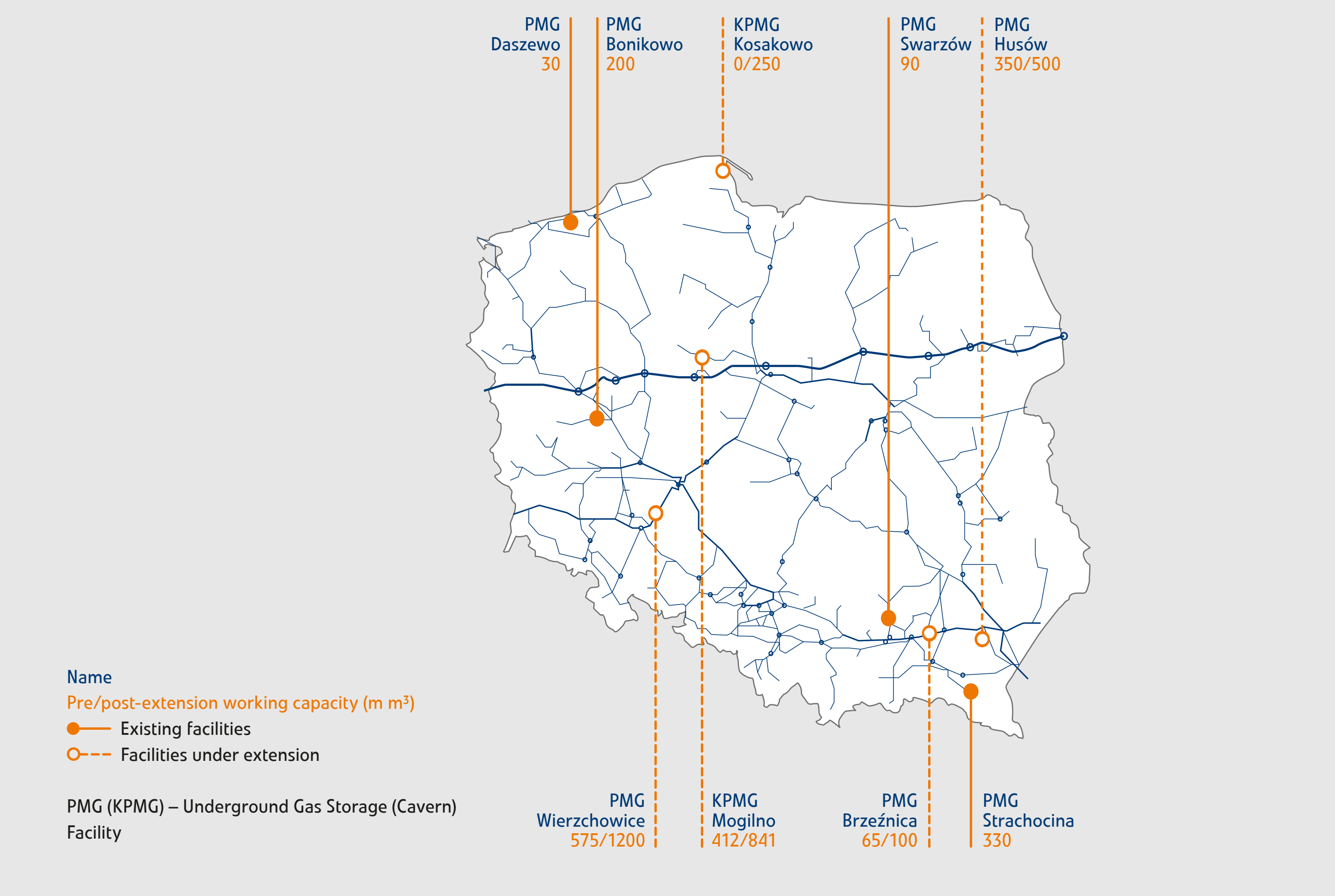
The capacities of the Wierzchowice, Husów, Mogilno and Strachocina facilities are used by the Group to meet its obligation to maintain mandatory stocks, imposed by the Polish Act on Stocks of Crude Oil, Petroleum Products and Natural Gas as well as the Rules to be Followed in the Event of Threat to National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

In order to bring the structure of its gas storage operations in line with the independence requirements stipulated by Art. 15 of Directive 2009/73/EC of the European Parliament and of the Council of July 13th 2009 concerning common rules for the internal market in natural gas, repealing Directive 2003/55/EC, PGNiG undertook the process of legal unbundling of the storage system operator. An important step in the process was the assignment to Operator Systemu Magazynowania Sp. z o.o. ("OSM" – a wholly-owned subsidiary of PGNiG) of the role of storage system operator at PGNiG's storage facilities, by executing an agreement on May 11th 2012 for exclusive operation of the storage facilities and designation of the storage system operator.

On June 1st 2012, based on a decision of the President of the Energy Regulatory Office licensing OSM to store gas fuel at storage facilities and designating it as the storage system operator, OSM started to operate the storage system. In accordance with its licence for gas fuel storage at storage facilities, OSM provides its services at the following underground gas storage facilities:

Mogilno Underground Gas Storage Cavern Facility – a high-methane gas storage site with the working capacity of 411.5 m m³, located in the province of Bydgoszcz, county of Mogilno, municipalities of Mogilno and Rogowo. The facility is located in salt caverns, allowing it to achieve high injection and withdrawal capacities. Mogilno is currently being extended to 800 m m³ of storage capacity.

Location of underground gas storage facilities



Bonikowo Underground Gas Storage Facility – a storage site for Lw nitrogen-rich gas with a working capacity of 200 m m³. Bonikowo was commissioned in 2010. The role of the Bonikowo Underground Gas Storage Facility is to help optimise the production of Lw nitrogen-rich gas in western Poland, which is why its capacities are not classified as storage facilities within the meaning of the Polish Energy Law.

Husów Underground Gas Storage Facility – a high-methane gas storage site with a working capacity of 350 m m³. It is located in the province of Rzeszów, county of Łańcut, municipalities of Łańcut and Markowa. The facility's working capacity is currently being extended to 500 m m³.

Daszewo Underground Gas Storage Facility – a storage site for Ls nitrogen-rich gas with a working capacity of 30 m m³, located in a partially depleted crude oil reservoir. Daszewo is used to optimise production and supply of Ls gas to the Koszalin region at times of peak demand. As Daszewo is used to optimise production, its capacities are not classified as storage facilities within the meaning of the Polish Energy Law. The licence for gas storage in depleted reservoirs at the Daszewo Underground Gas Storage Facility authorises PGNiG to store 60 m m³ of gas. Gradual injection of additional gas quantities is planned to ultimately achieve the working capacity of 60 m m³.

Wierzchowice Underground Gas Storage Facility – a high-methane gas storage site. It is located in a partially depleted nitrogen-rich gas reservoir, in the province of Wrocław, county of Milicz, municipalities of Milicz and Krośnice. With a working capacity of 575 m m³, it is the largest underground gas storage facility in Poland. The facility's working capacity is currently being extended to 1,200 m m³.

Strachocina Underground Gas Storage Facility – a high-methane gas storage site with a working capacity of 330 m m³. It is located in the province of Rzeszów, county of Sanok, municipalities of Sanok and Brzozów.

Brzeźnica Underground Gas Storage Facility – a high-methane gas storage site with a working capacity of 65 m m³. The facility is located in the province of Rzeszów, county of Dębica, municipality of Dębica. Preparations are currently under way to expand its working capacity to 100 m m³ .

Swarzów Underground Gas Storage Facility – a high-methane gas storage site with a working capacity of 90 m m³. It is located in the province of Kraków, county of Dąbrowa Tarnowska, municipalities of Dąbrowa Tarnowska and Olesno. Swarzów is one of the oldest gas storage facilities in Poland.

Working storage capacities made available to third parties as at December 31st 2012 (m m^3)

High-methane gas	Working storage capacities (m m^3)
PMG Brzeźnica	65.0
PMG Husów	350.0
KPMG Mogilno	411.5[1]
PMG Strachocina	330.0
PMG Swarzów	90.0
PMG Wierzchowice	575.0
Nitrogen-rich gas	
Bonikowo	200.0
Daszewo	30.0
Total	**2051.5**

[1] The amount includes the working capacity made available to OGP Gaz-System SA. and working capacities made available on a short-term basis.

Another storage facility in salt caverns is under construction:
Kosakowo Underground Gas Storage Cavern Facility – a high-methane gas storage site, located in the vicinity of the Gdańsk-Gdynia-Sopot agglomeration. The facility's working capacity is planned at 250 m m^3. Completion of the Kosakowo project is scheduled for 2021.

As at December 31st 2012, OSM operated storage sites with an aggregate capacity of 1,821.5 m m^3, of which 1,796 m m^3 were reserved under long-term contracts. 25.89 m m^3 of the Mogilno site's capacity were made available under short-term storage service (25.5 m m^3) and used to cover the facility's own needs (0.39 m m^3). The Bonikowo and Daszewo storage sites are used to store nitrogen-rich gas. The total volume they can store is 230 m m^3.

In the period from January 1st to December 31st 2012, the following long-term storage capacity allocation procedures were carried out:

- procedure for making storage capacity available as part of services provided on a continuous and intermittent basis at the Mogilno Underground Gas Storage Cavern Facility (34 m m^3) and Strachocina Underground Gas Storage Facility (180 m m^3) – April/May 2012;
- procedure for making storage capacity available as part of services provided on an intermittent basis at the Wierzchowice Underground Gas Storage Facility (175 m m^3) – June 2012;
- procedure for making storage capacity available as part of services provided on a continuous a basis at the Mogilno Underground Gas Storage Cavern Facility (302 m m^3) – deadline for submitting applications expired in August 2012.

As at December 31st 2012, all the working underground storage capacities had been allocated.

EU programmes

In 2012, under the EU Infrastructure and Environment Operational Programme, PGNiG and the Oil and Gas Institute of Kraków signed annexes to agreements for co-financing of the following projects:

- **Wierzchowice Underground Gas Storage Facility**

Value of the project: **PLN 1,853,220,668.00;**
Maximum level of co-financing:
PLN 512,810,000.00;
Intensity of aid: **56% of eligible project costs;**
Period for determining the eligibility of expenditures: **May 16th 2007 – March 31st 2014.**
The project involves building surface infrastructure and drilling production wells.

- **Kosakowo Underground Gas Storage Cavern Facility**

Value of the project: **PLN 544,743,166.65;**
Maximum level of co-financing:
PLN 130,528,440.87;
Intensity of aid: **57% of eligible project costs;**
Period for determining the eligibility of expenditures: **June 26th 2007 – March 31st 2015.**
The project provides for building four caverns, a leaching unit, a pipeline for brine discharge and surface infrastructure.

- **Strachocina Underground Gas Storage Facility– Project completed and settled**

Value of the project: **PLN 489,113,375.41;**
Maximum level of co-financing:
PLN 69,724,881.76;
Intensity of aid: **57% of eligible project costs;**
Period for determining the eligibility of expenditures: **May 16th 2007 – June 30th 2012.**

- **In 2012, an agreement was also signed for co-financing of the project designated as "Switching customers in Ełk and Olecko from propane-butane to E type gas using LNG technology".**

Value of the project: **PLN 18,612,383.45;**
Maximum level of co-financing: **PLN 7,020,906.07;**
Intensity of aid: 48**% of eligible project costs;**
Period for determining the eligibility of expenditures: **September 1st 2012 – September 30th 2013.**

POLISH SHALE GOOD GAS

WORK NOISE

Well drilling does not produce onerous noise. The intensity of sounds generated in connection with drilling work is lower than that generated by street traffic.

Intensity of sound measured at a distance of 150 metres from source

Source	Intensity
bell tolling	89 dB
traffic noise	86 dB
telephone ringing	60 dB
drilling work during daytime hours	55 dB
drilling work during night-time hours	45 dB

Distribution

Through six regional gas distribution companies, natural gas is supplied to households as well as to small and medium-sized enterprises. In 2012, 9.9 billion cubic meters of natural gas were distributed through the gas distribution network. The reliability and stability of supplies made via this network is attested to by the growing number of connections, including with such major players as Grupa LOTOS SA.

Key Events

- The "Short-term Value Creation Strategy for the PGNiG Group in 2012–2014", adopted in December 2012, sets the consolidation of the Gas Distribution Companies as one of its goals.
- The volume of distributed gas in 2012 was 9.9 bn m^3, up by almost 0.8 bn m^3 on 2011.

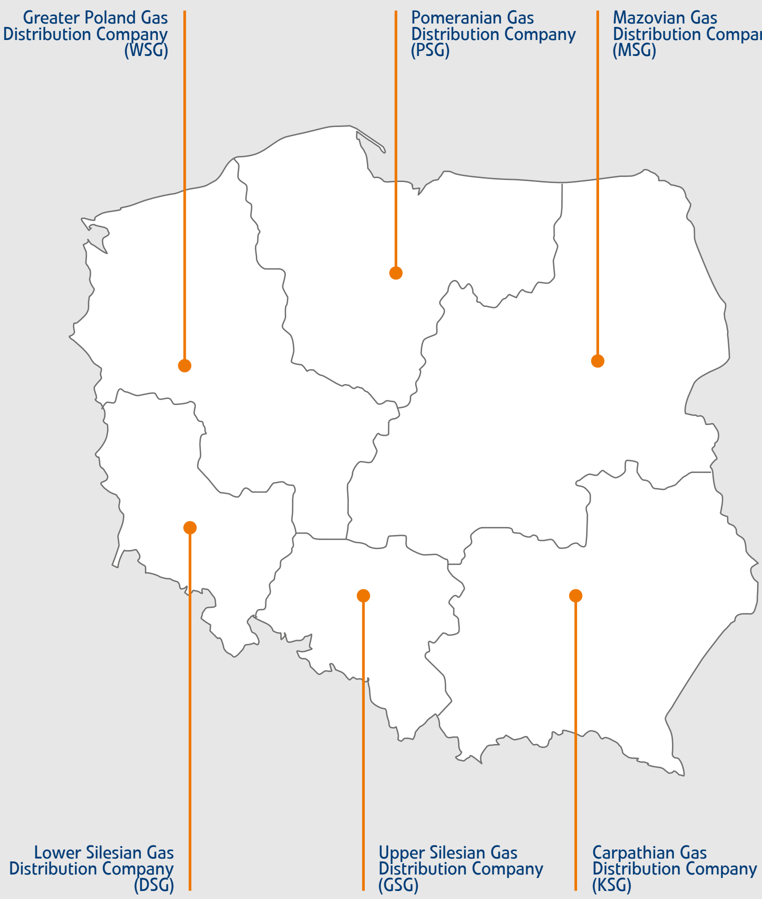
The segment's core business consists in the transmission of high-methane and nitrogen-rich gas, as well as of small amounts of propane-butane and coke-oven gas over the distribution network. Natural gas distribution is the business of the six Gas Distribution Companies, which supply gas to households, as well as to industrial and wholesale customers. These entities are also responsible for operation, maintenance and expansion of the distribution network. Based on a decision of the President of the Energy Regulatory Office, since mid-2007 the Gas Distribution Companies have had the status of Distribution System Operators.

Financial Performance in 2012

The Distribution Segment derives revenue from transmission of natural gas via the distribution network. Gas distribution tariffs are determined by the Energy Regulatory Office. The revenue of the six Gas Distribution Companies is subject to seasonal fluctuations throughout the year. The largest gas volumes are transmitted via the distribution network in winter (Q1 and Q4 of each year).

The 2012 operating profit of the Distribution segment expanded by 12% year on year, to PLN 878 m. This significant improvement was achieved thanks to a 5% increase in the volume of distributed gas and an average 1.7% increase in distribution tariffs in July 2011. The volume of distributed gas increased on the back of higher gas consumption by households and smaller industrial plants, connected to the distribution network, which in turn followed from lower air temperatures in Q1 and Q4 compared with the corresponding periods of 2011, as well as from acquisition of new customers, including for coking gas distribution.

Gas Distribution Companies in Poland



Tariff Policy

The regional gas distribution companies forming part of the PGNiG Group have the status of Distribution System Operators. Until mid-2007, the distribution companies of the PGNiG Group were involved in both trade in and distribution of gas. In accordance with the requirements of the Polish Energy Law, which implemented the requirements of EU Directive No. 2003/55/EC, in 2007 PGNiG performed a legal separation of the distribution and trade businesses. As a consequence, in mid-2007 the Distribution System Operators were spun off (currently: Gas Distribution Companies). Since Q4 2007, the entire trade business, including retail sales and wholesale, has been integrated into PGNiG.

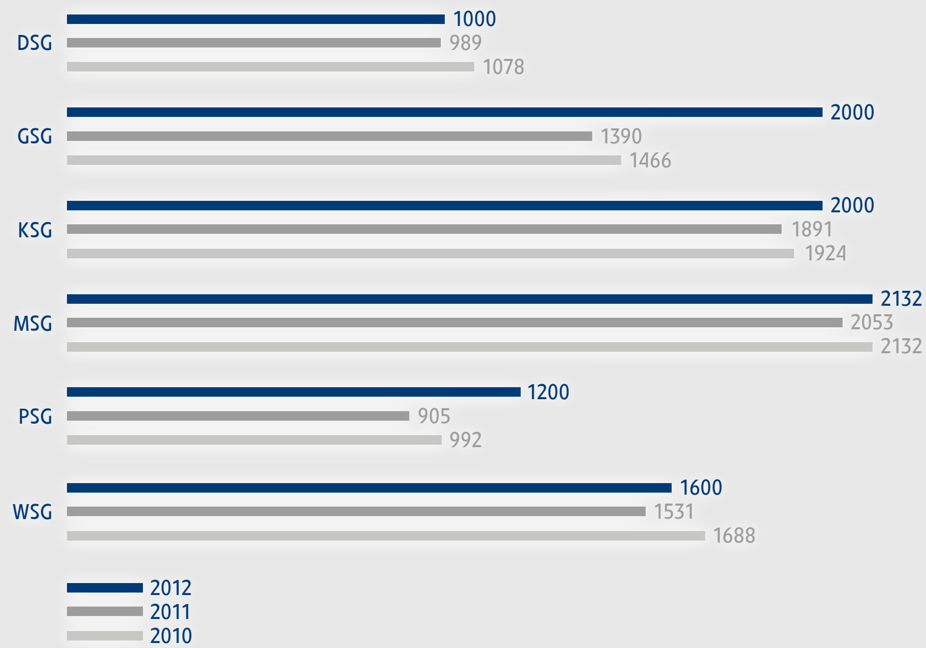
Gas distribution activities require license, similarly to trading in gas fuel. This means that the Gas Distribution Companies must seek the approval of the Energy Regulatory Office with regard to rates for gas fuel distribution. The tariffs set forth:

- charge rates for the distribution services and subscription fees;
- the formula for determining fees for connecting customers to the high-, medium- and low-pressure networks.

Moreover, the tariffs define the manner of determining the charges for exceeding the contractual capacity, penalties for illegal abstraction of gas fuels and failure to comply with the imposed limitations, as well as of price reductions for failure to maintain quality standards in customer service.

In connection with the ongoing process aimed to develop a new model for the Polish gas market, on July 24th 2012 the President of the Energy Regulatory Office approved the Transmission Grid Code for the Polish transmission system owned by OGP Gaz-System SA. Based on the newly approved Code, distribution system operators must purchase transmission services at the exit points of the transmission system, which are also the entry points to the distribution system. As a result, the tariffs for gas distribution by the six operators of the distribution systems owned by the PGNiG Group, approved by the President of the Energy Regulatory Office on December 17th 2012, were calculated based on the operating costs planned for the effective period of the tariff, including the cost of purchase of transmission services at the exit points from the transmission system, which are at the same time the entry points to the distribution system.

Volume of gas distributed by Gas Distribution Companies in 2010–2012 (m m³)



Gas Fuel Distribution

In 2012, the Gas Distribution Companies transmitted 9.9 bn m³ of natural gas (measured as high-methane gas equivalent) via the distribution system. The amount exceeds the level recorded a year earlier (9.1 bn m³) by 0.8 bn m³, or 9%. As at the end of 2012, the net length of the distribution network (excluding connections) was 120.8 ths km. The six Gas Distribution Companies provide services to approximately 6.7 m customers.

Capex Projects

The capital expenditure incurred in 2012 in the Distribution Segment amounted to PLN 1.14 bn. The capex budgets of the Gas Distribution Companies were spent on upgrading and expanding the gas network as well as connection of new customers. The segment's development projects accounted for approximately 65% of the total capital expenditure.

Gas Fuel Distribution

	DSG	GSG	KSG	MSG	PSG	WSG	Total
No. of customers (millions)	0.75	1.30	1.46	1.52	0.74	0.93	**6.7**
Volume of distributed gas (bn m³)	1.0	2.0	2.0	2.1	1.2	1.6	**9.9**
Network length, excluding connections (ths km)	7.98	21.22	45.4	19.65	10.27	16.27	**120.79**

Power Generation

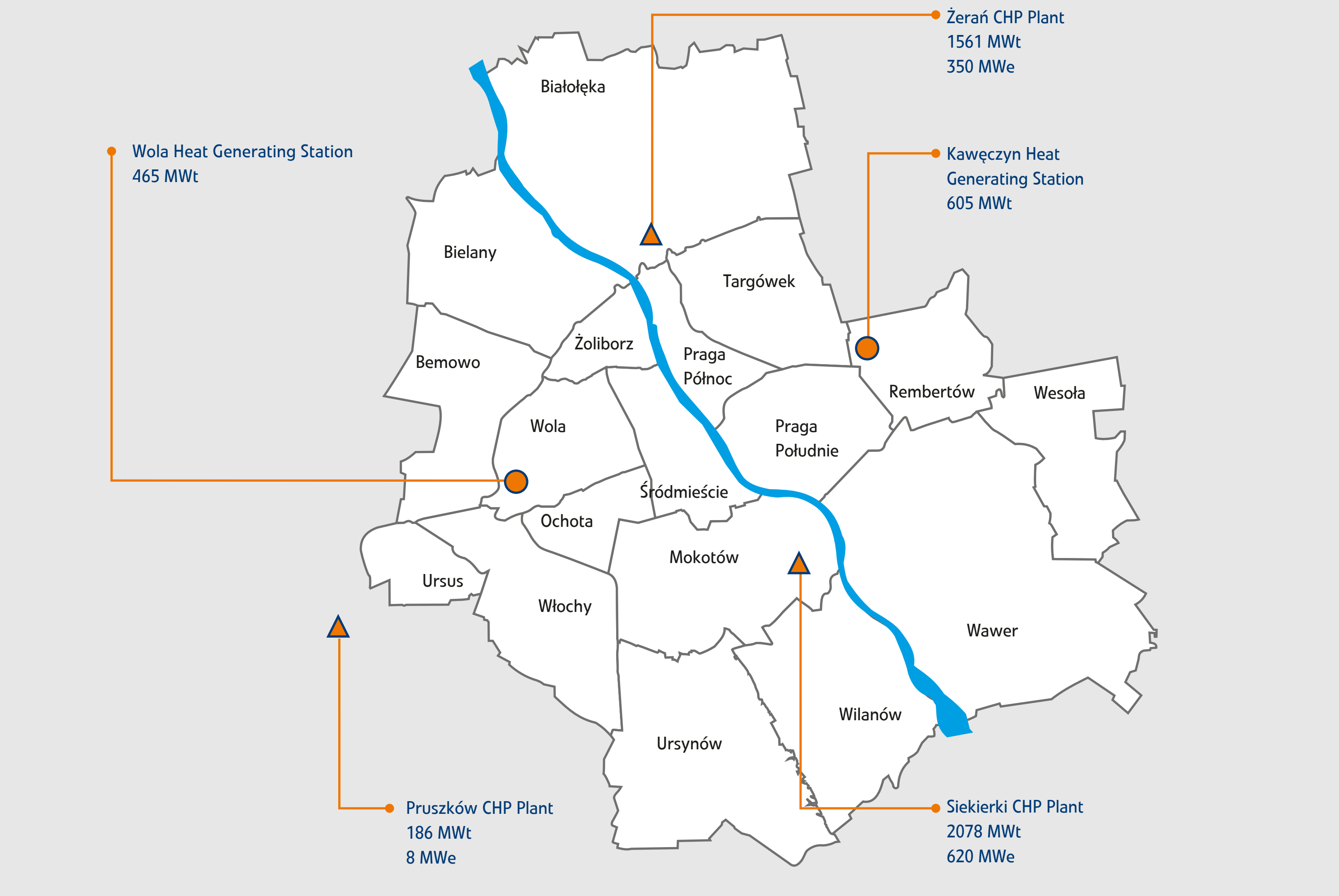
On the path to achieving a major strategic goal of growing its power business, the PGNiG Group continues to embark on new projects, both large and small, involving construction of new gas-fired capacity.

On January 11th 2012, the Group finalised the purchase of Vattenfall Heat Poland's (VHP's) assets. Following the transaction, its total installed heat and power generating capacity has grown to 4,804 MWt and 995 MWe, respectively. The acquisition has also given the Group an approximately 3% share in the domestic power generation market and an approximately 30% share in the market for co-generated heat. The CCGT project implemented jointly with the TAURON Group in Stalowa Wola (PGNiG holds 50% of the 450 MW capacity), the acquisition of VHP assets, and a range of new projects to build gas-fired capacity will facilitate attaining the target of 1,300 MWe generating capacity by 2015. Investments in the power generation sector will boost demand for natural gas and will perfectly match the PGNiG Group's mission which is to develop and increase company value in line with the principles of sustainable development and with due consideration for the natural environmental.

Key Events in 2012

- On January 11th 2012, PGNiG completed the purchase of 99.8% of shares in Vattenfall Heat Poland SA.
- On April 26th 2012, a contract was signed with the general contractor for the Stalowa Wola unit, with the contract price totalling PLN 1.57 bn. The project, involving the construction and future operation of a 449.16 MW gas-fired CHP plant, is being carried out jointly by the PGNiG Group and the TAURON Group via special purpose vehicle Elektrociepłownia Stalowa Wola.
- On October 4th 2012, PGNiG Termika was merged with PGNiG SPV1. The former assumed all rights and obligations of PGNiG SPV1.
- December 3rd 2012 was the start date of construction of the 449.16 MW CCGT unit in Stalowa Wola. The project is to be completed at the end of 2014 or beginning of 2015. The CHP plant will be placed in commercial operation at the end of the second quarter of 2015.

PGNiG TERMIKA's assets in Warsaw



PGNiG Termika SA

The merger of PGNiG Termika and PGNiG SPV1 crowned the process of acquiring Vattenfall Heat Poland's generation assets in Warsaw. The merger plan was approved by the Supervisory Board resolution of October 4th 2012, and the process was finalised late in December 2012. The transaction implements the strategic objective of making PGNiG Termika a competence centre for the Group's power generation business. PGNiG SPV1 is a special purpose vehicle established to acquire shares in Vattenfall Heat Poland by PGNiG SA. The acquisition of Vattenfall Heat Poland SA's heat and power generation assets was well received by the market – in addition to other factors, it was that transaction that prompted Standard & Poor's Financial Services to upgrade PGNiG's outlook in recognition of the benefits related to greater diversification and enhanced business risk profile.

PGNIG Termika has become the Group's competence centre for power generation. Experienced staff will support continued expansion in the power generation market, with the company's efforts reaching beyond the local heat market in Warsaw and being used to further new Group heat and power projects across Poland.

The total generation capacity of heat and power stations owned by PGNiG Termika represents over 23% of the total installed heat generation capacity in Poland. The annual average heat and power sales amount to 39.7 TJ and 3.7 GWh, respectively. The two largest assets are the Siekierki and Żerań CHP stations. The company also owns heat generating plants in the Kawęczyn, Wola and Regaty districts, and a CHP plant and heating network in Pruszków and its vicinity. PGNiG Termika's heat covers approximately 75% of demand in Warsaw, and represents 97% of the heat supplied to Dalkia Warszawa's network.

Capex projects

Capital expenditure incurred in 2012 at PGNiG Termika amounted to PLN 286 m. Major capex projects included those related to flue gas desulphurisation and denitrification (deSox and deNox) technologies. 2012 saw the completion of the second stage of the wet flue gas desulphurisation project at the Siekierki CHP plant.

In 2010, a flue gas deNox project was launched at the Siekierki CHP plant, with a four-stage work schedule to be executed between 2010 and 2014.

CCGT unit at Żerań CHP plant

Following completion, the CCGT project will contribute to upgrading the Żerań CHP plant in Warsaw. The worn-out coal-fired boilers will be retired, and the new unit will allow the plant to increase power output by 50%. The unit, with an installed capacity of around 450 MWe, will consume over 650 m m^3 of natural gas every year. The plant will be put into operation in 2018. The unit's technical parameters will meet the requirements of the Industrial Emissions Directive (IED) and the BAT (Best Available Techniques) standards. The project will also contribute to power security in the Warsaw metropolitan area and to further improvement in air quality.

In Q3 2012, relevant environmental permits were secured and a contract was signed with ILF Consulting Engineers Polska for the provision of preparatory services for the construction of a high-pressure gas pipeline to the Żerań CHP plant. In Q4 2012, an agreement was signed to connect the Żerań CHP plant to the OSP Gaz-System SA transmission network, and later an application was filed to connect the plant to PSE Operator SA's transmission network.

New Pruszków CHP Plant

In June 2012, a conceptual design for an upgrade of the Pruszków CHP plant was selected. The modernisation will involve construction of a new generating unit powered by gas engines with a total capacity of approximately 16 MWe and 15 MWt, as well as modernisation of the existing WR-25 hot water boilers, all of which will ensure compliance with tighter environmental standards in the future. The design also provides for construction of a new peak and standby boiler house fired by natural gas or light fuel oil. In November 2012, an application was submitted to the Mazovian Gas Distribution Company to issue a decision specifying the terms of connection to the gas network.

Combined Cycle Gas Turbine in Stalowa Wola

On April 26th 2012, a contract was signed with Abener of Spain (general contractor) for construction of the CCGT unit in Stalowa Wola. The unit will be the largest of its kind in Poland. The project, for construction and future operation of a 449.16 MW gas-fired CHP plant, is being carried out jointly by the PGNiG Group and the TAURON Group, each holding a 50% interest. The CHP plant will produce heat in the form of hot water for the town's residents and process steam for industrial facilities located nearby. The agreement between the project partners provides that revenue from sales of electricity will be shared pro rata to their interests in the Stalowa Wola CHP plant. It is estimated that the Stalowa Wola unit will generate approximately 3,500 GWh of electricity per year, while burning approximately 600 m m^3 of gas . The unit will generate low carbon dioxide, SOx and NOx emissions, in line with the EU's energy and climate policy. The project is to be completed at the end of 2014 or beginning of 2015. The CHP plant will be placed in commercial operation at the end of the second quarter of 2015.

Corporate Governance

The PGNiG Group pays close attention to the observance of corporate governance principles. The Group is honest and fair to its shareholders, treats them all on equal terms and makes every effort to establish the best possible relations between its investors and governing bodies.

General Meeting

The General Meeting is PGNiG's supreme governing body, through which the shareholders exercise their corporate rights, including examination and approval of the Directors' Report, adopting decisions concerning dividend amounts, forms and payment dates. The General Meeting grants its vote of approval for 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 the Company's activities in all areas of its operations, pursuant to the rules stipulated in the Rules of Procedure for the Supervisory Board. The Supervisory Board 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, and where the Supervisory Board is composed of seven to nine members, three of them.

Management Board

The Management Board is an executive body managing the affairs of PGNiG and representing it in all actions before court and out of court. The Management Board is composed of between two to seven members, with the precise number defined by the Supervisory Board. The members of the Management Board are appointed for a joint three-year term. The 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, including in particular the provisions of 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 acted within the Supervisory Board as its standing body since November 27th 2008. The Audit Committee 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 has to be competent in accounting and finance matters. The members of the Audit Committee are appointed by the Supervisory Board.

The powers and the manner of operation of the Company's governing bodies are described in detail in the Articles of Association and rules of procedure for the General Meeting, the Supervisory Board (including the rules of procedure for the Audit Committee) and the Management Board. The documents are available at www.pgnig.pl in the Corporate Governance section.

Best Practices

The Management Board of PGNiG puts enormous emphasis on compliance with corporate governance principles. Since its stock-exchange debut in 2005, the Company has been following the recommendations of the Warsaw Stock Exchange stipulated in the Code of Best Practice for WSE Listed Companies. Reports on PGNiG's compliance with the requirements of corporate governance are published online at www.pgnig.pl in the Corporate Governance section.

Special control rights

In accordance with the Articles of Association, as long as the State Treasury holds an equity interest in the Company, the State Treasury, represented by the minister competent for 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 changes to material provisions of the existing trade agreements for import of natural gas to Poland, as well as execution of such agreements, and (ii) the implementation of any strategic investment projects or the Company's 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 share in the Company's share capital, the State Treasury also has the right to demand that the General Meeting be convened and that particular matters be placed on the agenda.

Voting rights restrictions

In 2012, neither the Company's Articles of Association, nor any of its other internal regulations provide for any restrictions on the exercise of voting rights.

On December 31st 2012, the amendments to the Articles of Association of PGNiG, introduced under a resolution of the Company's Extraordinary General Meeting dated December 6th 2012, were entered in the Register of Entrepreneurs. Under the amended Articles of Association, the voting rights of the 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 a restriction of voting rights is deemed non-existent for the purpose of determining the obligations of buyers of major holdings of shares.

The voting rights restrictions do not apply to shareholders who, as at the date of the General Meeting's resolution imposing the limitation of voting rights, are holders of shares conferring more than 10% of the total vote at the Company, and shareholders acting together with shareholders holding shares conferring more than 10% of the total vote, pursuant to agreements concerning joint exercise of voting rights.

For the purpose of restricting the voting right, the votes of shareholders bound by a parent-subsidiary relationship will be aggregated and if the aggregated number of votes exceeds 10% of the total vote at the Company, it will be subject to reduction.

Rules governing 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 adopted by the General Meeting with the required majority of votes and must be entered in the register of entrepreneurs. 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 adopted 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.

Rules governing 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 qualification procedure carried out pursuant to the Regulation of the Polish Council of Ministers of March 18th 2003 concerning qualification procedures for members of management boards of certain commercial-law companies (Dz.U. No. 55, item 476, as amended). This procedure does not apply in the case of the Management Board members elected by employees.

As long as the State Treasury remains a shareholder of the Company and the Company's annual average headcount exceeds 500, the Supervisory Board appoints as a Management Board member 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/her position by delivering a representation 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 a written form, or otherwise will be ineffective towards the Company.

The Management Board member elected by employees may also be removed upon a written request submitted by at least 15% of the Company's employees. The Supervisory Board orders the vote, and its results are binding on the Supervisory Board if at least 50% of the Company's employees participate in the voting and 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 pertaining to General Meetings

A shareholder or shareholders representing at least one-twentieth 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 e-mail 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 planned date of the General Meeting. The shareholder or shareholders should prove their entitlement to exercise this right by presenting relevant documents in written form.

Any shareholder or shareholders representing at least one-twentieth 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 writing or in electronic form to the e-mail 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 their entitlement to exercise this right by presenting relevant documents in written form.

During the General Meeting, each shareholder may submit draft resolutions with respect to items placed 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, a power of proxy for participation in a General Meeting of a public company and exercise of the voting right must be granted in writing. Powers of proxy should be granted in writing or in electronic form. The power of proxy should be in the Polish language and may be sent to the Company prior to the General Meeting in electronic form as a PDF file (scanned document) to the e-mail address: wz@pgnig.pl. While at the General Meeting, all shareholders and proxies should carry a valid identity document.

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 ballot forms for voting through a proxy 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 a written power 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 power 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 the other items of the agenda will begin to be distributed a week before the General Meeting.

Pursuant to Art. 407.1 of the Commercial Companies Code, the list of shareholders entitled to participate in the General Meeting is made 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 will be available on the Company's website at: www.pgnig.pl in the section General Meeting – information for shareholders.

Risks

Regulatory Environment

In 2012, work was under way on a set of three acts which are to regulate the energy sector, i.e. the Gas Law, the Energy Law and the Law on Renewable Energy Sources.

Work also continued on amending the Regulation of the Minister of Economy on detailed rules for determining and calculating tariffs for gas fuels and on settlement of transactions in gas fuels trading (the Tariff Regulation). The draft of the amended Tariff Regulation introduces, among other things, entry-exit transmission tariffs, rules for computation of charges for short-term and intermittent services and for virtual reverse flow services provided by the transmission and distribution system operators, as well as rules for computation of charges for storage services rendered on a packaged or stand-alone basis by the storage system operator. The draft provides for the possibility of offering transmission services under an auction system in the case of interconnections between transmission systems within the EU and for passing through costs of gas fuel transport to the tariffs of other energy utilities. The purpose of the draft amendment is also to align the Tariff Regulation with the Minister of Economy's Regulation on detailed conditions for the operation of the gas system of July 2nd 2010 (known as the Gas System Regulation)

The Energy Efficiency Act came into force in August 2011. The Act implements Directive 2006/32/EC of the European Parliament and of the Council of April 5th 2006 on energy end-use efficiency and energy services. The Energy Efficiency Act establishes a national target for economical energy use, according to which savings of end-use energy until 2016 should be no less than 9% of the annual national consumption of energy. In line with the new act, PGNiG, as a trading company, is required to purchase energy efficiency certificates or else to pay a non-compliance penalty. This will drive up the cost of regulated activities and, consequently, inflate the price paid for gas by customers.

Changes of laws and delays in amending legal acts create risks, resulting chiefly from uncertainty as to the final scope of the regulatory changes and the short time for adaptation to such changes, which might adversely affect the financial performance and growth prospects of the PGNiG Group.

Tariff calculation

PGNiG's ability to cover the costs of its core operating activities depends on the prices and rates approved by the President of the Energy Regulatory Office. While approving tariffs for a given period, the President of the Energy Regulatory Office considers other external factors which are beyond the control of PGNiG Group companies. In an attempt to protect customers, the President of the Energy Regulatory Office may consider certain business costs as unjustified. Moreover, the President of the Office does not always accept the assumptions adopted by PGNiG with respect to main drivers of cost changes and profit targets allowing for business risk. Lower tariff prices and charges might adversely affect PGNiG's profitability.

POLISH SHALE GOOD GAS

SAFETY OF FRACTURING PROCESS

In Poland, exploration wells in shale rock are drilled to depths of over

2.5 km

Whereas consumable water levels usually occur at depths of up to about 200 metres. This means that gas-bearing strata are separated from water-bearing strata by at least 2 kilometres of impermeable rock.

Purchase price of imported gas

Prices of imported gas are denominated in USD or EUR and are based on indexation formulae reflecting the prices of petroleum products and/or gas prices on the liquid market of Western Europe. Changes in foreign exchange rates and prices of petroleum products and gas materially affect the cost of imported gas. Any accurate forecast of changes of natural gas prices is encumbered with a high risk of error. There is a risk that despite the legal possibility of adjusting prices approved for a tariff term, an increase in the price of imported gas may not be fully passed on to customers or that changes in gas selling prices may lag behind changes in gas import prices.

Resource discoveries and estimates

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

Irrespective of the methods applied, data on the volume and quality of commercial reserves of crude oil and natural gas is always an estimate. Actual production, income and expenses relating to a given deposit may significantly differ from estimates. Formation characteristics determined at the relevant document preparation stage are reviewed after production starts. Each downgrade of the size of the reserves or production quantities may lead to a lower revenue and adversely affect PGNiG Group's financial performance.

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

Competition in Exploration

Both on the Polish market and abroad there is a risk of competition from other companies in the acquisition of licences for exploration for and appraisal of hydrocarbon deposits. Certain competitors of the PGNiG Group, especially global majors, enjoy strong market positions. They are likely to bid for and be able to acquire highly prospective licences.

Delays in Upstream Projects

Under the applicable Polish legal regulations, the process of obtaining a licence for exploration for and appraisal of crude oil and natural gas deposits lasts from one to one and a half years. On foreign markets, such procedures may even take 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, including obtaining formal and legal permits and approvals for entering the area, meeting environmental protection requirements and, in some cases, requirements related to 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. These factors create a risk of delay in the start of exploration work.

Cost of exploration

Exploratory work is capital intensive, given the prices of energy carriers and materials. Cost of exploratory work is especially sensitive to steel prices, which are passed onto prices of casing pipes and lifting casing used in drilling. An increase in prices of energy and materials translates into an increase in the cost of exploratory work. Moreover, profitability of foreign exploration projects significantly depends on the prices of petroleum products and currency exchange rates. In 2011, PGNiG introduced the daily rate system into the drilling contractors tender procedure, which is expected to reduce the costs of drilling services.

Furthermore, trends to implement increasingly more stringent environmental protection regulations are seen both at home and in other countries where the Group conducts exploration operations.

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

Measures taken to mitigate those risks require significant capital expenditure and involve the cost of bringing operations into compliance with applicable health, safety and environmental protection regulations.

Political and economic situation

The PGNiG Group's exploration sites are located in countries threatened by war, social or political unrest, and terrorist activity.

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

Trade in Natural Gas

PGNiG is the largest supplier of natural gas in Poland. PGNiG's share in the gas market is approximately 96%, the remaining 4% are suppliers from outside the PGNiG Group, which usually purchase gas from PGNiG. However, the upcoming gas market deregulation in Poland is bound to trigger major changes in the market itself and the related legal framework. Plans are in place to deregulate gas prices for institutional customers and then, in two or three years, for households. In 2012, a natural gas market was launched on the Polish Power Exchange. Under a decision issued by the President of the Energy Regulatory Office, natural gas trading handled by PGNiG on the exchange is exempt from the tariff obligation. Despite the protracted work on the project, a set of three energy acts, including the Gas Law, is to be enacted in 2013. As a result of the expected changes, the Company's share in natural gas sales volume may fall, to the benefit of the existing as well as new gas trading entities.

Increase in the Volume of Mandatory Stocks

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

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

Competition in Distribution

Liberalisation of the gas market is contributing to intensified competition faced by the Gas Distribution Companies. Companies distributing natural gas are progressively expanding their gas networks and attracting new customers. Additionally, new players have emerged, offering LNG distribution services. The barriers to market entry are definitely lower here, as LNG distribution involves significantly lower capital expenditure and does not require a connection to the gas system or adequate reserve capacity to be maintained in the transmission and distribution networks.

Another issue which affects the Gas Distribution Companies' competitive position is the tariff policy of the Energy Regulatory Office, which prevents the Gas Distribution Companies from operating a flexible pricing policy for their key customers. With the lack of flexible pricing, the competitors' offers may prove an attractive alternative for the Gas Distribution Companies' customers.

Transmission easement

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

Electricity generation

Absence of regulations defining support mechanisms for high-efficiency co-generation of heat and electricity and lack of a stable policy supporting investments in renewable energy sources and co-generation are material risk factors affecting electricity generation activities. These factors are a source of uncertainty in the process of calculating electricity prices for 2013–2015. The risk affects both electricity producers and sellers and is hedged with appropriately formulated agreements for sale/purchase of property rights.

Furthermore, in order to meet more stringent gas and dust emission standards to be implemented in 2016, producers have to modernise their power and CHP plants and may be forced to shut down a number of generating units (a total of some 4,000 to 6,000 MWe by 2020) where installation of expensive flue gas treatment systems is not economically viable. In order to meet the more stringent emission standards, PGNiG Termika has gradually been modernising its generating assets.

Maintaining the share in the municipal heat market

Following expansion of the Warsaw municipal waste incineration plant, 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 municipal network covering the Warsaw area will fall from the current 98% to 95% in 2019.

Joint marketing efforts conducted with Dalkia Warszawa SA and connecting further western areas of Warsaw to the municipal heating network should significantly reduce potential future decline in the volume of energy produced at PGNiG Termika's generating plants. With a view to maintaining its share in the municipal heat market, the company also offers "green" heat generated in biomass-fired units, continues to sell energy at competitive prices, and takes advantage of the TPA rule to gain access to new end users.

Employees

Our employees are the Group's most valuable asset – thanks to their experience we remain the market leader. Their commitment drives our growth, enhances the quality of our services, and enables us to gain new business capabilities.

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 workplace for many young people. This kind of human capital is our most valuable asset, as it is thanks to our employees that we can provide our customers with the highest quality service, achieve success on the international arena and implement comprehensive investment programmes.

In 2012, the PGNiG Group's headcount stood at 32,038 people. This represents a slight fall in employment of 745 from the Group's 2011 headcount of 32,783 people.

Development

Investment in human resources furthers PGNiG's plans, while also supporting the individual ambitions of each employee. As the PGNiG Group's subsidiaries are engaged in a wide range of businesses activities, it is up to each of them to determine the type and extent of their staff training.

A key role in the process of human resources development is played by the training management system. Our employees are offered opportunities for improving their professional qualifications by participating in training programmes, postgraduate studies, national trade conferences, seminars and symposia, and also through occupational training and self-education (e-learning).

Depending on their respective responsibilities and individual needs, employees may participate in various training courses on all aspects of modern business organisation, including project management, risk, legal environment analysis and customer service. Employee participation in training courses focusing on soft aspects of the organisation's activity and management, such as communication, teamwork, team management and task management, is also an important element of the process.

Courses are also conducted on the acquisition and development of employees' practical skills, and reinforcement of skills in sales and management of sales teams. In this way, sales staff gain the knowledge and tools they need in their everyday work. These courses are targeted at several groups, including:

- Trade Departments' managers – management standards for sales teams;
- Trade Departments' employees – sales standards; the PGNiG sales track.

Development of our Exploration and Production activities will require all of the PGNiG employees' skills in conducting talks and negotiations and in establishing long-term cooperation with various authorities and local communities. The training that we give our employees is designed to prepare them for this role.

It is extensive, and enables them to develop and enhance their professional qualifications, and the Company then benefits from the higher productivity of its personnel. Human resources development translates into higher value for the PGNiG Group, which is viewed positively by investors and customers; it also makes us a more desirable employer to prospective staff..

Headcount as at the end of 2012, by segment (persons)

	2012	2011	2010	2009
PGNiG Head Office	617	838	840	833
Exploration and Production	10,990	12,054	11,592	10,800
Trade and Storage	3,780	3,841	3,809	3,836
Distribution	13,255	13,865	13,881	13,851
Generation	1,069	–	–	–
Other activities	2,327	2,185	2,296	2,073
Total	32,038	32,783	32,418	31,393

PGNiG Group – the Largest Employer

The PGNiG Group fulfils its obligations towards its employees and their families with the utmost diligence. These obligations are chiefly social and include:

- Organisation and co-financing of holidays for employees and their children, both in Poland and abroad,
- Financial assistance and material support for families in difficult financial and health situations,
- Subsidies for non-public healthcare services for employees and their family members,
- Repayable financial housing assistance,
- Organisation and co-financing of various forms of recreation (sports, leisure and cultural activities).

Internships

PGNiG also runs an internship programme, which is open to all who take part in the annual ‚Win an Internship' contest and the ‚Energy Academy' project. The paid internships offered by PGNiG are an attractive way of gaining professional experience and new skills and learning the specifics of work in the industry, and also offer a chance to gain employment with the PGNiG Group. The companies of the PGNiG Group also provide apprenticeships to students and graduates from across Poland.

Recruitment

The PGNiG Group apply best practices in recruitment, using the same methods employed by domestic and foreign companies with the highest standards of governance. Generally, we recruit by three means:

- Internal recruitment – involving the announcement of vacancies on the corporate intranet and in the newsletter, and subsequent selection of applications received;
- External recruitment – involving the announcement of vacancies on recruitment websites and at www.pgnig.pl, and subsequent selection of applications received;
- Direct search – this is the method applied to find individual candidates with specific qualifications, skills and experience.

As a general rule, any shortages are first supplemented through internal recruitment. Not only does this allow us to make full use of our employees' potential, but it also motivates employees to work more efficiently and to seek out new experiences within the Group. External recruitment is conducted when people with particularly rare or specific competences not available in-house are sought, and is undertaken based on a detailed description of the competences, knowledge, skills and behaviour required for the post.

Team Integration

Integration and cooperation between PGNiG Group employees are essential elements in the productivity and quality of their work. The everyday work of the Group's employees is supported by both traditional and electronic means of communication. As part of our communications initiatives, employees receive a daily electronic newsletter highlighting the most important developments in the PGNiG Group, as well as the "MaGAZyn", a monthly internal bulletin devoted to key Group developments. We have also implemented a system based on "communicators" – persons responsible for disseminating information among employees across the Group. Additionally, an sms service is switched on several times a year. Employees receive text messages on their company phones, informing them of important business matters.

Another important part of our communications are the periodical virtual chats with the President of the Board, which take place 2 to 3 times a year. During these chats, employees can ask questions about any work-related issues.

The most up-to-date information is always available from our Intranet site, PGNiG Info, which provides users with all necessary data and services, wherever they are within the PGNiG network. Using our Corporate Intranet, employees can communicate with each other at different levels and access important information about their work. PGNiG's Intranet also features an embedded web-based Instant Messaging service for the rapid exchange of information between employees – Lotus Sametime. Sametime's IM feature allows users to communicate with each other, in real time, across the network. It facilitates group meetings, conference calls and simultaneous implementation of joint projects by teams located throughout the company. The Intranet also has its own search engine, which accelerates access to information and enables searching for files and documents stored on the corporate website, as well as browsing Internet websites. Most interestingly, employees can, according to their needs, make use of their own dedicated on-line tools to access their branch portals or the Lotus e-mail, view the company calendar, as well as access the Sametime platform. There is also a bulletin board, which can be used, for example, to display information on items that employees wish to buy, sell or exchange. The system of internal communications within the Group, including the Intranet, is undergoing constant improvement.

Code of Ethics. Appointment of the Ethics Officer

The initial work in this area was commenced several years ago. The values we have recognised as fundamental to the development of the Code of Ethical Conduct for PGNiG Employees include credibility, accountability, partnership and quality. These values, now integral to our Code, have always been cherished by our personnel as they form an integral part of the miners' ethos, which has shaped our tradition and continues to be a valued part of PGNiG's activities. Accordingly, implementation of the Ethics Programme Management System was a necessary step towards creating a sustainable and competitive company, ensuring market success and providing for the personal development and satisfaction of employees.

The appointment of the Ethics Officer and implementation of the Ethics Programme Management System at PGNiG were provided for in the Strategy of Sustainable Development and Responsible Business. Internal consultations were held with PGNiG management staff on the text of the Code of Ethics, as well as external consultations with academics, NGOs and public authorities. Their comments were taken into account during preparation of the final version of the Code of Ethics. A 24/7, dedicated "ethics hotline" was launched for PGNiG employees to ask questions or voice doubts about the rules of ethical conduct, and a direct email address was also made available. All this hard work finally resulted in the approved version of the PGNiG Code of Ethics, the PGNiG Ethics Programme Management System, the appointment of a PGNiG Ethics Officer at the Head Office, and appointment of an Ethics Committee composed of heads of departments of key concern to ethics (HR Management, the Sustainable Development and Responsible Business Officer etc). The Code of Ethics and the Ethics Programme Management System were then disseminated across the PGNiG Group.

Employment Optimisation

Since January 2009, the Group has operated the "Programme for Workforce Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3)", which has been extended until December 31st 2015. Its operation is based on the 'stand-by' principle, meaning that it may be implemented in extraordinary circumstances and requires all companies to follow a uniform procedure across the Group.

In 2012, the Programme was implemented at five companies of the PGNiG Group. At the PGNiG Head Office, PGNiG Technologie and ZRG Krosno, the Programme covered 139 former employees. The one-off redundancy payments to the terminated employees at the above companies were financed from PGNiG's Central Restructuring Fund. Additionally, the Programme was launched at Mazowiecka Spółka Gazownictwa and Karpacka Spółka Gazownictwa, where the companies paid from their own funds to a total of 86 employees.

Also in 2012, in consultation with the trade unions, the Voluntary Termination Programme was launched. The purpose of the Programme was to reduce employment levels in a way least problematic for the employees. Therefore, as a socially responsible employer, a package with very favourable financial terms was prepared, well in excess of the requirements stipulated by the Labour Code. The Programme was aimed primarily at staff who were in the pre-retirement protection period on or before December 31st 2012. It was also open to other employees, and also on very attractive terms.

1,146 employees took advantage of the Voluntary Termination Programme, including:
- PGNiG – 855 persons,
- Mazowiecka Spółka Gazownictwa – 183 persons;
- Dolnośląska Spółka Gazownictwa – 108 persons.

Employee Satisfaction Surveys

In 2010, the first satisfaction survey was conducted among PGNiG employees. It was the first survey of its kind conducted among all PGNiG personnel. The key objective of the survey was to gauge the level of satisfaction among employees while identifying factors affecting that satisfaction; getting employees to define the strengths and weaknesses of PGNiG as an employer; identifying areas in need of improvement to raise employee satisfaction and loyalty; reviewing the values selected to be incorporated into the Code of Values, and identifying areas to be covered by the Code. The survey covered 10 areas: general attitude, remuneration, bonuses, awards, social benefits, working conditions, communication, management, work atmosphere, career and development, the Company's image, and new solutions.

The survey's results were gathered and published in a special edition of MaGAZyn, the corporate magazine, distributed among the Company's employees. The average participation rate was 53% of all PGNiG employees, with the highest participation coming from the employees of the Gas Trading Divisions. In total, 60% of employees surveyed are satisfied with their jobs at PGNiG, only 6% of the respondents are not satisfied, and the remaining 34% offered neutral opinions. According to the PGNiG Management Board, attention to relationships within the organisation is at least as important as the Company's external image. After all, employees are the key internal stakeholder group, whose commitment and satisfaction largely determine the Company's success.

Sports Activities

Since its establishment in October 2003, Towarzystwo Sportowo-Turystyczne Nafty i Gazu "SportGas" (the SportGas Oil and Gas Association for Sport and Tourism) has been a well-organised, valid legal entity, whose primary objective is to design and promote initiatives, attitudes and activities conducive to active lifestyles and development of sports. The Association has eight sport sections, devoted to tennis, football, volleyball, badminton, shooting, bridge, fishing and running. A group of over 300 members of the Association, mainly employees of the PGNiG Group and other gas industry companies, pursue their passion for sports in various forms of competition, both within the PGNiG Group and outside it, participating in business leagues and cross-industry tournaments.

Performance Assessment

In 2011 we launched the PGNiG Performance Evaluation System. The system was developed as part of a broader initiative, designated the "Implementation of the New Group Management Model" under the "PGNiG Group's Value Based Management (VBM) Programme for 2009–2015." In order to better adjust the Performance Assessment System to the dynamic market situation, in 2012 the system was modified. Adjustments were made to both the principles of assessment and the software application supporting the assessment process, to more effectively support the management in achieving strategic objectives. Assessment of the work of every Company employee is conducted on a quarterly basis, following uniform criteria across all Branches. As part of the assessment, particular emphasis is placed on individual targets assigned to employees, which are linked to the strategic objectives of the organisation. During the assessment process, managers meet with employees to discusses their goals and their managers' expectations of them and identify the areas they should work on, with the support of a supervisor. This type of assessment process allows employees to discuss the needs and challenges of their positions, and is a source of feedback on both their achievements and potential issues in their professional development. Key features of the system implemented at PGNiG are the clarity and transparency of its criteria, its simplicity and universality, and the cyclical nature of the assessment process.

PGNiG's Performance Assessment System also complements its Management By Objectives (MBO) programme, designed for TOP management. Comprehensive assessment of the implementation of strategic objectives also provides the basis for evaluation and remuneration of employees implementing the strategic objectives. The System is designed to strengthen employees' sense of responsibility for the PGNiG Group's performance.

Workplace safety

The employer who consciously invests in Occupational Health and Safety knows that taking these actions not only prevents accidents, occupational diseases and major industrial incidents, but also builds a positive image of the company – which in turn has a significant influence on its success.

The employer has a duty to protect the life and health of its employees, using the latest scientific and technological achievements, including those in ergonomics, sociology, psychology, occupational health and good practice.

The problem of occupational health and safety is not only a humanitarian issue, but also 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, more favourable working conditions create the perception among employees that the work is less arduous, thus enhancing their productivity.

Most important, however, is to determine the seriousness of threats to health and safety in the workplace and whether they are being adequately dealt with. The tool for doing this is a workplace risk assessment. On the basis of this assessment, both protective and preventive measures are taken, such as group and personal protection, modernisation of plant and equipment, renovation and modernisation of premises, specialist training, prophylactic health examinations, implementation of occupational health and safety management systems, and development of instructions and procedures, all in order to eliminate or mitigate risks.

In terms of economics, OHS solutions implemented following a risk assessment have a positive effect on productivity, output, insurance premiums, costs of workplace accidents etc.

Furthermore, OHS activities are not only the subject of basic internal regulations, but also of specific laws, such as geological and mining law, construction law and the law on mine rescue operations, as well as legislation on fire safety and environmental protection, etc. Knowledge of these laws can ensure optimum working conditions and their continuous improvement.

All the above-mentioned elements are, under law, reflected in the OHS policy work carried out at the PGNiG Group, by both the Management Board and the individual employees.

In addition, in order to meet the highest international standards for winning new contracts and business partners and improve the Company's ties with foreign companies, in December 2011 the Management Board of PGNiG SA implemented, through the adoption of its Health, Safety and Environment (HSE) Policy, the HSE Operator System. The HSE system serves to safeguard the health of workers, ensure safe working conditions, and protect the environment. Although there is no legal obligation to implement the HSE System, PGNiG has done so voluntarily, beyond its obligations and duties. For PGNiG, ensuring the highest level of safety of their employees, local communities and the environment, by conducting their operations in a safe manner and minimising risk at every step, is of the highest importance. The HSE system we have implemented is based on the best practices of the oil sector, and follows the guidelines laid down by the OGP (International Association of Oil & Gas Producers) and the E&P Forum (Exploration & Production Forum). The main objective of our new HSE Operator System is to build a culture of safety and awareness amongst our employees.

Environmental protection

The PGNiG Group always seeks to make efficient use of resources, raw materials and energy. Apart from investing in technologies designed to reduce emissions of harmful gases and waste, we also reclaim land previously used for oil and gas projects.

Environmental impact

The PGNiG Group's operations affect the balance of the environment. Both the production of natural gas and crude oil and their distribution interfere with the environment. On the other hand, the use of natural gas helps reduce atmospheric emissions more than other fossil fuels.

All companies of the PGNiG Group seek to minimize the negative impacts of their operations. To that end, they follow the applicable Polish and EU laws, as well as internal standards and regulations. Thanks to the implementation and certification of environmental management systems at most of the PGNiG branches and Group companies, a number of notable environmental benefits have been achieved. Our efforts are, in the first place, geared to limiting our negative environmental impact and monitoring processes on an ongoing basis. These rules are followed by the Group companies not only in their operations in Poland, but also in their exploration work abroad. Environment-oriented projects accompany all operations of the PGNiG Group – from hydrocarbon production to distribution and storage.

Following the provisions of the Environmental Protection Act, the PGNiG Group companies conduct evaluation and land reclamation work in the areas contaminated in the course of its past operations (e.g. traditional gas industry) with a view to restoring them to the condition prescribed by the environmental quality standards.

In addition, PGNiG strives to educate its employees in the area of environmental protection. The Company organises training courses and conferences at which key issues related to environmental protection are discussed. They are also aimed at defining a common range of tasks to be implemented in the future, primarily those relating to the goals of the CSR Strategy for the Group.

Well abandonment

Pursuant to the Polish Geological and Mining Law, PGNiG is required to properly abandon worked-out mining pits, eliminate the danger and repair any damage caused by mineral extraction, and restore the land to its original condition. Plugging of wells and pits prevents leakage of crude oil and natural gas to the surface and to water courses. Furthermore, if gas wells remain unplugged, there is a risk that escaping gas could accumulate, posing a fire hazard. In 2012, a total of fifteen wells and five mining pits were abandoned.

Land reclamation and non-productive asset surveying

Pursuant to the Environmental Protection Law, PGNiG conducts appraisals 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 the condition prescribed by environmental quality standards.

In 2012, two tender procedures were prepared and carried out to select a contractor to reclaim derelict land on the properties located in the villages of Kargów (at ul. Browarna) and Radków (at ul. Leśna). The work is to commence in the first half of 2013. Also in 2013, reclamation work is planned on the property located in Łabiszyn, at ul. Szubińska 17 (approval of the Funds Controller) and in Sobótka, at ul. Czysta 1.

In H2 2012, tests and surveys were undertaken in the area surrounding an abandoned well and an old waste pit discovered in the former operating area of the Zielona Góra Branch in Międzyzdroje. In the same period, the Company undertook a monitoring exercise to assess the environmental impact of the reclaimed landfill site in Zabrze-Biskupice, as well as a monitoring exercise on a property located in Zabrze, at ul. Pawliczka.

Carbon credit trading system

In 2012, CO_2 emissions from our facilities covered by the CO_2 emissions trading scheme (EU ETS) reached 85,655 Mg. In the above trading period, installations participating in the scheme were those of the Odolanów and Zielona Góra Branches, as well as the Mogilno Underground Gas Storage Cavern Facility.

A review of the annual CO_2 emissions reports for 2012 and matching of the actual CO_2 emissions with credits held were slated for early March 2013.

Recording of methane emissions from the gas distribution network

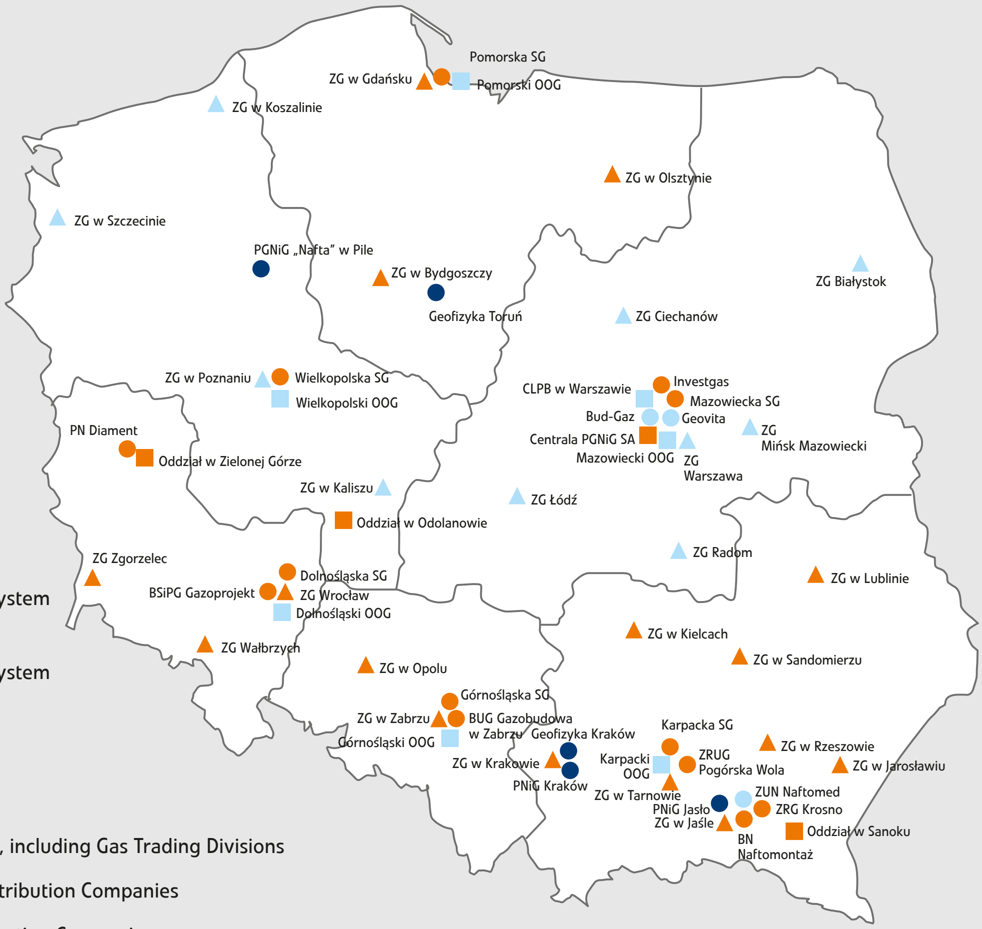
Detailed recording of methane emissions from the gas distribution system was continued in 2012. In line with the schedule of work under the contract with Instytut Nafty i Gazu (Oil and Gas Institute) of Kraków (the contractor), the second stage of the project, involving a review of the emission indicators through field measurements taken in the area covered by the distribution network, was completed.

The purpose of the exercise is to estimate the volume of methane emissions from particular components of the system, review the emission indicators applied to date, and develop uniform indicators and calculation methods for methane emissions. Standardised and reliable methane emission indicators will help reduce the cost of environmental fees and charges.

CO_2 emissions [Mg] in 2012

facility name	National Allocation Plan No.	emission allowances [Mg]	actual emissions in 2012 [Mg]	remaining amount [Mg]
Mogilno Underground Gas Storage Cavern Facility	PL- 898-08	26,642	10,311	16,331
PGNiG Odolanów Branch	PL-562-05	11,181	12,678	-1,497
PGNiG Odolanów Branch	PL-950-08	30,495	31,856	-1,361
PGNiG Zielona Góra Branch, Dębno Oil and Gas Production Facility	PL-563-05	31,664	30,810	854
Total		**99,982**	**85,655**	**14,327**

Environmental Management Systems in the PGNiG Group



PGNiG Group entities where:

- ISO 14001 Environmental Management System and HSE were implemented
- ISO 14001 Environmental Management System was implemented
- Other entities

□ Company Head Office and PGNiG Branches, including Gas Trading Divisions

○ PGNiG Group companies, including Gas Distribution Companies

△ Gas Distribution Divisions of the Gas Distribution Companies

Chemical mixtures and substances in the light of EU requirements

In 2012, the Environmental Protection Division prepared Material Safety Data Sheets for substances produced by PGNiG, in compliance with the regulations of the European Parliament and the Council of the European Union on safe use of chemicals (REACH) and on the classification, labelling and packaging of substances and mixtures (CLP):

- for natural gas (high pressure, low pressure);
- for crude oil (variable composition, including crude containing sulphur);
- for hydrocarbon condensate;
- for LPG;
- for LNG;
- for He (compressed and liquid);
- for N (compressed and liquid).

Classifications of the substances listed above have been submitted to the ECHA (European Chemicals Agency) via its electronic platform. The Material Safety Data Sheets have been delivered to the PGNiG Branches.

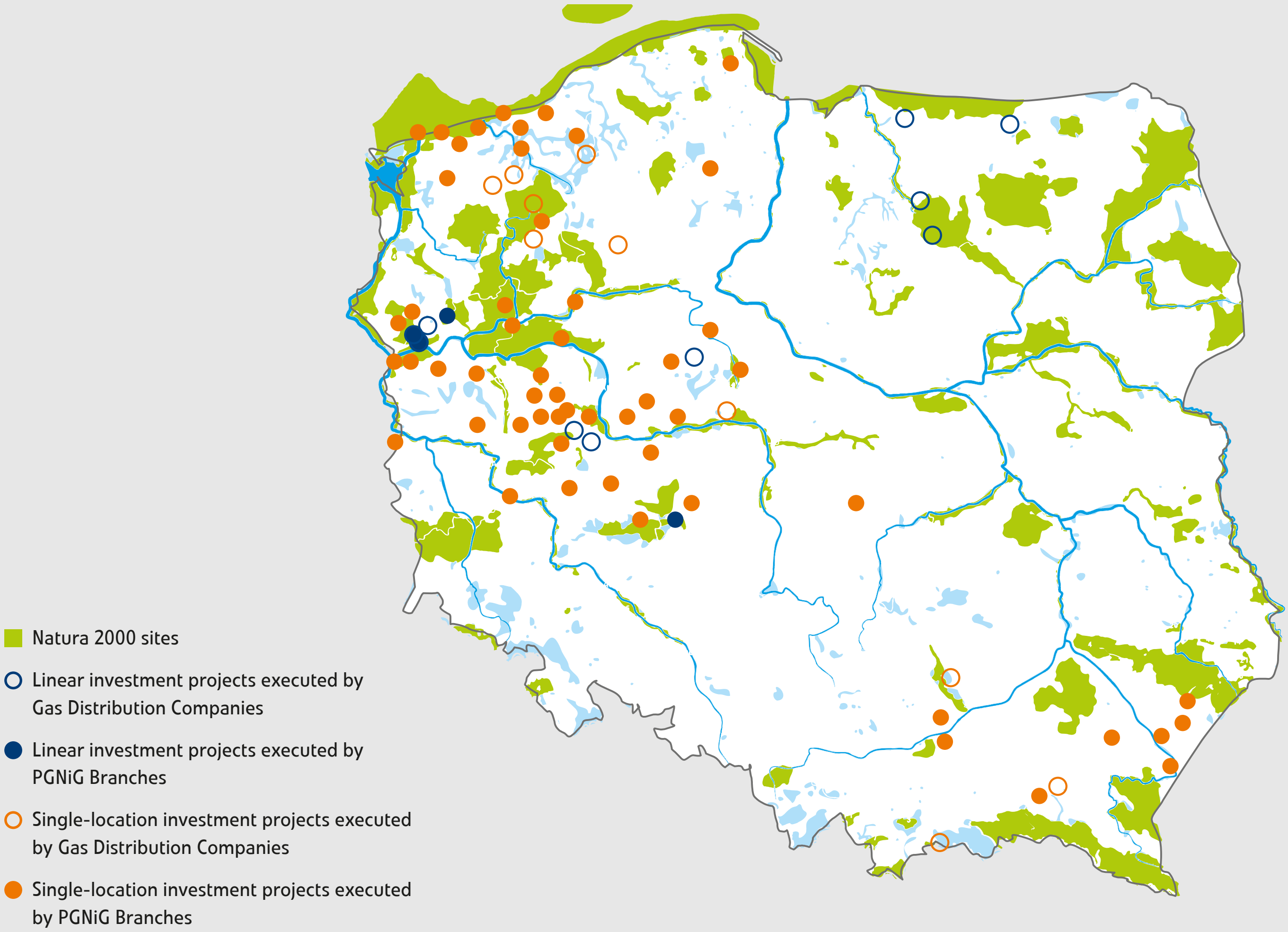
Support of ongoing and planned projects

Once the Geology and Hydrocarbon Production Branch was established and the environmental protection functions of the Zielona Góra and Sanok Branches were partly transferred to the Environmental Protection Division (EPD), which is tasked with the role of supporting the ongoing and planned investment projects – is engaged in the procedure of issuing administrative decisions. For instance, in 2012 the Environmental Protection Division supervised and coordinated the performance of environmental stock-taking exercises and the preparation of waste management schemes, while participating in the consultations on choosing the locations and submitting derogation requests for a total of 20 wells.

Environmental Management System

In May 2012, Det Norske Veritas – acting under the management system certification agreement – performed a recertification audit to confirm the effectiveness of the environmental management system in place at the PGNiG Head Office and its compliance with the PN-EN ISO 14001:2005 standard. The auditors focused on the supervision of operating activities related to the Company's environmental performance. According to the audit report, the system was found to fully conform with the criteria of the PN-EN ISO 14001:2005 standard. Based on the favourable audit results and positive assessment, the certificate confirming compliance of the Environmental Management System with the PN-EN ISO 14001:2005 standard was extended until 2015.

Investment projects of the PGNiG Group in protected areas



To date, as many as three-quarters of the PGNiG Branches and PGNiG Group companies have implemented, certificated and maintain the Environmental Management System (EMS), which is frequently integrated with other systems, such as quality, OHS or information security management. In March 2012, a certification audit at Mazowiecka Spółka Gazownictwa was completed. The company received a certificate confirming compliance of its Environmental Management System with the PN-EN ISO 14001:2005 standard.

Nature 2000

When selecting a site for a project, we take into consideration the presence of any protected areas, Natura 2000 sites or other areas of high environmental value, which – on one hand – require special procedures during the execution phase or compensatory measures, and – on the other hand – may constrain our plans. When undertaking investment projects which require an environmental impact assessment, PGNiG Group companies observe all relevant procedures and prepare environmental reports. Our advanced technological solutions enable us to limit our impact on flora and fauna by reducing the size of tree-felling areas, securing tree root systems during earthworks, and limiting vibrations as well as noise and pollutant emissions, particularly during the mating and breeding seasons.


nafta NiG piła
GRUPA PGNiG

POLISH SHALE GOOD GAS

COMPOSITION OF FRACTURING FLUID

Fracturing fluid is 95% water. The rest of the mixture is sand (4.5%) and assorted chemicals (0.5%). The chemicals are used in low concentrations, and thus completely neutral to the environment.

95% – water

4.5% – sand

0.5% – chemical additives

The PGNiG Group

Structure of the Group

As at the end of 2012, the PGNiG Group comprised PGNiG (the parent) as well as 39 production and service companies, including:

- 25 direct subsidiaries
- 14 indirect subsidiaries;

Changes in the Group's Structure

- In January 2012, PGNiG SPV1 Sp. z o.o. executed a final share purchase agreement with Vattenfall AB, whereby PGNiG SPV1 Sp. z o.o. acquired 24,591,544 shares in Vattenfall Heat Poland SA, which represented 99.8% of the company's share capital and conferred the right to 99.8% of the total vote at the General Meeting of Vattenfall Heat Poland SA. In the same month, the company was renamed PGNiG Termika SA. In H1,2012, PGNiG SPV1 Sp. z o.o. acquired a portion of PGNiG Termika shares from the company's minority shareholders and thus its ownership interest in the company increased to 99.9%. In December 2012, PGNiG SPV1 Sp. z o.o. was merged with PGNiG Termika SA. The merger was effected by way of transfer of all assets to the acquiring company, i.e. PGNiG Termika SA.
- In February 2012, Mazowiecka Spółka Gazownictwa Sp. z o.o. increased its equity interest in GAZ Sp. z o.o. of Błonie to 80%.
- In June 2012, PGNiG Sales & Trading GmbH acquired 100% of the shares in XOOL GmbH with a view to expanding its trading business in Germany.
- In June 2012, PGNiG acquired 100% of the shares in MLV 26 Sp. z o.o., which was renamed PGNiG Serwis Sp. z o.o. The company was acquired in order to provide HR and payroll, finance, accounting, as well as IT services to entities of the PGNiG Group.
- In June 2012, PGNiG acquired 100% of the shares in MLV 27 Sp. z o.o., which was renamed PGNIG SPV4 Sp. z o.o.
- In July 2012, PGNiG Poszukiwania SA w organizacji (in the process of incorporation) was formed in order to consolidate PGNiG's exploration and service operations. In December 2012, the Extraordinary General Meeting of PGNiG Poszukiwania SA resolved to merge the company with PNiG Kraków SA, PNiG NAFTA SA, PNiG Jasło SA, PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o. As at the end of 2012, the merger had not been registered with the National Court Register.
- In August 2012, the General Meeting of PT Geofizyka Torun Indonesia LLC resolved to open liquidation proceedings with respect to the company.
- In December 2012, Mazowiecka Spółka Gazownictwa Sp. z o.o. sold its entire shareholding in Gaz Media Sp. z o.o. back to the company by way of retirement for consideration.
- In December 2012, Mazowiecka Spółka Gazownictwa Sp. z o.o. acquired 5,000 shares in Powiśle Park Sp. z o.o. from BSiPG Gazoprojekt SA, thereby increasing its interest in Powiśle Park Sp. z o.o. to 100%.

Also in 2012, registry courts registered transformation of the following entities into joint-stock companies:

- in January 2012 – PNiG Jasło Sp. z o.o.
- in June 2012 – PNiG Kraków Sp. z o.o., PGNiG Technologie Sp. z o.o. and PNiG NAFTA Sp. z o.o.
- in July 2012 – Geofizyka Kraków Sp. z o.o., Geofizyka Toruń Sp. z o.o. and Geovita Sp. z o.o.

Material changes in the PGNiG Group's structure in Q1,2013

- In January 2013, the Extraordinary General Meeting of BUD-GAZ PPUH Sp. z o.o. resolved to wind up the company and commence its liquidation process.
- In January 2013, the Extraordinary General Meeting of PGNiG Poszukiwania SA resolved to amend the company's Articles of Association by changing the company name to Exalo Drilling SA. The amendment was registered with the National Court Register in February 2013.
- In February 2013, the merger of PGNiG Poszukiwania SA with PNiG Kraków SA, PNiG NAFTA SA, PNiG Jasło SA, PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o. was registered with the National Court Register.

PGNiG Group consolidated companies

Exploration and Production

Exalo Drilling SA	100%
PNiG Jasło SA	100%
GK PNiG Kraków	100%
PNiG Nafta SA	100%
PN Diament Sp. z o.o.	100%
ZRG Krosno Sp. z o.o.	100%
Geofizyka Kraków SA	100%
Geofizyka Toruń SA	100%
PGNiG Norway AS	100%
POGC Libya B.V.	100%

Trade and Storage

Operator Systemu Magazynowania Sp. z o.o.	100%
GK PGNiG Sales&Trading	100%
XOOL GmbH	100%
PGNiG Energia SA	100%
PGNiG Finance AB	100%

Distribution

Dolnośląska Spółka Gazownictwa Sp. z o.o.	100%
Górnośląska Spółka Gazownictwa Sp. z o.o.	100%
Karpacka Spółka Gazownictwa Sp. z o.o.	100%
GK Mazowiecka Spółka Gazownictwa	100%
Powiśle Park Sp. z o.o.	100%
Pomorska Spółka Gazownictwa Sp. z o.o.	100%
Wielkopolska Spółka Gazownictwa Sp. z o.o.	100%

Generation

PGNiG Termika SA	99,99%

Other Activities

Geovita SA	100%
"INVESTGAS" SA	100%
PGNiG Technologie SA	100%
PGNiG Serwis Sp. z o.o.	100%
BSiPG "Gazoprojekt" SA	75%

The PNiG Kraków Group comprises PNiG Kraków SA and its subsidiaries, Oil Tech International F.Z.E. and Poltava Services LLC.

Exploration and Production

Geofizyka Kraków

Geofizyka Kraków SA offers geophysical services (2D/3D vibroseis and dynamite data acquisition), well logging data processing and interpretation, measurements, special well interventions, interpretations, perforating and downhole seismic surveys.

In 2012, Geofizyka Kraków generated revenue of PLN 169 m, 59% of which was derived from services rendered in Poland, mainly to PGNiG Group companies. The company rendered 2D and 3D seismic services and performed well logging. Geofizyka Kraków SA was also engaged in seismic data acquisition for Energia Karpaty Zachodnie Sp. z o.o. and carried out microseismic surveys for ENI Polska Sp. z o.o. and the University of Science and Technology in Kraków. On foreign markets, the company provided 2D and 3D seismic services exclusively for third-party customers, i.e. OMV Exploration & Production GmbH in Austria, Hjørring Varmeforsyning in Denmark, RWE Gas Storage in the Czech Republic and OGDCL in Pakistan. Sale of services to third-party customers outside Poland accounted for 41% of the company's total revenue.

In 2013, on the domestic market, Geofizyka Kraków will provide 2D and 3D seismic services to PGNiG SA. Outside Poland, the company will perform 3D seismic services for OMV Exploration & Production GmbH in Austria and 2D and 3D seismic services for POGC – Libya BV.

Geofizyka Toruń

Geofizyka Toruń SA offers a range of seismic services, from design and data acquisition, digital data processing, to comprehensive geophysical and geological interpretations. The company also provides services in the area of well logging and well interventions, including interpretation of well data. Further, the company offers a variety of near-surface geophysical services in the field of geology, hydrogeology and environmental protection, as well as design and delivery of deep anode groundbeds for cathodic protection.

In 2012, Geofizyka Toruń generated revenue of PLN 349 m. Sale of services to customers outside the PGNiG Group accounted for 73% of total revenue. On foreign markets, the company provided services mainly to third-party customers. These included acquisition of 2D and 3D seismic data and were provided in Germany, India, Egypt and Hungary. In Poland, the company continued seismic data acquisition for FX Energy Poland Sp. z o.o., BNK Polska Sp. z o.o. and Wisent Oil&Gas Sp. z o.o. The services provided for entities related to the PGNiG Group included acquisition, processing and interpretation of seismic data and well logging.

In 2013, on the domestic market, Geofizyka Toruń's operations will include continued acquisition, processing and interpretation of 2D and 3D seismic data and in-well measurements, including data interpretation. The services will be rendered to third-party customers, including FX Energy Poland Sp. z o.o., Cuadrilla Poland Sp. z o.o., Lane Energy Poland Sp. z o.o., and PGNiG. On foreign markets, the company will continue data acquisition projects in Germany and India. Geofizyka Toruń will also execute a new project involving seismic acquisition work in Italy.

Geofizyka Kraków	Unit	2012	2011
Revenue	PLN m	169	247
Net profit (loss)	PLN m	-16	9
Equity	PLN m	86	103
Total assets	PLN m	232	236
Workforce as at December 31	persons	1,182	1,604

Geofizyka Toruń	Unit	2012	2011
Revenue	PLN m	349	371
Net profit (loss)	PLN m	12	21
Equity	PLN m	189	188
Total assets	PLN m	262	253
Workforce as at December 31	persons	1,576	1,881

PNiG Jasło (currently Exalo Drilling SA)

The core business of PNiG Jasło SA comprises drilling of exploration and production wells, well workovers, well abandonment services, provision of specialised well servicing services such as cementing, mud services or completions, as well as operation of drilling rig instrumentation and control systems.

In 2012, the company recorded revenue of PLN 148 m, 75% of which was derived from services rendered to PGNiG. These services included drilling exploratory, appraisal and production wells, remedial treatments, advanced recovery techniques and well abandonment services, as well as specialist services, such as mud, datawell, packer and cementing services. The services provided by the company for third-party customers included drilling gas wells for Orlen Upstream Sp. z o.o. and FX Energy Poland Sp. z o.o., drilling a geothermal well for Termo-Glob Sp. z o.o., as well as specialist services: cementing service for FX Energy Poland Sp. z o.o. and Energia Torzym Sp. z o.o. Sp. k., and packer service for Hydro Nafta Sp. z o.o. The company also provided specialist services abroad: data-well services in Ukraine and cementing services in Lithuania.

PNiG Jasło (currently Exalo Drilling SA)	Unit	2012	2011
Revenue	PLN m	148	302
Net profit (loss)	PLN m	-77	2
Equity	PLN m	66	141
Total assets	PLN m	262	280
Workforce as at December 31	persons	814	917

PNiG Kraków Group (currently Exalo Drilling SA)

The PNiG Kraków Group comprises Poszukiwania Nafty i Gazu Kraków SA, as well as its subsidiaries – Oil Tech International – F.Z.E. and Poltava Services LLC. The core business of PNiG Kraków includes geological, exploration and production drilling, well workovers, as well as drilling, testing and well operation services. The company also provides hospitality, catering, rental and training services. Oil Tech International – F.Z.E. provides drilling crews, materials, machinery and equipment. Poltava Services LLC offers drilling and lease of drilling teams.

In 2012, the PNiG Kraków Group generated PLN 333 m of total revenue. Services performed for third-party customers provided revenue of PLN 296 m, which accounted for 89% of the company's total revenue; exports represented 87% of the total. In 2012, the PNiG Kraków Group continued drilling work in Uganda, Kazakhstan, Pakistan and Ukraine. The group has also signed new contracts for drilling in Uganda, Ukraine and Ethiopia, and commenced work under these contracts. In 2012, the group completed its work in the Czech Republic. On the domestic market, the PNiG Kraków Group's main customer was PGNiG, for which the group drilled mainly exploratory and appraisal wells, including shale gas exploratory wells.

PNiG Kraków Group (currently Exalo Drilling SA)	Unit	2012	2011
Revenue	PLN m	333	421
Net profit (loss)	PLN m	16	17
Equity	PLN m	152	175
Total assets	PLN m	488	498
Workforce as at December 31	persons	1,036	1,226

PNiG NAFTA (currently Exalo Drilling SA)

The core business of Poszukiwania Nafty i Gazu NAFTA SA comprises exploration for oil and gas, including in particular design and drilling research, appraisal, exploration and production boreholes and preparation of borehole documentation. The company also drills wells for underground storage of hydrocarbons, plugs wells in depleted fields, works over producing wells, and provides support services through its workshop (specialising in repairs of drilling equipment) and storage facilities.

In 2012, the company posted revenue of PLN 239 m, with 71% of that amount representing sales of services to third-party customers. The company traded mainly on the Polish market. The services primarily included drilling work for Energia Torzym Sp. z o.o. Sp. k., ORLEN Upstream Sp. z o.o. and FX Energy Poland Sp. z o.o. The company also drilled wells for companies exploring for shale gas: Talisman Energy Polska Sp. z o.o., Chevron Polska Energy Resources Sp. z o.o. and ORLEN Upstream Sp. z o.o. Work on foreign contracts included drilling work in Egypt and a new drilling project in Georgia. For PGNiG, the company drilled exploratory wells and performed workovers in Poland.

PNiG NAFTA (currently Exalo Drilling SA)	Unit	2012	2011
Revenue	PLN m	239	302
Net profit (loss)	PLN m	-5	16
Equity	PLN m	188	201
Total assets	PLN m	346	359
Workforce as at December 31	persons	808	860

PN Diament (currently Exalo Drilling SA)

The core business of Poszukiwania Naftowe Diament Sp. z o.o. includes specialist well services, including drilling, major remedial treatments, well abandonment services, well testing, downhole measurements, application of enhanced recovery techniques and other services with the use of coiled tubing and nitrogen equipment, and completion, drillstem testing and mud services. The company's business also includes general, road and environmental construction.

In 2012, PN Diament generated PLN 201 m of total revenue, 55% of which was earned on services rendered to third-party customers. The services provided to third-party customers comprised mainly drilling of research boreholes, including two wells drilled for KGHM Polska Miedź SA in its copper deposits licence area, five wells in Lithuania and two exploratory wells for Liesa Energy Sp. z o.o. The company also performed well servicing in Lithuania, Ukraine, Spain and Romania, and carried out general and road construction work, as well as construction and reclamation of landfill sites.

The projects executed for companies related to the PGNiG Group involved remedial treatments, workovers, well abandonment (including abandonment of PGNiG's well in Denmark) and other specialist well services, such as mud services, testing and completion, cementing of casing strings, acidizing, setting of cement plugs and services with the use of coiled tubing, slickline and nitrogen equipment.

PN Diament (currently Exalo Drilling SA)	Unit	2012	2011
Revenue	PLN m	201	206
Net profit (loss)	PLN m	3	10
Equity	PLN m	104	103
Total assets	PLN m	196	152
Workforce as at December 31	persons	723	707

ZRG Krosno (currently Exalo Drilling SA)

Zakład Robót Górniczych Krosno Sp. z o.o. is a provider of well servicing services. Its business includes well interventions, such as workovers of active oil and gas wells, shallow drilling, coring, well abandonment services, decommissioning of infrastructure and waste pits, and other reclamation work. The company also performs a wide range of well servicing activities consisting in the application of enhanced recovery techniques, measurements and laboratory services.

In 2012, ZRG Krosno generated PLN 50 m in revenue, with the services provided to PGNiG SA accounting for 55% of the total. The work performed for PGNiG SA consisted in well intervention services, including workovers, well reconditioning, application of enhanced recovery techniques and measurement of reservoir parameters. The company also rendered services to third-party customers in Poland and abroad. In Poland, it completed drilling of a coal well for NWR KARBONIA SA, rendered well stimulation services for Geotermia Podhalańska SA and measured reservoir parameters for DART ENERGY Poland Sp. z o.o. Foreign operations included the workover and plugging of wells for RWE Gas Storage s.r.o. and Unigeo (the Czech Republic) and well stimulation for Tacrom Services s.r.l. (Romania).

ZRG Krosno (currently Exalo Drilling SA)	Unit	2012	2011
Revenue	PLN m	50	72
Net profit (loss)	PLN m	-10	1
Equity	PLN m	32	43
Total assets	PLN m	50	59
Workforce as at December 31	persons	360	395

Exalo Drilling

In December 2012, PGNiG consolidated its exploration and service companies within the Group's Exploration and Production segment. PGNiG Poszukiwania SA was merged with PNiG Kraków SA, PNiG NAFTA SA, PNiG Jasło SA, PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o. The companies' assets were transferred to PGNiG Poszukiwania SA, which was renamed Exalo Drilling SA on February 6th 2013. There are plans to raise funds to finance the company's further development and a stock exchange listing is one of the options under consideration.

In 2013, Exalo Drilling will provide drilling services related to hydrocarbon exploration (including exploration for shale gas), copper exploration and geothermal borehole drilling. The company intends to continue as a provider of well service treatments and well intervention services (in particular workovers), well stimulation, reservoir measurements and well abandonment services.

In Poland, PGNiG will remain an important customer for the company's services. Its key third-party customers will include Polish and foreign investors holding licences for hydrocarbon exploration in Poland, including Orlen Upstream Sp. z o.o., FX Energy Sp. z o.o., Lane Energy Poland Sp. z o.o. and ExxonMobil Usługi Sp. z o.o. The company also intends to drill for copper for KGHM Polska Miedź SA and Mozów Copper Sp. z o.o., and to drill a geothermal borehole for Geotermia Podhalańska and a ventilation shaft for KWK Knurów-Szczygłowice.

Foreign market operations will involve continued execution of drilling projects in Uganda, Egypt, Ethiopia, Georgia, Kazakhstan, Pakistan, Ukraine and Lithuania, as well as provision of services with the use of coiled tubing and nitrogen equipment and data-well services in Ukraine. The company also plans to render workover and well abandonment services in the Czech Republic.

PGNiG Norway (currently PGNiG Upstream International)

PGNiG Norway AS has been established for the purposes of the Norwegian Continental Shelf project, the aim of which is to provide access to new recoverable reserves of oil and gas outside Poland. The principal business objective of PGNiG Norway is the exploration for and production of crude oil and natural gas on the Norwegian Continental Shelf. The company has been pre-qualified by the Norwegian authorities as an operator.

On the Norwegian Continental Shelf, PGNiG Norway and its partners are implementing the Skarv/Snadd/Idun development project. PGNiG Norway holds a 12% interest in the licence; other interest holders are British Petroleum Norge AS (operator, 24%), Statoil Petroleum AS (36%) and E.ON Ruhrgas Norge AS (28%).

In 2012, following delays due to difficult weather conditions, the finishing work was completed, all subsea structures (foundation slabs, gas pipelines, etc.) were installed, the technical acceptance procedure was successfully completed and the production wells were prepared for coming on stream. December 31st 2012 saw the launch of oil and gas production from the Skarv field.

In 2012, PGNiG Norway was also engaged in exploration work within its other licence areas. The work on the PL212E licence resulted in the discovery of the Snadd Outer field. PGNiG Norway's interest in the newly discovered field is 15%.

The company will also continue appraisal work in the Snadd Outer field and its exploration and appraisal project in the Snadd field. The company intends to acquire new licence areas by participating in annual licensing rounds or by acquiring interests from other entities. In future, the company wants to participate, as a partner, in drilling projects in deep-sea areas (below 1,000 metres) and in the Arctic Zone.

At the same time, the PGNiG Management Board has decided to integrate all the Group's foreign upstream operations within PGNiG Norway, whereupon the company will be renamed PGNiG Upstream International.

PGNiG Norway (currently PGNiG Upstream International)	Unit	2012	2011
Revenue	PLN m	0	0
Net profit (loss)	PLN m	74	-132
Equity	PLN m	370	291
Total assets	PLN m	5,019	4,661
Workforce as at December 31	persons	22	23

POGC Libya

The core business of Polish Oil and Gas Company – Libya BV (POGC Libya) consists in the exploration for and production of hydrocarbons in Libya. The company conducts exploration work on licence 113 located within the Murzuq petroleum basin, under an Exploration and Production Sharing Agreement of February 25th 2008 concluded with the Libyan government.

In 2012, POGC Libya reopened its Tripoli office and commenced implementation of safety procedures necessary to ensure safety of employees of the Tripoli branch office and of field workers. In the second half of 2012, the force majeure event was declared to have ceased and exploration work under the EPSA was resumed. At the time of resuming the work, the company obtained all necessary drilling permits and ordered performance of preparatory work related to the planned drilling activities.

In 2013, the company intends to complete the preparatory work and drill three exploration wells. The company also plans to commence the last stage of 3D seismic work and acquire an additional 2D seismic survey. In the long run, the company assumes it will be awarded new projects in Libya under the DPSA (Development and Production Sharing Agreement) and EPSA.

POGC Libya	Unit	2012	2011
Revenue	PLN m	0	0
Net profit (loss)	PLN m	-9	-21
Equity	PLN m	315	48
Total assets	PLN m	321	53
Workforce as at December 31	persons	58	36

Trade and Storage

Operator Systemu Magazynowania

Operator Systemu Magazynowania Sp. z o.o. (OSM) was established on November 16th 2010 to ensure compliance with the requirements of Directive 2009/73/EC with respect to legal separation of gas fuel storage functions from other types of business conducted by vertically integrated gas utilities.

In May 2012, the President of the Energy Regulatory Office appointed OSM – at the request of PGNiG – as Storage System Operator for gas fuels. The company was also granted a licence authorising it to store gas fuels in storage facilities, valid from June 1st 2012 through May 31st 2022.

In order to ensure equal treatment of customers, the storage services are provided based on the Rules of Provision of Storage Services and the Gas Fuel Storage Tariff.

In October 2012, OSM and OGP Gaz-System SA concluded an Inter-Operator Transmission Agreement. The agreement defines detailed terms, conditions and methods of cooperation between the companies and serves as the basis for the allotment to OSM of throughput capacities at the inter-system physical entry points to the transmission system and at the inter-system physical exit points from the transmission system at connection points with the storage facilities. The agreement was executed based on the Transmission Grid Code drafted by OGP Gaz-System SA and approved by the President of the Energy Regulatory Office on July 24th 2012.

Operator Systemu Magazynowania	Unit	2012	2011
Revenue	PLN m	339	0
Net profit (loss)	PLN m	15	-1
Equity	PLN m	19	4
Total assets	PLN m	78	4
Workforce as at December 31	persons	27	3

PGNiG Sales & Trading Group

The PGNiG Sales & Trading Group comprises PGNiG Sales & Trading GmbH and its subsidiary XOOL GmbH. PGNiG Sales & Trading was established to trade on international gas and electricity markets. In 2012, PGNiG Sales & Trading acquired 100% of the shares in XOOL GmbH. The acquired company sells natural gas to end consumers on the German market, where it has approximately 17,000 customers.

In 2012, PGNiG Sales & Trading derived 74% of its revenue from sales of natural gas to PGNiG. The fuel was supplied to Poland with the use of the available transmission capacities at the Lasów entry point and the reverse flow service on the Yamal Pipeline at the Mallnow point. In 2012, the company sold and delivered 890 m m^3 of natural gas to PGNiG.

In addition, PGNiG Sales & Trading conducted natural gas trading activities in Germany, where it traded on the European Energy Exchange (EEX). The company also executed transactions on virtual trading platforms and concluded EFET (European Federation of Energy Traders) standard contracts for supply of natural gas on OTC markets. In order to be able to deliver physical supplies of natural gas to the German market, PGNiG Sales & Trading executed contracts with transmission system operators in the NetConnectGermany and Gaspool market areas.

PGNiG Sales & Trading Group	Unit	2012	2011
Revenue	PLN m	1,462	450
Net profit (loss)	PLN m	0	-3
Equity	PLN m	38	41
Total assets	PLN m	518	221
Workforce as at December 31	persons	37	14

PGNiG Energia

PGNiG Energia SA is engaged in preparation of investment projects and trading on wholesale electricity markets, as well as trading in certificates of origin for electricity and CO_2 emission allowances.

In 2012, PGNiG Energia traded in electricity on the Polish and German wholesale electricity markets. It also traded in property rights to certificates of origin for electricity generated from renewable sources, and CO_2 emission allowances. The company also rendered commercial balancing and customer support services for PGNiG Termika and sold electricity to the PGNiG Group.

In 2012, PGNiG Energia generated revenue of PLN 165 m, 61% of which was derived from sales to third-party customers. Sales of electricity accounted for 90% of the company's total revenue. Apart from the PGNiG Group, the company mainly sold electricity to PSE Operator SA and Alpiq SE. The company also sold electricity on the Polish Power Exchange.

In 2013, PGNiG Energia is to be merged with PGNiG SA.

PGNiG Energia	Unit	2012	2011
Revenue	PLN m	165	24
Net profit (loss)	PLN m	-4	-2
Equity	PLN m	34	27
Total assets	PLN m	54	32
Workforce as at December 31	persons	38	48

Distribution

In 2012, the Distribution segment comprised six gas distribution companies. However, initiative 16 of the Short-Term Value Creation Strategy for the PGNiG Group in 2012–2014 provides for consolidation of the distribution companies into a single entity. The consolidation is planned to take place in 2013.

Dolnośląska Spółka Gazownictwa (DSG)

Dolnośląska Spółka Gazownictwa Sp. z o.o. (Lower Silesian Gas Distribution Company, "DSG") supplies gas to customers in the Wrocław province and the Zielona Góra / Gorzów Wielkopolski province, as well as in the Wolsztyn and Nowy Tomyśl counties of the Poznań Province.

The total volume of gas transmitted by DSG via the distribution network in 2012 was 0.04 bn m^3. The company provides services to approximately 752.9 thousand customers and in 2012 connected 8.2 thousand new customers to the network.

In 2012, the company continued the replacement of cast-iron piping whose further operation would have posed a safety hazard and resulted in large gas losses. The company also extended and upgraded its network using EU funds to co-finance some of its projects.

In the area covered by the DSG network, a number of other gas sellers and distributors are intensifying their activities. In future, they may take over the company's existing or prospective customers (both industrial customers and households). There are four key competitors in the region: G.EN. Gaz Energia SA, EWE Energia Sp. z o.o. and Grupa DUON SA.

Dolnośląska Spółka Gazownictwa (DSG)	Unit	2012	2011
Revenue	PLN m	368	356
Net profit	PLN m	66	45
Equity	PLN m	1,201	1,157
Total assets	PLN m	1,396	1,373
Length of network, excluding connections	km	7,976.7	7,809.0
Workforce as at December 31	persons	1,299	1,424

Górnośląska Spółka Gazownictwa (GSG)

Górnośląska Spółka Gazownictwa Sp. z o.o. (Upper Silesian Gas Distribution Company, "GSG") supplies gas to customers in the Katowice and Opole provinces, in 41 municipalities and communes of the Kraków province, in 5 municipalities and communes of the Łódź province, and in 3 municipalities and communes of the Kielce province. It serves approximately 1.3 million customers.

The total volume of gas transmitted by GSG via the distribution network in 2012 was 1.81 bn m^3. In 2012, GSG connected some 7.1 thousand new customers to the gas network. The company also worked on upgrading the gas network, and continued the roll-out of the network in areas west of Częstochowa, using EU funds to co-finance some of the projects.

EWE Energia and its subsidiaries operate in northern parts of the GSG coverage area, providing gas trading and distribution services.

Karpacka Spółka Gazownictwa (KSG)

The operations of Karpacka Spółka Gazownictwa Sp. z o.o. (Carpathian Gas Distribution Company, "KSG") cover the area of four provinces in south-eastern Poland, namely Kraków, Rzeszów, Kielce and Lublin. The company's operating area is crossed by one of the main gas pipelines of the Polish transmission system, fed with both imported and domestically-produced natural gas. The company serves approximately 1.5 m customers.

The total volume of gas transmitted by KSG in the distribution network in 2012 was 2.0 bn m^3.

In 2012, KSG connected 26.3 thousand new customers to the network. The company also worked on upgrading its gas distribution networks to enhance the security of network operation, and implemented network extension projects relying partly on EU co-financing.

KSG enjoys a considerable advantage over potential competitors in the area of traditional distribution of natural gas thanks to its network infrastructure. KSG's competitors provide gas to customers with the use of the LNG technology in areas not yet connected to the gas network. Global trends suggest that the share of LNG in the natural gas market will be growing, with a resulting intensification of competition.

Górnośląska Spółka Gazownictwa (GSG)	Unit	2012	2011
Revenue	PLN m	621	609
Net profit	PLN m	84	102
Equity	PLN m	1,655	1,620
Total assets	PLN m	1,944	1,893
Length of network, excluding connections	km	21,218.0	20,960.9
Workforce as at December 31	persons	2,583	2,631

Karpacka Spółka Gazownictwa (KSG)	Unit	2012	2011
Revenue	PLN m	795	776
Net profit	PLN m	164	154
Equity	PLN m	2,458	2.370
Total assets	PLN m	2,913	2,846
Length of network, excluding connections	km	45,397.3	45,004.6
Workforce as at December 31	persons	3,207	3,320

Mazowiecka Spółka Gazownictwa (MSG) Group

Mazowiecka Spółka Gazownictwa Sp. z o.o. (Mazovian Gas Distribution Company, "MSG") supplies gas to customers in the provinces of Warsaw, Łódź and Białystok, as well as in certain parts of the provinces of Lublin, Olsztyn and Kielce.

In 2012, MSG transmitted 2.1 bn m³ of gas over the distribution system. Through the network of gas pipelines and gas stations, the company supplies gas to approximately 1.5 million customers.

In 2012, MSG connected some 24.2 thousand new customers to the gas network. The company also operated, extended and upgraded its network using EU funds to co-finance some of its projects.

Mazowiecka Spółka Gazownictwa (MSG) Group	Unit	2012	2011
Revenue	PLN m	757	717
Net profit	PLN m	123	101
Equity	PLN m	2,325	2,260
Total assets	PLN m	3,100	2,937
Length of network, excluding connections	km	19,651.3	19,208.0
Workforce as at December 31	persons	2,670	2,912

Pomorska Spółka Gazownictwa (PSG)

The geographical reach of Pomorska Spółka Gazownictwa (Pomeranian Gas Distribution Company, "PSG") covers the provinces of Gdańsk and Bydgoszcz, a part of the province of Olsztyn, two communes (Sławno and Postomino) in the province of Szczecin and the Wieczfnia Kościelna commune in the province of Warsaw. The area covered by the company's operations poses certain geographical challenges to the installation of gas supply lines (numerous lakes and woods). The percentage of households and businesses connected to PSG's gas network is approximately 41%.

The total volume of gas transmitted by PSG via the distribution network in 2012 was 1.18 bn m³. The gas was distributed to some 745.4 thousand customers.

In 2012, PSG connected approximately 7.6 thousand new customers to the network. PSG carried out work to extend and upgrade the gas network, and pursued three distribution network roll-out projects, which received EU co-financing under the Infrastructure and Environment Operational Programme.

A number of other gas distribution and trading companies operate in the PSG coverage area, including G.EN. GAZ ENERGIA SA, US.EN.EKO, KRI SA, ENERGO-EKO-INWEST Sp. z o.o. and P.L. Energia SA.

Pomorska Spółka Gazownictwa (PSG)	Unit	2012	2011
Revenue	PLN m	439	425
Net profit	PLN m	85	76
Equity	PLN m	1,202	1,153
Total assets	PLN m	1,680	1,552
Length of network, excluding connections	km	10,274.0	9,898.8
Workforce as at December 31	persons	1,702	1,768

Wielkopolska Spółka Gazownictwa (WSG)

Wielkopolska Spółka Gazownictwa (Greater Poland Gas Distribution Company, "WSG") manages a network of distribution pipelines in the Provinces of Poznań and Szczecin and several municipalities and communes in the Provinces of Łódź, Wrocław and Zielona Góra, as well as one commune in the Province of Gdańsk. In that area, the percentage of households and businesses connected to WSG's gas network is approximately 44%.

The total volume of gas transmitted by WSG via the distribution network in 2012 was 1.57 bn m^3. At the end of 2012, the total number of customers served by the company was 926.9 thousand.

In 2012, WSG connected some 7.3 thousand new customers to the gas network. In addition, the company conducted projects related to operating, extending and upgrading the gas network. WSG worked on three network roll-out projects in new areas, which received EU co-financing under the Infrastructure and Environment Operational Programme.

A number of other gas transmission, distribution and trading companies as well as heat production, transmission and distribution operators trade in the WSG coverage area, including G.EN. GAZ ENERGIA SA, Grupa DUON SA, EWE Energia Sp. z o.o., ANCO Sp. z o.o. and Avrio Media Sp. z o.o.

Wielkopolska Spółka Gazownictwa (WSG)	Unit	2012	2011
Revenue	PLN m	604	589
Net profit	PLN m	149	117
Equity	PLN m	1,920	1,830
Total assets	PLN m	2,366	2,271
Length of network, excluding connections	km	16,269.3	15,916.0
Workforce as at December 31	persons	1,794	1,810

Generation Segment

PGNiG Termika

PGNiG Termika SA is involved in the generation, distribution and sale of heat and electricity. The company also serves as the PGNiG Group's competence centre for heat and electricity generation and implementation of heat and power projects. The company's main revenue sources are sales of heat, electricity, system services, and certificates of energy origin. The installed capacity of the company's generating assets is 4.8 GW of achieved thermal power and 1 GW of achieved electrical power, which satisfies approximately 75% of the heat demand on the Warsaw metropolitan market. PGNiG Termika is also a producer and supplier of heat and the owner of heat sources and heat networks in Pruszków, Komorów and Piastów.

In 2012, PGNiG Termika generated revenue of PLN 1,957 m, chiefly from sales of electricity and heat to customers from outside the PGNiG Group. Sale of heat and electricity accounted for 50% and 41% of the company's total revenue, respectively. In 2012, the company sold 3,719.4 GWh of electricity and 40,213.9 TJ of heat. Other revenue was derived mostly from sales of certificates of origin for electricity.

PGNiG Termika sold heat mainly to Dalkia Warszawa SA (formerly Stołeczne Przedsiębiorstwo Energetyki Cieplnej SA), which purchased 97% of the heat generated by the company. In 2012, Dalkia Warszawa contracted 3.6 GW of PGNiG Termika's heat generation capacity. The balance of heat produced was sold to local customers, mainly in Pruszków and the surrounding areas.

PGNiG Termika sold electricity chiefly to Vattenfall Energy Trading Sp. z o.o. and PGNiG Energia SA, whose aggregate share in the company's sales of electricity was 93% in 2012. The company also sold electricity to smaller customers.

In 2012, property rights attached to certificates of origin for electricity produced by cogeneration (red certificates) and generated from renewable sources (green certificates) were sold on spot markets or under forward contracts. Sales of certificates of origin for electricity were executed chiefly through Polska Grupa Energetyczna SA, ENEA SA, TAURON Polska Energia SA, PKP Energetyka SA, ENERGA SA and PGNiG Energia SA, as well as on the Polish Power Exchange.

As part of the full integration of the Group's power competences at PGNiG Termika, in November 2012 PGNiG Termika took over from PGNiG Energia SA operational control of the CCGT project in Stalowa Wola (449 MW of electrical power and 240 MW of thermal power). In 2012, the general contractor for the Stalowa Wola unit was selected, the project execution agreement was signed and the credit facility agreements securing its financing were executed. The project is scheduled for completion in 2015.

PGNiG Termika	Unit	2012	2011
Revenue	PLN m	1,957	
Net profit	PLN m	-115	
Equity	PLN m	652	
Total assets	PLN m	4,345	
Workforce as at December 31	persons	1,069	

Other Activities

INVESTGAS

INVESTGAS SA specialises in hydrocarbon storage and transport projects. It also executes specialist and general construction projects. The company provides services covering the entire investment process: from preparation, to design, construction and commissioning, to operation of gas storage units in salt caverns and other types of facilities.

In 2012, INVESTGAS generated PLN 99 m of total revenue. Revenue from services performed for PGNiG accounted for approximately 99% of INVESTGAS' total revenue. Major projects carried out for PGNiG in 2012 included work performed under long-term contracts. The continued projects included operation of and addition of new chambers to the Mogilno Underground Gas Storage Cavern Facility, construction of the Kosakowo Underground Gas Storage Facility, and completion of the KGZ Kościan – KGHM Żukowice/Polkowice gas pipeline.

In 2012, the company also continued preparations for the construction of the Hermanowice-Strachocina gas pipeline and commenced performance of a contract for supervision of the construction of a high-pressure gas pipeline from Szczecin to Gdańsk on behalf of OGP Gaz-System SA.

In 2013, the company will perform long-term contracts for the operation, construction and extension of underground gas storage facilities for PGNiG; preparation of the construction of the Hermanowice-Strachocina gas pipeline and supervision of the construction of a high-pressure gas pipeline from Szczecin to Gdańsk on behalf of OGP Gaz-System SA. In 2013, the company is to be merged with Operator Systemu Magazynowania Sp. z o.o.

INVESTGAS	Unit	2012	2011
Revenue	PLN m	99	142
Net profit (loss)	PLN m	4	9
Equity	PLN m	42	40
Total assets	PLN m	85	79
Workforce as at December 31	persons	118	114

PGNiG Technologie

PGNiG Technologie SA delivers specialist construction and assembly services, including construction of transmission and distribution pipelines, field development, construction of crude oil and natural gas production facilities, and construction and expansion of underground gas storage facilities. The company's range of services also comprises the manufacture of field equipment and rig components, as well as manufacture and repair of equipment for the coal mining industry.

In 2012, PGNiG Technologie conducted work involving construction and assembly of gas transmission pipelines, reconstruction of underground gas storage facilities, and development of hydrocarbon deposits. The company also manufactured drilling equipment and repaired coal mining equipment.

In 2012, PGNiG Technologie turned in revenue of PLN 367 m, of which 58% was revenue derived from sales to PGNiG Group companies. The key customer for the company's services was PGNiG. Revenue from services performed for PGNiG accounted for 47% of the company's total revenue. Key projects executed for PGNiG in 2012 included construction and assembly of high-pressure gas pipelines, reconstruction of natural gas storage facilities and development of natural gas and crude oil deposits.

For related companies, PGNiG Technologie SA also manufactured drilling equipment, including surface pressure equipment, heads, casing heads and spare parts for production equipment.

As part of projects for third-party customers, the company was involved in the construction of high- and medium-pressure gas pipelines, sewage systems, production of equipment and spare parts for drilling rigs and drillships, as well as repairs of coal mining equipment.

In 2013 and beyond, PGNiG Technologie intends to grow its business in the existing market segment, while seeking to ensure that its technical resources and production potential deliver maximum leverage. As part of its development plan, the company intends to become a provider of complete design, construction and installation services for the oil and gas industry in Poland and abroad. The largest project scheduled for 2013 is the on-going construction of the 175.2 km DN700 high-pressure pipeline from Rembelszczyzna to Gustorzyn for OGP Gaz-System SA.

The company intends to maintain its market position in manufacturing of drilling equipment, including surface equipment for conventional and unconventional deposits, drilling platforms, and equipment for oil and gas production facilities.

PGNiG intends to privatise PGNiG Technologie through an equity offering on the Warsaw Stock Exchange.

PGNiG Technologie	Unit	2012	2011
Revenue	PLN m	367	409
Net profit (loss)	PLN m	-22	1
Equity	PLN m	143	165
Total assets	PLN m	292	294
Workforce as at December 31	persons	1,520	1,507

Gazoprojekt

Biuro Studiów i Projektów Gazownictwa Gazoprojekt SA offers comprehensive design services for gas production, storage, transmission and distribution projects, and for gas system stations and switching stations. With a 75% equity interest, PGNiG is the majority shareholder in the company. 25% of the Gazoprojekt shares are held by natural persons (company employees).

In 2012, Gazoprojekt recorded revenue of PLN 51 m. Revenue from services performed for PGNiG Group companies accounted for 64% of Gazoprojekt 's total revenue. As part of the services, the company acted as general contractor for gas pipeline construction projects and preparation of preliminary and project design documentation for gas pipelines.

In 2012, the company plans to perform awarded contracts. The largest include a contract for the preparation of design documentation for the Odolanów node extension project, a contract for the preparation of preliminary and design documentation under the KRNiGZ LMG-Paproć high-pressure gas pipeline construction project, as well as preparation of design documentation for other projects involving construction of gas pipelines and service lines.

Gazoprojekt	Unit	2012	2011
Revenue	PLN m	51	45
Net profit (loss)	PLN m	1	5
Equity	PLN m	34	38
Total assets	PLN m	60	49
Workforce as at December 31	persons	241	243

Geovita

Geovita offers accommodation and catering services in Poland, through 11 of its own facilities and three hotels under its management. The company's facilities form a network of recreational, training and spa centres. They are located either on the coast, in mountain areas or in the central part of Poland. The company offers its services to Polish and foreign customers.

In 2012, Geovita reported total revenue of PLN 43 m, including nearly PLN 7.5 m from hotel management. The services were mainly provided to third-party customers. Revenues from the services performed for this customer group accounted for 71% of the company's total revenue.

In 2013, Geovita is to be sold.

Geovita	Unit	2012	2011
Revenue	PLN m	43	36
Net profit (loss)	PLN m	1	-1
Equity	PLN m	79	78
Total assets	PLN m	96	99
Workforce as at December 31	persons	346	349

NO MAJOR LANDSCAPE INTERFERENCE

If gas production is launched, the land surrounding the isolated, secured zone, is subject to a reclamation treatment. The reclamation process involves restoring the original relief and regulation of water courses. The humus amassed in embankments around the drilling site is spread out, which is followed by an agro-technical treatment, consisting in picking up and carrying away the concrete slabs, soil fertilization, ploughing, harrowing, and sowing plants.

An active gas collection facility does not interfere with the landscape to any significant degree, because its area may be limited to 500 square meters or in fact to that of a small backyard. A gas production facility is virtually invisible, non-onerous, and is a landscape feature just like a shop or a small petrol station.


EXALO

Consolidated Financial Statements for the Year 2012

Complete financial statement has been published at www.pgnig.pl.

Auditor's Opinion

To the Shareholders and Supervisory Board of
Polskie Górnictwo Naftowe i Gazownictwo SA

We have audited the attached consolidated financial statements of the Polskie Górnictwo Naftowe
i Gazownictwo SA Capital Group, with Polskie Górnictwo Naftowe i Gazownictwo SA, with its registered office in Warsaw at M. Kasprzaka 25, as the Parent Company, including consolidated statement of financial position prepared as of 31 December 2012, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2012 to 31 December 2012 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of the consolidated financial statements and a report on the activities of the Capital Group in line with the law is the responsibility of the Management Board of the Parent.

The Management Board of the Parent and members of its Supervisory Body are obliged to ensure that the consolidated financial statements and the report on the activities of the capital group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group, express an opinion whether the consolidated financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act;
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) and material estimates applied by the Parent and subsidiaries, verification – largely on a test basis – of the accounting evidence and records supporting the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Capital Group as at 31 December 2012, as well as its financial result in the financial year from 1 January 2012 to 31 December 2012;
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act;
- comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Capital Group for the 2012 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states and consistent with underlying information disclosed in the audited consolidated financial statements.

Piotr Sokołowski
Key certified auditor
conducting the audit
No. 9752

On Behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – an entity authorized to audit financial statements recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors:

Piotr Sokołowski – Deputy Chairman of the Management Board of Deloitte Polska Sp. z o.o. – general partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.)

Warsaw, 5 March 2013

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Report Supplementing The Opinion on the Audit of the Consolidated Financial Statements of Polskie Górnictwo Naftowe i Gazownictwo SA Capital Group for the 2012 Financial Year

I. General Information

1. Details of the audited Parent

The Parent of the Capital Group operates under the business name Polskie Górnictwo Naftowe i Gazownictwo SA ("the Company"; "PGNiG SA"). The Parent's registered office is located in Warsaw, at M. Kasprzaka 25.

The Company operates as a joint stock company established by a notarized deed on 21 October 1996 before Paweł Błaszczak, Notary Public in Warsaw (Repertory A No. 18871/96). The Company was recorded in the Commercial Register kept by the District Court, XVI Business-Registry Division in Warsaw, section B, under number 48382, based on the decision of 27 December 2001. Currently, the Company is recorded in the Register of Entrepreneurs kept by the District Court, XII Business-Registry Division in Warsaw, under KRS number 0000059492.

The Company's tax identification number NIP: 525-000-80-28 assigned by Second Tax Office Warszawa Śródmieście on 22 November 1996.

The REGON number assigned by the Statistical Office on 14 November 1996 is: 012216736.

The Company operates in accordance with the provisions of the Code of Commercial Companies.

In accordance with the Company's by-laws, the scope of its activities includes:

- trading of gaseous fuels through mains;
- extraction of natural gas;
- extraction of crude oil;
- geological and engineering drillings and excavations;
- construction of pipelines, and transmission networks;
- services related to exploitation of crude oil and natural gas fields;
- other mining and extraction supporting services;
- production of minerals for the chemical industry and production of fertilizers;
- other mining and extraction, n.e.c.;
- producing and reprocessing crude oil and refined products;
- production of gas fuels;
- wholesale of chemical products;
- wholesale of other intermediate products;
- retail sale of automotive fuel in specialized stores;
- wholesale of fuels and related products;
- plumbing, heat, gas and air conditioning installation;
- repair and maintenance of machines;
- maintenance and repair of motor vehicles excluding motorcycles;
- transport of gaseous fuels via pipelines;
- other transport via pipelines;
- freight transport by road;
- warehousing and storage of gas fuels;
- warehousing and storage of other goods;
- production of technical gases;
- production of other chemical products, n.e.c.;
- wholesale of waste and scrap;
- research and development in other natural and technical sciences;
- engineering activities and related technical consultancy;
- other professional, scientific and technical activities, n.e.c.;
- other technical testing and analysis;
- installation of industrial machinery and equipment;
- steam, hot water and air conditioning supply and manufacturing;
- other specialized construction activities n.e.c.;
- wire telecommunications;
- wireless telecommunications, excluding satellite telecommunications;
- satellite telecommunications;
- other telecommunications services;
- production of electricity;
- distribution of electricity;

- trade of electricity;
- renting and leasing of other machinery, equipment and tangible goods n.e.c.;
- finance lease;
- other financial services, n.e.c. excluding insurance and pension funds, including trade of receivables on its own account;
- other activities auxiliary to financial services, except insurance and pension funding;
- other credit granting;
- trading of entrusted funds on financial markets (e.g. stockbroker) and similar services;
- agency in trade of securities;
- agency in trade of stock exchange merchandise;
- other activities supporting insurance and pension funds;
- management on financial markets;
- accounting, bookkeeping and auditing activities; tax consultancy;
- head offices and holdings, excluding financial holdings;
- agents involved in the sale of fuels, ores, metals and industrial chemicals;
- agents involved in the sale of a variety of goods;
- wholesale trade of metal products and equipment as well as additional plumbing and heating equipment;
- activities related to IT hardware management;
- data processing, website hosting and similar activities;
- other information technology and computer service activities;
- computer programming;
- reproduction of data carriers;
- repair of electronic and optical equipment;
- repair of electrical equipment;
- wholesale of computers, peripheral products and software;
- wholesale of electronic and telecommunications equipment and parts;
- wholesale of other machines and office equipment;
- wholesale of other machines and equipment;
- publishing of directories and mailing lists;
- other software publishing;
- IT advisory activities;
- Web portals;
- other information related services, n.e.c.;
- engineering activities and related technical consultancy;
- rental and lease of office machinery and equipment (including computers);
- lease of intellectual property and similar products except from copyright-protected works;
- repair and maintenance of computers and peripherals;
- repair and maintenance of telecommunications devices;
- repair and maintenance of general use electronics;
- other services, n.e.c.;
- call center services;
- other publishing activities;
- printing preparation services;
- other printing;
- photocopying, document preparation and other specialised office support activities;
- other human resources provision;
- other business support service activities n.e.c.;
- water collection, treatment and supply;
- non-specialized wholesale;
- library activities;
- archive activities;
- museum activities;
- buying and selling of own real estate;
- management of real estate on a fee or contract basis;
- renting and operating of own or leased real estate;
- other education n.e.c.;
- rental and lease of passenger cars and vans;
- rental and lease of other motor vehicles, excluding motorcycles;
- travel agency and tour operator activities;
- hotels and similar facilities;
- holiday and other short-stay accommodation facilities;
- camping areas (including fields for campers) and camping fields;
- other accommodation;
- retail sale in non-specialized stores selling mostly food, beverages and tobacco products;
- other retail sale in non-specialized stores;
- other retail sale not in stores, stalls or markets;
- organization of fairs, exhibitions and congresses;
- amusement and recreation activities.

In the audited period, the Company conducted the activities involving mainly trade of natural gas and crude oil, exploration and exploitation of crude oil and gas fields, general construction work regarding pipelines and mines, sales of crude oil and natural gas, lease of the Company’s assets used for transmission of energy and gas.

As at 31 December 2012, the Company's share capital amounted to PLN 5,900,000,000 and was divided into 5,900,000,000 shares with a face value of PLN 1 each.

As at 31 December 2012, the Company's shareholders were:
- State Treasury – 72.40% of shares;
- others – 27.60% of shares.

As at 31 December 2011, the Company's shareholders were:
- State Treasury – 72.41% of shares;
- others – 27.59% of shares.

During the financial year the shares held by the State Treasury in the Company decreased by 0.01% due to the pending process of issuance of shares to the entitled employees. The State Treasury is possession of the shares that have not been issued yet to the entitled employees.

No changes in the Company's share capital other than listed above took place in the financial year, after the balance sheet date and by the opinion date.

As at 31 December 2012, the Capital Group's equity amounted to PLN 27,247 million.

The Capital Group's financial year is the calendar year.

Composition of the Management Board as at the date of the opinion:
- Grażyna Piotrowska-Oliwa Chairman of the Management Board;
- Radosław Dudziński Vice-Chairman of the Management Board;
- Sławomir Hinc Vice-Chairman of the Management Board;
- Mirosław Szkałuba Vice-Chairman of the Management Board.

Changes in the composition of the Management Board during the audited period, after the balance sheet date and before the date of the opinion:
- On 7 March 2012, the Supervisory Board appointed Grażyna Piotrowska-Oliwa the Chairman of the Management Board of PGNiG SA effective as of 19 March 2012.
- On 11 May 2012 Marek Karabuła resigned from the position of the Member of the Management Board. By the decision of the Supervisory Board since 1 January 2012 until the completion of the Chairman of the Management Board position recruitment process Marek Karabuła acted the Chairman of the Management Board of the Company, including chairing of the Management Board of PGNiG SA.
- On 22 January 2013 Sławomir Hinc resigned from the position of the Member of the Management Board effective as at 31 March 2013.
- On 27 February 2013, the Supervisory Board appointed Krzysztof Bocian for the position of Vice-Chairman of the Management Board in charge of Search & Exploration and Jacek Murawski for the position of Vice-Chairman of the Management Board in charge of Finance effective as at 1 April 2013.

The aforesaid changes have been reported and registered in a competent registry court with the exception of the resignation of Sławomir Hinc and appointment of Krzysztof Bocian and Jacek Murawski, which will be reported and registered in accordance with the applicable laws.

Composition of the Polskie Górnictwo Naftowe i Gazownictwo SA Capital Group as at 31 December 2012:

Polskie Górnictwo Naftowe i Gazownictwo SA as Parent, and
- Direct subsidiaries
  - Karpacka Spółka Gazownictwa Sp. z o.o. – 100% of shares;
  - Górnośląska Spółka Gazownictwa Sp. z o.o. – 100% of shares;
  - Mazowiecka Spółka Gazownictwa Sp. z o.o. – 100% of shares;
  - Wielkopolska Spółka Gazownictwa Sp. z o.o. – 100% of shares;
  - Pomorska Spółka Gazownictwa Sp. z o.o. – 100% of shares;
  - Dolnośląska Spółka Gazownictwa Sp. z o.o. – 100% of shares;
  - PGNiG Poszukiwania SA (presently: Exalo Drilling SA) – 100% of shares;
  - GEOFIZYKA Kraków SA – 100% of shares;
  - GEOFIZYKA Toruń SA – 100% of shares;
  - INVESTGAS SA – 100% of shares;
  - PGNiG Energia SA – 100% of shares;
  - Operator Systemu Magazynowania Sp. z o.o. – 100% of shares;
  - BUD-GAZ Sp. z o.o. – 100% of shares;
  - PGNiG Technologie SA – 100% of shares;
  - Geovita SA – 100% of shares;
  - Polish Oil And Gas Company – Libya B.V. – 100% of shares;
  - PGNiG Norway AS – 100% of shares;
  - PGNiG Sales & Trading GmbH – 100% of shares;
  - PGNiG Finance AB – 100% of shares;
  - PGNIG Serwis Sp. z o.o. – 100% of shares;
  - PGNIG SPV 4 Sp. z o.o. – 100% of shares;
  - Polskie Elektrownie Gazowe Sp. z o.o. – 100% of shares;
  - BSiPG Gazoprojekt SA – 75% of shares;
  - PGNIG TERMIKA SA* – 71% of shares;
  - NYSAGAZ Sp. z o.o. – 66% of shares;
- Indirect subsidiaries
  - Poszukiwania Nafty i Gazu Jasło SA – 100% of shares;
  - Poszukiwania Nafty i Gazu Kraków SA – 100% of shares;
  - Poszukiwania Nafty i Gazu NAFTA SA – 100% of shares;
  - Poszukiwania Naftowe Diament Sp. z o.o. – 100% of shares;
  - Zakład Robót Górniczych Krosno Sp. z o.o. – 100% of shares;
  - Oil Tech International F.Z.E. – 100% of shares;
  - Zakład Gospodarki Mieszkaniowej Sp. z o.o. – 100% of shares;
  - Biogazownia Ostrowiec Sp. z o.o. – 100% of shares;
  - Powiśle Park Sp. z o.o. (Warsaw) – 100% of shares;
  - XOOL GmbH – 100% of shares;
  - Poltava Services LLC – 99% of shares;
  - CHEMKOP Sp. z o.o. Krakow – 85% of shares;
  - GAZ Sp. z o.o. – 80% of shares.

* Share of PGNiG SA in the capital of PGNiG TERMIKA SA – right to votes at shareholders meeting 99.99%.

The consolidated financial statements as at 31 December 2012 included the following entities:

a) Parent – Polskie Górnictwo Naftowe i Gazownictwo SA

We have audited the financial statements of Polskie Górnictwo Naftowe i Gazownictwo SA, the Parent, for the period from 1 January to 31 December 2012. As a result of our audit, on 5 March 2013 we issued an unqualified opinion.

b) Companies subject to full consolidation:

Name and address of the Company	Interest in capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date
GEOFIZYKA Kraków SA	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	27 February 2013
GEOFIZYKA Toruń SA	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	15 February 2013
PGNiG Poszukiwania SA (presently: Exalo Drilling SA)	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified, emphasis of matter opinion	31 December 2012	28 February 2013
PGNiG Norway AS	100.00%	Deloitte AS Unqualified opinion	31 December 2012	20 February 2013
Polish Oil And Gas Company – Libya B.V.	100.00%	Deloitte Accountants B.V.	31 December 2012	(1)
INVESTGAS SA	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	28 February 2013
Dolnośląska Spółka Gazownictwa Sp. z o.o.	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	1 March 2013
Górnośląska Spółka Gazownictwa Sp. z o.o.	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	1 March 2013
Karpacka Spółka Gazownictwa Sp. z o.o.	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	1 March 2013
GK Mazowiecka Spółka Gazownictwa	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	1 March 2013
Pomorska Spółka Gazownictwa Sp. z o.o.	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	1 March 2013
Wielkopolska Spółka Gazownictwa Sp. z o.o.	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	1 March 2013
Geovita SA	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified, emphasis of matter opinion	31 December 2012	28 February 2013
PGNiG Technologie SA	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	1 March 2013
PGNiG Energia SA	100.00%	Deloitte Polska Sp. z o.o. Sp. k.	31 December 2012	25 February 2013
GK PGNiG Sales&Trading GmbH	100.00%	PricewaterhouseCoopers Aktiengesellschaft Wirtschaftspruefungsgesellschaft Unqualified opinion	31 December 2012	21 February 2013
PGNiG Finance AB	100.00%	Deloitte AB Unqualified opinion	31 December 2012	22 February 2013
PGNiG Termika SA	99.99%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	1 March 2013
Operator Systemu Magazynowania Sp. z o.o.	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	25 February 2013
PGNIG Serwis Sp. z o.o.	100.00%	CHE Consulting Sp. z o.o.	31 December 2012	(1)
Biuro Studiów i Projektów Gazownictwa Gazoprojekt SA	75.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified opinion	31 December 2012	28 February 2013
Poszukiwania Nafty i Gazu Jasło SA	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified, emphasis of matter opinion	31 December 2012	4 March 2013
GK Poszukiwania Nafty i Gazu Kraków SA	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified, emphasis of matter opinion	31 December 2012	4 March 2013
Poszukiwania Nafty i Gazu NAFTA SA	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified, emphasis of matter opinion	31 December 2012	28 February 2013
Poszukiwania Naftowe Diament Sp. z o.o.	100.00%	Deloitte Polska Sp. z o.o. Sp. k. Unqualified, emphasis of matter opinion	31 December 2012	28 February 2013
Zakład Robót Górniczych Krosno Sp. z o.o.	100.00%	Deloitte Polska Sp. z o.o. Sp. k. emphasis of matter opinion	31 December 2012	28 February 2013

(1) By the date of opinion on the audit of the consolidated financial statements of the Polskie Górnictwo Naftowe i Gazownictwo SA Capital Group the opinion had not been issued.

c) Companies subject to equity method of consolidation:

Name and address of the Company	Interest in capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date
SGT EuRoPol Gaz SA	48%	PricewaterhouseCoopers Sp. z o.o.	31 December 2012	(1)
Gas-Trading SA	43%	–	31 December 2012	(1)

(1) By the date of opinion on the audit of the consolidated financial statements of the Polskie Górnictwo Naftowe i Gazownictwo SA Capital Group the opinion had not been issued.

The Parent preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities.

In the audited financial year and as at 31 December 2012 the Company included the following entities in consolidation:
- PGNiG Poszukiwania SA (presently: Exalo Drilling SA)
- PGNiG Termika SA
- PGNIG Serwis Sp. z o.o.

Additionally, PGNiG SPV1 Sp. z o.o. was merged with PGNiG Termika SA

d) Companies excluded from the financial statements for immateriality:

- Direct subsidiaries
  - BUD-GAZ Sp. z o.o. – 100% of shares;
  - PGNIG SPV 4 Sp. z o.o. – 100% of shares;
  - Polskie Elektrownie Gazowe Sp. z o.o. – 100% of shares;
  - Zakład Gospodarki Mieszkaniowej Sp. z o.o. – 100% of shares;
  - Biogazownia Ostrowiec Sp. z o.o. – 100% of shares;
  - CHEMKOP Sp. z o.o. Krakow – 85% of shares;
  - NYSAGAZ Sp. z o.o. – 66% of shares;
  - PT Geofizyka Toruń Indonezja LLC in liquidation – 55% of shares;
- Indirect subsidiaries
  - GAZ Sp. z o.o. – 80% of shares;
- Associates
  - Sahara Petroleum Technology Llc in liquidation – 49% of shares;
  - PFK GASKON SA – 46% of shares;
  - GAZOMONTAŻ SA – 45% of shares;
  - ZRUG Sp. z o.o. (in Poznań) – 40% of shares;
  - ZWUG INTERGAZ Sp. z o.o. – 38% of shares;
  - Dewon ZSA – 36% of shares;
  - ZRUG TORUŃ SA in bankruptcy liquidation – 25% of shares.

After the balance sheet a legal combination of PGNiG Poszukiwania SA (presently Exalo Drilling SA) with the following entities was registered:
- Poszukiwania Nafty i Gazu Jasło SA
- Poszukiwania Nafty i Gazu Kraków SA
- Poszukiwania Nafty i Gazu NAFTA SA
- Poszukiwania Naftowe Diament Sp. z o.o.
- Zakład Robót Górniczych Krosno Sp. z o.o.

As the result of the combinations PGNiG Poszukiwania SA (presently: Exalo Drilling SA) became the Acquirer.

2. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2011 resulted in a net profit of PLN 1,626,184 thousand. The consolidated financial statements of the Capital Group for 2011 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Audyt Sp. z o.o. On 1 March 2012, the certified auditor issued an unqualified opinion with the following emphasis of matter:

“Without raising any qualifications to the correctness and fairness of the audited consolidated financial statements, we would like to emphasize:
- Note 6.2 to the consolidated financial statements in which the Management Board of the Parent pointed out factors affecting the accuracy of assumptions adopted while measuring shares in co-subsidiary SGT EuRoPol Gaz SA. The measurement of the shares was based on assumptions and future events – completely independent of the Parent – the result of which as at the date of preparation of the consolidated financial statements could not be properly forecasted. The Management Board of the Parent also explained the reasons of impairment of shares in that company.
- Note 37.8 to the consolidated financial statements in which the Management Board of the Parent pointed the uncertainty related to the current political situation in Libya and therefore the uncertainty of future operating activity in this country.”

The General Shareholders Meeting, which approved the consolidated financial statements for the 2011 financial year, was held on 6 June 2012.

In accordance with applicable laws, the financial statements for the 2011 financial year were submitted to the National Court Register (KRS) on 15 June 2012 and filed for publication in Monitor Polski B on 20 June 2012. They were published in Monitor Polski B No. 2001 on 10 September 2012.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The audit of the consolidated financial statements was conducted in accordance with the agreement of 28 June 2010 concluded between Polskie Górnictwo Naftowe i Gazownictwo SA and Deloitte Audyt Sp. z o.o. (presently: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.), with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Piotr Sokołowski, key certified auditor, (No. 9752), in the registered office of the Parent from 22 October to 2 November 2012 and from 28 January to 5 March 2013.

The entity authorized to audit the financial statements was appointed by the resolution
of the Supervisory Board of 12 May 2010 based on authorization included in Article 33
of the Company's articles of association.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) and Piotr Sokołowski, key certified auditor, confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009, No. 77, item 649, as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Polskie Górnictwo Naftowe i Gazownictwo SA Capital Group.

4. Availability of data and the Company's management representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent dated 5 March 2013.

II. Economic and financial position of the Capital Group

presented below are the main items from the consolidated profit and loss account as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main items from the income statement (in PLN millions)	2012	2011*
Sales revenue	28,730	23,004
Operating expenses	(26,197)	(21,132)
Financial revenue	216	135
Financial expenses	(380)	(152)
Share in profits/(losses) of entities measured using the equity method	173	43
Income tax	(308)	(143)
Net profit (loss)	2,234	1,755
Total comprehensive income	2,030	1,820
Profitability ratios		
gross profit margin	9%	8%
net profit margin	8%	8%
net return on equity	9%	7%
Effectiveness ratios		
assets turnover ratio	0.60	0.59
receivables turnover in days	55	51
liabilities turnover in days	18	21
inventories turnover in days	36	27
Liquidity/Net working capital		
debt ratio	43%	35%
equity to fixed assets ratio	57%	65%
net working capital (PLN millions)	1,220	(322)
current ratio	1.13	0.96
quick ratio	0.81	0.69

* Due to amendment of the accounting policy in 2012 the data for the 2011 financial year was presented after being adjusted to ensure comparability.

An analysis of the above figures and ratios indicated the following trends in 2012:

- an increase in gross profit margin and the net return on equity;
- a decrease in the assets turnover ratio;
- an increase in receivables, liabilities and inventory turnover in days;
- an increase of the debt ratio.

III. Detailed Information

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2012 and include:

- the consolidated statement of financial position prepared as at 31 December 2012, with total assets, equity and liabilities of PLN 47,917 million;
- consolidated income statement for the period from 1 January 2012 to 31 December 2012, disclosing a net profit of PLN 2,234 million;
- consolidated statement of comprehensive income for the period from 1 January 2012 to 31 December 2012, disclosing a total comprehensive income of PLN 2,030 million;
- consolidated statement of changes in equity for the period from 1 January 2012 to 31 December 2012, disclosing an increase in equity of PLN 2,029 million;
- consolidated statement of cash flows for the period from 1 January 2012 to 31 December 2012, showing a cash inflow of PLN 443 million;
- notes, comprising a summary of significant accounting policies and other explanatory information.

The structure of assets, equity and liabilities as well as items affecting the financial result has been presented in the consolidated financial statements.

The audit covered the period from 1 January 2012 to 31 December 2012 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent;
- verification of the consolidation documentation;
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation;
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

1. financial statements of entities included in the consolidated financial statements;
2. financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
3. financial statements of controlled entities translated into the Polish currency;
4. all consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
5. calculation of the fair value of the net assets of controlled entities;
6. calculation of goodwill and negative goodwill as well as their write-downs, also due to impairment;
7. calculation of minority interest;
8. calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

Basis for the preparation of the consolidated financial statements

The consolidated financial statements of the Capital Group for the 2012 financial year were prepared in accordance with IFRS.

Entities in the Capital Group

The scope and methods of consolidation as well as relationship between the entities have been determined based on the criteria specified in IFRS.

Financial period

The consolidated financial statements have been prepared as of the same balance sheet date and for the same financial year as the financial statements of the Parent – Polskie Górnictwo Naftowe i Gazownictwo SA. Subsidiaries and associated companies included in consolidation prepared their financial statements as at the same balance sheet date as the Parent. The financial year of all subsidiaries and associated companies included in the consolidation ended on 31 December 2012.

Consolidation method

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent and the subsidiaries included in consolidation were summed up.

Once the values had been summed up, consolidation adjustments and eliminations were applied to:

- the cost of shares held by the Parent in subsidiaries and the part of net assets of subsidiaries corresponding to the interest of the Parent in these companies;
- mutual receivables and liabilities of entities included in consolidation;
- material revenue and expenses related to transactions between entities included in consolidation.

The equity method was applied with respect to associated entities. The value of the Parent's interest in the associated company was adjusted by increases or decreases in the equity of the associated company attributable to the Parent, which occurred in the period covered by consolidation, and decreased by dividends due from such companies.

3. Completeness and correctness of drawing up the notes and the report on the activities of the Capital Group

The Parent confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes to the consolidated financial statements give a correct and complete description of measurement principles regarding assets, liabilities, financial result and principles of preparation of the consolidated financial statements.

The Parent prepared the notes in the form of tables to individual items of the statement of financial position and statement of comprehensive income as well as narrative descriptions, in line with the principles specified in IFRS.

Notes describing property, plant and equipment, intangible assets, investments, liabilities and provisions correctly present increases and decreases as well as their basis during the financial year.

Limitations imposed on individual assets disclosed in the consolidated statement of financial position arising from security granted to creditors have been described.

Individual assets and liabilities as well as revenue and expenses have been correctly presented by the Parent in the consolidated financial statements. The consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows as well as notes which constitute an integral part of the financial statements include all items required for disclosure in the consolidated financial statements under IFRS.

The consolidated financial statements have been supplemented with the Management Board's report on the activities of the Capital Group in the 2012 financial year. The Report on the activities of the Capital Group is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states. We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. Final Notes

Management Board's Representation

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) and the key certified auditor received a representation letter from the Parent's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

Piotr Sokołowski
Key certified auditor
conducting the audit
No. 9752

On Behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – an entity authorized to audit financial statements recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors:

Piotr Sokołowski – Deputy Chairman of the Management Board of Deloitte Polska Sp. z o.o. – general partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.)

Warsaw, 5 March 2013

Financial Highlights

for the year ended December 31st 2012

(in millions of PLN)	PLN		EUR	
	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
I Revenue	28,730	23,004	6,884	5,556
II Operating profit/(loss)	2,533	1,872	607	452
III (Profit)/loss before tax	2,542	1,898	609	458
IV Net profit/(loss) attributable to owners of the Parent	2,236	1,756	536	424
V Net profit/(loss)	2,234	1,755	535	424
VI Comprehensive income attributable to owners of the Parent	2,032	1,821	487	440
VII Total comprehensive income	2,030	1,820	486	440
VIII Net cash flows from operating activities	2,552	2,676	611	646
IX Net cash flows from investing activities	(6,149)	(4,227)	(1,473)	(1,021)
X Net cash flows from financing activities	4,040	1,682	968	406
XI Change in cash	443	131	106	32
XII Earnings/(loss) and diluted earnings/(loss) per share attributable to owners of the Parent (PLN/EUR)	0.38	0.30	0.09	0.07

(in millions of PLN)		PLN		EUR	
		Dec 31 2012	Dec 31 2011	Dec 31 2012	Dec 31 2011
XIII	Total assets	47,917	38,824	11,721	8,790
XIV	Liabilities and provisions	20,670	13,606	5,056	3,080
XV	Non-current liabilities	11,057	5,760	2,705	1,304
XVI	Current liabilities	9,613	7,846	2,351	1,776
XVII	Equity	27,247	25,218	6,665	5,710
XVIII	Share capital	5,900	5,900	1,443	1,336
XIX	Weighted average number of shares (thousand)	5,900	5,900	5,900	5,900
XX	Carrying amount per share and diluted carrying amount per share (PLN/EUR)	4.62	4.27	1.13	0.97
XXI	Dividend per share declared or paid (PLN/EUR)	-	0.12	-	0.03

Items of the income statement, statement of comprehensive income and statement of cash flows were translated using the EUR 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 the given reporting period.

Items of the statement of financial position were translated using the EUR mid-rate quoted by the NBP as at the end of the given financial period.

Average EUR/PLN exchange rates quoted by the NBP

(in PLN)	Dec 31 2012	Dec 31 2011
Average exchange rate for the period	4.1736	4.1401
Exchange rate at end of the period	4.0882	4.4168

Consolidated Income Statement

for the year ended December 31st 2012

(in millions of PLN)	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
Revenue	**28,730**	**23,004**
Raw material and consumables used	(17,447)	(14,059)
Employee benefit expense	(3,054)	(2,850)
Depreciation and amortisation expenses	(2,069)	(1,574)
Contracted services	(3,060)	(3,182)
Work performed by the entity and capitalised	1,006	1,129
Other income and expenses	(1,573)	(596)
Total operating expenses	**(26,197)**	**(21,132)**
Operating profit/(loss)	**2,533**	**1,872**
Finance income	216	135
Finance costs	(380)	(152)
Share in net profit/loss of equity-accounted entities	173	43
Profit/(loss) before tax	**2,542**	**1,898**
Income tax expense	(308)	(143)
Net profit/(loss)	**2,234**	**1,755**
Attributable to:		
Owners of the Parent	2,236	1,756
Non-controlling interests	(2)	(1)

(in PLN)	2012	2011
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the Parent (PLN/EUR)	**0.38**	**0.30**

Consolidated Statement of Comprehensive Income

for the year ended December 31st 2012

(in millions of PLN)	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
Net profit/(loss)	**2,234**	**1,755**
Exchange differences on translating foreign operations	(2)	(1)
Hedge accounting	(250)	135
Remeasurement of financial assets available for sale	-	(53)
Deferred tax on other comprehensive income	48	(16)
Other comprehensive income, net	**(204)**	**65**
Total comprehensive income	**2,030**	**1,820**
Attributable to:		
Owners of the Parent	2,032	1,821
Non-controlling interests	(2)	(1)

Consolidated Statement of Financial Position

As at Dec 31 2012

(in millions of PLN)	Dec 31 2012	Dec 31 2011	Jan 1 2011
ASSETS			
Non-current assets			
Property, plant and equipment	33,784	29,319	26,360
Investment property	11	7	10
Intangible assets	1,146	343	298
Investments in equity-accounted associates	771	598	556
Financial assets available for sale	48	56	170
Other financial assets	124	10	40
Deferred tax assets	1,124	920	662
Other non-current assets	76	48	41
Total non-current assets	**37,084**	**31,301**	**28,137**
Current assets			
Inventories	3,064	2,082	1,049
Trade and other receivables	5,374	3,378	3,387
Current tax assets	150	164	230
Other assets	84	78	75
Financial assets available for sale	-	22	9
Derivative financial instrument assets	105	285	78
Cash and cash equivalents	1,948	1,505	1,373
Non-current assets held for sale	108	9	4
Total current assets	**10,833**	**7,523**	**6,205**
Total assets	**47,917**	**38,824**	**34,342**

(in millions of PLN)	Dec 31 2012	Dec 31 2011	Jan 1 2011
LIABILITIES AND EQUITY			
Equity			
Share capital	5,900	5,900	5,900
Share premium	1,740	1,740	1,740
Accumulated other comprehensive income	(90)	114	12
Retained earnings/(deficit)	19,693	17,457	16,445
Equity attributable to owners of the Parent	27,243	25,211	24,097
Equity attributable to non-controlling interests	4	7	14
Total equity	**27,247**	**25,218**	**24,111**
Non-current liabilities			
Borrowings and other debt instruments	5,509	1,382	970
Employee benefit obligations	319	268	280
Provisions	1,792	1,358	1,221
Deferred income	1,448	1,160	1,089
Deferred tax liabilities	1,936	1,572	1,501
Other non-current liabilities	53	20	21
Total non-current liabilities	**11,057**	**5,760**	**5,082**
Current liabilities			
Trade and other payables	3,667	3,236	3,103
Borrowings and other debt instruments	4,702	3,617	1,229
Derivative financial instrument liabilities	393	417	104
Current tax liabilities	24	58	226
Employee benefit obligations	356	238	177
Provisions	350	185	216
Deferred income	101	95	94
Liabilities related to assets available for sale	20	-	-
Total current liabilities	**9,613**	**7,846**	**5,149**
Total liabilities	**20,670**	**13,606**	**10,231**
Total liabilities and equity	**47,917**	**38,824**	**34,342**

Consolidated Statement of Cash Flows

for the year ended December 31st 2012

(in millions of PLN)	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
Cash flows from operating activities		
Net profit/(loss)	2,234	1,755
Adjustments:		
Share in net profit/(loss) of equity-accounted entities	(173)	(43)
Depreciation and amortisation expenses	2,069	1,574
Net foreign exchange gains/(losses)	(142)	(193)
Net interest and dividend	234	(25)
Gain/(loss) on investing activities	138	86
Current tax expense	308	143
Other items, net	456	527
Income tax expense	(591)	(396)
Cash flows from operating activities before changes in working capital	4,533	3,428
Change in working capital:		
Change in receivables	(1,734)	12
Change in inventories	(620)	(1,031)
Change in employee benefit obligations	73	49
Change in provisions	140	1
Change in current liabilities	248	299
Change in other assets	(22)	(2)
Change in deferred income	(66)	(80)
Net cash flows from operating activities	**2,552**	**2,676**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment and intangible assets	208	21
Proceeds from disposals of shares in non-consolidated entities	5	153
Proceeds from disposals of short-term securities	21	18
Purchase of property, plant and equipment and intangible assets	(3,788)	(4,506)
Purchase of shares in non-consolidated entities	-	(29)
Purchase of short-term securities	-	(29)
Interest received	3	2
Dividends received	4	3
Proceeds from finance lease	-	2
Purchase of shares in PGNiG Termika SA	(3,021)	-
Other items, net	419	138
Net cash flows from investing activities	**(6,149)**	**(4,227)**
Cash flows from financing activities		
Proceeds from borrowings	193	384
Proceeds from issue of debt securities	8,649	3,284
Repayment of borrowings	(972)	(59)
Repayment of debt securities	(3,354)	(1,091)
Payment of finance lease liabilities	(44)	(31)
Outflows on forward contracts	(111)	-
Dividend paid	(1)	(678)
Interest paid	(317)	(111)
Other items, net	(3)	(16)
Przepływy pieniężne netto z działalności finansowej	**4,040**	**1,682**
Net cash flows from financing activities	**443**	**131**
Net change in cash	-	1
Cash and cash equivalents at beginning of the period	**1,504**	**1,373**
Cash and cash equivalents at end of the period	**1,947**	**1,504**

Consolidated Statement of Changes in Equity

for the year ended December 31st 2012

	Equity (attributable to owners of the parent)							Equity (attributable to non-controlling interests)	Total equity
			Accumulated other comprehensive income, including						
(in millions of PLN)	Share capital	Share premium	Exchange differences on translating foreign operations	Hedge accounting	Remeasurement of financial assets available for sale	Retained earnings/ (deficit)	**Total**		
As at Jan 1 2012	**5,900**	**1,740**	**(29)**	**143**	**-**	**17,457**	**25,211**	**7**	**25,218**
Transfers	-	-	-	-	-	-	**-**	-	**-**
Payment of dividend to owners	-	-	-	-	-	-	**-**	(1)	**(1)**
Other changes in equity	-	-	-	-	-	-	**-**	-	**-**
Changes in the Group	-	-	-	-	-	-	**-**	-	**-**
Total comprehensive income	-	-	(2)	(202)	-	2,236	**2,032**	(2)	**2,030**
Net profit/(loss) for 2012	-	-	-	-	-	2,236	**2,236**	(2)	**2,234**
Other comprehensive income, net, for 2012	-	-	(2)	(202)	-	-	**(204)**	-	**(204)**
As at Dec 31 2012	**5,900**	**1,740**	**(31)**	**(59)**	**-**	**19,693**	**27,243**	**4**	**27,247**
As at Jan 1 2011 (restated)	**5,900**	**1,740**	**(65)**	**34**	**43**	**16,445**	**24,097**	**14**	**24,111**
Transfers	-	-	37	-	-	(36)	**1**	(1)	**-**
Payment of dividend to owners	-	-	-	-	-	(708)	**(708)**	-	**(708)**
Purchase of shares from non-controlling interests	-	-	-	-	-	-	**-**	(5)	**(5)**
Total comprehensive income	-	-	(1)	109	(43)	1,756	**1,821**	(1)	**1,820**
Net profit/(loss) for 2011	-	-	-	-	-	1,756	**1,756**	(1)	**1,755**
Other comprehensive income, net, for 2011	-	-	(1)	109	(43)	-	**65**	-	**65**
As at Dec 31 2011 (restated)	**5,900**	**1,740**	**(29)**	**143**	**-**	**17,457**	**25,211**	**7**	**25,218**

Operating Segments

Reportable segments

The tables below set forth data on revenue, costs and profits/losses, as well as assets, equity and liabilities of the Group's reporting segments for the periods ended December 31st 2012 and December 31st 2011.

Period ended December 31st 2012 (in millions of PLN)	Exploration and production	Trade and storage	Distribution	Generation	Other activities	Eliminations	Total
Income statement							
Sales to external customers	3,121	23,353	153	1,893	210	-	28,730
Intercompany sales	1,204	360	3,430	64	333	(5,391)	-
Total segment revenue	4,325	23,713	3,583	1,957	543	(5,391)	28,730
Depreciation and amortisation expenses	(613)	(162)	(819)	(456)	(19)	-	(2,069)
Other costs	(2,359)	(23,226)	(1,886)	(1,486)	(544)	5,373	(24,128)
Total segment costs	(2,972)	(23,388)	(2,705)	(1,942)	(563)	5,373	(26,197)
Operating profit/(loss)	**1,353**	**325**	**878**	**15**	**(20)**	**(18)**	**2,533**
Net finance costs							(164)
Share in net profit/(loss) of equity-accounted entities		173					173
Profit/loss before tax							**2,542**
Income tax expense							(308)
Net profit/(loss)							**2,234**
Statement of financial position							
Segment's assets	16,580	18,650	13,089	4,345	483	(7,278)	45,869
Investments in equity-accounted entities		771					771
Unallocated assets							153
Deferred tax assets							1,124
Total assets							**47,917**
Total equity							27,247
Segment liabilities	5,823	3,937	2,234	2,870	171	(6,943)	8,092
Unallocated liabilities							10,642
Deferred tax liabilities							1,936
Total liabilities and equity							**47,917**
Other information on the segment							
Capital expenditure on property, plant and equipment and intangible assets	(1,676)	(719)	(1,141)	(196)	(29)	(27)	(3,788)
Impairment losses on assets	(1,132)	(1,686)	(97)	(33)	(9)	1	(2,956)
Impairment losses on unallocated assets							(41)

Period ended December 31st 2011 (in millions of PLN)	Exploration and production	Trade and storage	Distribution	Generation	Other activities	Eliminations	Total
Income statement							
Sales to external customers	2,879	19,831	141	-	153	-	23,004
Intercompany sales	1,202	155	3,329	-	435	(5,121)	-
Total segment revenue	4,081	19,986	3,470	-	588	(5,121)	23,004
Depreciation and amortisation expenses	(607)	(129)	(823)	-	(15)	-	(1,574)
Other costs	(2,159)	(20,056)	(1,864)	-	(564)	5,085	(19,558)
Total segment costs	(2,766)	(20,185)	(2,687)	-	(579)	5,085	(21,132)
Operating profit/(loss)	**1,315**	**(199)**	**783**	**-**	**9**	**(36)**	**1,872**
Net finance costs							(17)
Share in net profit/(loss) of equity-accounted entities		43					43
Profit/loss before tax							**1,898**
Income tax expense							(143)
Net profit/(loss)							**1,755**
Statement of financial position							
Segment's assets	15,875	12,214	12,603	-	549	(4,276)	36,965
Investments in equity-accounted entities		598					598
Unallocated assets							341
Deferred tax assets							920
Total assets							**38,824**
Total equity							25,218
Segment liabilities	2,177	2,798	1,915	-	120	(3,937)	3,073
Unallocated liabilities							8,961
Deferred tax liabilities							1,572
Total liabilities and equity							**38,824**
Other information on the segment							
Capital expenditure on property, plant and equipment and intangible assets	(2,788)	(617)	(1,139)	-	(19)	57	(4,506)
Impairment losses on assets	(978)	(1,711)	(91)	-	(12)	1	(2,791)
Impairment losses on unallocated assets							(38)

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