

Annual Report

PGNiG 2009

Stavanger

Moskwa

Kopenhaga

Wysokoje

Warszawa

Amsterdam

Zielona Góra

Odolanów

Kijów

Bruksela

Sanok

Algier

Trypolis

Kair

Annual Report

PGNiG 2009

Committed. Pursuing their
own passions. This is how we can
describe PGNiG's employees.
We are proud of serving people together.
Because to us people matter the most.

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The PGNiG
Group

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;
- GAZ-SYSTEM – Operator Gazociągów Przesyłowych GAZ-SYSTEM SA (Transmission System Operator);
- EuRoPol GAZ – System Gazociągów Tranzytowych EuRoPol GAZ SA (Yamal Pipeline System Operator);
- URE – Polish Energy Regulatory Authority.



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.



Key Figures

Natural gas production

4.11bn m³

Crude oil and condensate production

504 ths. t

Imports of natural gas

9.14bn m³

The PGNiG Group is the leader of the Polish natural gas market. The Group companies employ approximately 30 thousand personnel, deployed in Algeria, Belarus, Belgium, Denmark, Egypt, Libya, Norway, Pakistan, Russia, Ukraine and, most of all, in Poland where we are one of the largest employers.

Our core business consists in the production and sale of natural gas and crude oil. Both domestically and abroad, we conduct geophysical and geological research, exploration of reserves and production of hydrocarbons, as well as preparation of products for sale. We have established a presence in such countries as Denmark, Egypt, India, Yemen, Kazakhstan, Mozambique, Pakistan or Uganda. PGNiG is also involved in projects related to the production of hydrocarbons from the fields on the Norwegian Continental Shelf.

The Group sells natural gas produced in Poland as well as imported gas. To secure stable and continuous natural gas supplies, the PGNiG Group stores natural gas in seven modern underground gas storage facilities. Our gas is supplied through thousands of kilometres of pipelines, owned and operated by our six regional gas companies, to private individuals, small and medium-sized businesses and large industrial plants.

PGNiG has been listed on the Warsaw Stock Exchange since September 2005. The PGNiG Group enjoys increasingly deeper trust of the capital market and has been assigned excellent credit ratings. Our status is confirmed by the fact that PGNiG shares are included in WIG20, the blue-chip index of the Warsaw Stock Exchange, and that since October 2009 the shares have also been included in Respect Index, which covers socially responsible companies.

Sales of natural gas

13.28bn m³

Length of the distribution network

116 ths. km



Henryk Pisarek

painter

Creation of beautiful art is a challenging task where passion is an absolute prerequisite. But there is nothing absolute about true beauty, which after all is in the eye of the beholder...

employee of the PGNiG Group,
Zielona Góra



Calendar of Corporate Events

January

On January 1st, supplies of natural gas to PGNiG under the contract with RosUkrEnergo AG were discontinued, which resulted in lower than expected volumes of natural gas being delivered from Ukraine to the Drozdovitse cross-border point. This shortage, however, was fully compensated for with additional supplies of gas delivered to the Vysokoye cross-border point on the Polish-Belarusian border. Nevertheless, on January 7th 2009, the gas deliveries to the Drozdovitse cross-border point were suspended. In order to provide a sufficient level of gas supplies to its Polish customers, PGNiG drew larger amounts of gas from its storage facilities. On the same day the Management Board of PGNiG decided to limit the volume of gas supplies to Zakłady Azotowe Puławy and PKN Orlen, within the contractually-agreed levels. These limits were lifted on January 19th 2009. On January 21st 2009, the supplies of natural gas to the Drozdovitse cross-border point on the Polish-Ukrainian border were resumed, as a result of which the supplies of natural gas from the countries lying east of Poland reached their maximum volumes. Four days later the Management Board of PGNiG was informed about the reduction of gas supplies to the Vysokoye cross-border point to the contractual level. As a result, gas supplies received from the countries lying East of Poland accounted for approximately 76% of the originally planned volumes, yet the Company managed to fully satisfy the demand for natural gas from its Polish customers.

On January 6th, PGNiG Norway acquired (free of charge) a 30% interest in the PL350 licence on the Norwegian Continental Shelf under an agreement with StatoilHydro Petroleum. The PL350 licence is operated by E.ON Ruhrgas Norge. The other interest holders are StatoilHydro and StatoilHydro Petroleum.

On January 28th, the Supervisory Board of PGNiG appointed Mr. Waldemar Wójcik as a member of the Management Board – Vice-President for Oil Mining.

On January 29th, the Extraordinary General Shareholders Meeting of PGNiG resolved to approve the no-bid sale of documentation related to the implementation of the Baltic Pipe project to GAZ-SYSTEM, for EUR 261 thousand. The documentation was prepared by Ramboll Oil & Gas, a Danish company.

February

On February 6th, as a result of cooperation between PGNiG and Gazprom Export, the supplies of natural gas to the Drozdovitse cross-border point were increased. As a consequence, the volumes of natural gas supplied from the countries lying east of Poland reached 93% of the originally planned volumes. The deficit was covered with gas drawn the underground storage facilities, which enabled the Company to fully meet the demand for natural gas.

On February 16th, PGNiG Norway acquired a 25% interest in the PL419 licence located on the Norwegian Continental Shelf under an agreement with Nexen Exploration Norge. The licence is operated by Nexen Exploration Norge. The other interest holders are Wintershall Norge and Edison International.

On February 23rd, the trade union organizations active at PGNiG entered into a collective dispute with the employer over the rise of remuneration in 2009. The PGNiG Management Board decided not to accept the demands put forward by the trade unions to set the remuneration growth rate at 11% per annum. The collective dispute was resolved April 14th 2009, when the Agreement on the Average Remuneration Rise at PGNiG was signed. The Agreement provided that the average monthly remuneration at PGNiG would be increased in line with the proposal of the Company's Management Board, i.e. by 3.5%. Additionally, the Management Board undertook to use its best efforts to protect jobs at PGNiG and keep the existing staffing levels.

April

On April 3rd, a ceremony was held to mark the beginning of the process of delivery of agreements on free-of-charge acquisition of PGNiG shares to eligible employees. The employees became eligible to acquire Company shares as a result of commercialisation of PGNiG, a state-owned enterprise, which took place in 1996. In June 2008, the Minister of State Treasury sold one share, thus satisfying the requirement needed to transfer the shares to Company's employees. The process of concluding agreements on free-of-charge acquisition of PGNiG shares commenced on April 6th 2009 and will continue until October 1st 2010. Acquisition of all shares available to eligible employees (in total 750.000.000 shares) will reduced the State Treasury's share in the total vote from 84.75% to 72.03%.

On April 15th, PGNiG signed heads of agreement with Qatargas Operating Company. The agreement defined general terms and conditions for long-term cooperation in the area of LNG deliveries. PGNiG and Qatargas agreed that approximately 1m tonnes of LNG will be supplied annually for 20 years, starting from 2014.

On April 29th, the Skanled consortium, which PGNiG is part of, decided to suspend construction of the Skanled gas pipeline connecting Kårstø in Norway with Denmark and Sweden.

May

On May 4th, following conclusion of the 20th Licensing Round, PGNiG Norway acquired a 35% interest in the PL521 exploration and production licence located on the Norwegian Continental Shelf, which was granted by the Norwegian Ministry of Hydrocarbons and Energy. The licence is operated by StatoilHydro (40% interest). The other interest holder is Svenska Petroleum Exploration Norge (25% interest).

On May 7th, by virtue of the decision issued by the President of URE, PGNiG's new gas fuel tariff was approved; under the new tariff, the price of methane-rich gas was down by 9.13% relative to the rates specified in the previous tariff. The new tariff was approved in connection with a fall in costs of imported gas. Additionally, the tariff introduced higher (by 14.7% on average) network charges; the rise followed from higher costs of transmission and distribution services. As a consequence, the average blended charges for delivery of methane-rich gas fell by 3.3%. The new tariff became effective as of June 1st 2009.

June

On June 1st, an agreement on natural gas supplies was concluded between PGNiG and Gazprom Export of Moscow. The agreement provided for supplies of 1.024bn m³ of gas (according to Polish Standards – PN), which were delivered by September 30th 2009. The value of the agreement was indexed to prices of oil derivatives on global commodity markets. The estimated value of the agreement was approximately USD 300m (PLN 950m).

On June 16th, the Company was notified of Maciej Kaliski's resignation from the position of member of the Supervisory Board of PGNiG, handed in for personal reasons.

On June 16th, the President of URE approved gas fuel tariff for PGNiG designated as Part B: Tariff No. 1/2009 for storage of gas fuel. The tariff became effective as of July 1st 2009.

On June 29th, PGNiG and Qatargas Operating Company signed a sales agreement providing for deliveries of liquefied natural gas (LNG). PGNiG and Qatargas agreed that approximately 1m tonnes (approximately 1.5bn m³) of LNG will be supplied annually for a period of 20 years, starting from 2014. The gas will be delivered ex-ship to the LNG terminal in Świnoujście. At the same time, PGNiG obtained assurances from GAZ-SYSTEM and Polskie LNG that the LNG terminal will become operational as scheduled.

October

During negotiations closed on October 29th in Moscow, PGNiG and Gazprom agreed on the terms of cooperation regarding natural gas supplies to Poland. The parties reached agreement on increasing the supplies to 10.2bn m³ and extending the term of the existing contract by 15 years, until 2037. PGNiG and Gazprom reached a compromise on the manner of managing EuRoPol GAZ and the company's tariff policies. The terms of the agreement are set forth in the joint statement signed by the parties.

November

On November 19th, the General Shareholders Meeting of PGNiG resolved to establish PGNiG Energia, with a share capital of PLN 5m. The company was established with a view to implementing plans related to the transformation of the PGNiG Group into a modern energy conglomerate. PGNiG Energia is engaged in projects involving construction of power generating units, investments in gas-fired cogeneration units as well as in biogas pilot projects.

On November 19th PGNiG shares joined the RESPECT Index of the Warsaw Stock Exchange, which includes issuers recognised for their corporate social responsibility efforts. The companies comprising the index were selected based on results of a special survey. PGNiG and 15 other companies were assigned the highest rating (A) within the index. The RESPECT Index is intended to promote responsible management of listed companies in the context of sustainable growth, corporate disclosure discipline and communication with the financial markets.

December

On December 21st, PGNiG signed an annex to the agreement concluded in 2008 with Rafineria Trzebinia, which provided for sale and railway delivery of crude oil. The price of crude oil is based on Brent Dated quotations and the supply volumes will be determined on an annual basis. The annex to the agreement was signed for an indefinite period, starting from January 1st 2010. The estimated value of the annex has been defined on the basis of forecast crude oil sales over the next five years and amounts to approximately PLN 2.4bn.

On December 30th 2009, a crude oil sales agreement between PGNiG and TOTS Total Oil Trading was executed. Crude oil will be delivered to the delivery point in Germany via a pipeline owned and operated by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych Przyjaźń SA. The value of the agreement was estimated on the basis of forecast crude oil sales over the next five years, and amounts to approximately USD 900m (approximately PLN 2.6bn). The price of crude oil will be based on Brent Dated quotations and payments for the delivered crude oil will be settled in the US dollars. The agreement was concluded for an indefinite period, starting from January 1st 2010.

Dear Shareholders,
On behalf of Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, as well as on my own behalf, I present the PGNiG Group's 2009 Consolidated Annual Report, a document addressed not only to our shareholders and customers, but also to investors, equity analysts and other participants of the capital market.

Letter from the President of the Management Board

The year which has just ended was affected by strong volatility, sparked by the turmoil in the financial markets. Consequently, the Management Board was forced to avert the impact of adverse macroeconomic developments, but also – from the very start of the year – had to confront another major challenge, namely disruptions in delivery of contracted gas supplies to Poland. In the first weeks of January, efforts to ensure uninterrupted gas supplies to industrial users were at the top of our agenda – we were determined to avoid the implementation of firm load shedding measures, which would result in a reduction of natural gas consumption.

Our activities in 2009 were also focused on negotiating the terms of a contract intended to increase gas supplies to Poland. In mid 2009, a short-term contract was signed securing gas supplies in the summer period, which partly compensated for the 2.3bn m³ shortfall resulting from non-performance of contractual obligations

by one of our business partners. However, as the economic growth lost momentum and the problems besetting some businesses proved deeper than we had expected, a portion of the contracted volume (of 1bn m³) remained unsold. The situation was also due to storage capacity constraints and, accordingly, storage capacity expansion has become one of the primary objectives in the PGNiG Group's strategy. The year 2009 showed a few-year backlog of underinvestment in storage facilities, as well as in interconnections to the European gas grids, as a result of which any deficit volumes of natural gas can only be sourced from countries lying east of Poland. The key objective driving all efforts of PGNiG's Management Board has always been – and let me strongly emphasise the point – to secure reliable and stable supplies of natural gas, both to households and industrial consumers.

The PGNiG Group's Strategy until 2015, unveiled in November 2008, explicitly highlights our key investment objectives. Apart from the expansion of the underground storage facilities, as well as upgrade and development of the distribution network, these objectives include investment in gas and oil exploration, as well as acquisition of new licences outside of Poland. In 2009, our subsidiary PGNiG Norway acquired interests in further exploration licences, located in close proximity to the Skarv/Snadd fields (currently under development) on the Norwegian Continental Shelf. Capital expenditure on prospecting operations was increased. For over a year, intensive work has been under way on development of the LMG (Lubiatów-Międzychód-Grotów) fields, which will allow us to boost annual oil production to approximately 1m tonnes of crude, starting from 2013. We are also actively engaged in the expansion of underground storage facilities, including the site with the largest capacity located in Wierzychowice. By 2012, the capacity of the Wierzychowice facility will be doubled to reach 1.2bn m³.

Aiming to increase the share of natural gas in Poland's overall energy mix, we see the need to increase gas supplies flowing to our country. Efforts which deserve notice in this context are those undertaken by the Polish transmission system operator, e.g. the construction of the LNG terminal or investment in new and existing interconnections to the transmission systems of other European countries (such as the Czech Republic or Germany). In mid 2009, PGNiG signed a 20-year contract for annual supplies of 1m tonnes of liquefied natural gas (LNG) to the port in Świnoujście, to secure uninterrupted operation of the LNG terminal.

Our plans to commence supply of gas to the LNG terminal and increase supplies via newly constructed gas pipelines is a response to the forecast surge in demand for natural gas as an energy fuel. Over the next few years, we expect the demand to rise by 4bn m³. Our entry into the power sector through a newly established SPV,

PGNiG Energia, as well as negotiations with business partners (which are now far advanced), will result in an additional 2bn m³ of gas being supplied the power sector. This will allow PGNiG to gain new customers, while making us well positioned to achieve the target of at least 300 MW of our own power generation capacity.

The year 2009 also saw intensive Group-wide efforts aimed at working out a comprehensive sustainable growth and CSR strategy. We endeavour to pursue our stated business goals, while continually improving corporate relations with the outside world based on a set of ethical, social and environmental values. Representing an important step from the point of view of the PGNiG Group's future, investment in that area also provides a significant intragroup cooperation platform across all links of the value chain. We still need to address many challenges, but I trust that our efforts geared towards sustainable growth and CSR will contribute to the achievement of our business goals. The fact that in November 2009 PGNiG was included in the first CSR index in this part of Europe (the RESPECT Index of the Warsaw Stock Exchange), as well as CSR-related activities of various government agencies and bodies, all go to show that we have taken the right path.

Ladies and Gentlemen,

On behalf of the PGNiG Management Board, as well as on my on behalf, I wish to extend heartfelt thanks to all those who helped us achieve so much in 2009 – our shareholders, customers, members of the Supervisory Board, and all employees of the PGNiG Group. Our growing capital expenditure on gas and oil exploration in Poland, the acquisition of gas and oil fields abroad, and the power segment's development offer grounds for hope that the Company's value will be further enhanced for PGNiG's existing and prospective shareholders.

Michał Szubski
President of the Management Board
of PGNiG SA



Management Board

As at April 26th, 2010



Mr Michał Szubski

Chief Executive Officer, President of the Management Board
(appointed to the Management Board with effect from March 12th 2008)

Graduate of the Faculty of Law and Administration at the University of Warsaw. He completed postgraduate courses in Management of Energy Companies and Natural Gas Transport and Distribution. He joined PGNiG in 1994. He has held positions of Director of the Presidium Office of the Company, Director of the Legal Office, and Director of the Corporate Office. In October 2000, he was appointed Deputy Director for Restructuring of the Warsaw Gas Plant at Mazowiecki Zakład Gazowniczy, and then he served as the company's Chief Executive Officer. In 2003–2007, he served as President of the Management Board of Mazowiecka Spółka Gazownictwa sp. z o.o. From July 2007 to March 2008 he was Advisor to the Management Board of PGNiG.

Mr Mirosław Dobrut

Vice-President of the Management Board for Gas and Trade
(appointed to the Management Board with effect from March 12th 2008, resigned from the position with effect from April 30th 2010)

Graduate of the Faculty of Electrical Engineering at the Częstochowa University of Technology; completed training at the Gdańsk Foundation for Management Development. His professional career to date has been associated with the gas industry. In 1974–1997 he worked at the Gdańsk Gas Plant, where in 1989 he was appointed Director of the plant. He has worked at the Chamber of Natural Gas Industry since 2005, first as Director and later as President. From 1997 to 2002 he served as member of the Management Board of EuRoPol GAZ SA. For many years he sat on supervisory boards of Investgas sp. z o.o. (1993–1997), Supergaz sp. z o.o. (1993–1997), Gazomontaż SA (1994–2002), PERN Przyjaźń SA (June–December 2005) and PBG SA of Przeźmierowo near Poznań (2006–2008). Since 2006, he has served as member of the Supervisory Board of Elektromontaż SA Gdańsk, and since 2008 – as member of the Supervisory Board of EuRoPol GAZ SA. He holds a number of state and industry distinctions, including Grade II Mining Engineer, Grade I Mining Director and Grade I Mining General Director.



Mr Radosław Dudziński

Vice-President of the Management Board for Strategy
(appointed to the Management Board with effect from March 12th 2008)

Graduate of the Warsaw University of Technology, with a major in gas engineering. He has also graduated from the Faculty of Marketing and Management at the University of Warsaw and holds Executive MBA degree from the University of Illinois Urbana Champaign. He has been with PGNiG since 1998, moving up the ranks in the operations division, and later holding the positions of Director of the Strategy Office and Director of the Strategy and Restructuring Department. In 2006–2008, he was a partner at A.T. Kearney sp. z o.o. He sat on the supervisory boards of Agencja Rynku Energii SA of Warsaw, Poszukiwania Naftowe Diament sp. z o.o. of Zielona Góra, Mazowiecka Spółka Gazownictwa sp. z o.o. of Warsaw, and InterTransGas GmbH of Potsdam. He currently serves as member of the Supervisory Board of EuRoPol GAZ SA and member of the Board of Directors of PGNiG Norway A/S.

Mr Sławomir Hinc

Chief Financial Officer,
Vice-President of the
Management Board
(appointed to the Management Board with
effect from March 12th 2008)

Graduate of the University of Gdańsk, with MA degree in economics. He also studied at Wirtschaftsuniversität, Austria, and at Technische Fachhochschule, Germany. He received PhD degree in technical sciences, gas engineering, from the Warsaw University of Technology. He worked at the Audit and Business Consulting Department of Arthur Andersen Polska (1998–2000) and Andersen Business Consulting (2000–2004), where he headed power project teams. In 2004–2008, he was Chief Financial Officer at GAZ-SYSTEM SA.



Mr Mirosław Szkałuba

Vice-President of the Management
Board for HR and Restructuring
(appointed to the Management Board with effect
from March 20th 2008)

Graduate of the Faculty of Drilling, Oil and Gas at the AGH University of Science and Technology of 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. Mr Szkałuba joined PGNiG in 1994. Since 2005, he has worked at the Exploration Department as specialist responsible for planning, supervision and settlement of exploration activities. In 2005–2008, he was a PGNiG Supervisory Board member appointed by the employees.



Mr Waldemar Wójcik

Vice-President of the
Management Board for Oil
Production
(appointed to the Management Board with
effect from January 28th 2009)

Graduate of the Oil Drilling Faculty at the AGH University of Science and Technology of Kraków, with a degree of Master Engineer of Oil Mining. Since 1981, he has worked at Sanocki Zakład Górnictwa Nafty i Gazu, initially as an administrative assistant at Natural Gas Mine, then as a shift manager in the Well Workover Department, and next as a Director of the Mines Centre in Przemyśl. In 1994–1996, he was a member of the Employees Council at PGNiG. From 2001 to his appointment as member of the Management Board of PGNiG, Mr Wójcik was Director of Sanocki Zakład Górnictwa Nafty i Gazu of Sanok and Director of PGNiG Branch in Sanok.

Letter from the Chairman of the Supervisory Board

Dear Ladies and Gentlemen,
2009 was another year when I had the honour to preside over the activities of the Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo SA. The Board kept a close eye on all aspects of the Company's business in 2009.

Despite the turmoil on financial markets, the PGNiG Group reported excellent financial performance. It generated a net profit of PLN 1.2bn, up by 34% on 2008. The financial standing of the PGNiG Group was benefited chiefly by higher profitability of natural gas sales in H2 2009. This increase gives grounds to consider the overall 2009 performance as more than satisfactory and justifying an optimistic outlook on the future.

2009 was a year marked by less serious – but still tangible – financial challenges on the Polish and international markets. The beginning of the year saw problems with natural gas supplies to Poland, followed by issues related to negotiating additional supplies of the fuel and a new import contract. We monitored all efforts made by PGNiG's Management Board in this respect. The terms ultimately negotiated lay foundations for ensuring secure gas supplies both to households and industrial customers, which is an overriding goal of PGNiG's operations.

2009 was also another year which saw the PGNiG Group incur substantial capital expenditure. The amount of funds allocated to projects in the Exploration & Production segment is now higher than ever. The growing scale and number of projects should soon translate into higher production from domestic fields. In line with the adopted schedule, the largest E&P project is already under way. The project consists in the development of the LMG (Lubiatów-Międzychód-Grotów) field, which should result in a nearly twofold increase in oil output. As for the Storage and Trade segment, work is currently going on to expand the largest underground gas storage facility in Wierchowice. The Supervisory Board is closely watching those projects because of their importance to PGNiG, but also because of the risk they entail.

The Audit Committee, set up within the Supervisory Board, commenced its work towards the end of 2008. The Committee is specifically authorised to oversee – on an ongoing basis – the financial reporting process, with a special focus on the reliability of financial information presented, as well as the internal control, audit and financial risk management systems. I wish to stress here that the Audit Committee is fulfilling its assigned role and does a lot to enhance shareholder perception of PGNiG.

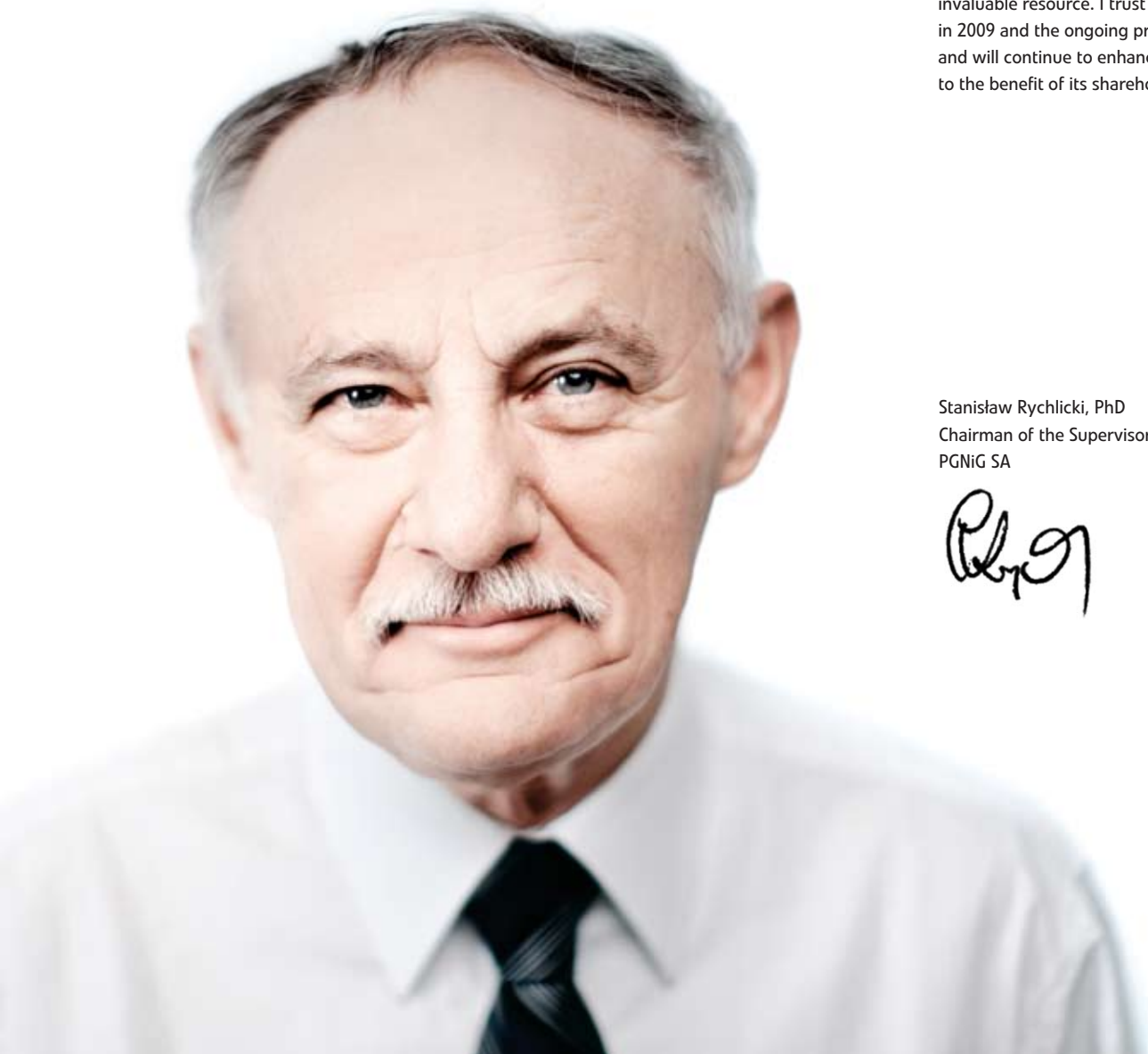
To conclude, I would like to express our satisfaction with the fact that PGNiG has been included – alongside sixteen other names – in the RESPECT Index of the Warsaw Stock Exchange, intended to promote the highest standards of responsible business management. The fact that the Company has been singled out in this manner is clearly a reward for the effort aimed to streamline its CSR

policies by adopting, in July 2009, the Sustainable Development and Responsible Business Strategy of the PGNiG Group. At present, work is under way across the Group's subsidiaries and branches to implement their own strategies, tailored to their respective business profiles, but at the same time aligned with the overall Group-wide strategy.

Ladies and Gentlemen,

The PGNiG Group's financial performance, the implementation of its wide-ranging CAPEX programme and the acquisition of new exploration licences outside of Poland are combining to strengthen the Company's value. The experience of thousands of its employees and their commitment to everyday work represent an invaluable resource. I trust that the objectives met in 2009 and the ongoing projects are enhancing, and will continue to enhance, the Company's value to the benefit of its shareholders.

Stanisław Rychlicki, PhD
Chairman of the Supervisory Board
PGNiG SA



Supervisory Board

Mr Stanisław Rychlicki

Chairman of the
Supervisory Board
(member of the Supervisory Board
since February 15th 2008)

Graduate of the Faculty of Geology and Exploration at the AGH University of Science and Technology of Kraków. He is Professor at the Faculty of Drilling, Oil and Gas, as well as Head of the Chair of Oil Engineering. Mr Rychlicki serves as Chairman of the Drilling and Borehole Mining Section of the Mining Committee at the Polish Academy of Sciences. In 1980–1986, Mr Rychlicki was Professor at the University of Science and Technology in Algiers, Algeria.

Mr Marcin Moryń

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

Legal counsel, graduate of the Law and Administration Faculty at the University of Łódź. Since 2001, he has worked for the Ministry of State Treasury: in 2001–2006 as a division head at the Legal Department, then from May 2006 to February 2007 as acting director for the monitoring of privatisation commitments, and from February 2007 as Director of the Legal Department.

Mr Mieczysław Kawecki

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

Graduate of the AGH University of Science and Technology of Kraków. He has worked in the oil E&P industry since 1976, initially at the Oil and Gas Mining Plant in Sanok, and currently at PGNiG Branch in Sanok, where he serves as manager at the Underground Gas Storage Facility in Strachocina. Mr Kawecki is Grade III Mining Director.

Mr Grzegorz Banaszek

Member of the Supervisory
Board
(member of the Supervisory Board
since February 15th 2008)

Graduate of the Faculty of Organisation and Management at the University of Warsaw, and of the Warsaw School of Economics. He has cooperated with numerous financial institutions. Currently he serves as member of the Management Board of Polskie Towarzystwo Ubezpieczeń SA.

Ms Agnieszka Chmielarz

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

Graduate of the Faculty of Chemical Technology and Engineering at the Academy of Technology and Agriculture in Bydgoszcz. She has worked for PGNiG for many years. Currently, she works at the Gas Trading Department of the PGNiG Head Office.

Mr Marek Karabuła

Member of the Supervisory Board
(member of the Supervisory Board since November 18th 2008)

Graduate of the Faculty of Management at the Kraków University of Economics. Since January 2010, Vice-President of Agencja Rozwoju Przemysłu SA. Before, he served as President of the Management Board of Nafta Polska SA and Deputy Chairman of the Supervisory Board of PKN ORLEN SA. His professional career included work for companies of the Orlen Group.

Mr Mieczysław Puławski

Member of the Supervisory Board
(member of the Supervisory Board since November 18th 2005)

Professor at the Warsaw School of Economics and School of Commerce and Law of Warsaw. Graduate of the Faculty of Foreign Trade at the former Central School of Planning and Statistics (now Warsaw School of Economics). In 1977–1978, he studied at the Faculty of Social and Political Sciences at the University of Basel. He served as adviser to the President of the National Bank of Poland and the Minister of Finance.

Ms Jolanta Siergiej

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

Graduate of the Szczecin University of Technology. She served on supervisory boards of Geofizyka Kraków (1998–2000), and Poszukiwania Naftowe Diament (2001–2002) – both PGNiG's subsidiaries. Ms Siergiej is Grade I Mining Director. In 1995, she was appointed Chief Accountant of PGNiG Branch in Zielona Góra.

Dariusz Gwóźdź

mountain climber

I think that overcoming challenges and reaching the peaks of one's ability is a very macho thing to do. People who have that drive and passion inspire passion in others.

employee of the PGNiG Group,
Tarnów





Company's Position on the Warsaw Stock Exchange

PGNiG, whose stock-exchange debut took place on September 23rd 2005, ranks among the largest Polish companies listed on the Warsaw Stock Exchange (WSE). It holds the status of a "Golden Company", and its shares are included in both the WIG20 index (since December 15th 2005), and the prestigious emerging markets equity index sponsored by Morgan Stanley Capital International Inc. (MSCI). The Company is one of the eight fuel sector companies comprising the industry index WIG-Paliwa.

PGNiG on the Stock Exchange

PGNiG has been listed on the Warsaw Stock Exchange since 2005. Its stock is included in the blue-chip WIG20 index of the 20 largest companies listed on the WSE.

Shareholder Structure

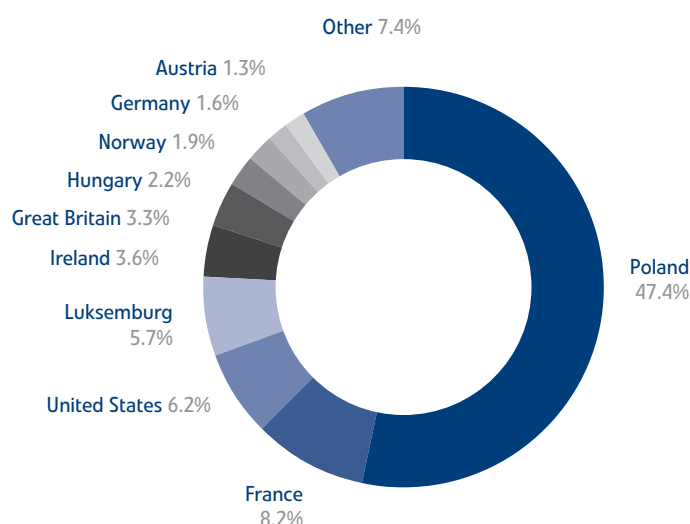
As at December 31st 2009, PGNiG's share capital amounted to PLN 5,900,000,000 and was divided into 5,900,000,000 shares with a par value of PLN 1 per share. The shares of all series, that is Series A, A1 and B, are ordinary bearer shares, and each confers the right to one vote at the General Shareholders Meeting. The Articles of Association of PGNiG do not provide for any voting restrictions in respect of the Company shares.

The State Treasury remains the majority shareholder in PGNiG. On June 26th 2008, the Minister of State Treasury sold one share in PGNiG on market terms. As a consequence, pursuant to the Commercialisation and Privatisation Act of 1996, the eligible employees of the Company obtained the right to acquire in total, free of charge, up to 750,000,000 PGNiG shares. The process of signing agreements on the acquisition of shares free of charge commenced on April 6th 2009 and will continue until October 1st 2010. By December 31st 2009, eligible individuals had acquired 696,313,631 shares, representing 11.80% of the total vote. Thus the State Treasury's share in PGNiG fell to 72.94%. The shares acquired free of charge by the eligible employees may not be traded until July 1st 2010, while trading in the shares acquired by members of the Company's Management Board is restricted until July 1st 2011.

Shareholder structure in 2008-2009

Shareholder	Number of shares/votes conferred by shares as at Dec 31 st 2008	% of share capital/total vote at GM as at Dec 31 st 2008	Number of shares/votes conferred by shares as at Dec 31 st 2009	% of share capital/total vote at GM as at Dec 31 st 2009
State Treasury	4,999,999,999	84.75%	4,303,686,368	72.94%
Eligible employees	0	0%	696,313,631	11.80%
Other	900,000,001	15.25%	900,000,001	15.25%
Total	5,900,000,000	100.00%	5,900,000,000	100.00%

Ownership structure of the free float (15.25%),
by shareholder's country of origin



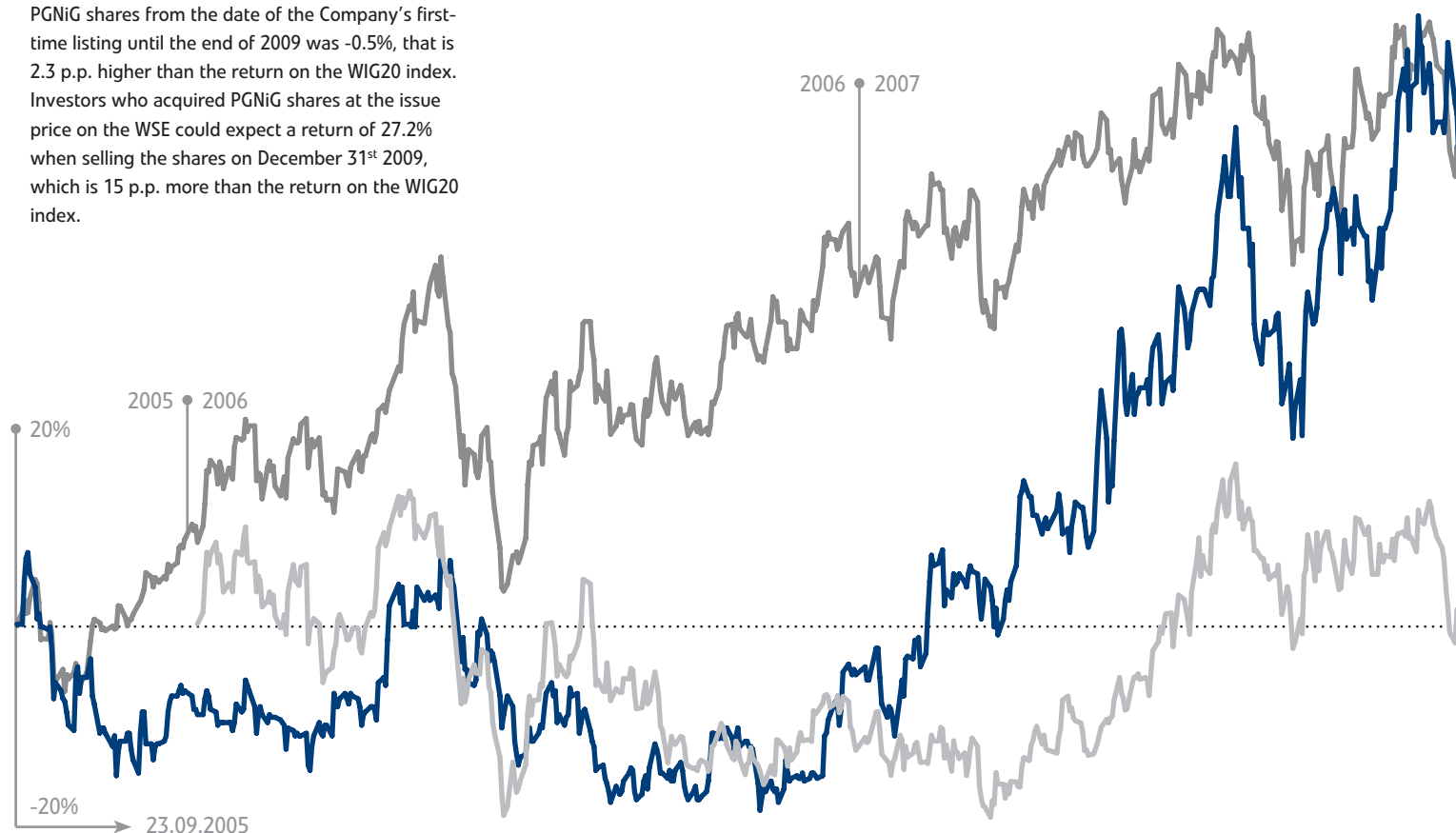
Investor Relations

As a company listed on the WSE, PGNiG is required to make exhaustive and reliable disclosures on its operations and important corporate events in the Group, by preparing regular reports which are made available on equal terms to each of the Company's existing and prospective shareholders. However, investor relations do not consist exclusively in mandatory activities prescribed by law. They include a number of other measures we undertake to meet high expectations of all market participants. Participation in road shows and foreign investor conferences (in Austria, Belgium, the Czech Republic, France, Japan, Germany, the United States, Sweden and Great Britain), meetings with equity portfolio managers and ongoing contacts with analysts are just a few examples. Moreover, the Company website features a dedicated page, managed and edited by the Investor Relations Department, on which key information on the Company's current condition, market forecasts of the PGNiG Group's performance, or the latest recommendations of the target price for PGNiG shares, taken from research reports developed by analysts covering the Company, are made available to capital market participants. The Investor Relations Department provides a dedicated newsletter service, distributed online, to all investors interested in the current developments at the PGNiG Group.

PGNiG makes every effort to further enhance its relations with the capital market. This has been appreciated by external institutions: in February 2009, PGNiG ranked fifth in the investor relations ranking prepared by the Puls Biznesu daily. It was the best score among the companies in which the State Treasury holds equity interests and the second-best among the blue chips listed on the WSE. Within a year, the Company moved up fifty places in the ranking. The Company's investor relations activities have been also recognised by the WSE. In October 2009, during the awards ceremony for the "Best Annual Report" competition, the WSE honoured PGNiG with a special prize for communication with investors.

Performance of the PGNiG Stock

Throughout 2009, the price of the PGNiG shares fluctuated between PLN 3.24 and PLN 4.57. The rate of return on the Company shares in 2009 was 5.3% (or 7.8% when factoring in the dividend payment of PLN 0.09 per share). The return on PGNiG shares from the date of the Company's first-time listing until the end of 2009 was -0.5%, that is 2.3 p.p. higher than the return on the WIG20 index. Investors who acquired PGNiG shares at the issue price on the WSE could expect a return of 27.2% when selling the shares on December 31st 2009, which is 15 p.p. more than the return on the WIG20 index.



WSE indices and PGNiG's share price quotations

	Value/price as at Dec 31 st 2008	2009 high	2009 low	Value/price as at Dec 31 st 2009	PGNiG's weight in the index as at Dec 31 st 2009
WIG	27,229	40,853	21,274	39,986	2.1%
WIG20	1,790	2,448	1,328	2,389	3.8%
WIG-Paliwa	1,889	2,462	1,507	2,435	17.7%
PGNiG	3.60	4.57	3.24	3.79	n/a

Source: the WSE.

Rates of return on the WSE indices and PGNiG shares in 2005–2009, and total rate of return since PGNiG's stock-exchange debut

Rate of return	in 2006	in 2007	in 2008	in 2009	since PGNiG's first-time listing
WIG	39.9%	8.7%	-51.1%	46.9%	12.3%
WIG20	21.9%	3.2%	-48.2%	33.5%	-10.0%
WIG-Paliwa	-12.6%	9.2%	-46.8%	28.9%	-31.6% ¹
PGNiG	3.7%	37.1%	-29.4%	5.3%	-0.5% ²

Source: the WSE.

¹Data computed relative to the index value on the first day of quotation (December 30th 2005).

²Relative to the issue price of PLN 2.98, the rate of return on PGNiG shares since the Company's first-time listing is 27.2%.



Key Events Affecting the Share Price

January

On January 1st 2009, the Polish Press Agency (PAP) reported that starting from the beginning of the year, Russia suspended its gas supplies to Ukraine. Since the EU Member States continued to receive the entire volume of contracted gas supplies, the news did not affect the price of the PGNiG stock. On the first trading session in 2009, the PGNiG stock closed with a gain of 3.9%, reaching PLN 3.74 (WIG20 edged 4.9%). The news on January 7th was that supplies through the Drozdovitse (Ukraine) cross-border point were suspended, and supplies from the countries east of Poland were reduced to 84% of the contracted volumes. However, investors remained calm and the PGNiG share price declined by a mere 0.5% (PLN 3.85). The month's low (PLN 3.58 per share) was recorded on January 19th; however, WIG and WIG20 fell by 2.4% and 3.5%, respectively.

February

On February 6th, PGNiG reported that thanks to the cooperation with Gazprom Export the volume of gas supplies from the eastern markets increased. In spite of the good news, the PGNiG stock closed 6% lower (PLN 3.47) on that day. During the next trading session it eked out a small gain of 1.2%, then only to suffer a series of declines leading to the year-low at PLN 3.42 at the close on February 17th. During the session on February 18th, the PGNiG share price plunged to PLN 3.03; however, it recovered quickly to close the day at PLN 3.35.

March

On March 2nd, the PGNiG Group published its financial results for Q4 2008. The Group recorded a net loss of PLN -310m, mainly on very high costs of imported gas. Although the results were well below the market expectations, the PGNiG stock price gained 1.2% on that day, to PLN 3.49.

April

On April 14th, the Management Board of PGNiG signed the Agreement on the Average Remuneration Rise at PGNiG. The news did not win approval of the investors and triggered a 3.1% fall in the price of the PGNiG shares (to PLN 3.40), which was much below the market average on that day (WIG20 lost 0.8%, and WIG20 – 0.2%). Two days later, the trend reversed. Following a statement of Krzysztof Żuk, Deputy Minister of State Treasury, who said that the Ministry expected a high dividend from PGNiG, the stock gained 2.0%, while the broad index closed the session down 0.5%.

On April 30th, the PGNiG Group announced its financial results for the 2008 financial year. The net profit was PLN 866m, and as a result of impairment losses on assets it was PLN 63m lower than the cumulative result announced after the four quarters of 2008. In spite of this change, the PGNiG stock gained 1.9% (to PLN 3.85), only 0.7 p.p. below the market average.

May

On May 8th, PGNiG was notified of the approval by the President of URE of the new tariffs for gas fuel. As compared with the previous tariffs, the new tariffs provided for a reduction in the price of high-methane gas by 9.13% and a rise in network charges by 14.7% on average. As a consequence, the average total charges related for the supply of high-methane gas fell by 3.3%. The news did not affect the PGNiG share price.

On May 12th, before the opening of the trading session, the PGNiG Group published its results for Q1 2009. Although analysts anticipated a loss on high costs of imported gas, the actual net result missed the consensus by over PLN 100m. Nevertheless, the PGNiG stock notched 1% up and closed at PLN 3.85, mainly on the positive market sentiment (WIG went up 2.4%, WIG20 – up 2.2%).



June

On June 2nd, PGNiG reported that the day before it had entered into an agreement on natural gas purchases with Gazprom Export, which guaranteed supplies of ca. 1bn m³ of natural gas to Poland by the end of September 2009. The report came as reassurance for investors and contributed to improved performance of the PGNiG stock – the share price went up by 5.4%, to PLN 4.10.

On June 23rd, the Annual General Shareholders Meeting of PGNiG passed a resolution on the distribution of 2008 profit as dividend. The shareholders decided to increase the dividend from the proposed PLN 0.04 to PLN 0.09 per share, which was well received by investors. As a result, the PGNiG stock rose by 3.4%, to PLN 4.21 at the closing.



July

On July 30th, PGNiG stock reached its 2009 high of PLN 4.57. On that day, the PGNiG share price went up by 6.3%, WIG20 gained 4.9%, and the broad index closed 4.0% higher. On the following day, the stock continued strong, posting the 2009 high at the opening (PLN 4.58) and the 2009 intraday high (PLN 4.60).

August

On August 31st, the PGNiG Group published its financial results for H1 2009. The loss sustained in the first six months of the year was nearly PLN 500m, while in Q2 alone it was PLN -94m. This took the market by surprise, as the consensus indicated a profit of ca. PLN 170m for Q2 2009. Consequently, the PGNiG share price plunged 4.4%, whilst WIG was lower by 0.7%. The gap between the PGNiG Group's performance and investors' expectations followed primarily from the recognized impairment losses on production assets.

September

On September 25th, Standard & Poor's lowered PGNiG's outlook from stable to negative, while maintaining its long-term rating at BBB+. The news caused some concern among investors and affected the price of PGNiG shares, which fell by 2.1% to PLN 3.80 (underperforming the market by 1.5 p.p.).

October

On October 6th, one of the brokers raised its recommendation for PGNiG from "sell" to "hold", with the target price at PLN 3.70. It drove PGNiG shares up by 3.8%, from PLN 3.34 to PLN 3.57.

November

On November 12th, the PGNiG Group published its financial results for Q3 2009. The net profit for the period stood at PLN 408m, close the analysts' consensus. The good results lifted the share price by 4.8%, to PLN 3.73.

On November 18th, PGNiG reported to have terminated a contract for natural gas supplies with Zakłady Chemiczne Police SA. The reason for the termination was ZCh Police's default on contractual material obligations (the balance of outstanding liabilities was in excess of the value of three-month gas supplies). The news affected the price of PGNiG shares, which fell from PLN 3.77 to PLN 3.63 (-3.7%).

December

On December 8th, PGNiG reported to have signed an agreement with Zakłady Chemiczne Police SA on repayment of its Police's debt. Investors' response was similar to that in November – the PGNiG stock suffered a 3.7% fall, closing at PLN 3.66.

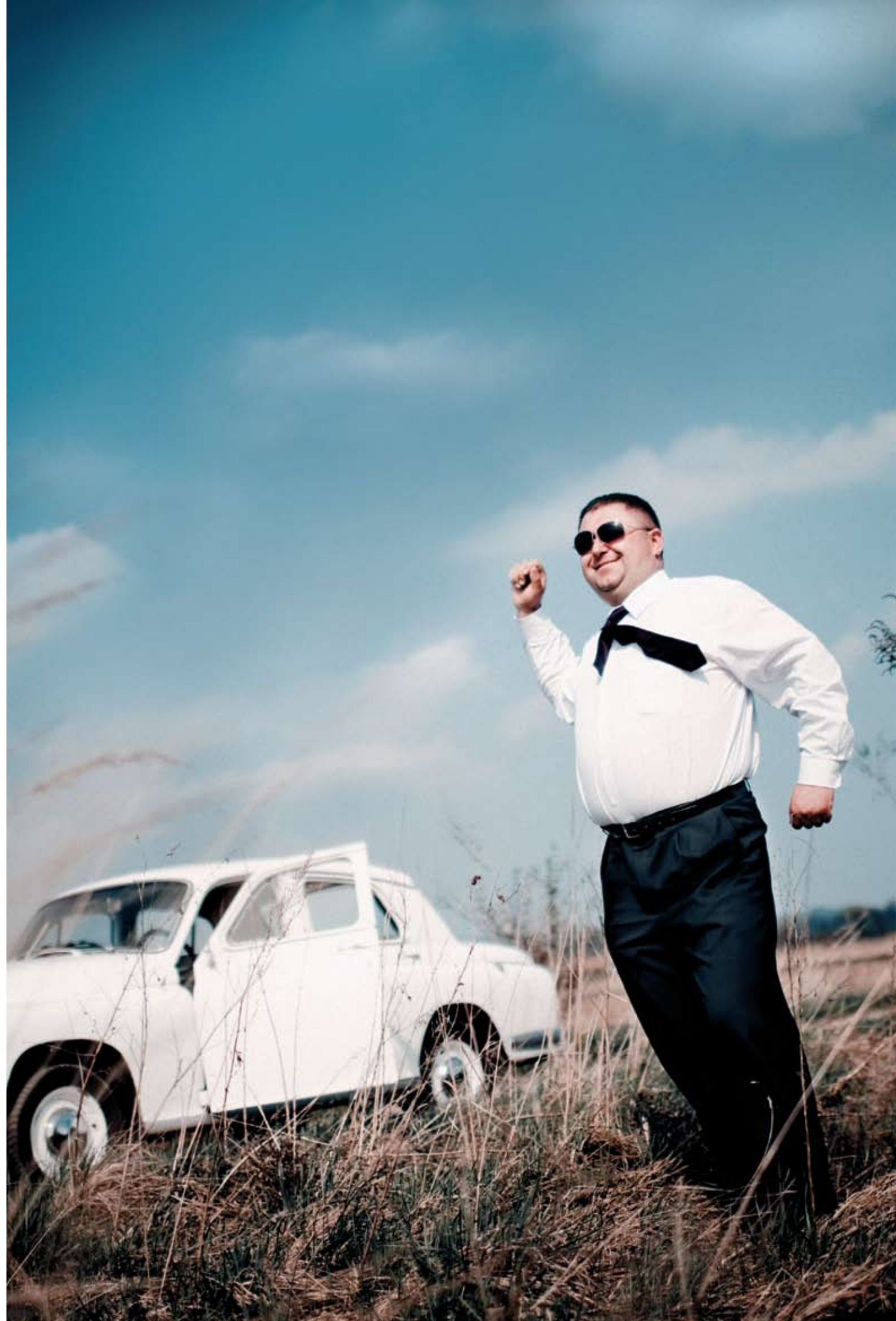
Michał Miłek

car fanatic

For true blue car fanatics, travel is not a means to an end, but an end in itself. Just to be on the road is a source of happiness and satisfaction.

employee of the PGNiG Group, Kraków





PGNiG's primary objective is to ensure reliable and secure supplies of pure and environment-friendly energy. The PGNiG Group continues to be open to new challenges, while keeping up its traditions and maintaining customer trust. In its operations, PGNiG endeavours to be a reliable partner which increases the company's value in line with the principles of sustainable growth.

Strategy for the PGNiG Group until 2015

PGNiG is a company with long-lasting tradition, enjoying an established position of the leader of the Polish gas market. Over the years of its development, the Company has gathered valuable assets and now control a number of segments of the energy market (natural gas production, storage, sale and distribution), which provides a robust foundation for PGNiG's further growth and steady increase in value.

The overarching strategic objective pursued by PGNiG SA is to secure growth of the shareholder value. The Company's operations are based on the following six strategic pillars:

1

Developing the trading business

2

Securing natural gas supplies

3

Developing the exploration and production business

4

Expanding the existing and construction of new storage capacity

5

Improving the profitability of the distribution operations

6

Expanding the scope and scale of operations (extending the value chain)

The main objectives proposed for all areas of the business make up the PGNiG Group's vision: to become, by 2015, a modern and efficiently-managed organisation, controlling the entire value chain in the gas sector, and holding assets in the fuel, chemical and power sectors.

Developing the Trading Business

PGNiG's trading business consists in satisfying the domestic demand for gas fuel through transactions of purchase/sale of natural gas. Natural gas is sold to both retail and industrial customers. Given the dynamic changes in the legal and business environments, the PGNiG Group undertakes numerous steps in the gas trading area to maintain its leading position on the liberalised Polish market.

With respect to developing its gas trading business, PGNiG has set the following objectives:

- Consolidating the dominant position on the domestic market by way of increasing the annual volume of gas sold to small and medium-size customers (i.e. customers buying less than 50m³ of gas per year) on average by 1.5%, and to large industrial customers (including by 100% to customers in the power and heat sectors);
- Ensuring market-level profitability of the gas trading business through initiatives aimed to change the regulations of the gas sector in Poland, reduction of costs of customer service, and implementation of a system to manage the risks related to changing weather conditions;
- Developing a coherent trading policy for the PGNiG Group by enhancing the offering and streamlining the trading and marketing processes (e.g. e-books, call centre, centralized complaint handling).

Our Achievements To-Date

In 2008, the Trade Division of PGNiG was liquidated and six Gas Trading Branches were established. In our organisational structure, the new branches are above 23 gas plants. The geographical coverage of the six trading branches correspond to the coverage of our gas distribution companies. Moreover, the PGNiG Group has also taken first steps to extend the product offering to include CNG and increase the production of LNG. This is particularly important on the Polish market, where trade in, transmission and distribution of gas are regulated businesses. In 2009, the Gas Trading Branches executed project encompassing CNG and LNG initiatives, sale of heat and refurbishment of buildings.

Securing Natural Gas Supplies

In order to balance the domestic demand for natural gas, the PGNiG Group produces gas from its own reserves and purchases gas abroad. The Group's own production covers around 30% of the demand, with the balance covered by imports, mainly from countries east of Poland (with Gazprom Export being the largest supplier). Given the strong dependence on natural gas supplies from a single source, the we strive to diversify the sources of gas supplies. Therefore, the following steps have been or will be taken to guarantee secure and uninterrupted supplies of natural gas:

- Construction of new transmission facilities with a view to enabling gas supplies to Poland from new directions, including cooperation with Gaz-System SA on the LNG terminal project, construction of system interconnections on Poland's western and southern borders, and activities supporting development of the Polish gas transmission system;
- Establishing appropriate structure of import contracts, i.e. changing the structure of imports by balancing supplies from the East with supplies from the West and North;
- In the future, launching international trading in gas and crude oil to support the processes of diversifying gas supply sources and risk management, while securing competitive selling prices. Our ability to participate in the European market will be particularly important if gas surplus occur in Poland.

Our Achievements To-Date

In order to support diversification of natural gas supplies, the PGNiG Group has launched projects in the Northern (Scandinavian) region. The main focus is on the development of fields on the Norwegian Continental Shelf (i.e. a 12% interest in the exploration and production area covering the Skarv/Snadd/Idun fields). In 2009 and 2010, PGNiG Norway acquired interests in four new exploration licences on the Norwegian Continental Shelf. Moreover, with a view to securing an appropriate structure of import contracts, in June 2009 PGNiG signed an agreement with Qatargas Operating Company for sale and delivery of LNG from Qatar to the LNG terminal in Świnoujście. Under the agreement, Qatargas will be delivering to PGNiG 1m tonnes of LNG a year for a period of 20 years.

Developing the Exploration and Production Business

Access to own reserves is a key to success.

For this reason, PGNiG is developing its exploration and production business in Poland and abroad.

The relevant objectives include:

- Increasing own production of natural gas to approximately 6.2bn m³ and of crude oil to approximately 1.8m tonnes annually in the coming years, by way of increasing the annual domestic production capacity to approximately 4.5bn m³ of gas and approximately 1.0m tonnes of crude oil, launching crude oil and gas production from the foreign reserves in 2011 (the Norwegian Continental Shelf), increasing the resources sustainability index to at least 1.1, and maintaining domestic licence areas of no less than 45–50 thousand square kilometres;
- Optimising the exploration and production business through the restructuring of the PGNiG Group's exploration companies (full or partial consolidation to maintain the position of a respected and recognised provider of maintenance services), improvement of the exploration methodology and introducing new systems of fees for the work performed by the service companies, including the daily rate system;
- Positioning PGNiG as an international exploration and production group on the key markets in the following three regions of the world: the North Sea, Norwegian Sea and, in the future, Barents Sea (Norway and Denmark, United Kingdom, Germany), North Africa (Libya, Egypt, Algeria, Tunisia, Morocco and Mauritania), and the Indian sub-continent (India and Pakistan). In selecting the expansion directions, the Company's decisions will be based on the probability of finding crude oil and gas deposits, political situation in particular countries, feasibility of supplying gas to Poland, legal environment, and possibilities for cooperation with other sector players (both Polish and foreign).

Our Achievements To-Date

The majority of tasks performed in 2009 focused on the development of new fields or enhancement of the existing mines' productivity. The most important tasks were the LMG project consisting in the development of the Lubiatów, Międzychód and Grotów crude oil and natural gas fields (in August 2008, PGNiG signed a PLN 1.4bn contract for execution of the project), construction of the denitrifying facility in Grodzisk Wielkopolski, development of the Kaleje and Łukowa fields and development of the Żołynia, Pantalowice, Nowy Tomyśl, Pilzno wells.

Expanding the Existing and Construction of New Storage Capacity

The storage business plays a key role in stabilising the volatile demand for natural gas and ensuring the security of gas supplies to our customers. Given the development of the market and the need to harmonise the storage capacity with the legal requirements, PGNiG is involved in projects designed to expand the existing and construct new underground gas storage facilities. By 2015, the planned expansion projects should enable us to cover over 70 days of demand for gas fuel. The strategic objectives relating to the storage capacity expansion include:

- Ensuring that sufficient storage capacity is available to accommodate the needs of PGNiG's customers and to secure compliance with the laws on mandatory stocks – to this end, the existing storage capacity, chiefly for high-methane natural gas, will be expanded by approximately 2bn m³, to a total target capacity of approximately 3.8bn m³;
- Establishing the Storage System Operator (SSO) to harmonise PGNiG's internal structure and business organisation with the EU and Polish legal regulations and to ensure compliance with the Third Party Access principle;
- Commercialising gas storage services;
- Enhancing the profitability of the storage business by undertaking steps to ensure that the return on capital employed is taken into account in drawing up of the storage tariff, which would guarantee profitability of the necessary capital expenditure.

Our Achievements To-Date

In 2009, three quarters of the funds allocated to the construction and expansion of high-methane gas storage facilities were spent on the extension of PMG Wierzychowice, the largest natural gas storage facility in Poland. In November 2008, a contract for extension of PMG Wierzychowice from its current capacity of 0.575bn m³ to 1.200bn m³ was executed with a PBG-led consortium. The contract value is almost PLN 1.1bn. Also in November 2008, the formal and legal process of separation of the Storage System Operator was completed. Under a decision of December 31st 2008, the President of URE appointed PGNiG the Storage System Operator.

In November 2009, PMG Daszewo – a new storage facility and Poland's first capacity for storage of high-nitrogen gas – became operational. PMG Daszewo's active capacity is 30m m³, and its maximum draw throughput is ca. 16,000 m³/h.

Expanding the Scope and Scale of Operations

As new growth opportunities for PGNiG emerge, we take steps to expand the scope and scale of operations through strategic alliances, and – following appropriate analyses – mergers and acquisitions in the following sub-sectors:

- power generation;
- heat generation;
- great chemical synthesis;
- crude oil.

Improving Profitability of the Distribution Operations

Distribution plays a material role in building the value of the PGNiG Group. For this reason, maximum cost effectiveness and optimisation of stable revenue of the gas companies are the key elements of the Group's strategy. The strategic objectives designed to improve the profitability of the distribution business are as follows:

- Improving profitability of the distribution business – to this end PGNiG Group will seek to obtain URE's approval for such tariff rates that would enable the Group to implement the planned projects relating to the expansion of the distribution system;
- Cost optimisation through such measures as reduction of operating expenses and consolidation of the Group's procurement processes (which will help reduce costs of construction, expansion and modernisation of the distribution system);
- Optimising development of the distribution network by defining uniform rules for the network expansion, preceded by market research covering individual geographic areas; developing a uniform map of gas distribution pipeline capacities to identify both bottlenecks and free capacities; optimising expansion of gas pipelines to reflect customers' demand for gas fuel; and raising EU funds to finance distribution network expansion projects, which will significantly contribute to the development of regions where access to gas pipelines is particularly limited.

Our Achievements To-Date

In 2009, approximately a quarter of the capital expenditure incurred in the distribution business was allocated to development of the distribution network. As a result, the length of the network was extended by 2,000 km. The distribution companies carried out a number of projects involving construction of new connections, upgrade and replacement of cast iron pipes and procurement of new metering systems.

The initiatives undertaken with a view to expanding the scale of our operations will include:

- extending the value chain to include power generation. The PGNiG Group will join new Polish and foreign power generation projects, principally those where natural gas will be used as the fuel. It is projected that by 2015 PGNiG will hold interests in power plants with a total of 300 MW of installed capacity. However, implementation of this plan to a large extent depends on changes in the regulatory regime (replacement of tariffs with negotiated prices in the power sector);
- optimising power generation and electricity consumption. The PGNiG Group will explore possibilities for economically viable participation in the electricity market, both on the demand and supply sides;
- acquisition of CO₂ capture (CCS) competences;
- acquisition of coal gasification competences;
- extension of the value chain in the great chemical synthesis sector. Execution of joint projects with companies operating in that sector will contribute to increasing gas sales and enable the Company to develop some of its domestic gas fields. PGNiG may in the future develop equity links with chemical companies if circumstances become conducive to forming such partnerships;
- alliances with petrochemical companies. Such companies may form a natural extension of PGNiG's value chain, especially in the area of exploration and production of natural gas and crude oil, both domestically and abroad, as well as in the area of using natural gas as fuel for power plants, crude oil processing and storage of crude oil and petroleum products.

Our Achievements To-Date

In 2008, PGNiG acquired 4,000,001 shares in Zakłady Azotowe w Tarnowie-Mościcach SA for PLN 78m.

Moreover, the Company signed two letters of intent: (i) with Tauron, for expansion of the Stalowa Wola Power Plant and (ii) with Grupa LOTOS and Energa, concerning the possibility of joint construction of gas-fired power generation units.

In November 2009, the General Shareholders Meeting of PGNiG resolved to establish PGNiG Energia. The new company will perform projects related to the transformation of the Group into an energy conglomerate. PGNiG Energia's projects will include the construction of power-generation units, investment in natural gas-powered cogeneration plants and pilot biogas projects.



Tomasz Toporkiewicz

pigeon breeder

Animals love freedom. If you can understand that, you treat animals with trust and understanding, as well as with real passion. As a result you grow a pair of wings, metaphorically speaking, and you are happy.

employee of the PGNiG Group, Tarnów



Exploration and Production

The PGNiG Group companies undertake natural gas and crude oil exploration domestically, but also in Africa, Asia and in other European countries. The Group's personnel responsible for exploration work, geophysical and seismic surveys, exploitation of deposits and pre-sale processing of products numbers some 10 thousand people. Production of gas from own fields contributes to improved security of supplies.

Key Developments in 2009

- Acquisition of interests in three exploration licences on the Norwegian Continental Shelf;
- Launch of the exploration project in the area covered by the Bahariya licence in Egypt;
- Launch of operations by two PGNiG Branches, based in Denmark and Egypt.

The PGNiG Group's activities in the Exploration & Production segment include geophysical and geological surveys, as well as exploration for and production of natural gas and crude oil. For the time being, PGNiG produces natural gas and crude oil from domestic fields. Production of those hydrocarbons from fields outside of Poland is expected to begin in Q3 2011, in the Skarv/Snadd/Idun licence area on the Norwegian Continental Shelf. For its own needs, the Exploration & Production segment uses the gas storage capacities of the Brzeźnica, Daszew, Strachocina and Swarzędz facilities.

Financial Performance in 2009

The Exploration & Production segment derives its revenues mainly from non-regulated sales of natural gas and crude oil, but also from geological, geophysical and exploration services. In 2009, the segment reported net operating profit of PLN 337m, down from PLN 918m a year earlier. The decline reflected a fall in revenues from crude oil sales (on the back of the falling crude prices globally), coupled with a decline in revenue from geological, geophysical and exploration services provided by the PGNiG Group, in the wake of the worldwide economic crisis.

Exploration Work

The PGNiG Group explores for natural gas and crude oil both domestically and abroad. The exploration work involves analyses of historical and geological data, seismic reflection surveys and drilling campaigns. A bulk of that work is performed by specialist companies of the PGNiG Group:

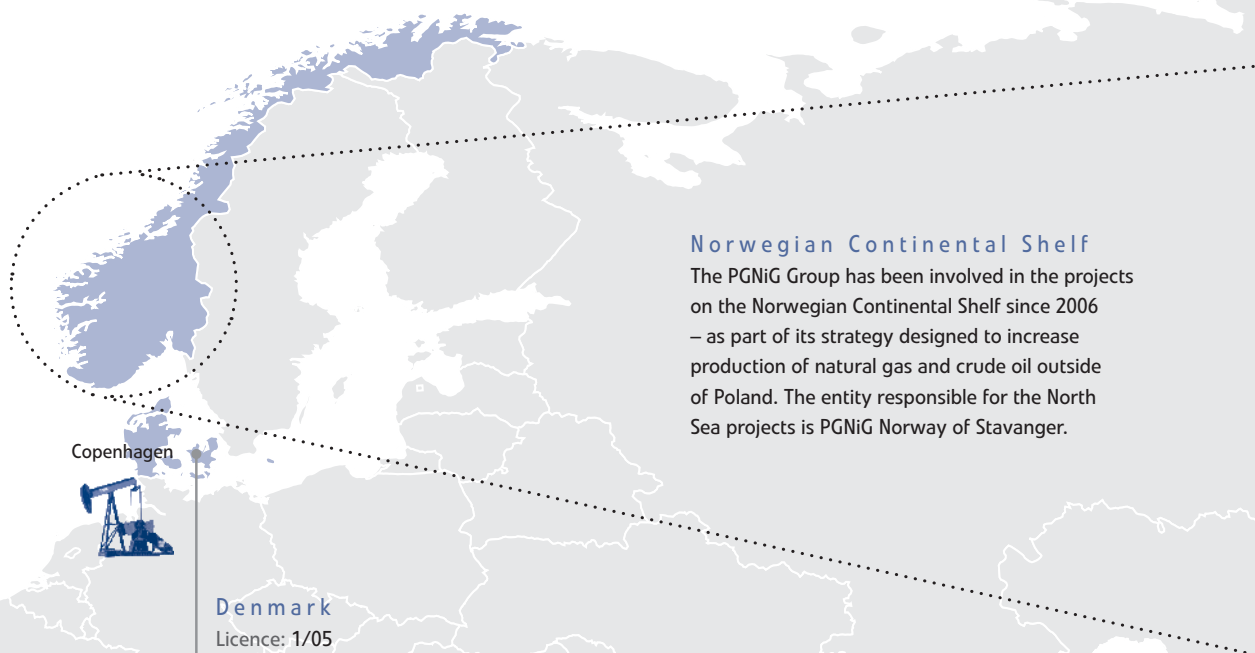
- Exploration services and well drilling – by PGNiG, PNiG Jasło, PNiG Kraków and PNiG Nafta;
- Geological services – acquisition processing and interpretation of seismic data, and geophysical surveying – by Geofizyka Kraków and Geofizyka Toruń;
- Maintenance and support services – provision of specialist services supporting the exploration and production projects – by Poszukiwania Naftowe Diament and Zakład Robót Górniczych Krosno.

As at the end of 2009, PGNiG held 82 exploration and prospecting licences, 215 licences for production of natural gas and crude oil in Poland, nine licences for underground gas storage and three licences for waste matter storage. During 2009, the Ministry of Environment awarded PGNiG seven further licences for exploration and prospecting for hydrocarbons, as well as four new production licences. On the other hand, six production licences were allowed to expire. Most of the licences operated by PGNiG are located in south-eastern Poland. Currently, the Group's operations are focused in three regions: the Carpathians, the Carpathian Foreland and the Polish Lowlands, where it has already drilled 27 wells, including 19 exploration and eight prospecting wells (of which seven were spudded in 2008). From among 25 wells with known reservoir properties, 11 were considered positive (including nine gas wells and two oil wells) and the remaining 14 are negative.

In 2009, PGNiG Group companies drilled wells with a total depth of 215.6 thousand metres, and acquired 7.6 thousand kilometres and 3.1 thousand square kilometres, respectively, of 2D and 3D seismic – both in Poland and abroad.

Among the key projects pursued in Poland is the development of the Lubiatów-Międzychód-Grotów (LMG) fields, designed to increase total crude output. As part of the project, PGNiG is now constructing 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, from where oil will be shipped by rail tankers or pumped into the PERN Druzhba Pipeline. Additionally, any surplus gas production will be transmitted via the pipeline running from the LMG Mine to the Grodzisk Denitrating Plant. In 2009, PLN 258m was spent on the project (out of its total estimated budget of approximately PLN 1.6bn).

The PGNiG Group's international expansion began in 2007 with the acquisition of an interest in the Skarv/Snadd/Idun exploration & production licence on the Norwegian Continental Shelf. Apart from Norway, the areas of particular interest for the Group include Denmark, Egypt and Pakistan. The Company is considering possible acquisition of licences in Algeria, Tunisia, Kenya and Mongolia.



Norwegian Continental Shelf

The PGNiG Group has been involved in the projects on the Norwegian Continental Shelf since 2006 – as part of its strategy designed to increase production of natural gas and crude oil outside of Poland. The entity responsible for the North Sea projects is PGNiG Norway of Stavanger.

Copenhagen



Denmark

Licence: 1/05

Interest holders: PGNiG (80%); Nordsofonden (20%)

In February 2009, a PGNiG Branch was opened in Copenhagen (Denmark) to manage the work programme relating to the 1/05 licence with an area of 2 thousand square kilometres. In H2 2009, work on shooting and processing 2D and 3D seismic began and will continue into 2010.



Tripoli

Libya

Licence: 113

Interest holders: PGNiG (100%)

In February 2008, POGC Libya, a PGNiG Group company, executed an Exploration and Production Sharing Agreement under which it can conduct exploration work under exploration and production licence No. 113 covering an area of 5.5 thousand kilometres. The licence is located in the Murzuq petroleum basin in western Libya. Seismic surveys under licence No. 113 in the Murzuq basin commenced in March 2009. The first phase of the 3D seismic survey was completed in December, whereas the 2D seismic survey is underway. In September 2009, the company executed an agreement with CGGVeritas on the processing of new seismic data acquired in the licence area. In June 2009, the company entered into an agreement concerning the creation of an orthophotomap of the entire licence area, with GEOKART as the contractor. Following acquisition of the images, data processing is underway.



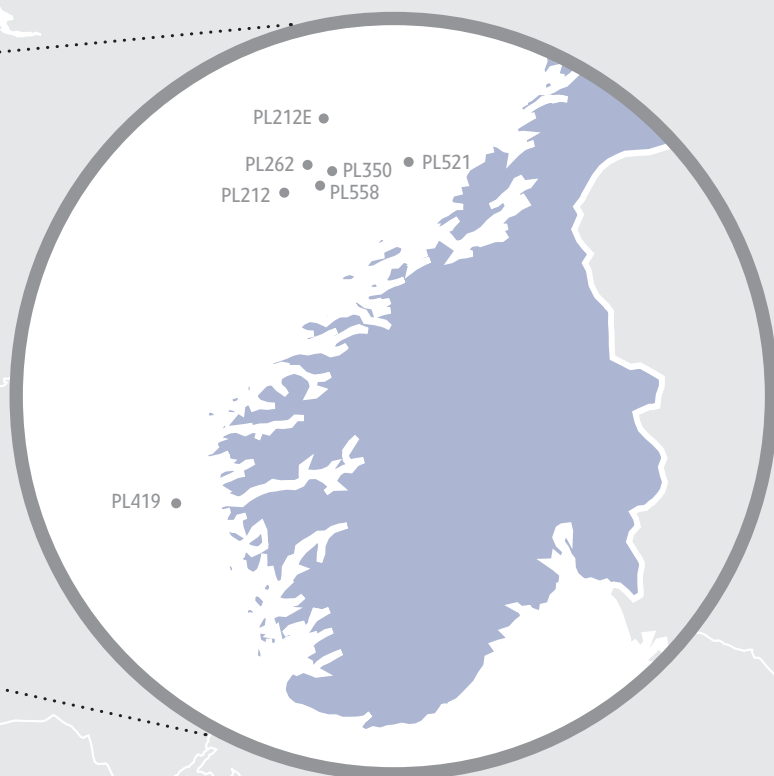
Cairo

Egypt

Licence: Bahariya

Interest holders: PGNiG (100%)

In May 2009, PGNiG signed a licence agreement with EGPC (Egyptian General Petroleum Corporation), providing for the exploration and production of hydrocarbon reserves in Egypt. The exploration area of the Bahariya licence, located in the Western Desert, is 4.4 thousand km². In July 2009, PGNiG's Branch in Cairo was registered. In H2 2009, preparations were made to reprocess 1.450 kilometres of 2D seismic and to perform gravimetric surveys. The work is scheduled to commence in 2010. Additionally, a report was prepared assessing the project's impact on the natural environment and archaeological sites.



The first licences were acquired in 2007. PGNiG Norway holds a 12% interest in the unitised Skarv development area, which encompasses the Skarv and Idun fields covered by the PL212, PL212B, PL262 and PL159 licences. Moreover, PGNiG Norway holds a 15% interest in the neighbouring exploration area of the PL212E licence. Production from the Skarv/Snadd/Idun fields is expected to be launched in the second half of 2011. Based on data confirmed by the Norwegian Petroleum Directorate (NPD), the fields' total proved reserves amount to 42.1bn m³ of natural gas, 16.5m m³ of crude oil and condensate, and 5.5m tonnes of NGL. PGNiG's average annual gas production is estimated to reach 0.5bn m³, while its average oil production in the first few years – 400 thousand tonnes. The fields' operator is BP Norge.

In 2009, PGNiG Norway acquired several new exploration licences on the Norwegian Continental Shelf:

PL350 – a 30% interest in the licence located 10 kilometres away from the Skarv/Idun fields. The licence area has been covered by seismic surveys, as well as geological and geophysical analyses and interpretations. The operator (E.ON Ruhrgas Norge) plans to drill the first exploration well towards the end of 2011.

PL419 – a 25% interest in the licence located in the Måløy basin (north of the Troll fields), where a number of hydrocarbon discoveries have been made. Seismic work on the fields has already been completed and an exploration well is scheduled to be spudded in H1 2010.

PL521 – a 35% interest in the licence awarded following the 20th Licensing Round. Preparations to cover the licence area with a seismic survey (scheduled for mid 2010) have commenced. Based on the survey's findings, a decision will be made whether to drill any exploration wells.

PL558 – in early 2010, PGNiG Norway was awarded a 15% interest in the licence (in the APA 2009 Licensing Round). The licence area lies in the immediate vicinity of the Skarv field and is adjacent to the PL350 licence, which had been acquired earlier.

Production from the Skarv/Snadd/Idun fields will be supported by an FPSO floating vessel (a floating production, storage and offloading unit). Oil will be transported by shuttle tankers, whereas gas will flow from the gas transport (export) system via the Gassled Area B System pipelines to the mainland terminal in Kårsto. The FPSO platform will be moored at a selected location by mooring lines. Measuring 292m in length and 52m in width, it will be the largest vessel of this kind in the world. The FPSO unit's capacity will amount to 140 thousand m³ (880 thousand boe), while the capacity of the shuttle tankers handling transport from the Skarv field is expected to be approximately 135 thousand m³ (850 thousand boe).

The Skarv/Snadd/Idun development project has been progressing according to schedule – as at the end of 2009 it had been completed in 75%. Last year saw considerable progress in all key elements of the project. In May 2009, the FPSO hull was launched from a South-Korean shipyard. At the same time, an 80-kilometre section of an offshore pipeline was laid, linking the Skarv field with the existing transmission infrastructure on the Norwegian Continental Shelf. Finishing work was then undertaken on the FPSO platform, as part of which the key production modules were installed. The platform is scheduled to be completed in 2010, at which point it is to be towed to Norway.

As part of the Skarv/Snadd/Idun development project, 16 wells are planned to be drilled, including seven oil producers, five gas producers and four injectors. At a later stage, the injection wells will be converted into gas producers to enable full recovery of the field's reserves.

Data regarding licences and field operators as at February 4th, 2010. Norwegian Petroleum Directorate data regarding Skarv field reserves as at December 31st, 2009.

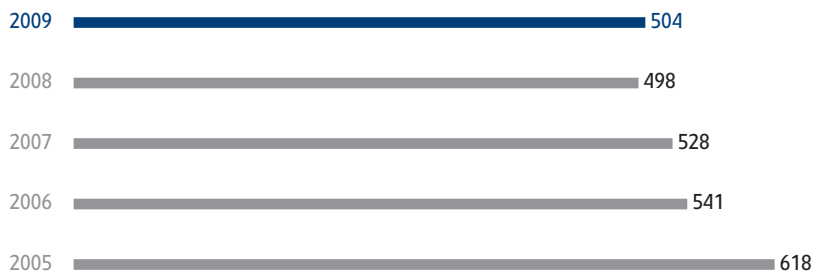
Pakistan

Licence: Kirthar

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

In 2008, 162 kilometres of 2D seismic data were processed, which led to a decision to drill an exploration well in the southern part of the block. The licence extends over a total area of 956 km². In mid-2009, PNiG Kraków (member of the PGNiG Group) drilled a well to a total depth of nearly 3 km. In H2 2009, the first exploration well (Rehman-1) was drilled with positive results, and tests began to determine the likely performance of the well. The recoverable gas reserves of the horizon penetrated by the well are estimated at 11.6bn m³.

Crude oil production in 2005-2009¹ (thousand tonnes)



¹including condensate and test production

Production

In 2009, production reached 30.1m boe, of which natural gas and oil with condensate accounted, respectively, for 88% and 12%. The respective production volumes were as follows: 4.11bn m³ of natural gas (26.4m boe) and 504 thousand tonnes of crude oil with condensate (3.7m 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 gas and nitrogen-rich gas – from 67 mines located throughout Poland. In 2009, 46 of the mines (including 26 gas mines and 20 oil & gas mines) produced high-methane gas, whereas the remaining 21 (including 13 gas mines and eight oil and gas mines) – nitrogen-rich gas. Some portion of nitrogen-rich gas is further processed at the Denitrating Plants

in Odolanów and Grodzisk Wielkopolski. Gas with low methane content is treated in extremely low temperatures. Once nitrogen is removed, natural gas is pumped into the high-methane gas system. In 2009, the process of conversion of nitrogen-rich gas into high-methane gas yielded 1.12bn m³ of the product, up 30% on 2008. The process by-products include liquefied natural gas (LNG), liquid and gas helium, as well as liquid nitrogen.

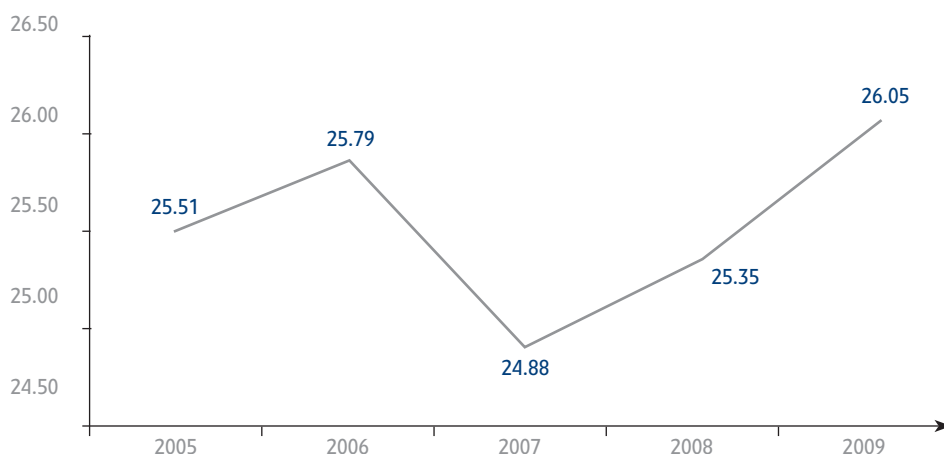
In 2009, PGNiG was engaged in various activities aimed to keep gas and oil production from the currently producing fields at a sustainable level. The drilling of three production wells was completed, and 42 old wells (whose technical conditions made further production impossible) were repaired to counteract natural decline in the production yields. Additionally, enhanced recovery techniques were applied in 16 oil wells and 80 gas wells, in order to sustain or increase the rates of recovery.

Crude oil is produced mainly in western Poland, including the BMB (Barnówko-Mostno-Buszewo) field (the largest among the currently producing fields), from which 74% of total oil production was sourced in 2009. In 2013, oil production is also expected to be launched from the LMG field near Gorzów Wielkopolski, leading to a twofold increase in output. In 2009, total oil and condensate production reached 504 thousand tonnes, which represents a year-on-year increase of 6 thousand tonnes (1.2%), up from 498 thousand tonnes.

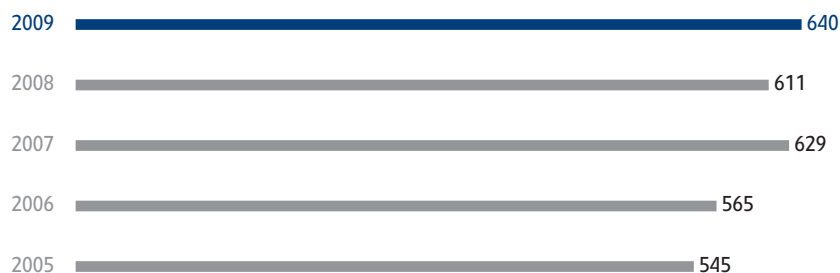
Resources/Reserves

Poland's resources are evaluated by the Mineral Resources Commission and confirmed by the Ministry of Environment. As at the end of 2009, combined natural gas and crude oil reserves (2P) were estimated at 768.8m boe, including 615.9m boe of gas and 152.9m boe of oil. In 2009, the R/P ratio, reflecting the relation of total reserves to the production volume, was 26. It means that with current level of production the reserves will last for next 26 years.

R/P (reserves/production) ratio in 2005-2009



Direct sales of natural gas in 2005-2009¹ (millions of m³)



¹high-methane gas equivalent

Sales

PGNiG's Exploration & Production segment sells natural gas by way of direct deliveries from the fields (outside of the transmission system), via dedicated pipelines to specific customers. The gas is sold on free market terms, and delivery terms (including pricing) are agreed upon 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 Elektrociepłownia Gorzów SA, Zakłady Azotowe w Tarnowie-Mościcach SA or Arctic Paper Kostrzyn SA). In a majority of cases, this sales model is opted for by customers located in close proximity to PGNiG's gas mines. Sales of natural gas directly from the fields enable commercially viable development of gas reserves whose quality deviates from network standards and to cater for customers in whose case deliveries of system gas are not feasible for technical or economic reasons.

At 640m m³ (a 5% increase over 2008), in 2009 direct sales of natural gas accounted for roughly 5% of PGNiG's total sales. The direct sales model is used both in the case of high-methane gas and nitrogen-rich gas – in 2009, 47m m³ of the former and 593m m³ of the latter were sold via this channel.

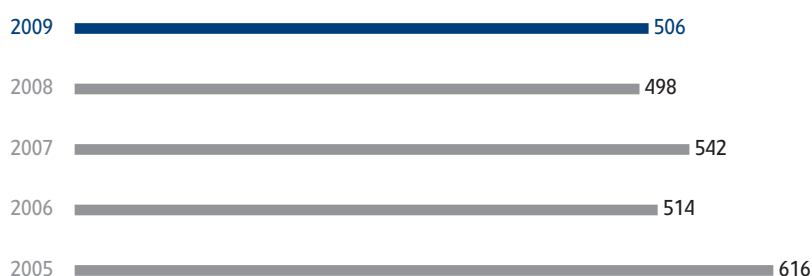
PGNiG sells crude oil on free market terms, pricing it by reference to the crude prices on international markets. Crude oil is sold through the following channels:

- via pipeline – to foreign customers;
- using wheel transport (by road and rail tankers) – to domestic customers.

In 2009, foreign customers accounted for 42% of total volume sold.

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.

Sales of oil and condensate in 2005-2009 (thousand tonnes)



Natural gas, both produced domestically and imported to Poland, is supplied to PGNiG's 6.6m customers. Around four thousand of PGNiG's employees work on ensuring uninterrupted supplies of natural gas to both households and industrial customers. In order to enhance the security of supplies, the Company conducts a number of projects designed to increase the storage capacities of its underground gas storage facilities.

Trade and Storage

Financial Performance in 2009

The Trade and Storage Segment derives revenues from regulated sales of natural gas. In 2009, the margin on sales of high-methane gas was negative. However, owing to the changed structure of gas sources (lower imports balanced by larger volumes of gas drawn from the storage facilities), the Segment's operating loss was reduced from PLN -510m in 2008 to PLN -50m in 2009.

Key Developments in 2009

- Discontinuation of gas deliveries under the contract with RosUkrEnergo, as from January 1st 2009;
- Conclusion of a short-term contract for delivery of 1bn m³ of natural gas between PGNiG and Gazprom Export;
- Conclusion of an agreement for annual deliveries of 1m tonnes of LNG over 20 years, starting in 2014, between PGNiG and Qatargas Operating Company;
- Launch of the first underground storage facility for nitrogen-rich gas, with the capacity of 30m m³, in Daszewo;
- Increase in mandatory reserves of natural gas at storage facilities to approximately 400m m³.

The Trade and Storage Segment sells imported natural gas and natural gas produced from the domestic reserves. The imported gas is mainly sourced from the countries lying east of Poland. Sales of natural gas from the distribution networks and transmission grid are regulated by the Polish Energy Law, with prices established on the basis of tariffs approved by the President of URE. The Segment uses three underground gas storage facilities (in Mogilno, Wierchowice and Husów) for its own needs.

Tariff Policy

Prices at which PGNiG sells natural gas to its customers are regulated by the URE. The URE's regulatory powers include the right to approve gas fuel tariffs and control their application in terms of compliance with the Polish Energy Law; to analyse and review the costs whose application in the calculation of tariff prices and charge rates is considered by energy companies as justified; and to exercise general supervision over energy companies. The tariff prices and charge rates are crucial for the Company's ability to generate appropriately high revenue that can cover the incurred justified costs plus return on capital employed. 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, that is of both imported and domestically produced gas.

Imports

PGNiG SA is the largest natural gas importer in Poland. Gas is imported from Russia, Germany, Ukraine and the Czech Republic. The existing gas infrastructure supports natural gas imports from:

- the East – through the interconnector terminal points in: Drozdovits (on the Polish-Ukrainian border), Kondratki, Visokoie i Teterovka (on the Polish-Belarusian border);
- the West – through the interconnector terminal point in Lasów;
- the South – through the interconnector terminal point in Branice or, optionally, in Glucholazy.

In 2009, PGNiG imported 9.14bn m³ of high-methane gas to Poland, including 8.14bn m³ (89%) from the Russian supplier OOO Gazprom Export, and 0.94bn m³ (10.3%) from Verbundnetz Gas AG (VNG) of Germany.

Several projects are currently under way in Poland to increase the imports of natural gas to the country. They include:

- Increase of the throughput capacity of the existing interconnector terminal point in Lasów on the Polish-German border from 0.9bn m³ to 1.9bn m³ starting from Q4 2011 – the project is being executed by GAZ-SYSTEM;
- Construction of a new intersystem connector with Germany, with a throughput capacity of up to 3bn m³ (the project is in its design phase conducted by InterTransGas, in which PGNiG and VNG hold equal 50% interests);
- Construction of a new intersystem connector with the Czech Republic, with an annual throughput capacity of approximately 0.5bn m³; the launch of this project (two-way connection), currently executed by GAZ-SYSTEM, is scheduled for 2011;
- Construction of an LNG terminal in Świnoujście; in the first phase (until 2020), the terminal will have an annual throughput capacity of 5bn m³ – the project is being executed by Polskie LNG (a 100% subsidiary of GAZ-SYSTEM); the deliveries contracted by PGNiG (1m tonnes of liquefied natural gas annually) will commence in mid 2014.

Since October 1st 2007, PGNiG has been supplying gas fuel under comprehensive contracts to both customers connected to the transmission grid and those connected to the distribution networks. The contracts stipulate:

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

In 2009, the following two gas fuel tariffs were applicable:

- From January 1st to May 31st 2009 – tariff providing for the gas price of PLN 998.30 per 1,000 m³ (an 11.1% increase over the previous tariff) – in effect from November 1st 2008;
- From June 1st 2009 – tariff providing for the gas price of PLN 910 per 1,000 m³ (an 8.8% decrease) – was valid until May 31st 2010.

Imports of natural gas to Poland in 2008–2009 (millions of m³)

	2009	2008
Russia	8,137.2	7,056.7
Mid-Asia Countries	0	2,377.2
Germany	993.4	825.4
Other	5.3	5.0
Total	9,135.9	10,264.2

Storage Facilities

PGNiG owns and operates seven underground gas storage (UGS) facilities, located in two types of geological structures (in salt caverns or worked out natural gas and crude oil deposits), with different gas injection and drawing capacities. Six of them are used to store high-methane gas and one – to store nitrogen-rich gas.

Our UGS facilities allow us to maintain continuous deliveries of gas in periods of increased demand (winter) as well as an adequate level of reserves for periods of short-term disruptions in gas supplies caused by system failures or limited gas availability. These facilities help us meet our obligations imposed under the Act on Mandatory Reserves. They also support optimisation of the natural gas supply chain and enable the Company to respond to sudden short-term changes in demand. Moreover, as the operator of these facilities, we are able to maintain steady production levels throughout the year: in periods of reduced demand, gas is injected to the storage facilities, while in times of peak demand (not coverable with the current production), it is drawn from the facilities.

In response to the market demand for gas storage services, PGNiG has separated a dedicated branch, a Storage System Operator, responsible for commercialising storage, injection and retrieval capacities of the storage facilities.

As at the end of 2009, the aggregate working capacity of the underground high-methane gas storage facilities was at 1.60bn m³, while the working capacity of the underground nitrogen-rich gas storage facility amounted to 0.03bn m³.

The working capacity of high-methane gas storage facilities operated by PGNiG represents around 12% of the total domestic gas consumption.

Currently, PGNiG operates the following storage facilities:

UGS Brzeźnica – high-methane gas storage facility with working capacity of 65m m³. The working capacity is planned to be increased to 100m m³.
UGS Husów – high-methane gas storage facility with working capacity of 350m m³. Currently, the planning work is under way on the feasibility of expanding the facility to 500m m³.

UGS Mogilno – high-methane gas storage facility with working capacity of 370m m³. The facility is located in salt caverns, which enables high injection and drawing capacities to be achieved. Since 2008, UGS Mogilno has been undergoing extension designed to increase its capacity to 800m m³. Work completion is scheduled for 2018.

UGS Strachocina – high-methane gas storage facility with capacity of 150m m³, currently undergoing extension designed to increase its capacity to 330m m³. Work completion is scheduled for 2011. Further extension is feasible, to around 1,200m m³.

UGS Swarzędów – high-methane gas storage facility with working capacity of 90m m³. One of the oldest storage facilities.

UGS Wierchowice – high-methane gas storage facility, located in partially worked out nitrogen-rich gas deposit. This is the largest underground gas storage facility in Poland, with working capacity of 575m m³. A project is under way to increase the working capacity to 1,200m m³ in 2012. Further extension is feasible, to 3,500m m³ of working capacity.

UGS Daszewo – storage facility for Ls nitrogen-rich gas, with capacity of 30m m³, located in partially worked out crude oil deposit. In the future, the facility may be used to store high-methane gas. The geological conditions support the extension of the facility to 60m m³.

The following two new storage facilities are currently under construction:

UGS Bonikowo – this storage facility will be built in partially worked out natural gas deposit in 2010. Its working capacity is designed at 200m m³. It will be the second nitrogen-rich gas storage facility in Poland, which will enable the domestic production of nitrogen-rich gas to be optimised.

UGS Kosakowo – high-methane gas storage facility, to be located in the vicinity of the Gdańsk-Gdynia-Sopot agglomeration. The project provides for the construction of 10 caverns in salt deposits. The construction of a storage facility with capacity of 100m m³ is scheduled to be completed by 2014, with the further extension to 250m m³ to be completed by 2020.



Location of underground gas storage facilities

The UGS facilities in Wierchowice, Husów and Mogilno currently allow us to meet the obligation to maintain mandatory reserves of natural gas imposed under the Act on Reserves of Crude Oil, Petroleum Products and Natural Gas, as well as procedures to be followed when the state's fuel security is threatened or the petroleum market is disturbed, dated February 16th 2007. In the 2009/2010 season, the volume of mandatory reserves of natural gas at PGNiG's storage facilities amounts to approximately 413m m³. The minister competent for economy makes decisions concerning the use of the gas stored.

Working capacities of underground gas storage facilities (millions of m³)

High-methane gas	2009 capacity	Target capacity	Year extension completed
Brzeźnica	65	100	–
Husów	350	350	–
Kosakowo	0	250	2020
Mogilno	370	800	2018
Strachocina	150	330	2011
Swarzędz	90	90	–
Wierchowice	575	1,200	2012
Nitrogen-rich gas			
Bonikowo	0	200	2010
Daszewo	30	30	–

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

- The high-methane natural gas transmission network used for offtake of imported gas, gas from southern Poland as well as gas derived from the nitrogen-rich gas at the Odolanów Denitrifying Facility and produced from the reserves in western Poland;
- The nitrogen-rich natural gas transmission networks serve to route the gas from the domestic reserves located in Polish Lowlands to the denitrifying facilities and customers.

PGNiG owns and operates two denitrifying facilities: in Odolanów and (still under construction) Grodzisk Wielkopolski. The launch of the Grodzisk Wielkopolski facility will allow us to increase

nitrogen-rich gas production from the Wielichowo, Jabłonna and Paproc natural gas deposits.

The Grodzisk Wielkopolski facility is to be fully operational in 2010.

In terms of sales volume, PGNiG's largest customers receiving natural gas were the chemical sector, the metals industry and the power sector, as well as households. The latter were identified as the largest customer group (approximately 6.4m), accounting for 97% of the entire PGNiG's customer base.

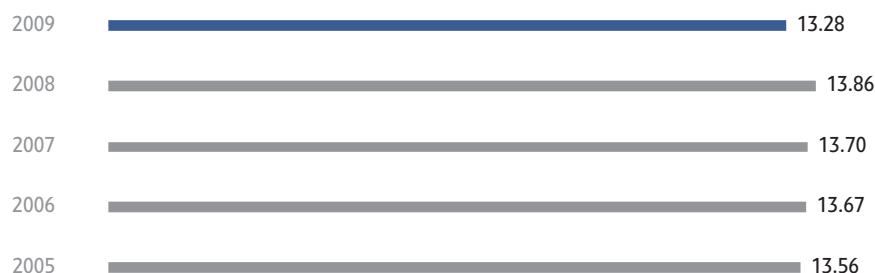
The share of that customer group in the volume of natural gas sold by PGNiG through the Trade and Storage Segment amounted to around 30%. The largest share in the natural gas sales (approximately 58%) was claimed by industrial customers.

Sales

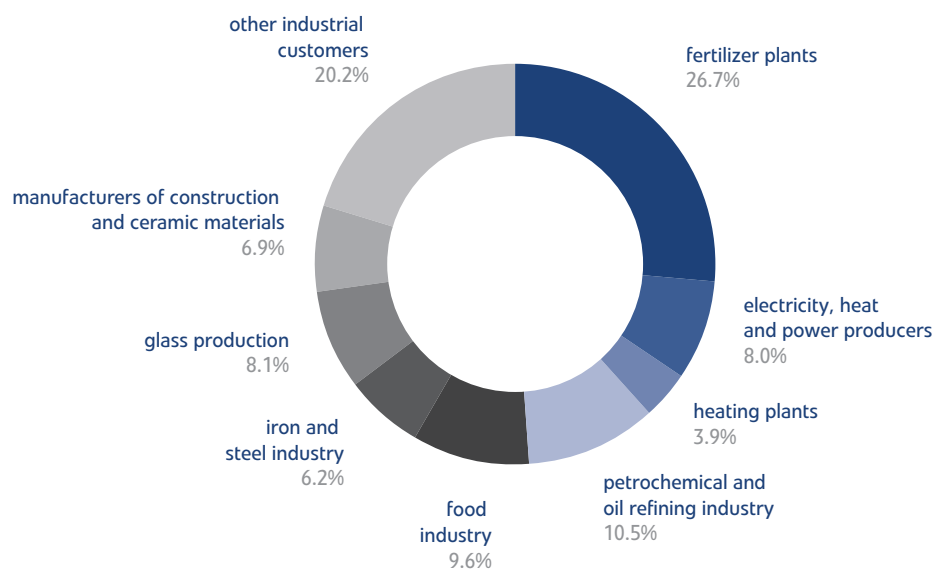
PGNiG is the largest domestic seller of natural high-methane and nitrogen-rich gas fed into the transmission and distribution networks. Gas trading is regulated by the Polish Energy Law, with prices established on the basis of tariffs approved by the President of URE. In 2009, PGNiG sold 13.28bn m³ of natural gas, including 12.64bn m³ (or 95%) sold by the Trade and Storage Segment. 2009 saw a decrease in sales volume by around 5% below the 2008 figure, attributable to the decreased demand for gas fuel reported by PGNiG's customers in the wake of the global economic crisis.



Sales of natural gas in 2005-2009 (billions of m³)



Sales of natural gas to industrial customers by PGNiG through the Trade and Storage Segment in 2009



CNG

Compressed natural gas (CNG) may be used as engine fuel in vehicles. Such application of CNG is both environment-friendly and economical. There are around 10.5m CNG fuelled vehicles all over the world. Numerous countries have developed various mechanisms supporting the use of natural gas as engine fuel. The number of CNG fuelled vehicles in Poland at the end of 2009 was estimated at 2.1 thousand, mostly owned by public transport companies and private road carriers. At the end of 2009, PGNiG operated 31 CNG filling stations.

Transit

PGNiG is a shareholder in EuRoPol GAZ, the owner and operator of the Yamal Pipeline within the territory of Poland. Gas produced in northern Russia is transported over the Yamal-Europe Pipeline with the total length of 4,196 km to countries of Western Europe. The Polish section of the pipeline is 682 km long, with a diameter of 1.4m. Two interconnector terminal points along the pipeline are located in Włocławek and Lwówek Wielkopolski. In 2009, the pipeline transmitted 31.6bn m³ of natural gas through the territory of Poland.

In 2007, the Gas Trading Companies applied for exemption from the obligation to obtain approval for tariffs for CNG used to propel motor vehicles. In March 2008, the President of URE issued a decision abolishing the obligation. Currently, PGNiG drafts a price list for customers using general-access CNG fuelling stations.

Distribution

Employees of the six regional gas companies, providing top-quality distribution services, have the closest contact with our customers. Thanks to professional skills and expertise of almost 14 thousand personnel, each day in your home you can feel the warmth and comfort offered by natural gas supplies.



Key Developments

- June 1st 2009 saw the coming into force of new tariffs for the Gas Companies, higher on average by 14% over the previous tariffs.
- In 2009, the distribution network was extended by 2 thousand kilometres.

The Distribution Segment's core activity consists in the transmission of high-methane and nitrogen-rich gas, as well as small amounts of propane/butane and coke-oven gas, via the distribution network. Distribution of natural gas is handled by six Gas Companies, which supply gas to households, industrial customers and wholesalers. Additionally, they are responsible for operation, repairs and extension of the distribution pipelines, as well as for connecting new customers.

Financial Performance in 2009

The Distribution Segment generates revenue from transmission of natural gas via the distribution network. Tariffs for the distribution companies are determined by the URE. Revenue of the six Gas Companies is subject to seasonal changes throughout the year. The largest gas volumes are transmitted via the distribution network in winter (Q1 and Q4). The Distribution Segment closed 2009 with an operating profit of PLN 1.045bn, up by PLN 626m on 2008. This strong improvement was driven by higher rates and charges for network services (13.7%), starting from June 2009, as well as by reversal of a portion of impairment losses on the distribution companies' assets.

Tariff Policy

The regional gas 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 (they currently operate as Gas Companies). Since Q4 2007, the entire trade business, including retail sales and wholesale, was integrated into PGNiG SA.

Distribution activities are conducted under licences. This means that the gas companies must seek URE's approval of the charge rates for gas fuel distribution. The tariffs set forth:

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

Moreover, the tariff defines the manner of determining the charges for exceeding the contractual capacity, penalties for illegal draw 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.

Two distribution tariffs were in force in 2009:

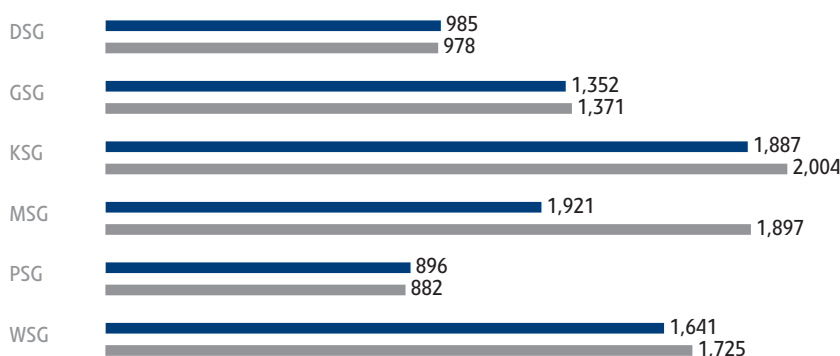
- From January 1st to May 31st 2009: tariff for gas fuel distribution services of April 10th 2008, which came into force on June 1st 2008.
- From June 1st 2009: the rates and charges for network services rose on average by 13.7% on the previous tariff; this tariff was valid until May 31st 2010.

Gas Fuel Distribution

In 2009, the Gas Companies transmitted 8.68bn m³ of natural gas. This represents a 0.18bn m³ (2%) drop in relation to 2008, when the transported quantity reached 8.86bn m³. As at the end of 2009, the distribution network (excluding connections) measured 116 thousand kilometres and was 1.98 thousand kilometres longer in relation to 2008. The six Gas Companies provide services to approximately 6.6m customers.

	DSG	GSG	KSG	MSG	PSG	WSG	Total
No. of customer (m)	0.75	1.3	1.4	1.5	0.75	0.9	6.6
Volume of distributed gas (m m ³)	985	1,352	1,887	1,921	896	1,642	8,684
Network length ('000 km)	7.8	20.7	44.3	18.6	9.4	15.2	115.8

Volume of gas distributed by the Gas Companies in 2008-2009 (millions of m³)



In 2009, the Gas Companies allocated approximately PLN 280m for extension and approximately PLN 210m for upgrades of the distribution network. The segment's entire capital expenditure in 2009 exceeded PLN 1bn. The amounts to be spent in 2010 on network extension and upgrading are, respectively, ca. PLN 270m and ca. PLN 200m.

■ 2009
■ 2008



Waldemar Bażan

sculptor

Real art demands effort, talent and – most of all – passion. This is how an artist transcends boundaries and creates something unique.

employee of the PGNiG Group,
Kraków



Power Sector

The development of a new business line will facilitate transformation of the PGNiG Group into an energy conglomerate. PGNiG Energia will focus on generation of electricity and heat and wholesale electricity trading.

Key Developments

- Formation of PGNiG Energia as a competence centre for the power business;
- Planning and analyses for the construction of a steam and gas unit in Stalowa Wola and a CHP plant in Gdańsk.

Development

Initially, PGNiG Energia will focus on small and medium-sized gas-fuelled cogeneration projects, pilot biogas projects, and trading on the electricity market. The power projects, once completed, will have a material effect of driving the demand for natural gas in Poland. PGNiG Energia's activities will also extend the value chain of the PGNiG Group and its product offering through the sale of not only gas, but also electricity and heat.

PGNiG's strategic objective is to come to hold interests in power plants equivalent to a total installed capacity of 300 MW by 2015, which entails a few projects of various sizes. PGNiG Energia is currently conducting analyses and negotiations of large gas-related power projects in collaboration with partners from the power industry.

The most advanced projects include:

- Cooperation with the Tauron Group on construction of a 400 MW steam and gas unit in Stalowa Wola (PGNiG Energia will use 50% of the block's power);
- Plans to construct a ca. 200 MW cogeneration plant in Gdańsk, in collaboration with Energa and the LOTOS Group.

Performance of large power projects will create a solid platform for the transformation of the PGNiG Group into an energy conglomerate. Small and medium-sized cogeneration projects implemented in cooperation with industrial and municipal clients will also play their role in the transformation.

PGNiG Energia also intends to construct biogas units of up to 2 MW capacity, and thus gain new competences and expertise in the renewable energy market. The heat generated by the plants will be supplied to local clients, and the electricity will be sold as green energy to power networks. The new biogas plants will also facilitate the assessment of opportunities for possible injection of biogas to gas grids.

A lot of attention is paid in the PGNiG Group to the observance of the 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 investors and the Group's governing bodies.

Corporate Governance

General Shareholders Meeting

The General Shareholders 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 amount, payment manner and payment date. The General Shareholders Meeting grants approval for the duties performed by the other governing bodies of PGNiG, appoints members of the Supervisory Board and takes decisions concerning the Group'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 Shareholders 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 six members, two of them – and where the Supervisory Board is composed of seven to nine members, three of them – are elected by PGNiG's employees.

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 the 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 structure of 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 to PGNiG and appointed by the General Shareholders 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.

Good Practices

The Management Board of PGNiG puts enormous emphasis on compliance with the 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 Best Practices for WSE Listed Companies. Reports on PGNiG's compliance with the requirements of corporate governance are published online at www.pgning.pl in the Corporate Governance section.

Culture of Dialogue

PGNiG communicates well with the market. The Company fulfils its disclosure obligations towards the shareholders and other stakeholders by way of publishing reports on its activities and financial statements as well as organising press conferences where its major undertakings and strategic objectives are communicated to the public. The rules of procedure for the General Shareholders Meeting, the Supervisory Board, the Management Board and the Audit Committee are available online at www.pgning.pl in the Corporate Governance section.

Risks

Exploration and Prospecting Licences

In recent years, the increase in prices of fuels on global markets has led directly to increased interest in exploration activities. There is a risk of competition from other companies active on the Polish market seeking exploration and prospecting licences or planning to acquire access to own hydrocarbon reserves. At present, competition in the domestic market is limited.

Tariff Calculation

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

Purchase Price of Imported Gas

Prices of imported gas are determined in the US dollar or the euro and are based on the prices of petroleum products. Changes in foreign exchange rates and prices of petroleum products materially affect acquisition cost of imported gas. Even an accurate forecast of changes of natural gas prices may be subject to material errors. 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 customers or the changes in selling prices may lag behind the changes in import prices.

Exploration

Both on the Polish market and abroad there is a risk of competition from other companies seeking exploration and prospecting licences or planning to acquire access to own hydrocarbon reserves. Certain competitors of the PGNiG Group, especially those active globally, enjoy strong market positions and have financial resources larger than those of PGNiG. Thus they are likely to submit their bids in tender offers and be able to acquire highly prospective licences.

Trade in Natural Gas

At present, PGNiG is the largest supplier of natural gas in Poland. PGNiG's share in the gas market is approximately 98%, the remaining 2% is represented by suppliers from outside the PGNiG Group which usually purchase gas from PGNiG. Among them are local gas distributors who have their own transmission infrastructure and offer (apart from traditional network supplies) innovative solutions of the natural gas supply involving the use of LNG. An intensified commercial activity of competitors which aims at attracting current and potential customers of the PGNiG Group may pose in the future a tangible threat of customer churn.

Distribution

The liberalisation of the gas market boosts the activity of gas suppliers who are the competitors of the PGNiG Group's Gas Companies. Over the last few years, the activity of those suppliers has been regular and steady. They have gradually developed their gas networks and acquired new customers, both among households and businesses. Another issue which poses a serious threat to the Gas Companies' business is the tariff policy of the URE, as it prevents the Gas Companies from operating a flexible pricing policy for their key customers. With the lack of flexible pricing, customers may find the offering of the competition very attractive.

Delayed Work

Under the applicable Polish legal regulations, obtaining oil & gas exploration and prospecting licences takes from one to one and a half years. As regards business activity on foreign markets, it may take even two years from the time that the winning bid is awarded in a tender for licence until the relevant contract is ratified. Moreover, prior to the commencement of field work, the Company is obliged to arrange for numerous formalities, including obtaining formal and legal permits and approvals for entering the area, meeting environmental protection-related requirements and in some cases requirements related to protection of archaeological sites, and abiding by the regulations governing tenders for work contractors. Under the currently binding legal regulations, another several months pass before an agreement with the work contractor is signed. In addition, companies must frequently wait for a very long time before their imported equipment receives customs clearance. These factors create the risk of delayed exploratory work.

Cost of Exploratory Work

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 on 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. Profitability of foreign exploratory projects will to a significant extent depend on the movements in prices of oil derivative products and in exchange rates.

Political and Economic Situation

Some countries where PGNiG carries out exploratory activity face the risk of armed conflicts or social and political unrest, which may result in limitation, suspension or discontinuation of the exploration and production business in such areas. In certain countries, the operations of exploration companies may be hindered by lack of adequate infrastructure, which may be an obstacle in transporting equipment, staff and materials to the sites. Problems may also arise in providing supplies and ensuring appropriate health care. These risks may lead to limitation or suspension of the Company's exploratory activity.

Employment

People are our most valuable asset. Their experience and qualifications enable us to provide our services on a daily basis and to expand our Group's business both in Poland and abroad.

The PGNiG Group is one of the largest businesses in Poland. It employs both highly qualified professionals and young people seeking their first employment. Employees are the most valued asset of the PGNiG Group. Their commitment enables the Group to supply gas to its customers, conduct successful operations on the international markets and implement the large-scale investment programme.

In 2009, the PGNiG Group had 31,393 employees, up by 248 as compared to the previous year (31,445 employees in 2008).

Development

Investing in human resources creates favourable conditions for the implementation of a business' plans. This approach also allows employees to pursue their individual goals. Due to a wide spectrum of the subsidiaries' business activity, they are allowed a lot of leeway in establishing the scope and type of staff training.

The key role in establishing bonds between the Company and its employees is played by a training management system. Individuals employed at the PGNiG Group are offered opportunities for improving their professional qualifications through participating in training sessions, taking

postgraduate studies, attending national trade conferences, seminars and symposia, occupational training, and self-education (e-learning).

The employees also participate in language courses, and have a chance to get a placement at our branches in Moscow and Brussels, where they can become acquainted with the ins and outs of everyday work in a foreign unit, as well as improve their language skills.

The employees may participate in various training courses on modern business organisation, tailored to the needs of the positions held by particular employees. The covered topics included project management, analysis of legal environment, business risk management, customer service, internal communication and team work. Trainings are co-financed by the European Social Fund. Such extensive training offering enables our employees to develop and enhance their professional qualifications, while the Company benefits from higher productivity. Personnel development translates into the growth of the PGNiG Group's value, which is viewed positively primarily by investors and customers, and also by prospective employees.

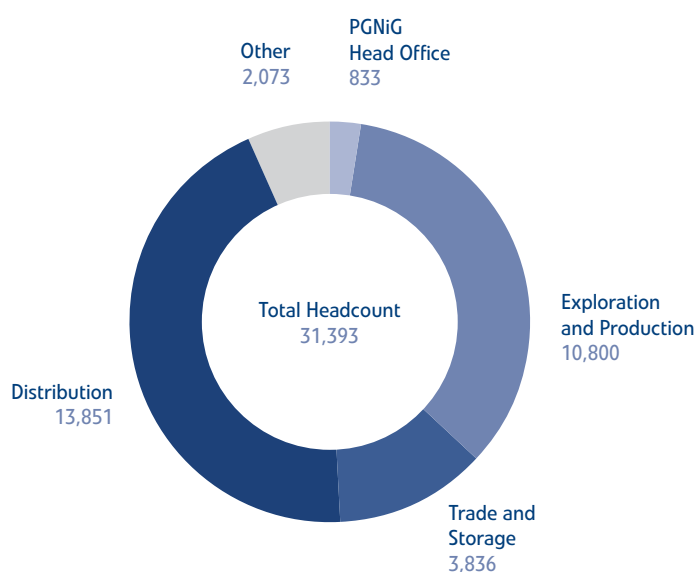
PGNiG has implemented the Management by Objectives (MBO) training programme for the management. In 2010, all members of the management will be included in the programme. The programme, which provides grounds for appraisal and remuneration of the management on the basis of performance of the strategic objectives, strengthens the employees' responsibility for the Group's results.

PGNiG Group as the Largest Employer

The PGNiG Group fulfils its obligations towards the employees and their families with utmost diligence. These obligations are chiefly connected with social services. The eligible persons enjoy the following benefits:

- Organisation and co-financing of holidays for employees and their children, both in Poland and abroad;
- Financial assistance and material support to families in a difficult financial and health situation;
- Repayable financial housing assistance;
- Organisation and co-financing of various forms of recreation (sports, leisure and cultural activities).

Headcount as at end 2009





Internships

PGNiG runs a student training programme for participants of the annual *Grasz o staż* initiative, the most popular and prestigious training programme addressed to Polish students and graduates. Under the programme, which was launched in 1996, PGNiG offers paid internships during summer holidays. Some of the trainees are later employed by the Group. Moreover, the PGNiG Group runs a programme of unpaid internship for students of the Faculty of Gas Engineering at the Warsaw University of Technology, as well as summer internships for students from all Polish universities and colleges.

Recruiting the Best

In line with the adopted rules and in accordance with the arrangements included in the Group's employment restructuring programme, we prefer internal recruitment for posts at the Head Office. Not only does it allow us to make full use of our employees' potential, but it also motivates the employees to more effective work and development of their individual skills. External recruitment is carried out only when highly specialist competences not available in-house are sought. During the recruitment process, the candidates' level of competence is determined on the basis of post-specific competence profiles. It is a combination of knowledge, skills, attitudes and motivation required for a given post.

Integrating the Team

An important element affecting the productivity and quality of work is integration and cooperation of the Group employees. Due to the nature of our business and the broad range of operations, both traditional and electronic means of communication are used. As part of our initiatives implemented to-date, the employees receive daily electronic newsletter highlighting the most important events in the PGNiG Group, and – on a monthly basis – “MaGAZyn”, an internal bulletin devoted to key events at the Group. We have also implemented a system based on “communicators” – persons responsible for disseminating information among the employees across the Group. We have also launched an IT platform for information-sharing among the employees. Work has also been completed on the launch of a text message-based information system for the employees. The system will support several thousand of the Company cellular phone numbers.

Any initiatives concerning internal communication are consistent with our HR policy, which fosters employees' commitment and satisfaction.

Employment Optimisation

At the end of 2008, PGNiG adopted the Programme for Employment Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3). The programme became effective in January 2009. Unlike previous employment restructuring programmes, this scheme is based on the “stand-by” principle. A decision to implement the programme may only be made where it is justified by the scope of planned restructuring involving workforce downsizing and/or liquidation of jobs.

Environmental Protection

The PGNiG Group cares about efficient use of resources, raw materials and energy. Apart from investing in technologies limiting the emissions of harmful substances and waste, we also revitalise areas that have been subject to the activity of crude oil and gas industry.

Environmental Impact

The operations of the PGNiG Group affect the environmental balance. Both the production of natural gas and crude oil and their distribution cause interference with the nature. On the other hand, the use of natural gas helps reduce air emissions in comparison with other fossil fuels.

All companies of the PGNiG Group seek to minimize the negative effects of their operations. They follow the applicable Polish and EU laws, as well as in-house standards and instructions. Implementation and certification of environmental management systems at almost all companies of the Group contributed to obtaining notable environmental benefits.

Our efforts are, in the first place, geared to limit the negative effects on the environment, and we continuously monitor our processes. These rules are followed by the Group companies not only in their operations in Poland, but also in the exploratory work abroad. Environment-oriented activities accompany all operations of the PGNiG Group – from hydrocarbon production to distribution and storage.

Following the provisions contained in the Environmental Protection Act, the companies of the PGNiG Group conduct research, exploration and reclamation activity in the areas contaminated in the course of the past operation (e.g. traditional gas industry) in order to bring the land back to the conditions prescribed in the environmental quality standards.

In addition, PGNiG takes proper care of the education of its employees in the area of environmental protection. The Company organizes training courses and conferences at which the most significant 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 referring to the goals adopted within the CSR Strategy for the Group. In 2009, 155 persons participated in such ventures.

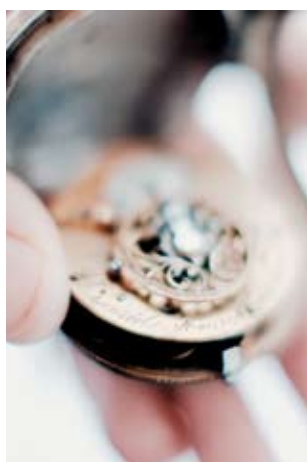
Greenhouse Gas Emissions

On January 1st 2005, the greenhouse gas emissions trading scheme, a new cost-efficient method of cutting air emissions, came into existence in the European Union. Two of PGNiG's installations, namely in Zielona Góra and Odolanów, as well as gas installation in KPMG Mogilno, participate in the carbon dioxide emissions trading scheme (ETS). In 2009, the allowance of carbon dioxide for these installations equalled approximately 100 thousand tonnes of CO₂ and the total emissions equalled approximately 76 thousand tonnes of CO₂. Although the PGNiG installations are in Group A, the gas fuel consumption and quality levels at the Company are higher than required. This is an effect of observing survey and monitoring procedures. Natural gas features by far the lowest carbon dioxide emissions. Additionally, gas supplied via distribution systems offers stable composition and high-quality characteristics.

Environmental Management System

In the first half of 2009, the Company implemented at the Head Office the Environmental Management System compliant with the PN-EN ISO 14001 standard. As part of the system, staff training was continued, internal audits were performed and the system was reviewed by the Company's Management Board. Following completion of the internal audit, the Company's Head Office obtained a certificate of compliance with the PN-EN ISO 14001 standard for the Environmental Management System.

In 2009, the ISO 14001 Environmental Management System was implemented and certified also at Karpacka Spółka Gazownictwa as part of the integrated management system. Wielkopolska Spółka Gazownictwa has also initiated the process of implementing the System.



Kazimierz Krupa

collector of pocket watches

Time ticks on relentlessly.
To live your time out
happily, you need to find
a passion for yourself.
Once you have done that,
your life can be a time
of dreams come true.

employee of the PGNiG Group,
Zgorzelec



The PGNiG Group's Structure

As at the end of 2009, the PGNiG Group comprised PGNiG (the parent undertaking) and 35 production and service companies, including:

- 27 subsidiaries;
- 8 indirect subsidiaries.

Changes in the PGNiG Group's Structure

- In March 2009, Mazowiecka Spółka Gazownictwa and Biuro Studiów i Projektów Gazownictwa Gazoprojekt established a special purpose vehicle operating under the name Powiśle Park sp. z o.o. of Warsaw, to construct MSG's head office as well as residential and commercial real property.
- In December 2009, PGNiG Energia SA was established and its shares were acquired by PGNiG.

The PGNiG Group

Exploration and Production

Trade and Storage

Distribution

Other

PNiG Jasło sp. z o.o.	100%	INVESTGAS SA	100%	Dolnośląska Spółka Gazownictwa sp. z o.o.	100%	Bug Gazobudowa sp. z o.o.	100%
GK PNiG Kraków	100%			Górnośląska Spółka Gazownictwa sp. z o.o.	100%	ZUN Naftomet sp. z o.o.	100%
PNiG Nafta sp. z o.o.	100%			Karpacka Spółka Gazownictwa sp. z o.o.	100%	Geovita sp. z o.o.	100%
GK Geofizyka Kraków	100%			GK Mazowiecka Spółka Gazownictwa	100%	PGNiG Energia SA	100%
Geofizyka Toruń sp. z o.o.	100%			Pomorska Spółka Gazownictwa sp. z o.o.	100%	BN Naftomontaż sp. z o.o.	88.83%
PN Diament sp. z o.o.	100%			Wielkopolska Spółka Gazownictwa sp. z o.o.	100%	NAFT-STAL sp. z o.o.	67.40%
ZRG Krosno sp. z o.o.	100%					BSiPG Gazoprojekt SA	75%
PNiG Norway AS	100%						
POGC – Libya B.V.	100%						

The PNiG Kraków Group comprises PNiG Kraków sp. z o.o. and Oil Tech International – F.Z.E. (subsidiary).

The Geofizyka Kraków Group comprises Geofizyka Kraków sp. z o.o. and its subsidiary Geofizyka Kraków Libya JSC (Geofizyka Kraków Libya JSC was deleted from Commercial Register in January 2010).

The Mazowiecka Spółka Gazownictwa Group comprises Mazowiecka Spółka Gazownictwa sp. z o.o. and Powiśle Park sp. z o.o. (subsidiary).

Exploration and Production

The Geofizyka Kraków Group

The Geofizyka Kraków Group provides geophysical services in the area of field seismics with the use of 2D and 3D sources of vibration- or dynamite-induced excitation, processing and interpretation of seismic data from geophysical surveys, performance of measurements, operations and special work in wells, interpretations and perforations. The group also offers drilling seismometry services.

In 2009, the Geofizyka Kraków Group's sales revenue reached PLN 289.7m. The revenue from services provided to the PGNiG Group companies represented for 81% of the total, of which 54% was attributable to 2D and 3D seismic surveys carried out within the POGC Libya licence. The services provided by the Geofizyka Kraków Group to third-party customers included geophysical logging in Slovakia as well as processing and interpretation of data and performance of in-well measurements in the Czech Republic. In 2009, the group

relaunched its operations in Pakistan to complete the work under a contract discontinued in the previous year.

In 2010 in Poland, Geofizyka Kraków will conduct 2D and 3D seismic surveys and provide data processing, reprocessing and interpretation services under contracts with PGNiG, RWE DEA AG, KGHM Polska Miedź and Orlen Upstream. Abroad, the company will conduct 2D and 3D seismic surveys in Libya and Pakistan.

		2009	2008
Sales revenue	PLNm	289.7	178.8
Net profit (loss)	PLNm	12.7	0.2
Equity	PLNm	100.6	90.1
Total assets	PLNm	218.1	205.0
Headcount as at December 31 st	persons	1,361	1,124

Geofizyka Toruń

Geofizyka Toruń offers geophysical services in the area of seismic surveys, including design work and acquisition of data, digital processing of data and comprehensive geophysical and geological interpretations. The company also provides services in the area of geophysical surveys and operations in wells, including their interpretation, as well as drilling services. In addition, Geofizyka Toruń's offering includes geophysical tests as part of environmental protection activities, as well as geological and hydrogeological testing.

In 2009, Geofizyka Toruń's sales revenue amounted to PLN 268.3m, 56% of which represented revenue from services provided to third-party customers (85% of that revenue was derived for export of services). The company's services abroad included acquisition of seismic data in Denmark, India, Thailand and Germany. The company provided its services related to the processing of seismic data to customers in Algeria, India and Nigeria. In Poland, Geofizyka Toruń's operations included acquisition of seismic data, geophysical surveys and operations in wells mainly for PGNiG (other customers included Lane Energy Poland and FX Energy Poland).

In 2010, Geofizyka Toruń's objective will be to consolidate its position on the domestic market and foreign markets (India, Iran, Germany, Egypt and Thailand). In Poland, the company will carry on work related to acquisition, processing and interpretation of seismic data and will perform shallow geophysical tests. As part of its operations abroad, the company was awarded tenders for acquisition and processing of 2D and 3D seismic data in India and Germany and will commence related work in 2010.

		2009	2008
Sales revenue	PLNm	268.3	332.4
Net profit (loss)	PLNm	3.1	32.2
Equity	PLNm	157.0	168.1
Total assets	PLNm	212.4	252.1
Headcount as at December 31 st	persons	1,106	1,186

PNiG Jasło

The core business of Poszukiwania Nafty i Gazu Jasło consists in drilling of exploratory and production wells, reconstruction and decommissioning of wells and performance of specialist drilling services, including cementing, mud services, well reinforcement, as well as maintenance of control and instrumentation at well surface installations.

In 2009 in Poland, PNiG Jasło provided services mainly to the PGNiG Group. The company's sales revenue was PLN 269.4m, of which revenue from services provided to the PGNiG Group accounted for 68%. Services provided to third-party customers included drilling a geothermal well for the Lux Veritatis Foundation and execution of wells for RWE Dea Polska. The company also provided cementing

services to Pol-Tex Methane and Petrobaltic. Outside Poland, the company performed drilling work in Libya, geothermal drilling work in Germany and reconstruction work in Russia. In Lithuania, Latvia and Ukraine, PNiG Jasło performed specialist services in the area of reconstruction and drilling, cementing, as well as Datawell services.

In 2010, PNiG Jasło will continue drilling work in Poland mainly for PGNiG. Abroad, the company will commence drilling exploratory wells in Germany and will provide specialist services in Libya, Lithuania, Latvia and Ukraine.

		2009	2008
Sales revenue	PLNm	269.4	281.9
Net profit (loss)	PLNm	6.5	18.2
Equity	PLNm	139.9	142.0
Total assets	PLNm	213.3	219.6
Headcount as at December 31 st	persons	904	932

The PNiG Kraków Group

The PNiG Kraków Group is composed of Poszukiwania Nafty i Gazu Kraków and its subsidiary – Oil Tech International – F.Z.E. The core business of PNiG Kraków consists in geological, exploratory and production drilling, reconstruction of wells and maintenance services related to drilling, testing and operation of wells. The company also provides mine rescue services as well as hospitality, catering, rental and training services. Oil Tech International – F.Z.E. provides services involving provision of operator teams, materials, and plant and equipment to PNiG Kraków.

In 2009, the PNiG Kraków Group sales revenue reached PLN 382.4m. Revenue from services provided to third-party customers accounted for 55% of that figure (95% of that revenue was derived for export of services). Abroad, the PNiG Kraków Group performed production well drilling operations in Kazakhstan, Uganda and Ukraine as well as exploratory and appraisal well drilling operations in Pakistan. The group's main customer

in Poland was PGNiG. The Group performed drilling work in the area of the Carpathian Mountains and Carpathian Foothills; it also provided drilling services for the Strachocina underground gas storage facility.

In 2010, the PNiG Kraków Group plans to continue executing contracts for drilling service concluded in 2009 in Kazakhstan, Pakistan, Uganda and Ukraine. Under the contracts concluded with Polish companies the PNiG Kraków Group will continue drilling work at wells.

		2009	2008
Sales revenue	PLNm	381.9	360.2
Net profit (loss)	PLNm	16.0	5.6
Equity	PLNm	182.7	182.5
Total assets	PLNm	359.4	395.3
Headcount as at December 31 st	persons	1,211	1,344



PNiG NAFTA

PNiG Nafta's offering consists primarily in design, execution and documentation of research, prospecting, exploratory and production wells. The company also provides specialist drilling services, and deals with drilling of wells for underground storage of hydrocarbons, decommissioning of wells in used-up reserves and reconstruction of developed wells. In addition, the company provides support services through its workshop specialising in repair of drilling equipment, and storage facilities.

In 2009, the PGNiG Group was the company's key customer in Poland. The company's total sales revenue was PLN 251.7m, with the revenue from the services provided to the PGNiG Group accounting for 77% of that figure. In 2009, the company conducted drilling work for PGNiG at Kosakowo and Wierchowice underground gas storage facilities as well as at the Mogilno underground gas storage facility as part of a project carried out by INVESTGAS. Outside Poland, PNiG Nafta executed drilling work in Egypt and Hungary.

In 2010 in Poland, PNiG Nafta will continue drilling work for the underground storage facilities in Mogilno, Kosakowo and Wierchowice, and will commence drilling work as part of exploration for unconventional sources of gas. Abroad, the company will perform drilling work in Egypt, India and Slovakia.

		2009	2008
Sales revenue	PLNm	251.7	284.7
Net profit (loss)	PLNm	12.3	34.6
Equity	PLNm	182.8	180.2
Total assets	PLNm	300.2	318.2
Headcount as at December 31 st	persons	763	773

PN Diament

The core business of PN Diament consists in providing specialist drilling services which include: well drilling, repair work, decommissioning of wells, production testing of wells, deep measurements, production intensification and other work with the use of coiled tubing and nitrogen units, as well as well reinforcement and drillstem testing with blowout prevention equipment. The company also conducts activities comprising general construction engineering, road construction and municipal waste dump construction, and provides vehicle repair, transport and equipment services.

In 2009, PN Diament's sales revenue amounted to PLN 163.1m, 67% of which represented sales to the PGNiG Group companies. For the PGNiG Group, the company conducted well drilling work, carried out repairs and decommissioning of wells, and provided a range of specialist services, including well intensification and repair, cementing and mud services. A consortium of PN Diament and PNiG Jasło drilled exploratory wells for KGHM Polska Miedź in copper deposit licences. Furthermore, the company rendered general construction engineering services (mainly related to road and on-ground structures) to third-party customers.

In 2010, PN Diament will provide services related to general construction engineering to third-party customers, as well as well drilling, repair, well-decommissioning and other specialist services for the PGNiG Group. Furthermore, the company intends to drill exploratory wells for KGHM Polska Miedź.

		2009	2008
Sales revenue	PLNm	163.1	209.2
Net profit (loss)	PLNm	6.6	6.8
Equity	PLNm	95.6	92.2
Total assets	PLNm	125.4	134.0
Headcount as at December 31 st	persons	675	675

ZRG Krosno

Zakład Robót Górniczych Krosno is a specialist well mining service company. Its business comprises in particular work in producing wells, including repair and reconstruction of oil and gas producing wells, shallow drilling (up to approximately 1 km), production well recompletion, and decommissioning of wells, infrastructure and drilling pits, as well as other reclamation work. In addition, the company provides a wide range of production intensification, measurement and laboratory services.

In 2009, ZRG Krosno posted total sales revenue of PLN 83.1m, 91% of represented sales to the PGNiG Group. Other customers include domestic

well mining companies engaged in exploration for mineral reserves and geothermal waters. In Poland, ZRG Krosno provided services at wells, chiefly related to reconstruction, decommissioning, production intensification and measurement of deposit parameters. Outside Poland, the company provided services related to production intensification and measurement of deposit parameters in Ukraine and Slovakia.

In 2010, ZRG Krosno will conduct work at wells for customers in Poland, which will consist mainly

in repair, reconstruction and decommissioning services. Abroad, the company's operations will include production intensification and measurement of deposit parameters in Ukraine and Slovakia. Furthermore, the company was awarded a tender for reconstruction of six wells in the Czech Republic and will commence the related work in 2010.

		2009	2008
Sales revenue	PLNm	83.1	79.1
Net profit (loss)	PLNm	2.3	3.9
Equity	PLNm	41.8	41.3
Total assets	PLNm	58.7	59.5
Headcount as at December 31 st	persons	435	436

PGNiG Norway

PGNiG Norway was established to implement the project on the Norwegian Continental Shelf, which is aimed at increasing the volume of oil and gas reserves held outside of Poland. PGNiG Norway's core business comprises exploration and production of crude oil and natural gas fields on the Norwegian Continental Shelf (NCS).

PGNiG Norway holds a 15% interest in three licence areas (PL212, PL212B and PL262) covering the Skarv and Snadd fields. The company's interest in the Skarv, Snadd and Idun fields is 12%. The development of the fields is carried out from a floating production, storage and offloading (FPSO) unit and is one of the largest projects implemented in Norway. Under the project, 16 wells will be drilled, including seven oil production wells, five natural gas production wells and four injectors. At a later stage of the reserve life, the injectors will be transformed into gas producers in order to fully exploit the reserve potential. Production is expected to commence in 2011.

In January 2009, PGNiG Norway acquired, free of charge, a 30% interest in the PL350 licence (under an agreement with StatoilHydro Petroleum)

and a 25% interest in the PL419 licence (under an agreement with Nexen Exploration Norge). Following completion of the licence awarding process in April 2009, PGNiG Norway came to own a 35% interest in the PL521 licence and in January 2010 – 15% interest in the PL558 licence on the Norwegian Continental Shelf. Since February 2010, PGNiG Norway has held the status of an operator on the Norwegian Continental Shelf, which gives the company the right to apply for the function of the operator of both the existing and new licences. The company was granted the status in the prequalification process involving an analysis of PGNiG Norway's ability to conduct exploration and production operations.

		2009	2008
Sales revenue	PLNm	0	0
Net profit (loss)	PLNm	-32.4	-41.8
Equity	PLNm	382.4	162.8
Total assets	PLNm	2,551.0	1,412.3
Headcount as at December 31 st	persons	20	19

POGC – Libya

The core business of Polish Oil and Gas Company – Libya consists in exploration for and production from hydrocarbon reserves in Libya. The company carries out exploration work under licence No. 113 located in the Murzuq petroleum basin pursuant to the Exploration and Production Sharing Agreement (EPSA) of February 2008 concluded with the Libyan government.

In 2009, the company commenced 2D and 3D seismic survey and seismic data processing. The first phase of the 3D seismic survey was completed in December 2009, whereas the 2D seismic survey and seismic data processing will continue in 2010. In addition, the company plans to commence interpretation of geophysical data and drilling of the first well at the end of 2010.

		2009	2008
Sales revenue	PLNm	0	0
Net profit (loss)	PLNm	-157.8	-8.1
Equity	PLNm	39.6	-6.3
Total assets	PLNm	61.7	56.4
Headcount as at December 31 st	persons	25	13

Trade and Storage

INVESTGAS

INVESTGAS 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, technological start-up and operation of storage facilities in salt caverns and other types of facilities.

In 2009, the company's sales revenue totalled PLN 112.4m. Revenue from services provided to PGNiG represented 97% of total sales revenue. The services performed for PGNiG included:

- operation and extension of the Mogilno underground gas storage cavern;
- construction of the Kosakowo underground gas storage facility;
- extension of the Strachocina underground gas storage facility;
- preparation for the construction and supervision over the construction of the KGZ Kościan-KGHM Polkowice/Żukowice gas pipeline.

In addition, the company also performed other tasks, including preparatory work and supervision over the construction of the Ostrów Wielkopolski-Wrocław fuel pipeline for PKN Orlen.

In 2010, the company will continue work related to the operation, construction and extension of the underground gas storage facilities, work related to the construction of the gas pipeline to KGHM Polkowice/Żukowice, and preparatory work preceding construction of the next section of the Ostrów Wielkopolski-Wrocław fuel pipeline for PKN Orlen and supervision over the construction process. The company also plans to acquire new orders for construction and extension of underground gas storage facilities as well as the construction of gas and fuel pipelines, including the infrastructure.

		2009	2008
Sales revenue	PLNm	112.4	65.5
Net profit (loss)	PLNm	6.4	4.0
Equity	PLNm	19.5	13.1
Total assets	PLNm	81.8	30.6
Headcount as at December 31 st	persons	106	91



Distribution

Dolnośląska Spółka Gazownictwa (DSG)

Dolnośląska Spółka Gazownictwa supplies gas to customers in the Provinces of Wrocław and Zielona-Góra, and in the Wolsztyn and Nowy Tomysł counties (Province of Poznań). The percentage of households and businesses connected to the gas grid varies between communes, depending on geographical conditions. Areas without access to the gas supply system are usually those located at a considerable distance from the pipelines, where the relevant studies have shown that their connection to the gas grid would not be economically viable. In such areas, for instance in the area around the village of Świątoszów, the company provides customers with gas in liquefied form (LNG). In December 2009, the URE has granted a 20-year licence to DSG for liquefaction of natural gas and regasification of LNG.

The total volume of natural gas transmitted by DSG via the distribution network in 2009 was 0.93bn m³, of which high-methane gas accounted for approximately 72%, with nitrogen-rich gas comprising the balance. The company has some 748.2 thousand customers. In 2009, DSG connected 4.9 thousand new customers to the gas network.

In 2010, DSG will start connecting to the gas grid households and businesses located in areas adjacent to large urban agglomerations and economic zones. Furthermore, in the coming years

the company is going to seek to maintain its current market position and further increase the volumes of transported gas by:

- expanding its gas infrastructure to enable connection of new customers;
- replacing cast-iron piping and upgrading medium- and low-pressure networks;
- transporting gas in liquefied form and providing customers with access to gas supplies by means of LNG units.

		2009	2008
Sales revenue	PLNm	327.3	339.6
Net profit (loss)	PLNm	55.7	40.8
Equity	PLNm	983.1	944.5
Total assets	PLNm	1,163.4	1,142.8
Headcount as at December 31 st	persons	1,410	1,390



Górnośląska Spółka Gazownictwa (GSG)

Górnośląska Spółka Gazownictwa supplies gas to customers in the Provinces of Katowice and Opole, in 44 communes of the Province of Kraków, in five communes in the Province of Łódź and in three communes in the Province of Kielce. It serves some 1.3m customers. The total volume of gas transmitted by GSG via the distribution network in 2009 was 1.35bn m³. In 2009, GSG connected 6 thousand new customers to the gas network. In addition, the company carried out work on upgrading the network, while continuing to rollout the grid in areas west of Częstochowa.

In 2010, the company is going to continue the grid rollout projects west of Częstochowa and around the city of Opole. GSG has taken steps to finance the projects with EU funds. In addition, GSG commenced work aimed at reconstructing a decommissioned high-pressure gas pipeline, which will allow the company to supply gas to a new economic zone in the Province of Opole and connect the distribution networks in Silesia and the Province of Opole in the future.

		2009	2008
Sales revenue	PLNm	536.8	518.2
Net profit (loss)	PLNm	49.0	19.5
Equity	PLNm	1,526.1	1,507.3
Total assets	PLNm	1,767.1	1,729.1
Headcount as at December 31 st	persons	2,622	2,589

Karpacka Spółka Gazownictwa (KSG)

The company's operations cover the area of four provinces in south-eastern Poland, namely the Provinces of Kraków, Rzeszów, Kielce and Lublin. One of the main gas pipelines of the domestic transmission system runs through the company's operating area, fed with both imported and domestically-produced natural gas. The company serves some 1.4m customers. The total volume of gas transmitted by KSG via the distribution network in 2009 was 1.89bn m³. In 2009, KSG connected some 16.2 thousand new customers to the gas network. In addition, the company carried out work on the network extension and upgrading.

The company plans to expand its distribution network by constructing traditional gas pipelines,

as well as by developing the LNG market where it will be responsible for liquefying and distributing the fuel. Distribution of LNG will support the initial provision of access to gas supplies to those areas where the construction of traditional pipelines is not economically viable. Furthermore, the use of LNG technology will contribute to significantly faster launch of natural gas supply to potential customers located beyond the reach of traditional gas networks. KSG also plans to provide services related to gas distribution, including design of gas networks, gas service lines and internal piping systems, maintenance of gas stations, construction of networks and service lines, provision of IT services, CNG services and operation of cogeneration units.

		2009	2008
Sales revenue	PLNm	651.1	681.3
Net profit (loss)	PLNm	95.7	67.3
Equity	PLNm	2,253.0	2,189.2
Total assets	PLNm	2,672.1	2,577.7
Headcount as at December 31 st	persons	3,313	3,306

The GK Mazowiecka Spółka Gazownictwa (MSG)

Mazowiecka Spółka Gazownictwa 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 (an aggregate area of approximately 87 thousand km²). The total volume of gas transmitted by MSG via the distribution network in 2009 was 1.93bn m³. Gas is supplied to some 1.5m customers via the gas network and gas stations operated by the company. In 2009, the company conducted projects related to operating, extending and upgrading the gas network. MSG connected 21.5 thousand new customers to the gas network.

In addition, in 2009 in cooperation with PGNiG the company implemented a project involving switching customers in Pisz (Province of Olsztyn) who receive propane-butane-air gas to LNG-based high-methane gas. This was the first pilot phase of the project to switch Pisz, Elk, Suwałki and Olecko (the PESO project) to high-methane gas.

In the coming years, MSG intends to focus on:

- ensuring adequate transmission capacity and securing sources of gas supply for the company's gas distribution system;
- optimising the use of network assets held by the company by connecting new customers to the existing grid (network densification);

- extending the pipeline infrastructure to reach new customers;
- improving the security of operating the company's network assets;
- extending the application of LNG technology.

MSG has taken steps to secure EU funds under the Infrastructure and Environment Operational Programme to finance key projects.

		2009	2008
Sales revenue	PLNm	635.8	659.2
Net profit (loss)	PLNm	79.6	91.9
Equity	PLNm	1,820.0	1,793.9
Total assets	PLNm	2,309.0	2,224.2
Headcount as at December 31 st	persons	2,921	2,895

Pomorska Spółka Gazownictwa (PSG)

PSG's geographical reach covers the Provinces of Gdańsk and Bydgoszcz, a part of the Province of Olsztyn, as well as two communes in the Province of Szczecin (Sławno and Postomino). With respect to expanding the gas supply system, the area covered by the company's services is difficult to manage due to its challenging geographical conditions (a large number of lakes and woods). The total volume of gas transmitted by PSG via the distribution network in 2009 was 0.89bn m³. The company provides its services to some 743.3 thousand customers.

In 2009, PSG completed the construction of a high-pressure gas pipeline and a first-grade pressure

reduction and metering station, which improved security of gas supplies to Słupsk and its vicinity. In addition, this project connected the two gas systems supplying the Pomerania region: PSG and WSG's networks. The company connected approximately 3.6 thousand new customers to the network and conducted work related to the extension and upgrading of the gas network.

In 2010, PSG is going to carry on with its network-related projects by:

- constructing new and upgrading the existing low- and medium-pressure pipelines;
- constructing and upgrading high-pressure pipelines to enable gas deliveries to areas which have not yet been covered by the gas supply system;

- connecting new customers;
- combining the pipelines to form ring systems, thus improving the security of gas supplies.

The company's business – both in the areas which are covered by the gas supply system and those which have not yet been connected to the gas grid – is distinguished by a considerable growth potential, owing to the establishment of new and expansion of the existing special economic zones and industrial parks. PSG has taken steps to secure EU funds under the Infrastructure and Environment Operational Programme to finance key projects.

		2009	2008
Sales revenue	PLNm	368.1	345.9
Net profit (loss)	PLNm	178.8	21.2
Equity	PLNm	983.2	805.7
Total assets	PLNm	1,364.3	1,189.0
Headcount as at December 31 st	persons	1,769	1,760

Wielkopolska Spółka Gazownictwa (WSG)

Wielkopolska Spółka Gazownictwa manages a network of distribution pipelines in the Provinces of Poznań and Szczecin and several communes in the Provinces of Łódź, Wrocław and Zielona Góra, as well as one commune in the Province of Gdańsk. The total volume of gas transmitted by WSG via the distribution network in 2009 was 1.53bn m³, of which 77% accounted for high-methane gas, with nitrogen-rich gas comprising the balance. As at the end of 2009, the total number of customers served by the company was 906 thousand and throughout the year the company connected approximately 8 thousand new customers to the gas network.

In 2009, the company carried on with the process of switching the city of Poznań and eastern parts of the Poznań Province from less caloric nitrogen-rich gas to high-caloric high-methane gas. This initiative was to improve the security and capacity of the distribution network. The work involved switching 267 thousand points of delivery to high-methane gas and was completed in February 2010.

In addition, in the coming years, the company will focus on:

- extending the high-pressure distribution grid;
- improving the safety of the company's network assets;
- cooperation with GAZ-SYSTEM to identify projects related to the extension of distribution and transmission grids;
- cooperation with gas trading companies as part of projects to deliver the fuel to new areas.

		2009	2008
Sales revenue	PLNm	521.6	515.8
Net profit (loss)	PLNm	347.6	39.0
Equity	PLNm	1,742.6	1,409.0
Total assets	PLNm	2,139.5	1,727.0
Headcount as at December 31 st	persons	1,816	1,806



Tadeusz Modliński

collector of antique arms

A collector of unique centuries-old artifacts needs to have immense passion and devotion. Such priceless collections assembled by passionate hobbyists are then handed down through generations.

employee of the PGNiG Group,
Wrocław



Glossary

CNG – fuel, compressed natural gas at a pressure of 20–25 MPa, used as vehicle fuel for spark ignition and compression ignition engines.

Distribution – transport of gas fuels to customers via distribution networks.

E&P – Exploration and Production – one of PGNiG's segments of operation; the companies in this segment are engaged in exploration, geophysical and geological work; the segment also involves production of natural gas and crude oil.

Direct gas pipeline – the gas pipeline used for transmission of gas fuel directly to the customer's installation, bypassing the gas system.

Yamal Pipeline – transit gas pipeline between Russia and Western Europe, running through the territory of Poland and other countries.

Gasoline – mixture of hydrocarbons of low molecular weight, emitted by wet natural gas or refinery gases, among other things, used as solvent and petrol additive.

Natural gas – natural mixture of paraffin hydrocarbons, primarily consisting of methane (up to 98% in high-methane gas); in the earth's crust found in the form of reserves.

LNG (Liquefied Natural Gas) – natural gas in a liquid state with the temperature of -163°C. During the liquefaction process, natural gas is cooled down to -163°C, thus reducing its volume by 630 times.

Storage System Operator (SSO) – a PGNiG branch responsible for ensuring secure functioning of storage facilities, performance of agreements with the facilities’ users, as well as operation, maintenance and repair of the storage facilities and equipment.

Distribution System Operator (DSO) – an energy company involved in the distribution of gas fuels, responsible for network traffic in the gas distribution system, ongoing and long-term security of the system’s operation, as well as operation, maintenance, repair and necessary extension of the distribution network, including interconnections with other gas systems.

UGS – underground gas storage facility; the PGNiG Group is the only owner of the underground gas storage facilities in Poland; there are seven such facilities in Poland: six situated in worked out natural gas and crude oil deposits, and one in a salt cavern (in Mogilno).

Transmission – transportation of gas fuels through transmission networks to distribution networks or end customers connected to the transmission network.

Distribution network – a gas network of low, medium and high pressure, other than a mine pipeline or a direct pipeline; the responsibility for network traffic rests with the gas companies.

Transmission network – a gas network of low, medium and high pressure, other than a mine pipeline or a direct pipeline; the responsibility for network traffic rests with a transmission system operator.

Gas company – an energy utility company involved in the distribution of gas fuel, responsible for network traffic in the gas distribution system, ongoing and long-term security of the system’s operation, as well as operation, maintenance, repair and necessary extension of the distribution network, including interconnections with other gas systems in the relevant geographical area.

TPA (Third Party Access) – right to free use of transmission services and free choice of a supplier.

URE (Urząd Regulacji Energetyki) – Energy Regulatory Authority. Under the relevant regulations, the President of URE is responsible for approving the tariffs submitted by holders of licences which authorise them to conduct business involving trade in and storage of gas fuels.

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