Annual Report 2008

PGNiG

Polish Oil & Gas Company

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PGNiG in Numbers

PGNiG – Polish Oil and Gas Company

The PGNiG Group is the leader of the Polish natural gas market and the only vertically integrated gas company in Poland. The Group companies employ more than 31 ths. personnel, working in Belgium, Denmark, Norway, Pakistan, Russia, Bielarus and Ukraine and, most of all, in Poland, where the Company is one of the largest employers.

Our core business consists in the production and sale of natural gas and crude oil. In the Exploration and Production segment, we conduct geophysical and geological research, exploration of reserves and production of hydrocarbons, as well as preparation of products for sale. Our exploration and prospecting work is performed both domestically and abroad, in such countries as Denmark, Egypt, India, Yemen, Kazakhstan, Libya or Pakistan. PGNiG SA is also involved in projects related to the production of hydrocarbons from the fields on the Norwegian Continental Shelf (production is expected to start in mid 2011).

Our activities in the Trade and Storage segment comprise sale of natural gas produced from the domestic reserves and imported, mainly from Russia and Central Asia. PGNiG SA stores natural gas in six modern underground gas storage facilities with the total capacity of 1.66 bcm. Gas trading is regulated by the Polish Energy Law, with the prices established on the basis of tariffs approved by the President of the Energy Regulatory Office (URE).

In the Distribution segment, which is an important part of our business, gas is supplied through thousands of kilometres of pipelines, owned by our six regional Gas Companies, to approx. 6.6m customers, including private individuals, small and medium-sized businesses and large industrial plants.

PGNiG SA has been listed on the Warsaw Stock Exchange since September 23rd 2005. It enjoys increasing trust of the capital market and has been assigned excellent credit ratings: Baa1 from Moody's Investors Service and BBB+ from Standard & Poor's. Our status is also confirmed by the fact that PGNiG SA stock is listed as part of WIG20, the index of twenty largest companies on the Warsaw Stock Exchange (WSE).

Natural gas sales

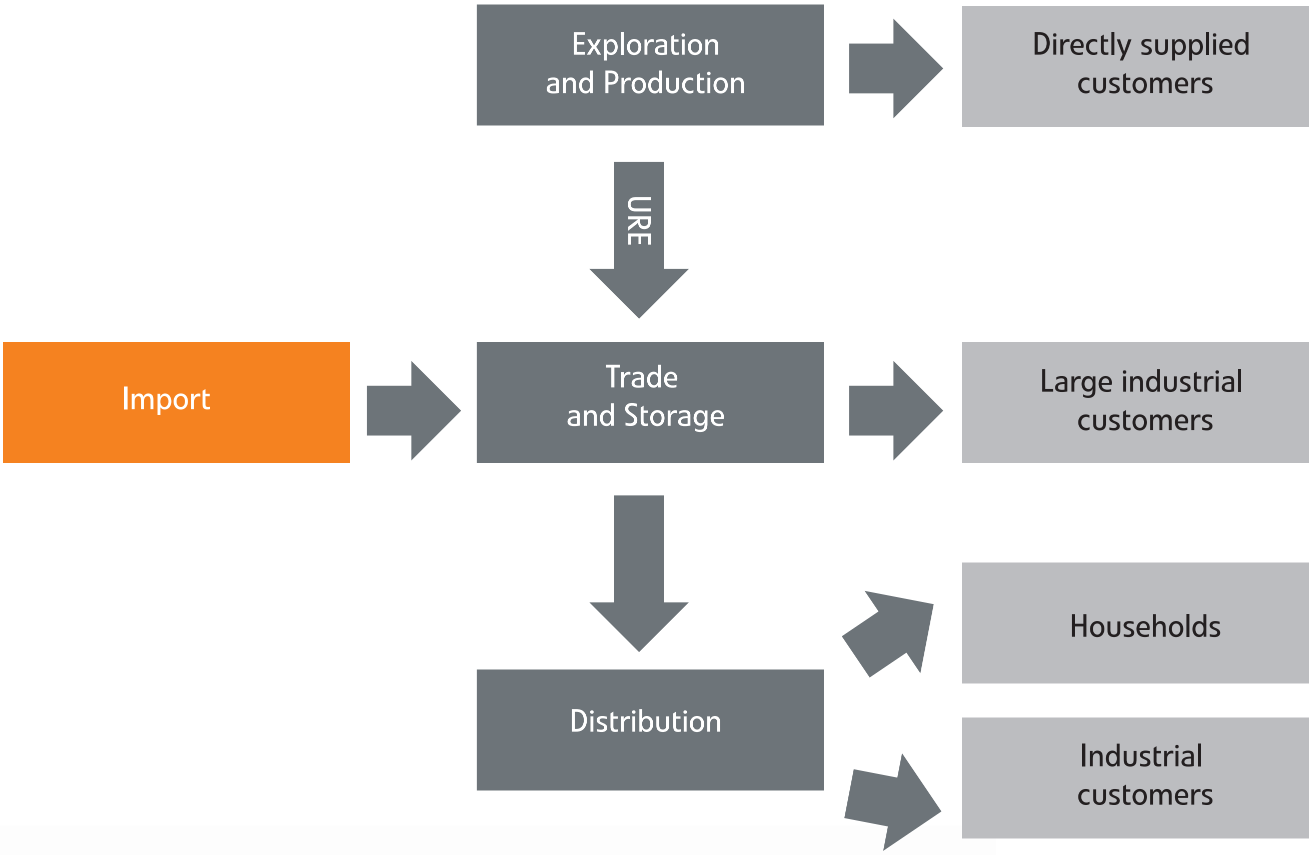
13.9 bcm

Natural gas imports

10.3 bcm

Gas and oil reserves in Poland

BUSINESS STRUCTURE OF THE PGNIG GROUP



Crude oil and condesate sales **498** ths. tonnes

Length of distribution network **114** ths. km

No. of customers **6.6** million

742 mboe

Letter from the President of the Management Board

Ladies and Gentlemen,

2008 was a year of change for the PGNiG Group. New members were appointed to the Supervisory Board, and in mid-March the composition of the Management Board of PGNiG SA was altered. Also, we launched a number of projects of major importance to the Company and its Group. Transition periods are always a challenge both for the organisation and its staff, yet I strongly believe that the developments we witnessed over the past year add up to an unquestionably positive outcome.

First and foremost, we are proud to announce the results of the work undertaken in the Group's key business segment, which is sale of natural gas. Throughout 2008, we continued the efforts to enhance our sales force, integrated into PGNiG SA in 2007. Despite high costs, related mainly to natural gas imports, we managed to turn in a non-consolidated net profit of PLN 546m. A modest improvement was recorded in the volume of gas sold, with sales revenue having increased by 12%.

The key profitability ratios were as follows in 2008: ROE reached 4.2%, and ROA was 2.9%. Towards the end of 2008, the PGNiG Group, as all the other Polish enterprises, had to face a dramatic deterioration in the macroeconomic environment. From our perspective, the sharp depreciation of the Polish currency and gas prices remaining high due to skyrocketing oil prices recorded in mid-2008 accounted for the fact that the PGNiG Group posted a loss in the fourth quarter of the year. Another exacerbating factor was the applied gas price regulatory model: the tariffs approved by the Energy Regulatory Office (URE) failed to cover not only the actual costs of gas imports but also the necessary capital expenditure incurred by PGNiG SA in the exploration and production as well as storage and distribution segments. The 2008 consolidated net financial result fell by 5.5% year on year, to PLN 866m.

Despite the foregoing, the PGNiG Group continues to be a strong and resilient organisation, with an idea for the future development and a lot to offer to the energy and chemicals sectors. Our ambition is to achieve further growth. On November 13th 2008, we published "The Strategy for the PGNiG Group Until 2015", whose objective is to achieve a shareholder value growth. We intend to pursue our goals by expanding the domestic gas market and strengthening our presence on selected markets abroad. The strategy (until the year 2015) envisages increasing production of natural gas from our own reserves located in Poland and abroad to 6.2 bcm per year, and of crude oil to 1.8m tonnes per year. We have earmarked approximately PLN 30bn for the implementation of the strategic tasks.

Despite the economic downturn and the weakening of the Polish currency, the Management Board has no intention to revise its investment plans. The Company's management staff monitor risk on an ongoing basis. We are determined to seek new business opportunities which would allow us to build the Company's value and strengthen the Group's position on the international gas market. Our purpose is to keep our reputation as the market leader in Poland and to secure the position of one of the largest fuel and energy companies in Central Europe.

Concurrently, I must reaffirm the importance we attach to how we do business. We want the Group to observe the principles of sustainable growth and corporate social responsibility in pursuing its business goals. The Corporate Social Responsibility and Sustainable Growth Strategy of the PGNiG Group, the drafting of which is to be completed soon, will enhance our ability to live the values we believe in on a daily basis. I am delighted to announce that the concept was met with understanding and support from the PGNiG Group's employees, although, as a person who has worked for the Group for a long time, I must admit that these values have been our lodestar for years.

Ladies and Gentlemen,

On behalf of the Management Board and my own, I offer my heartfelt thanks to those who contributed to the Group's outstanding achievements in 2008: our customers, members of the Supervisory Board and employees of the Group companies.

We are about to face a number of challenging tasks connected with the implementation of the Strategy, or more precisely with the projects aimed at diversifying the sources of gas delivered to Poland and enhancing the country's energy security. The projects we have embarked on require a considerable dose of foresight and determination. I do believe, however, that in a year's time I will be able to say that we have emerged from the trial stronger than ever and ready to set and successfully attain further goals.

Michał Szubski
President of the
Management Board
PGNiG SA

PGNiG ON THE STOCK EXCHANGE

The Company's Position on the Warsaw Stock Exchange

PGNiG SA, 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 stock is 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 seven fuel sector companies comprising the industry index WIG-Paliwa.

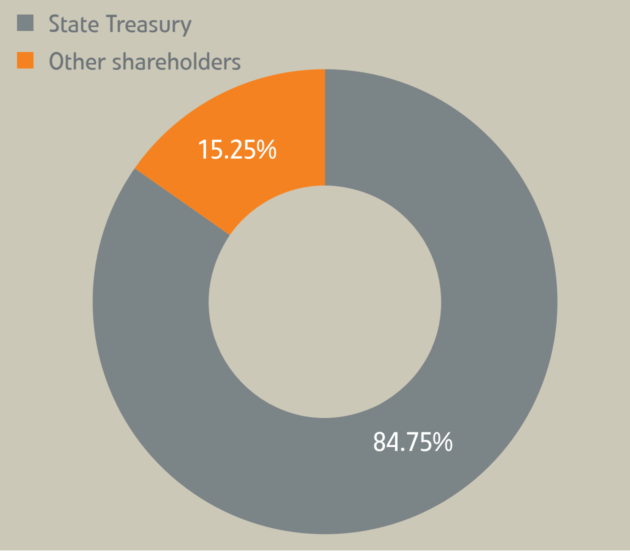
Shareholder Structure

As at December 31st 2008, PGNiG SA'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 SA do not provide for any voting restrictions in respect of the Company shares. The State Treasury, holding nearly 85% of the shares and the same percentage of the total vote at the General Shareholders Meeting, is the majority shareholder. The remaining shares are in free float.

The shareholder structure changed on June 26th 2008, when the State Treasury sold one share in PGNiG SA on general terms. Consequently, pursuant to Art. 38.2 of the Commercialisation and Privatisation Act of August 30th 1996, on October 1st 2008, the eligible employees of the Company obtained the right to acquire, free of charge, PGNiG SA shares (the right will expire on October 1st 2010).

The eligible employees may acquire, free of charge, up to 15% of the shares acquired by the State Treasury on the date of entering PGNiG SA into the relevant register, that is up to 750,000,000 shares with a par value of PLN 1 per share (representing, after the share capital increase in 2005, 12.71% of the share capital). 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 AS AT DECEMBER 31ST 2008



Investor Relations

Our investor relations activities are centred around mandatory activities prescribed by law. The Company is obliged to make exhaustive and reliable disclosures on its operations and important events in its Group, by preparing regular reports which are made available on equal terms to each of the Company's existing and prospective shareholders.

As part of the investor relations efforts, we also undertake measures designed to maintain good communication with the capital market as a whole. Such measures include participation in road shows and foreign investor conferences, meetings with investors managing equity portfolios, and ongoing contacts with analysts. Moreover, the Investor Relations Division is responsible for the development and maintenance of our professional website, where information on the Company's current situation is available. In April 2008, the Retail Investor Association (SII) expressed its appreciation for the achievements of the Investor Relations Division by awarding PGNiG SA the first place among the fuel sector companies in the ranking of investor relations

Shareholder structure

Shareholder	Number of shares as at Dec 31st 2008	% of share capital held as at Dec 31st 2008	Number of votes as at Dec 31st 2008	% of total vote held as at Dec 31st 2008
State Treasury	4,999,999,999	84.75	4,999,999,999	84.75
Other	900,000,001	15.25	900,000,001	15.25
Total	5,900,000,000	100.00	5,900,000,000	100.00

quality. In February 2009, PGNiG SA 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. Over one year we moved up in the ranking by 50 places.

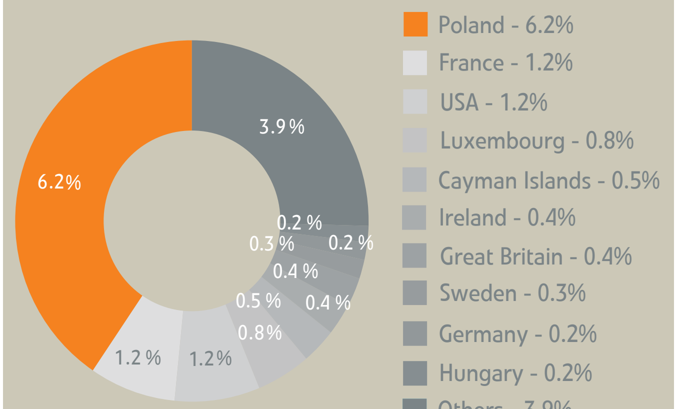
Performance of the PGNiG SA Stock in 2008

Over 2008, the price of the PGNiG SA stock fell by 29.4%, from PLN 5.10 per share as at December 28th 2007 to PLN 3.60 per share as at December 31st 2008. Factoring in the dividend payment of PLN 0.19 per share, the rate of return on the Company stock was negative, at -25.7%. In 2008, the highest closing price was recorded on January 8th (PLN 5.47), and the lowest on September 17th (PLN 2.98). Over the year the price of the Company shares peaked on January 9th 2008 at PLN 5.57, and the year's low was PLN 2.92 on October 10th 2008.

In 2008, the WIG and WIG20 indices dropped by 51.07% and 48.21%, respectively, while the main index reflecting the situation in the fuel sector, WIG-Paliwa, went down by 46.75%. The outperformance of PGNiG SA over the same time attests to a relatively large interest in the Company stock and consistent development of our investor relations.

As at December 31st 2008, when compared with the respective figures for December 28th 2007, the weight of PGNiG SA in each of the indices increased as follows:
- in WIG – from 2.24% to 3.33%;
- in WIG20 – from 3.88% to 5.06%;
- in WIG-Paliwa – from 19.41% to 26.89%.

FREE FLOAT STRUCTURE BY COUNTRY



In 2008, the main driver of the fluctuations of stock exchange indices globally was information on the economic developments in the United States. The financial crisis pushed down stock prices all over the world. The Warsaw Stock Exchange was not spared. It should be stressed here that the price of the PGNiG SA stock was affected by the global macroeconomic situation, and investors' decisions were not based on the Company's announcements.

Performance of the WSE indices and the PGNiG SA stock in 2008

	Value/price as at Dec 28th 2007	Year's high	Year's low	Value/price as at Dec 31st 2008	Rate of return	PGNiG SA weight in the index as at Dec 31st 2008
WIG	55,649	55,521	24,853	27,229	- 51.1%	3.33%
WIG20	3,456	3,432	1,547	1,790	- 48.2%	5.06%
WIG-Paliwa	3,548	3,636	1,738	1,889	- 46.8%	26.89%
PGNiG SA	5.10	5.47	2.98	3.60	- 29.4%	NA

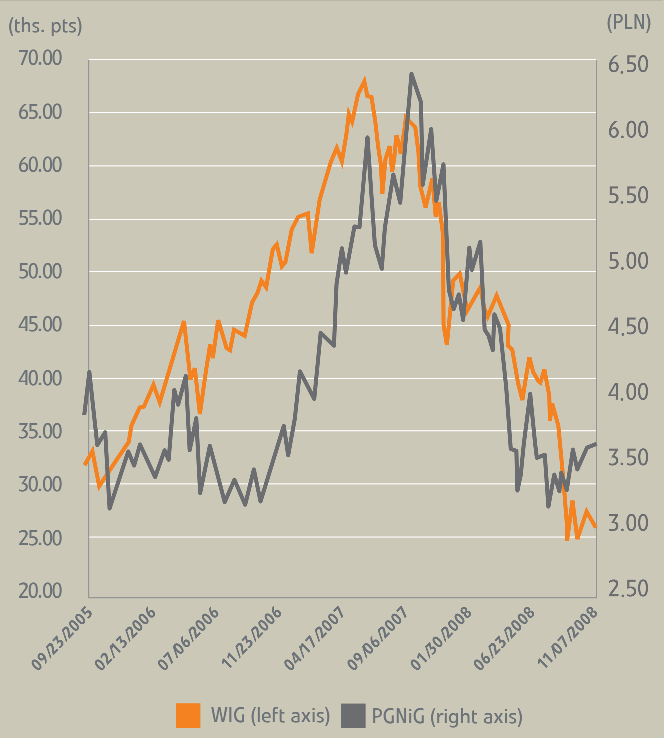
Source: WSE.

Comparison of the rate of returns for the WSE indices and PGNiG SA stock

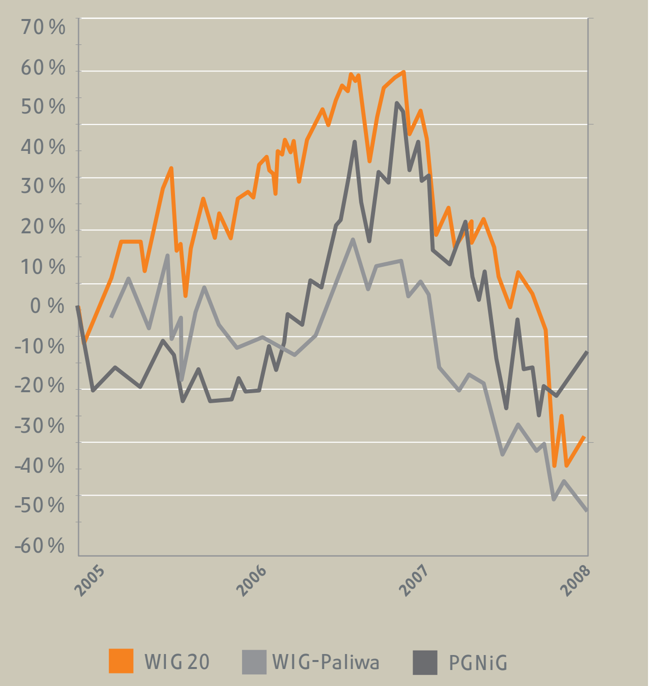
	2006 rate of return	2007 rate of return	2008 rate of return	Change [p.p.]
WIG	39.9%	8.7%	- 51.1%	-59.8
WIG20	21.9%	3.2%	- 48.2%	-51.4
WIG-Paliwa	-12.6%	9.2%	- 46.8%	- 56.0
PGNiG SA	3.7%	37.1%	- 29.4%	- 66.5

Source: WSE.

PGNIG TOCKS RICE P IVS. DEXINW



PERCENTAGE CHANGES IN PGNIG STOCK PRICE, THE WIG20 INDEX AND WIG-PALIWA INDEX REBASED TO THE COMPANY'S DEBUT



Analysis of the PGNiG SA Stock Price in 2008

January 4th 2008

SNC Lavalin Services Ltd won the tender for the design of the LNG regasification terminal in Świnoujście, with the price of PLN 26m. Investors rewarded the selection of this Canadian company, and the price of PGNiG SA stock moved up by 1.9%, to PLN 5.30. On the other hand, in late January and early February, significant declines were recorded, often without any relation to the events disclosed in the Company's reports. The market momentum was slowly diminishing, which had a bearing on the performance of our stock: between January 10th and February 21st, the price went down by about 20%.

February 25th 2008

Polish Oil&Gas Company - Libya B.V., a subsidiary of PGNiG SA, signed the Exploration and Production Sparing Agreement (EPSA) with the Libyan state-owned National Oil Corporation (NOC). The news of the expansion of PGNiG SA's exploration and production operations in Libya had a favourable effect on the price of our stock – on the date of the announcement, the price went up by 1.2%, to PLN 4.40.

February 28th 2008

The Q4 2007 consolidated report was released. Our financial result was adversely affected by impairment tests for non-current assets performed at the distribution companies. Since PGNiG SA had earlier published information on the impairment charge and its amount, the worse performance came as no surprise to the market. The stock price increased by 2.6%, to PLN 4.43.

March 12th 2008

A new Management Board of PGNiG SA was appointed. The market responded positively to the new Board, composed – as emphasised in the comments – of persons who had been active in the fuel industry for years and had consummate knowledge of PGNiG SA's operating environment. As a result, the price of the Company stock increased by 0.7%, to PLN 4.77 per share.

April 11th 2008

PGNiG SA received the decision issued by the President of the URE, approving, as of April 10th 2008, a new gaseous fuel and charge rate tariff. The wholesale price of gaseous fuel was increased by 15.3%, while charge rates grew by 14.3% on average. The Company originally applied for a 30% increase in the tariff prices. Accordingly, the increase lower by half adversely affected the price of the PGNiG SA stock. On that day, the price dropped by 6.2%, to PLN 4.41.

April 29th 2008

The Company published its consolidated 2007 report. The operating profit and net profit disclosed in the annual report were lower by PLN 450m and PLN 336m, respectively, than the respective figures previously released in the Q4 2007 report. The adjustments resulted from the creation of additional provisions for the cost of reclassifying items of property, plant and equipment from lease, and from a change in impairment charges for assets. As a consequence, the price of PGNiG SA stock fell by 5.0%, to PLN 4.03.

May 14th 2008

The consolidated Q1 2008 report was published. The results exceeded expectations of the market and confirmed the PGNiG Group's well-established market position. The report met with a very good response from the investors – the price of the Company stock increased by 5.7%, to reach PLN 4.47. In the next month, given the inflow of more and more worrying news from the US property market, a strong downtrend set in on the WSE; the price of PGNiG SA stock went down again, by about 20%.

June 26th 2008

The Annual General Shareholders Meeting approved the distribution of the 2007 profit. The dividend was set at PLN 0.19 per share. Because the market expected higher dividend, between June 26th and July 1st the PGNiG SA share price fell by 7.0%, from PLN 3.42 to PLN 3.18.

July 30th 2008

The Supervisory Board approved the signing of an agreement with PBG SA for the development of the largest documented Polish crude oil and natural gas deposits, located near Lubiatów, Międzychód and Grotów. The announcement was very well received by stock market players; on the same day the PGNiG SA stock price grew by 5.3%, to PLN 3.75.

August 6th 2008

One of the economic newspaper published an article in which it suggested that PGNiG SA's financial figures for the second quarter of 2008 would be much worse than the market forecasts. The news frightened investors and, as a result, the Company's stock price fell by 7.7%, to PLN 3.58.

August 13th 2008

PGNiG SA presented the consolidated report for the second quarter of 2008, which confirmed the market's concerns that the Company's financial performance would fall short of expectations. On the same day, PGNiG SA published a current report in which its forecast of the natural gas production volume in 2008 and 2009 was revised downwards. The market reacted immediately – at market close our stock price fell by 3.3%, to PLN 3.48.

October 10th 2008

During trading hours the PGNiG SA stock price fell to its all-time low of PLN 2.92 (the issue price was PLN 2.98). Such a poor performance of the Company shares was the effect of the worsening financial crisis and indiscriminate withdrawal of foreign investors from the Warsaw Stock Exchange. During the subsequent days our share price recovered – on October 14th the PGNiG SA stock traded at PLN 3.39.

October 17th 2008

PGNiG SA received the decision of the President of the URE approving changes in the tariff for gaseous fuels. The charges increased on average by 8.0%, while the wholesale price of natural gas grew by 11.1%. Considering very high crude oil prices in the third quarter of 2008, which translated into a significant rise in the price of imported gas, investors found the tariff increase too small. This had a negative effect on the Company's stock price, which fell by 4.4%, to PLN 3.08. During the subsequent days the market sentiment improved – the PGNiG SA stock price reached PLN 3.28 as soon as on October 21st.

November 13th 2008

The consolidated report for the third quarter of 2008 was published. PGNiG SA's financial figures turned out to be in line with the market forecasts. On the same day, the Company also announced its Strategy until 2015. The response of the investors was neutral. The closing price on that day was PLN 3.50.

MANAGEMENT BOARD

Mr Michał Szubski
– President of the Management Board

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 SA 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, and later he served as General Director of Warsaw Gas Plant at Mazowiecki Zakład Gazowniczy. 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 SA.

Mr Mirosław Dobrut
– Vice-President of the Management Board for Gas and Trade

Graduate of the Faculty of Electrical Engineering at the Częstochowa University of Technology; completed training at the Gdańsk Foundation for Management Development. Since the beginning of his professional career he was associated with the gas industry. He started as a trainee at the Gdańsk Gas Plant and climbed up the ranks to the position of director. He has worked at the Chamber of the Natural Gas Industry since 2005, first as Director and later as President.

Mr Radosław Dudziński
– Vice-President of the Management Board for Strategy

Graduate of the Warsaw University of Technology, with a specialisation in gas engineering. He holds Executive MBA degree from the University of Illinois Urbana Champaign. He has been with PGNiG SA 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.

As at June 17th 2009.

Mr Sławomir Hinc
– Vice-President of the Management Board for Finance

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 Financial Director at OGP GAZ-SYSTEM SA.

Mr Mirosław Szkałuba
– Vice-President of the Management Board for Labour Issues and Restructuring

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 SA 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 SA Supervisory Board member appointed by the employees.

Mr Waldemar Wójcik
– Vice-President for Oil Mining

Graduate of the AGH University of Science and Technology of Kraków, with a degree of Master Engineer of Oil Mining. Since 1981, he has been working at Sanocki Zakład Górnictwa Nafty i Gazu. In 1994 - 1996, he was a member of the Workers Council at PGNiG SA. From 2001 till appointment to the Member and Vice-President of the Management Board, Mr Waldemar Wójcik has been the Director of Sanocki Zakład Górnictwa i Gazu and later the Director of PGNiG Branch in Sanok.

Letter from the Chairman of the Supervisory Board

Dear Ladies and Gentlemen,

The year 2008 was exceptional in terms of economic developments both in Poland and worldwide. Adverse macroeconomic phenomena and processes, occurring on a scale not seen in the recent years, hit small businesses and multinational corporations alike. Companies had to revise their plans to meet new challenges.

That was also true about Polish Gas and Oil Company. However, the financial performance of the PGNiG Group in 2008 shows that despite the unfavourable macroeconomic environment the Group was able to generate profits similar to those for 2007 (PLN 866m for 2008 vs. PLN 916m for 2007). We can therefore say that, all in all, the Group fared well in 2008.

It was also a good year in terms of new initiatives and projects undertaken by PGNiG Group. One of the most important and long-awaited projects was the publication, on November 13th 2008, of the "Strategy for the PGNiG Group until 2015". The Strategy defines the development vision for the Group and lays down the plans related to the Polish gas market and expansion into selected foreign markets – a path leading to higher company value. It is an important signal to our shareholders.

Another project, vital from the corporate governance perspective, was the appointment of the Audit Committee by the Supervisory Board, on November 27th 2008. The powers of the Committee include ongoing monitoring of the financial reporting process, the reliability of financial information presented by the company, and the effectiveness of internal control systems, internal audit and risk management.

Despite the depreciation of the złoty and the economic slowdown, PGNiG SA did not curb the investment projects which were essential to the national energy security. The year 2008 marked the launch of the development work on the Lubiatów-Międzychód-Grotów (LMG) fields, which will allow PGNiG SA to double its crude oil production and increase natural gas production as soon as in 2013. The expansion of underground gas storage facilities, including the largest one in Wierzchowice, was also commenced. This project will not only help to increase the mandatory stocks specified in the Act on Reserves of Crude Oil, Petroleum Products and Natural Gas, but will primarily serve to enhance Poland's energy security.

2008 was also a time when the Group intensified its international exploration activities, chiefly on the Norwegian Continental Shelf, by purchasing further, promising exploration licences for natural gas and crude oil. In addition, the Group companies commenced or continued their activities in Denmark, Egypt, India, Libya and Pakistan. The services provided by the Group companies meet the highest international standards and the high appreciation the companies enjoy among their business partners make it easier for them to expand into foreign markets.

The Supervisory Board has been, and will be, carefully observing all aspects of PGNiG SA's operations. Due to the overall economic climate, 2009 is not likely to be an easy time. Nonetheless, the PGNiG Group stays on the value growth path, and this fact justifies an optimistic outlook on further development and profits in 2009.

What supports the above claim is the experience and commitment of the Group employees, who represent invaluable assets, especially in hard times. I believe that the effects of their work will contribute to satisfactory profits to our shareholders.

Prof. Stanisław Rychlicki, PhD
Chairman of the Supervisory Board
PGNiG SA

Supervisory Board

Mr Stanisław Rychlicki
– Chairman of the Supervisory Board

Graduate of the Faculty of Geology and Exploration at the AGH University of Science and Technology of Kraków. He has been following his carrier path with the Faculty of Drilling, Oil and Gas, where he currently serves as Head of the Chair of Oil Engineering and Deputy Dean of the Faculty of Drilling, Oil and Gas. In 1980–1986, Mr Rychlicki was a professor at the University of Science and Technology in Algiers, Algeria.

Mr Marcin Moryń
– Deputy Chairman of the Supervisory Board

Legal counsel, graduate of the Law and Administration Faculty at the University of Łódź. Since May 2006, Mr Moryń has been the acting director for the monitoring of privatisation commitments at the Ministry of State Treasury. In 2001–2006, he was Head of the Legal Department of the Ministry of State Treasury.

Mr Mieczysław Kawecki
– Secretary of the Supervisory Board

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

Mr Grzegorz Banaszek
– Member of the Supervisory Board

Graduate of the Faculty of Organisation and Management at the University of Warsaw, and of the Warsaw School of Economics. Mr Banaszek is in charge of capital-market-related aspects of the Group's operations. He has cooperated with numerous financial institutions. Currently he serves as Organisation and Management Adviser to the President of the Management Board at Totalizator Sportowy sp. z o.o.

Ms Agnieszka Chmielarz
– Member of the Supervisory Board

Graduate of the Faculty of Chemistry at the Academy of Technology and Agriculture in Bydgoszcz. She has worked for PGNiG SA for many years. Currently, she works at the Trade Department of the Bydgoszcz Gas Plant.

Mr Marek Karabuła
– Member of the Supervisory Board

Graduate of the Faculty of Management at the Kraków University of Economics. President of the Management Board of Nafta Polska SA since January 2008 and Deputy Chairman of the Supervisory Board of PKN ORLEN SA since February 2008. Previously, he worked for such companies as Rafineria Trzebinia SA, ORLEN Oil sp. z o.o., and Browary Polskie Brok-Strzelec SA.

Mr Mieczysław Puławski
– Member of the Supervisory Board

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 also 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

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

As at June 17th 2009.

CALENDAR OF EVENTS 2008

January

On January 10th 2008, Polskie LNG sp. z o.o. entered into an agreement with SNC Lavalin Services Ltd., the winner of a tender for preparing the design of an LNG terminal in Świnoujście. The terminal will be the first project of that type in the Baltic Sea basin. The agreement with SNC Lavalin provides for designing an LNG terminal equipped with such facilities as complete unloading and regasification installations as well as for obtaining the building permit.

February

PGNiG Group is intensifying its exploration and production operations in Libya. On February 25th 2008 Polish Oil&Gas Company – Libya B.V., a subsidiary of PGNiG SA, signed an Exploration and Production Sparing Agreement (EPSA) with the Libyan state-owned National Oil Corporation (NOC). The EPSA covers the area of Licence 113 within the Murzuq Basin. PGNiG SA acquired this licence in December 2007, in the 4th Round of the Public Tender for the exploration and production of natural gas. Block No. 113, with a surface area of 5,494 km^2, is situated at the borderline between the Murzuq and Gadamesh Basins, close to the Algerian border. POGC-Libya B.V. undertook to implement a minimum work programme for the total amount of USD 108m.

March

On March 12th 2008, the Supervisory Board of PGNiG SA completed the competition procedure for positions of Management Board members. Mr Michał Szubski was appointed to the position of President of PGNiG SA, Mr Mirosław Dobrut was appointed Vice-President and Director of Investments and Technology, Mr Sławomir Hinc was appointed Vice-President and Financial Director, and Mr Radosław Dudziński was appointed Vice-President and Director of Strategic Projects. The employees' representative on the Board is Mr Mirosław Szkałuba, who was appointed Vice-President and Labour Issues and Restructuring Director.

April

On April 10th 2008, the President of the URE issued a decision approving the new PGNiG SA Tariff No. 1/2008 for gaseous fuels, effective as of March 31st 2009. The charge rates increased on average by 14%, while the wholesale price for gaseous fuel grew by 15%.

On April 28th 2008, the Extraordinary General Shareholders Meeting of PGNiG SA appointed the Supervisory Board for the new term of office, commencing on April 30th 2008 and ending on April 30th 2011. The following persons were elected to the Supervisory Board: Mr Grzegorz Banaszek, Mr Hubert Konarski, Ms Joanna Stuglik, Mr Marcin Moryń, Mr Mieczysław Puławski, Mr Stanisław Rychlicki and the members elected by the employees of the PGNiG Group: Ms Agnieszka Chmielarz, Mr Mieczysław Kawecki and Ms Jolanta Siergiej.

Calendar of Co

May

On May 21st 2008, PGNiG SA opened its representative office in Kiev, Ukraine. This attests to the great importance that PGNiG SA's management attaches to the cooperation with Ukrainian oil and gas companies. The representative office's key task is to act as an intermediary between PGNiG SA and its Ukrainian partners.

June

On June 20th 2008, the Management Board of PGNiG SA selected the winner of a tender for the development of crude oil and natural gas deposits located near Lubiatów, Międzychód and Grotów. The tender was awarded to a consortium composed of PBG SA of Poland, Technip KTI SpA of Italy and Thermo Design Engineering Ltd. of Canada. The value of the investment project was estimated at PLN 1.7bn (VAT inclusive). It was envisaged that the period required to complete the project should not exceed 56 months from the contract execution date. It is one of the largest investment projects related to the production of hydrocarbons in Poland.

On June 18th 2008, PGNiG SA acquired in a public offering four million and one share in Zakłady Azotowe Tarnów-Mościce (ZAT). Following the transaction, PGNiG SA holds a 10% interest in the share capital of ZAT. The total value of the investment was PLN 78m. For PGNiG SA the acquisition represents a long-term investment – the first step on the path to building a multi-energy company. Extending the value chain will allow PGNiG SA to increase gas sales and consolidate its market leadership.

On June 25th 2008, the Ministry of State Treasury sold one PGNiG SA share owned by the State Treasury. Following the transaction, a block of 12.71% of the Company shares could be delivered free of charge to the eligible employees. The shares acquired by the employees may be sold after July 1st 2010. The members of the Company's Management Board will be able to sell their shares after July 1st 2011.

2008

rporate Events

July

A deposit of natural gas was discovered in the Kromolice-1 well, located near Środa Wielkopolska. The work on the well is carried out by PGNiG SA in cooperation with FX Energy Poland. As a result of drilling, the well flowed gas from red sandstone. PGNiG SA holds a 51% interest in the project, while the interest of FX Energy Poland is 49%.

August

PGNiG SA concluded an agreement for the development of crude oil and natural gas reserves located near Lubiatów, Międzychód and Grotów. The project is a major step towards increasing PGNiG SA's crude oil and natural gas output and strengthening Poland's energy security. The deposits in the Lubiatów, Międzychód and Grotów area contain documented producible reserves of 7.25m tonnes of crude oil and approx. 5.5 bcm of natural gas.

On August 14th 2008, the Sanok Branch opened a new Natural Gas Mine in Tarnogród. The investment project will allow the Company to commence production from the Tarnogród-Wola Różaniecka natural gas deposit, with reserves estimated at 450mcm. In the first year of operations, the Company plans to produce approx. 40 mcm of high-methane gas (with the methane content of over 98%). The deposit's reserves will be sufficient for 20 years of production activity.

September

PGNiG SA and Germany's Verbundnetz Gas Aktiengesellschaft (VNG) of Leipzig concluded an agreement on the supply of natural gas to the Lasów delivery point. The agreement provides for the purchase of approx. 500 mcm of natural gas annually in the period from October 1st 2008 to September 30th 2011.

October

The Management Board of PGNiG SA, at its meeting held on October 3rd 2008, selected the winner of the tender for the construction of an underground gas storage facility in Wierzchowice. The project, valued at PLN 1.09bn (VAT exclusive), will be executed by a consortium led by PBG SA The project is very important for the Company's continued development and for the strengthening of Poland's energy security. Upon completion of the extension work, Wierzchowice's storage capacity will increase from 0.575 bcm to 1.2 bcm. The deadline for the project's completion was set at 36 months from the contract execution date.

On October 17th 2008, PGNiG SA received the decision of the President of the URE approving changes to Tariff No. 1/2008 for gaseous fuels. Following the changes in the Tariff, gas charges increased on average by 8%. The wholesale price for natural gas grew by 11%. The new PGNiG SA gas prices came into effect as of November 1st 2008.

Calendar of Co

On October 22nd, PGNiG SA, Grupa Lotos SA and Energa SA signed a letter of intent concerning the implementation of a joint energy project. The project will involve the construction of a modern gas-fired combined heat and power plant in Gdańsk. It will help to partially meet the increasing demand for electricity in the Pomerania region, and will also provide electricity and process steam for the Grupa Lotos SA's refinery, which is currently being extended. According to the signed letter of intent, the Energa Group will be responsible for the construction of the CHP plant, PGNiG SA will supply gas, and Grupa Lotos SA will be the major customer of the project.

November

The Company announced "The Strategy for the PGNiG Group until 2015", which will be based on six strategic pillars: development of the trading business, securing of natural gas supplies, development of the exploration and production business, expansion of the existing and construction of new storage capacity, improvement of the profitability of the distribution operations, as well as expansion of the scope and scale of operations (extension of the value chain). The PGNiG Group plans to spend from PLN 25bn to PLN 30bn to achieve these objectives.

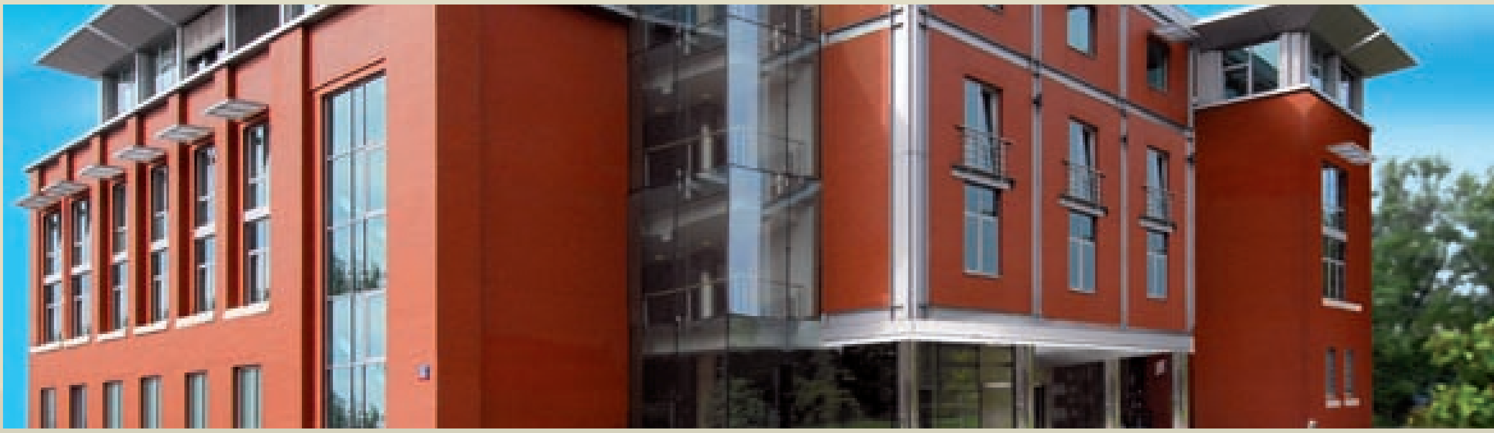
PGNiG SA concluded with a consortium of companies, comprising PBG SA of Poland, Tecnimont SpA of Italy, Société Française d'Etudes et de Réalisations d'Equipements Gaziers "SOFREGAZ" of France and Plynostav Pardubice Holding AS – Plynostav Regulace Plynu AS of the Czech Republic, a general contractor agreement for the execution of the investment project involving the extension of the Wierzchowice Underground Gas Storage facility from 0.575 bcm to 1.2 bcm by 2012.

December

The sale of 100% of shares in Polskie LNG sp. z o.o. to OGP GAZ-SYSTEM SA, carried out pursuant to the agreement of November 28th 2008, was finalised. The selling price of PLN 52m was determined based on a valuation made by an independent appraiser. As a result, OGP GAZ-SYSTEM SA will supervise the construction of the LNG terminal in Świnoujście, while PGNiG SA remains responsible for the supplies of liquefied natural gas to the terminal.

2008

rporate Events



CORPORATE GOVERNANCE

A success of a large company, such as PGNiG SA, depends not only on a well thought-out strategy or efficient management. To attract investors' interest, a company has to prove that it abides by principles of proper supervision and management, that is the principles of corporate governance. The Management Board of PGNiG SA makes every effort to ensure compliance with these principles and to make the Company's operations transparent to investors and thus increase the Company's attractiveness.

PGNiG SA's Governing Bodies

General Shareholders Meeting

The General Shareholders Meeting of PGNiG SA is the Company's supreme governing body functioning based on the rules defined in the Commercial Companies Code and the Rules of Procedure for the General Shareholders Meeting. Through the General Shareholders Meeting, the shareholders exercise their corporate rights, including the examination and approval of the Directors' Report, adopting decisions concerning dividend amount, payment manner and payment date. The State Treasury is the majority shareholder of PGNiG SA, holding 84.75% of total vote at the General Shareholders Meeting.

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 between five to nine members, including one independent member, appointed by the General Shareholders Meeting of PGNiG SA for a joint three-year term. The State Treasury is entitled to appoint and remove one member of the Supervisory Board.

Management Board

The Management Board is the Company's executive body managing the affairs of the Company and representing the Company 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 SA and not reserved for and delegated to other governing bodies of the Company under the provisions of the applicable laws or the Company's Articles of Association. The Management Board operates in accordance with legal 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 acts within the structure of the Supervisory Board as its standing body assisting the Supervisory Board in the performance of its tasks. The Audit Committee is composed of at least three members of the Supervisory Board, including at least one member independent from the Company and any entity with significant connections with the Company, appointed by the General Shareholders Meeting under Par. 36.1 of PGNiG SA's Articles of Association. Such a person has to be competent in accounting and finance matters. The members of the Audit Committee are appointed by the Supervisory Board.

The Management Board of PGNiG SA puts enormous emphasis on meeting the requirements of corporate governance. Since its stock-exchange debut in 2005, the Company has been following the recommendations of the Warsaw Stock Exchange. In 2008, PGNiG SA followed the principles of corporate governance stipulated in the Best Practices for WSE Listed Companies, published as the Appendix to Resolution No. 12/1170/2007 of the WSE Board, dated July 4th 2007.

The Management Board of PGNiG SA did not comply with the following principles:

- Principle No. 6 (in Best Practice for Supervisory Board Members), which stipulates that at least two members of the Supervisory Board should meet the criteria of being independent.

  The Company's Supervisory Board includes one independent member only, who, in accordance with Par. 36.1 of the Company's Articles of Association, is appointed by the General Shareholders Meeting and meets all of the following conditions: he is appointed by way of a special procedure provided for in the Articles of Association; is not an entity being related to or a subsidiary of PGNiG SA; is not related to PGNiG SA's parent undertaking or any other entity being a subsidiary of PGNiG SA's parent undertaking; nor is he a person related to PGNiG SA or any of the aforementioned entities in any way which might materially affect such person's ability to adopt unbiased decisions in his capacity as a member of the Supervisory Board.

Moreover, the Supervisory Board is composed of between five to nine members, and, in accordance with Art. 12 of the Act of August 30th 1996 on the Commercialisation and Privatisation of State-Owned Enterprises, the Supervisory Board includes employees' representatives. The State Treasury, the majority shareholder of the Company, has the right to appoint the majority of the Supervisory Board composition.

PGNiG SA is not able to guarantee a larger share of independent members in the composition of the Supervisory Board, as doing so would restrict the right conferred upon the State Treasury.

- Principle No. 8 (in Best Practice for Supervisory Board Members), which stipulates that Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board should apply to the tasks and the operation of the committees of the Supervisory Board.

Pursuant to the Best Practices for WSE Listed Companies, the principles stipulated in Annex I should apply to the tasks and the operation of the committees of the Supervisory Board. In the case of the Audit Committee, the primary objective of these principles is to ensure that the Audit Committee properly performs its functions.

PGNiG SA has met all the requirements concerning the Audit Committee's participation in the supervision over PGNiG SA's operations. However, PGNiG SA has not met all detailed requirements relating to the operations of the Audit Committee. The principles stipulated in Section 4.3, sub-sections 1, 2, 4–6 and 8 of Annex I have not been implemented at the Company.

- Principle No. 8 (in Best Practices for Shareholders), which stipulates that the General Meeting or the Supervisory Board should ensure that the company authorised to audit financial statements changes at least once every seven financial years.

PGNiG SA has refrained from implementing this principle, deeming it not necessary, given the level of risk involved in the audit of financial statements. Nonetheless, the Company implemented the principle stipulating that the person auditing the Company's financial statements changes at least once in every seven financial years. PGNiG SA believes that such practice is a sufficient guarantee of the objectivity and reliability of the person auditing PGNiG SA's financial statements.

In order to minimise the risk involved in the financial reporting process, PGNiG SA continuously improves individual modules of its integrated management system and ensures that the employees who operate the system enhance their professional skills. A specialist system for managing general financial security has also been implemented. The system supports the following areas: liquidity, foreign exchange risk, as well as budget development and control.

PGNiG SA meets the disclosure requirements through publishing current reports and financial reports, as well as organising press conferences. In order to reach a broad pool of potential users, the conferences concerning the PGNiG Group's financial performance are transmitted on the Internet. PGNiG SA's Web portal has also been enhanced to enable anyone interested in the Company's business to quickly access ample important operating and financial data on the PGNiG Group. It is worth adding here that the Company's employees attend congresses devoted to best practices on an ongoing basis, which increases the quality of PGNiG SA's dialogue with the capital market.

In March 2008, the www.pgnig.pl portal was distinguished as highly functional and intuitive. PGNiG SA's Web page ranked fifth among corporate websites of the 16 largest Polish companies. The ranking was based on a research conducted by the Swedish consulting company Hallvarsson & Halvarsson.

In April 2008, PGNiG SA ranked first among fuel sector companies in the ranking assessing the quality of investor relations, conducted by Retail Investor Association (SII). The ranking was designed to provide investors with information on companies implementing a high-quality disclosure policy.

STRATEGY FOR THE PGNIG GROUP UNTIL 2015

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

Polish Gas and Oil Company is a company with tradition, enjoying a well-established leading position on the Polish gas market. Over the long years of its development, the Company has gathered valuable assets and controls numerous segments of the energy market (natural gas production, storage, sale and distribution), which provides a robust foundation for its further growth and steady increase in value.

The overarching strategic objective pursued by PGNiG SA is to achieve a shareholder value growth. The Group'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 activity make up the PGNiG Group's vision that by 2015 the Group will be a modern and effectively managed organisation, controlling the entire value chain of the gas sector – from deposits to customer relations, owning assets from the fuel, chemical and power sectors.

Developing the Trading Business

PGNiG SA's trading business consists in satisfying the domestic demand for gaseous fuel through transactions of purchase/sale of natural gas. PGNiG SA sells natural gas to both retail and industrial customers, and undertakes other measures actively supporting the trade (building lasting customer relations, designing new products, constructing tariffs as well as off-tariff product and service price lists, and broadly meant marketing actions).

Given the dynamic changes in the legal and business environments, the PGNiG Group has to undertake numerous steps in the trade area, as only then will the Group be able to maintain its leading position on the Polish market under free competition conditions.

With respect to development of the trading business, PGNiG SA has set the following objectives:
- consolidating the dominant position on the domestic market;
- ensuring market-level profitability of the gas trading business;
- developing a coherent trading policy for the PGNiG Group.

Consolidating the dominant position on the domestic market

In view of the energy market liberalisation in Poland, maintaining the dominant position proves a great challenge. PGNiG SA plans a number of actions designed to secure the Company's dominant position on the domestic market, including:
- increase in the annual volume of gas sold to small and medium-size customers (i.e. customers buying less than 50 mcm of gas per year) on average by 1.5%. This is to be achieved thanks to increased demand from the existing customers and expansion of the customer base. Winning new customers, both corporate and retail ones, involves connecting new areas within the territory of Poland (not yet covered by the Group's operations) to

the gas transmission network;
- increase in sales to large industrial customers (including by 100% to customers from the power and heat sector). Connecting new, large customers contributes to major increases in sales and secures long-term contracts for gas supplies.

Ensuring market-level profitability of the gas trading business

Sales of natural gas in Poland are restrictively regulated under tariffs in all market segments. Such a model of gas trade regulation has numerous adverse consequences, such as losses on natural gas imports, under-priced gas from domestic sources or imposing the entire trade risk on trading companies. In order to ensure profitability of gas trading and increase market competition, PGNiG SA has taken the following measures:
- activities aimed at changing the regulation of the gas sector in Poland. Short-term objectives provide for increasing the natural gas sale price to a rational level which would fully cover the justified costs of gas trading business, as well as exploration and production business. A longer-term objective is to release trading companies from the obligation to submit tariffs for approval;
- reducing the costs of customer service through optimisation of internal processes across the organisation;
- implementation of a management system for risk relating to changing weather conditions. Such a system would support minimising the enterprise's loss or offsetting lower sales caused by unfavourable weather conditions.

Developing a coherent trading policy for the PGNiG Group

The execution of tasks connected with this objective should contribute to increases in sales of natural gas and number of customers. It should also support the enhancement of PGNiG SA's portfolio with new products. The objective will be achieved through:
- enhancing the attractiveness of the offer for customers. Broadening the product and service portfolio is another, in addition to sales of natural gas, significant source of revenue;
- streamlining the trading and marketing processes. In addition to actions aimed at streamlining the process of connecting new customers to the network, the Company plans to implement solutions bringing the customer service quality and availability to the highest level. The number and locations of Customer Service Points (BOKs) will be revised, e-BOKs will be established and the call centre service will be further developed. All these organisational units will ensure comprehensive service covering all products and services offered by PGNiG SA. Servicing customer complaints will also be centralised to ensure the uniform standard in the examination of complaints.

What we have already managed to achieve

In 2008, the Trade Branch of PGNiG SA was liquidated and six Gas Trade Branches were established, with offices in Gdańsk, Poznań, Tarnów, Warsaw, Wrocław and Zabrze. The new branches are superior to 23 Gas Plants. The geographical areas of operations of the six Trade Branches correspond with the areas covered by the operations of the relevant Gas Companies, members of the PGNiG Group. The next phase will include process streamlining, as well as implementation of uniform customer service standards and a visualisation system. The reorganisation is designed to better adapt the Company to the requirements of competitive market.

The PGNiG Group has also taken the first steps to broaden the product offering by developing the CNG market and increasing the production of LNG. This is particularly important on the Polish market, where sale, transmission and distribution of gas are all subject to regulation.

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 from abroad. The Group's own production covers around 30% of the demand, with the balance covered by imports from foreign partners, mainly from east of Poland (with OOO Gazprom Export being the largest supplier). Given the strong dependence on natural gas supplies from a single source, the Company strives to diversify the sources and directions of gas supplies. Therefore, the following steps have been taken to guarantee secure and uninterrupted supplies of natural gas:
- construction of new transmission facilities has commenced with view to enabling gas supplies to Poland from new directions;
- focus on establishing appropriate structure of import contracts;
- conduct of international oil and gas trading.

Construction of new transmission facilities

The construction of appropriate infrastructure supporting diversification of supplies will enable import of natural gas to Poland from different directions and multiple suppliers. In order to develop the infrastructure which would enable the Company to supply natural gas to its customers at competitive prices, PGNiG SA has envisaged the following strategic initiatives:
- cooperation with OGP GAZ-SYSTEM SA which is executing the Baltic Pipe project, in order to streamline and optimise to the maximum extent the completion of the construction of an undersea pipeline supporting natural gas supplies from Denmark to Poland and, in a longer term, also from Poland to Denmark;
- implementation of the Scanled project, which will give the Company access to the Norwegian reserves of natural gas. This will enable PGNiG SA to both transmit its own gas produced from the fields on the Norwegian Continental Shelf and import gas produced there by other entities;
- cooperation with OGP GAZ-SYSTEM SA on the LNG Regasification Terminal project. The key advantage of the project is the possibility of gas supplies bypassing the traditional transport routes;
- construction of system interconnections on Poland's Western border in 2011 and on the Southern border in 2014, implementation of a number of complementary projects. The construction of system interconnections will support trade with neighbouring countries and participation in Europe's balancing markets. The investment projects planned in this scope include:
  – construction of a system interconnection with Germany;
  – construction of the Southern system interconnection, which will secure access to the gas hub in Baumgarten;
  – extension of the Lasów interconnection by OGP GAZ-SYSTEM

SA in cooperation with PGNiG SA.

Once the strategic projects are implemented, the system interconnections will enable the export of surplus natural gas to Western Europe when the supplies to the Polish market exceed demand.

- steps promoting the development of the Polish gas transmission system (OGP GAZ-SYSTEM SA is responsible for the development as the Transmission System Operator). Creation of an efficient network of gas transmission pipelines is among the key preconditions for the delivery of gas sourced from the diversification projects to customers.

Establishing appropriate structure of import contracts

Given the strong dependence on a single supplier from a single direction, the PGNiG Group strives to change the structure of imports by balancing supplies from the East with supplies from the West and North (over the transmission networks and as LNG), with a rational level of the Group's own production.

Appropriate structure of import contracts will be achieved through:

- securing imports of 3.0 bcm–4.5 bcm of natural gas in the years 2010–2014 until the strategic projects are completed;
- extension of the Yamal contract for another 15–20 years;
- signing a contract (contracts) for supplies of the natural gas to the LNG regasification terminal;
- reservation of up to 3.0 bcm annually of the capacities of the Scanled and Baltic Pipe gas pipelines;
- reservation of the Danish transmission system's capacity at a level corresponding to the reservation of the Scanled pipeline capacity;
- reservation of approx. 1 bcm annually of the Nabucco gas pipeline's capacity.

Conduct of international oil and gas trading

Upon launch of international trading in natural gas and crude oil, the PGNiG Group will become an active player on the liberalised European gas market, not only in the production segment, but also in the trade segment, thus extending the controlled value chain. Trading will support the processes of diversifying gas supply sources and risk management, while securing competitive selling prices. Being a player on the European market will be particularly important if surplus supplies of natural gas occur in Poland.

What we have already managed to achieve

As part of the construction of appropriate infrastructure supporting diversification of supplies, the PGNiG Group has commenced the execution of projects related to the Northern (Scandinavian) region and sea transport of liquefied gas. In 2008, the Company spent approximately PLN 320m on these projects, with the largest part of that amount expensed 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). Moreover, at the beginning of 2009, a PGNiG Group company responsible for the execution of the Scandinavian projects, PGNiG Norway AS, acquired interests in two new exploration licences: PL 350 and PL 419.

PGNiG SA has also commenced the construction of the Boernicke-Police system interconnection between Poland and Germany. The project is designed to support trade with the German market. In 2008, the construction of a gas pipeline with a length of about 14 km was commenced. The interconnection capacity is to reach 3 bcm annually. Work is also in progress on system interconnections with the Czech Republic and Slovakia.

Developing the Exploration and Production Business

Access to the Company's own reserves both in home and abroad is a key to a success. For this reason, PGNiG Group will continue to develop its exploration and production business in Poland and abroad. The limited domestic reserves and growing cost of developing new fields make it necessary for the PGNiG Group to undertake exploration and production business outside Poland. Currently, the Group's exploration and production business abroad concentrates within the Norwegian Continental Shelf, North Africa and Middle East. While selecting expansion directions, the Company will factor in the probability of finding deposits of crude oil and natural gas, political situation in the country exporting these hydrocarbons, feasibility of gas supplies to Poland, legal environment and feasibility of cooperation with other sector players (both Polish and foreign), as well as PGNiG Group's ability to finance the projects.

Actions aimed at developing the exploration and production business include:

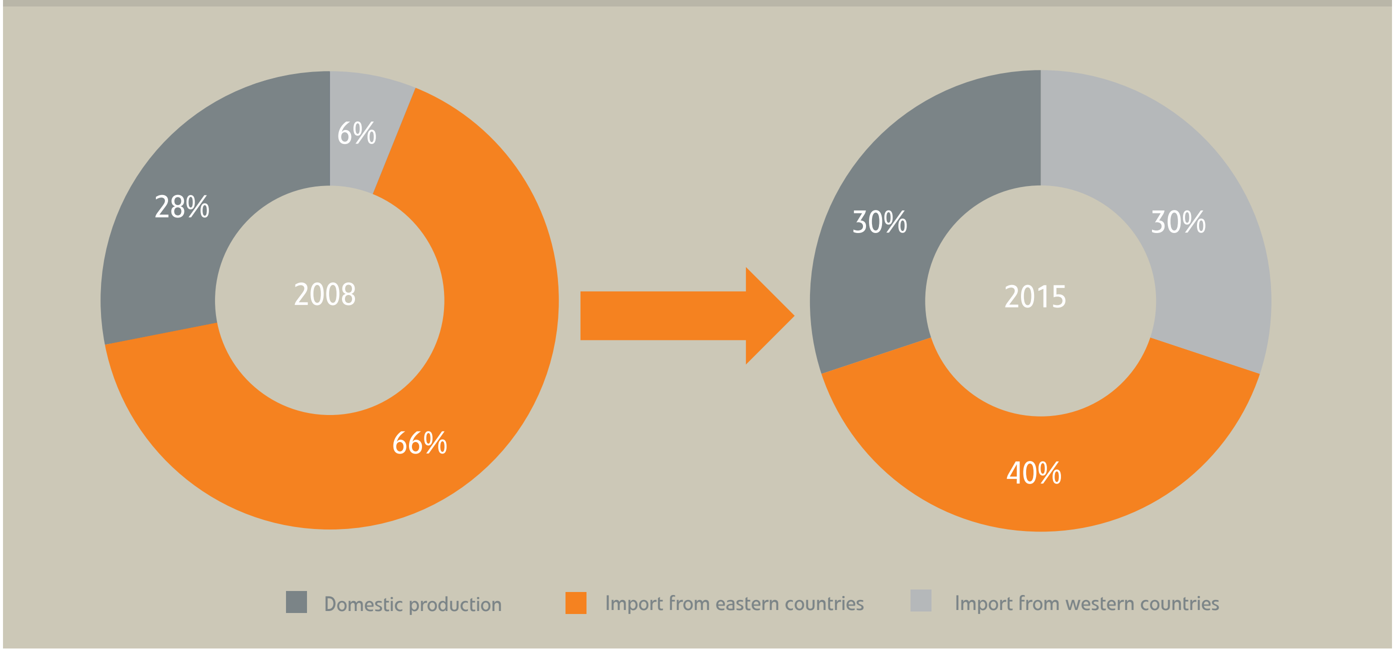
- increasing own production of natural gas to approx. 6.2 bcm (high-methane gas equivalent) and of crude oil to approx. 1.8m tonnes annually in the coming years;
- streamlining operations in the exploration and production segment;
- positioning of PGNiG SA as an international gas player.

Increasing own production of natural gas and crude oil

The intensification of PGNiG SA's exploration and production activity over the recent years offers prospects of higher natural gas and crude oil production. Domestically, new hydrocarbon fields have been prospected and production capacities of the developed fields have been determined. Thanks to the purchase of licences and launch of business on foreign markets, PGNiG SA has increased its reserves of hydrocarbons. Continuous exploration work leading to new discoveries will in turn enable increased production. The Group's objectives in this scope include:

- raising the production capacity of domestic natural gas to approx. 4.5 bcm (high-methane gas equivalent) and of crude oil to approx. 1.0m tonnes annually;
- starting production of oil and gas from fields located abroad in 2011. The PGNiG Group has been continuously monitoring the market with view to acquiring new exploration and production assets. The Group has also been participating in selected licence rounds. The development of business on the Norwegian Continental Shelf should, in a long term, ensure at least 1.5 bcm of the annual production of natural gas from the equity gas reserves;
- maintaining the resources sustainability index at no less than

CURRENT AND PREFERRED STRUCTURE OF GAS SUPPLIES TO POLAND



1.1 over the next five years. Around 30 exploratory and prospecting boreholes will be drilled annually;
- maintaining domestic licence areas of no less than 45–50 ths. km^2, which should secure domestic production at the planned level.

Streamlining operations in the exploration and production segment

Streamlined and rational production of natural gas, understood as compliance with the technological regime, enables the Company to maintain a high share of domestically produced gas in the domestic gas consumption, while preserving the reserves for the next generations. As exploration and production represent a very important area of the PGNiG Group's business, numerous initiatives are planned in this scope, including:
- restructuring the PGNiG Group's exploration companies, which will improve their operational efficiency. The consolidation of these companies (full or partial) will produce synergies contributing to a reduction of unit operating expenses. The restructured organisation will be able to compete on the changing exploration and production market;
- improving the methodology of exploration work in Poland;
- introducing new systems for charging for work performed by the service companies, including the daily rate system. The introduction of such more effective systems will help to optimise the cost of exploration work. Currently, the exploration work is performed under turn-key contracts.

Positioning of PGNiG Group as an international gas player

PGNiG Group's strategic objective is to build its stable position as an 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 Kindgdom, Germany);
- North Africa (Libya, Egypt, Algeria, Tunisia, Morocco and Mauretania);
- Indian sub-continent (India and Pakistan).

On the international market, the Group will implement a multifaceted strategy, providing for acquiring interests in licences or other exploration and production projects, either directly from entities interested in their disposal or through alliances with other companies (e.g. consortia).

Maesures undertaken in this scope will include:
- achievement of a significant position on key markets. In those areas, PGNiG SA intends to establish strong business entities able to independently conduct exploration business in a given country, including as a licence operator;
- achievement of a visible profile on subsidiary markets;
- maintaining the position of a respected and recognised provider of maintenance services. The competitiveness of services offered on the international market will be achieved through the optimum restructuring of the service (maintenance) companies.

What we have already managed to achieve

In 2008, PGNiG SA spent approximately PLN 310m on increasing its production capacities. The majority of the related tasks were connected with the development of new fields or enhancement of productivity of the existing mines. The most important tasks were the LMG Project providing for the development of the Lubiatów, Międzychód, Grotów crude oil and natural gas fields (in August 2008, PGNiG SA signed a PLN 1.4bn agreement for the execution of the project with a consortium composed of PBG SA Polska, Technip KTI SpA of Italy and Thermo Design Engineering Ltd. of Canada), construction of the nitrogen removal facility in Grodzisk Wielkopolski, development of the Kaleje field and construction of a part of the Kaleje-Muchy gas pipeline.

Expanding the Existing and Construction of New Storage Capacity

The storage business plays a key role in stabilising the fluctuating market demand for natural gas and guaranteeing supply security. Given the development of the market and the need to harmonise storage capacity with the applicable legal requirements, PGNiG SA will continue to expand the existing and construct new underground gas storage facilities. In 2015, the planned investment projects providing for the expansion of storage capacity should enable the Company to cover the demand for gaseous fuel from PGNiG SA's customers for at least 70 days.

The strategic objectives relating to the expansion of capacity of underground gas storage facilities include:
- ensuring that sufficient storage capacity is available to accommodate the needs of PGNiG SA's customers and to secure compliance with statutory provisions concerning mandatory stocks;
- establishment of the Storage System Operator;
- provision of gas storage services on commercial terms;
- improvement of the profitability of the storage business.

Ensuring sufficient storage capacity to accommodate the needs of PGNiG SA's customers and to secure compliance with statutory provisions concerning mandatory stocks

Due to the necessity to respond to customers' needs more flexibly, guarantee uninterrupted and stable supplies, mitigate the risk related to limitations in supplies of imported gas, as well as to fulfil the statutory obligation to keep mandatory stocks, the Company has to operate adequate storage capacity. To this end, PGNiG SA plans to:
- expand the existing storage capacity, chiefly in respect of high-methane natural gas, by approx. 2 bcm, to a total target capacity of approx. 3.8 bcm;
- raise funds, including from the EU, for financing the execution of investment projects.

Establishment of the Storage System Operator

The establishment of the Storage System Operator (SSO) is designed to harmonise PGNiG SA's internal structure and business organisation with the EU and Polish legal regulations, with the objective to ensure observance of the Third Party Access principle.

Provision of gas storage services on commercial terms

PGNiG SA plans to introduce gas storage service, for both its own customers and importers of natural gas. The scale of this business will depend on both the demand and free storage capacity. The Company also plans to build underground storage facilities in cooperation with external partners in order to provide gas storage services on commercial terms.

Improvement of the profitability of the storage business

Storage business requires a licence and is subject to regulation, which means that PGNiG SA is obliged to submit a storage services tariff for approval. PGNiG SA has undertaken steps to ensure that the return on capital employed is taken into account in drawing up of the storage tariff, which would guarantee the profitability of investment projects. Given the risk inherent to such business, the minimum return on capital employed in the construction of storage facilities should reach at least 10%–11%.

What we have already managed to achieve

PGNiG SA seeks to raise EU funding for the construction of four underground gas storage facilities located in Wierzchowice, Strachocina, Kosakowo and Mogilno. In 2008, the Company spent nearly PLN 110m on the construction and expansion of high-methane gas storage facilities, with the largest part of the amount applied towards the expansion of the Strachocin and Mogilno facilities. In November 2008, the Management Board of PGNiG SA and the consortium led by the Polish company PBG SA signed an agreement for the expansion of the Wierzchowice Underground Gas Storage facility, from its current capacity of 0.575 bcm to a capacity of 1.2 bcm. The value of the agreement 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 the URE appointed PGNiG SA as the SSO.

Improving the 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 key elements of the Group's strategy. Each of the operators will implement a strategy tailored to the nature of its area of operations.

The strategic objectives designed to improve the profitability of the distribution business are as follows:
- improvement of the profitability of the distribution business;
- cost optimisation;
- optimum development of the distribution network.

Improvement of the profitability of the distribution business

The distribution business is subject to regulation, with tariffs calculated based on justified costs and allowing for the return on capital employed as specified by the President of the URE. In order to improve the profitability of distribution services, the PGNiG Group will seek to obtain approval for such rates which would enable the Group to implement the planned investment projects relating to the expansion of the distribution system. In the distribution area, the targeted return on capital employed (ROE) should reach 7%–8% in 2015. Such ROE would guarantee the execution of the necessary investments in the expansion of the distribution network.

Cost optimisation

In building the value of the distribution business, cost rationalisation at the gas companies and maintaining satisfactory profitability are of key importance. These objectives will be achieved through the implementation of numerous initiatives, including:

- reduction of operating costs;
- consolidation of the Group distribution companies' procurement processes, which will contribute to lower costs related to the core business, in the area of construction, expansion and modernisation of the distribution system.

Optimum development of the distribution network

In the investment activities of the Gas Companies, the top priority is given to connecting new customers in the areas adjacent to the gas network. Through the expansion of gas networks within the communities/municipalities situated within the reach of the transmission and distribution networks, the Company will increase the network density and connect new towns and villages to the network. The following three strategic initiatives will serve this purpose:

- defining uniform rules for the expansion of the distribution network, preceded by market research covering individual geographic areas. Defining uniform rules and procedures will streamline the decision-making process with respect to the distribution network development;
- development of a uniform map of gas distribution pipeline capacity, which will enable the identification of both bottlenecks and free capacity, as well as optimum expansion of gas pipelines according to the customers' demand for gaseous fuel;
- raising EU funds for financing investment projects providing for the expansion of the distribution network, which will significantly contribute to the development of regions where access to gas pipelines is particularly limited.

What we have already managed to achieve

In 2008, the Gas Companies incurred capital expenditure totalling over PLN 940m. The investment tasks related mainly to the expansion of gas networks and connection of new customers.

Expanding the Scope and Scale of Operations

As the Management Board of PGNiG SA perceives further growth potential for the Group, it will take measures leading to the expansion of 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.

Expansion of the PGNiG Group

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

- extension of the value chain to include power generation. The PGNiG Group will join Polish and foreign projects related to the acquisition of new power generation sources, principally those where natural gas will be used as the fuel. It is projected that by 2015 PGNiG SA will hold interests in power plants representing a total of 300 MW of installed capacity. However, the implementation of this plan to a large extent depends on changes in the regulatory regime (replacement of tariffs with negotiated price formulae in the power sector);
- optimisation of power generation and electricity consumption. The PGNiG Group will examine the possibilities of economically viable participation in the electricity market, both from demand and supply side;
- acquisition of CO_2 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 an increase in gas sales and enable the development of a part of domestic gas fields. PGNiG SA does not exclude the establishment of capital links with chemical companies in favourable circumstances;
- alliances with petrochemical companies. Such companies may form a natural extension of PGNiG SA'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.

What we have already managed to achieve

In 2008, PGNiG SA 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 SA, for the expansion of the Stalowa Wola Power Plant and (ii) with Grupa Lotos and Energa SA, concerning the possibility of joint construction of gas-fired power generation units.

TYPES OF BUSINESS RISKS

In conducting their business on the domestic market and outside Poland, the companies of the PGNiG Group are exposed to a number of risks. Major threats identified by the Group include: regulatory risk, market and currency risk, risk related to disruptions in gas supplies and risk of delayed investment projects.

Regulatory Risk

Pursuant to the applicable rules for price regulation, when approving tariffs for a given period, the President of URE considers external factors which are beyond PGNiG SA's control. While verifying costs of operating activities, the President of URE may consider certain cost unjustified or may reject our assumptions with respect to main drivers of cost changes and profit targets, which reflect business risk. This is so because an objective of the President of URE is to protect more vulnerable customers. The URE may also refuse to accept tariff prices and charge rates we apply for. Lower tariff prices and charges adversely affect PGNiG SA's profitability.

PGNiG SA is additionally exposed to the risk associated with the inadequacy of secondary legislation under the current legal acts regulating the Polish gas market. Changes in the legal environment gradually implemented in connection with Poland's accession to the European Union may not allow for the specific nature of our business.

Market and Currency Risk

Prices of imported gas are determined in the US dollar or the euro, and are based on indexation formulae reflecting the prices of petroleum products. Changes in foreign exchange rates and prices of petroleum products materially affect acquisition cost of imported gas. The market of crude oil and petroleum products has been rather unpredictable recently. Material changes in fuel prices on the international markets affect the prices of imported gas. Therefore, any forecasts of natural gas prices are encumbered with a high risk of error.

Risk of Competition

PGNiG SA's share in the domestic gas supply market approximates 98%, with the remaining 2% divided among other suppliers, which, however, purchase gas from PGNiG SA. Hence the most substantial risk of competition is connected with other companies seeking licenses for exploration and prospecting of deposits in Poland and abroad, which is a part of the strategy providing for acquiring access to own hydrocarbon resources. A strong competitive edge may be gained especially by large companies which enjoy established positions on the international markets, allowing them to accept the high risk of exploration activities. Competitors are also able to define, value, offer and purchase numbers of fields (including the operator's activities and underlying licences) larger than it would be possible in the case of PGNiG SA, given the size of our financial and human resources.

Exploration Risk

Exploration activities are associated with the risk of potential failure to discover deposits. A number of factors and assumptions adopted when determining the size of resources and the production projections may turn out erroneous due to flaws in the methods and measurement equipment used in the geophysical surveys, drilling and production testing. Data on economically producible reserves of crude oil and natural gas is only estimative, and the actual production, income and expenses relating to a given deposit may differ from the estimates. Any negative adjustment to the size of the resources or to the production volumes leads to a lower revenue and adversely impacts PGNiG SA's financial performance.

Risk Related to Disruptions in Gas Supplies

In the previous years, the deliveries of natural gas from the markets east of Poland were disrupted. Taking into consideration the difficult relations between the main supplier and the transit countries (Ukraine and Belarus), similar incidents are likely to occur in the future.

Risk Related to Estimation of Capital Expenditure

A protracted investment process exacerbates the risk related to estimation of capital expenditure. A variety of factors, such as fluctuations of the prices of commodities and production materials (notably steel), necessity to comply with the requirements regarding safety of individuals and property as well as environmental protection (Natura 2000 network), unforeseeable circumstances and market competition, may cause the estimated capital expenditure to materially deviate from the amounts assumed in the investment plan.

Risk of Delayed Investment Projects

PGNiG SA's obligation to comply with the Public Procurement Law frequently prolongs the tender procedure. Notices of appeal and complaints submitted by bidders lead to lengthy court proceedings and, consequently, to delays in implementing investment projects. Some of the factors which markedly delay the investment process and postpone the commencement of construction-site work are: local governments' failure to adopt local land development plans (MPZPs), obstacles in incorporating investment projects into the MPZPs and obtaining the required administrative decisions, and difficulties in obtaining permission to commence work from land owners.

Risk of Loss of Highly Qualified Personnel

The presence of foreign companies on the Polish market intensified the outflow of highly qualified employees with vast professional experience. This risk is especially high with respect to professionals specialised in the exploration of natural gas and crude oil deposits.

REGULATORY ENVIRONMENT

The key laws regulating the activities of the PGNiG Group are:

- Polish Energy Law of April 10th 1997 (Dz.U. of 2006, No. 89, item 624, as amended) – with respect to the activities in the area of trade in gaseous fuels, gas distribution and storage of gaseous fuels;
- Act on Reserves of Crude Oil, Petroleum Products and Natural Gas, as well as Rules of procedure to be followed when the state's fuel security is threatened or the petroleum market is disturbed, dated February 16th 2007 (Dz.U. of 2007, No. 52, item 343, as amended) – with respect to the activities in the area of international trade in natural gas;
- Polish Geological and Mining Law of February 4th 1994 (Dz.U. of 1994, No. 27, item 96, as amended) – with respect to production activities and related sales of gas.

Tariff Policy

The gas market in Poland is regulated by the President of the Polish Energy Regulatory Office (URE). The President's regulatory powers comprise, among others, the right to approve gaseous fuel tariffs and control their application in terms of compliance with the principles set forth in the Polish Energy Law, including to analyse and review the costs whose application in the calculation of tariff prices and charge rates is considered by energy companies as justified, as well as broadly understood supervision over energy companies.

The tariff prices and charge rates are crucial for the Company's ability to generate revenue that can cover the incurred justified costs plus return on capital employed. Currently, this revenue depends on regulated selling prices of gaseous fuels. The gas prices are officially regulated and directly connected with the applied tariff preparation methodology.

The rules for determination of tariffs are stipulated in secondary legislation to the Polish Energy Law, and especially:

- the Regulation of the Minister of Economy and Labour on detailed rules for preparing and calculating tariffs for gaseous fuels and on settlements in gaseous fuels trade, in force since February 19th 2008;
- the new Regulation of the Minister of Economy, dated February 6th 2008, on detailed rules for preparing and calculating tariffs for gaseous fuels and on settlements in gaseous fuels trade, in force since February 20th 2008.

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 gaseous fuels including the cost of acquisition of natural gas from all possible sources, that is of both imported and domestically produced gas. In practice this means that both international trade and domestic production are subject to regulated pricing.

Gaseous Fuel Tariff

In 2008, the following tariffs for gaseous fuels were in force:

- from January 1st to April 24th 2008 – Gaseous Fuel Tariff No. 4,
- from April 25th to October 31st 2008 – Gaseous Fuel Tariff No. 1/2008;
- from November 1st to December 31st 2008 – Gaseous Fuel Tariff No. 1/2008, reflecting changes, in particular those concerning prices of gaseous fuels, following from the decision issued by the President of URE on October 17th 2008.

On November 14th 2007, PGNiG SA applied to the President of URE for approval of Gaseous Fuel Tariff No. 1/2008 for the period from January 1st 2008 to March 31st 2008. Due to absence of amendments to the secondary legislation, the tariff approval process entered a conclusive phase only on February 20th 2008, once the Regulation of the Minister of Economy and Labour on detailed rules for preparing and calculating tariffs for gaseous fuels and on settlements in gaseous fuels trade, dated February 6th 2008, took effect. On that day the Company amended the application in order to bring it to compliance with the new Tariff regulation and change the effective date of the tariff. On April 10th 2008, the President of URE approved Gaseous Fuel Tariff No. 1/2008. Consequently, as of April 25th 2008 the wholesale price of gaseous fuel rose by 15.3%. If the rate for transmission of gas via the pipelines of SGT EuRoPol GAZ SA (currently included in the wholesale price of gaseous fuel) was taken into account, the average increase in the tariff for high-methane gas would amount to 14.3%.

Because the gas purchase price exceeded the level assumed for the purposes of price calculation in the tariff approved in April, on August 12th 2008 the Management Board of PGNiG SA submitted another amendment to the tariff application, which was approved on October 17th 2008 and took effect as of November 1st. The amendment to the tariff brought about an 11.1% increase in the gaseous fuel tariff.

Gaseous Fuel Tariff No. 1/2008 of PGNiG SA, which since October 1st 2007 has been supplying gaseous fuel under comprehensive agreements to both customers connected to the transmission grid and those connected to the distribution grid, includes:
- the prices, subscription fees and network rates applicable to settlements with customers receiving gaseous fuels from the transmission grid;
- the prices, subscription fees and network rates applicable to settlements with customers receiving gaseous fuels from distribution networks;
- the manner of determining the discounts for failure to maintain quality parameters for gaseous fuels and quality standards in customer service, and the manner of determining the charge for exceeding the contractual capacity.

Tariffs for Gas Companies

Also the Gas Companies, which distribute gaseous fuels, are obliged to apply to the President of URE for approval of prices and charge rates for gaseous fuel distribution.

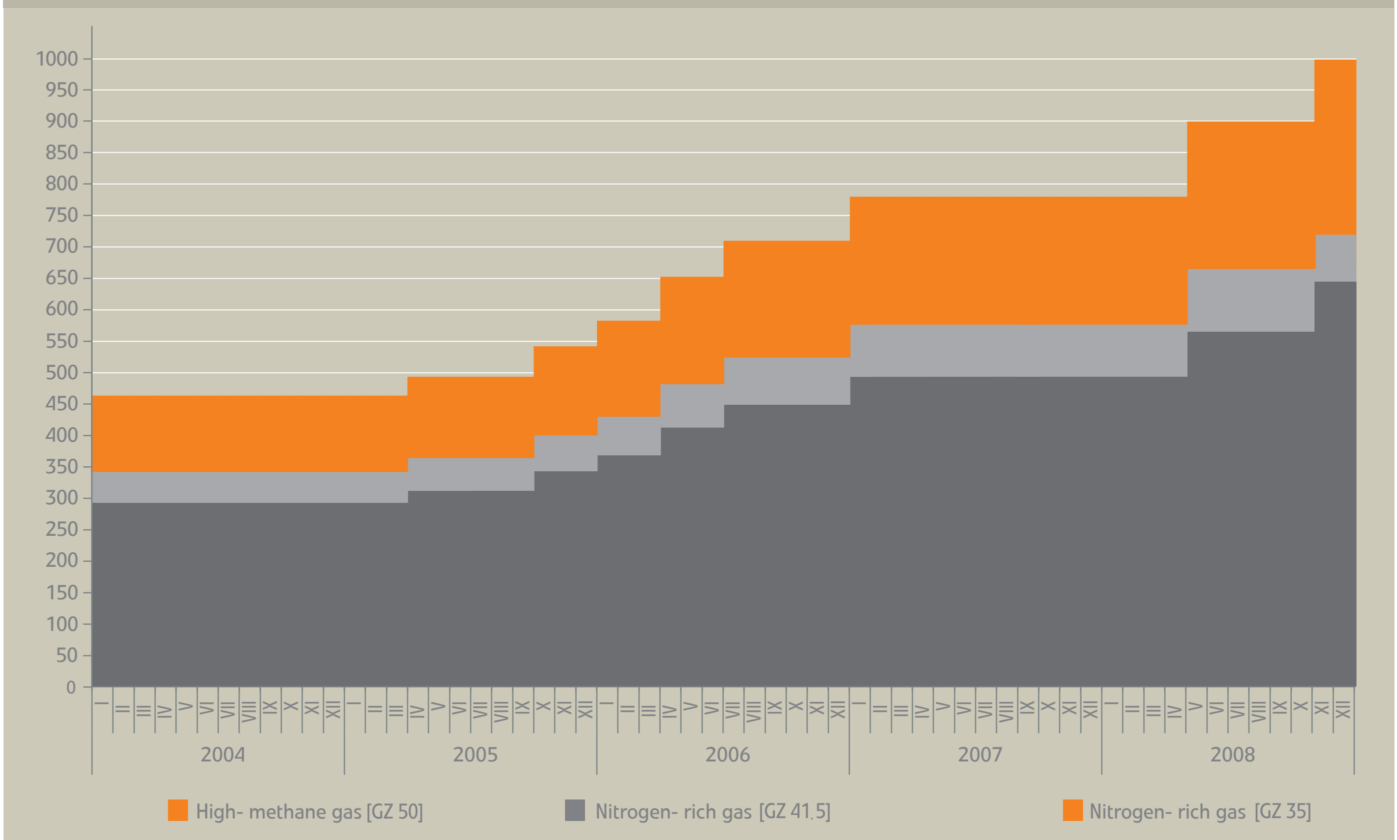
Until April 24th 2008, in settlements with customers the Gas Companies had to apply Gaseous Fuel Tariff No. 2/2006, approved by the President of URE on March 17th 2006. In his decisions of April 10th 2008, the President of URE approved the Tariffs for Gaseous Fuel Distribution Services. The Tariffs, which for the purposes of settlements with customers took effect on April 25th 2008, specified:
- charge rates for gaseous fuel distribution services and subscription fees;
- manner for determination of fees for connecting to the high-pressure network, as well as of fees for connecting to medium- and low-pressure networks.

Moreover, the gaseous fuel distribution tariffs define the manner for determination of the charges for exceeding the contractual capacity, illegal draw of gaseous fuels and failure to comply with the imposed limitations, as well as of the discount for failure to maintain quality standards in customer service.

Prices of Compressed Natural Gas (CNG) for Motor Vehicles

In August and September 2007, the Gas Trading Companies applied for exemption from the obligation to obtain approval for tariffs for CNG used to propel motor vehicles. As the trading activities had been integrated into PGNiG SA, the Company took over these matters through succession. On March 28th 2008, the President of URE issued a decision abolishing the obligation to obtain approval for tariffs for CNG used to propel motor

GASEOUS FUEL WHOLESALE TARIFF OF PGNIG [PLN/THS. M^3]



vehicles. The CNG price list, prepared by PGNiG SA for customers using general-access CNG fuelling stations came into force on May 1st 2008. With respect to customers who entered with PGNiG SA into agreements regulating the terms of sale, the CNG price list took effect immediately after the agreements had been amended in line with their terms, but not before May 1st 2008.

Act on Reserves

The Act on Reserves of Crude Oil, Petroleum Products and Natural Gas, as well as Rules of procedure to be followed when the national fuel security is threatened or the petroleum market is disturbed regulates the issues related to ensuring the national fuel security, including international trade in natural gas. The Act introduces certain changes with respect to the business activity conducted by PGNiG SA:

- it imposes the obligation to maintain mandatory reserves of natural gas;
- it sets the timetable for creation of mandatory stocks of natural gas; till October 2009 the volume of mandatory stocks is to be equivalent 11 days of average daily gas imports, after that date it will be increased each year to 15 and 20 days, and from October 2012 it is to be equivalent to 30 days' average daily imports of gas;
- it provides for return on capital employed in storage activity of at least 6%;
- it stipulates that cost related to maintaining, releasing and supplementing reserves is justified operating cost within the meaning of Art. 3.21 of the Polish Energy Law.

Polish Geological and Mining Law

The Polish Geological and Mining Law of February 4th 1994 (Dz.U. of 2005, No. 228, item 1947) defines the rules and conditions for carrying out geological work, extracting minerals from reserves, storing waste matter in rock mass, including in worked-out caverns, protection of mineral reserves, underground waters and other environmental resources in connection with geological works and extraction of minerals. The provisions of the Geological and Mining Law also govern business activities in the field of tankless storage of substances in rock mass, including in worked-out caverns.

Geological and mining activities are subject to the supervision of competent geological administration and mining supervision authorities. The Geological and Mining Law provides for criminal sanctions in case of failure to comply with its regulations and specifies the upper and lower limits of mining fees.

Business activities involving exploration and prospecting for mineral reserves, extraction of minerals from reserves, tankless storage of substances and storage of waste matter in rock mass, including in worked-out caverns require licences.

As at December 31st 2008, PGNiG SA held:

- 75 licences for exploration and prospecting of crude oil and natural gas reserves;
- 217 licences for production of crude oil and natural gas from reserves;
- 9 licences for underground gas storage;
- 4 licences for waste matter storage.

In 2008, the Ministry of Natural Environment granted PGNiG SA eight licences for exploration and prospecting of crude oil and natural gas reserves, and extended the term of 31 licences. In 2008, eight licences for crude oil and natural gas production were obtained, while four licences expired. In addition, during the year two licences for underground gas storage were granted, while one such licence expired. No changes occurred with respect to licences for waste matter storage in the reporting period.

EXPLORATION AND PRODUCTION

In the Exploration and Production segment, the PGNiG Group conducts geophysical and geological research, exploration of reserves and production of natural gas and crude oil from the reserves, direct sales of natural gas and purchase of licences domestically and abroad.

Exploration Work and Geophysical Prospecting

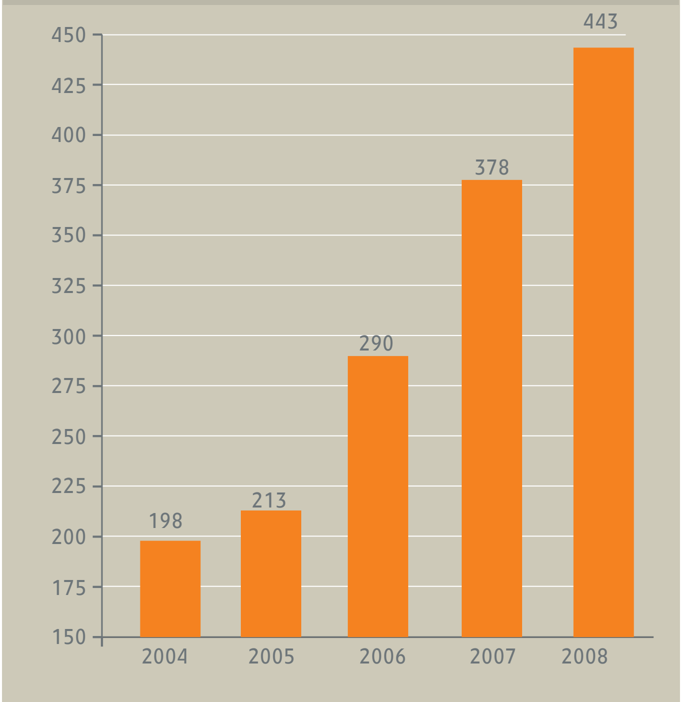
The PGNiG Group conducts exploration and prospecting work domestically and abroad. Its work in that area involves mainly exploration of geological structures for hydrocarbon reserves in the form of natural gas and crude oil. The exploration and prospecting of reserves comprise a study of historical data, geological analyses, as well as geophysical and drilling research. The work is conducted by PGNiG SA, as well as three exploration and drilling companies (PGNiG Kraków sp. z o.o., PNiG Jasło sp. z o.o. and PNiG NAFTA sp. z o.o.), two geophysical companies providing services in the area of field seismics, processing and interpretation of seismic data and geophysical measurements (Geofizyka Kraków sp. z o.o. and Geofizyka Toruń sp. z o.o.), and two service companies providing specialist service necessary for the execution of exploration and production tasks as well as for the purposes of hole mining (Poszukiwania Naftowe Diament sp. z o.o. and Zakład Robót Górniczych Krosno sp. z o.o.). All these companies are members of the PGNiG Group.

PGNiG SA conducts exploration and production work in Poland within the established areas of the Company's operations and areas covered by new licences. The largest number of licences are located in the Małopolska (Carpathian) and Wielkopolska Oil Provinces. Work is conducted in the three regions: the Carpathians, Carpathian Foreland and Polish Lowlands.

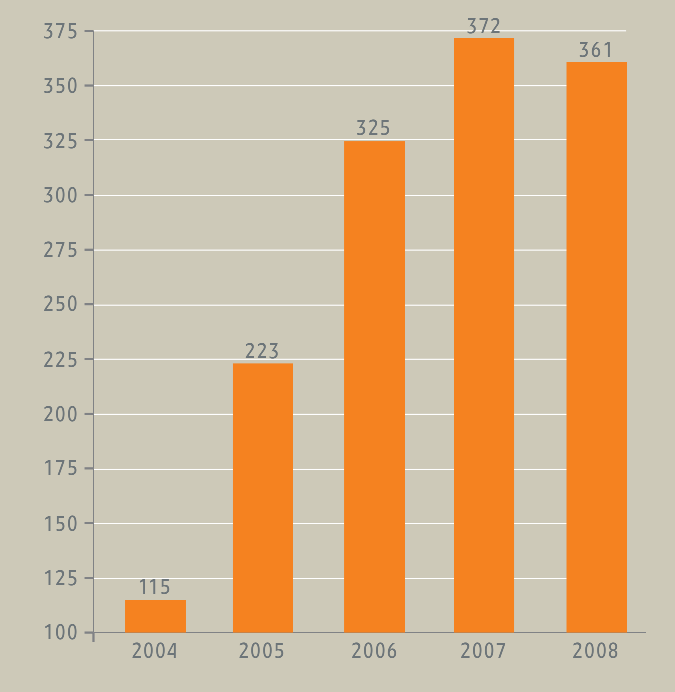
In 2008, a total of 65.347 km of drillings were made in Poland. The drilling work covered 35 boreholes, including 24 exploratory boreholes and 11 prospecting boreholes. At six of the boreholes, drilling commenced in 2007. Until the end of 2008, drillings were completed at 27 boreholes, including 18 exploratory boreholes and nine prospecting boreholes). From among 29 boreholes with known deposit-related results (including two where drilling was completed in 2007), 11 (ten gas boreholes and one crude oil borehole) were classified as positive, while 17 other boreholes were classified as negative, with the one remaining gas borehole classified as positive. Gas boreholes are located in the Carpathian Foreland and Polish Lowlands, while the oil borehole in the Polish Lowlands. Furthermore, a total of 1.54 ths. km of 2D seismic surveys and 603 km^2 of 3D seismic surveys were performed within these areas.

Currently, the Group is also involved in various exploration and geophysical projects outside of Poland. In the Kirthar Block in Pakistan, exploration work is conducted jointly with Pakistan Petroleum Ltd. (the Group holds a 70% working interest in the licence, while the Pakistani company holds the remaining 30%). In 2008, seismic data was analysed (161.7 km of 2D seismic shot), based on which it was decided that an exploration well in the southern part of the block would be drilled. The project is scheduled to commence in H1 2009. In Libya, Block 113 was prepared for work. The block, with the area of 5,494 km^2, lies at the border between the Murzuq and Gadamesh basins, close to the state border with Algeria. In Denmark, under Licence 1/05, in which PGNiG SA holds a 40% interest, the execution of the exploration programme commenced. PGNiG SA also awaits the approval of the Production Sharing Agreement, under which work will be conducted in the Bahariya block with the area of 4,414.4 km^2, located in the Western Desert in Egypt.

PGNIG GROUP'S REVENUE FROM EXPLORATION SERVICES IN 2004-2008 [PLN M]



PGNIG GROUP'S REVENUE FROM GEOPHYSICAL AND GEOLOGICAL SERVICES IN 2004-2008 [PLN M]



The exploration companies have also undertaken steps designed to acquire new exploration and licence areas. PGNiG SA conducted talks relating to a buy-back contract for the operation of the Lavan field and acquisition of partial interests in exploration licences in Tunisia and Morocco.

Production

Production of natural gas and crude oil in Poland is carried out by two of PGNiG SA's branches, the Zielona Góra Branch and the Sanok Branch. In 2008, the companies of the PGNiG Group produced a total of 31.2m boe of hydrocarbons, of which 88% was natural gas and 12% – crude oil. This translates into a total of 4.1 bcm of natural gas (27.6m boe) and 498 ths. tonnes of crude oil and condensate (3.6m boe).

The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 20 mines (including 12 gas mines, and 8 oil and gas mines), while the Sanok Branch produces high-methane natural gas, nitrogen-rich natural gas and crude oil at 46 mines (including 26 gas mines, and 20 oil mines and oil and gas mines). In 2008, PGNiG SA produced a total of 4.1 bcm of natural gas (with 2.3 bcm produced by the Zielona Góra Branch and the balance by the Sanok Branch).

Part of the nitrogen-rich gas produced from the mines in the western Poland is processed in the Odolanów nitrogen removal facility. This is where low-methane natural gas is treated using a technology based on cryogenic processes. By removing nitrogen, high-methane gas (0.88 bcm in 2008), gaseous and liquid helium, liquid nitrogen, as well as (since 2002) LNG are produced.

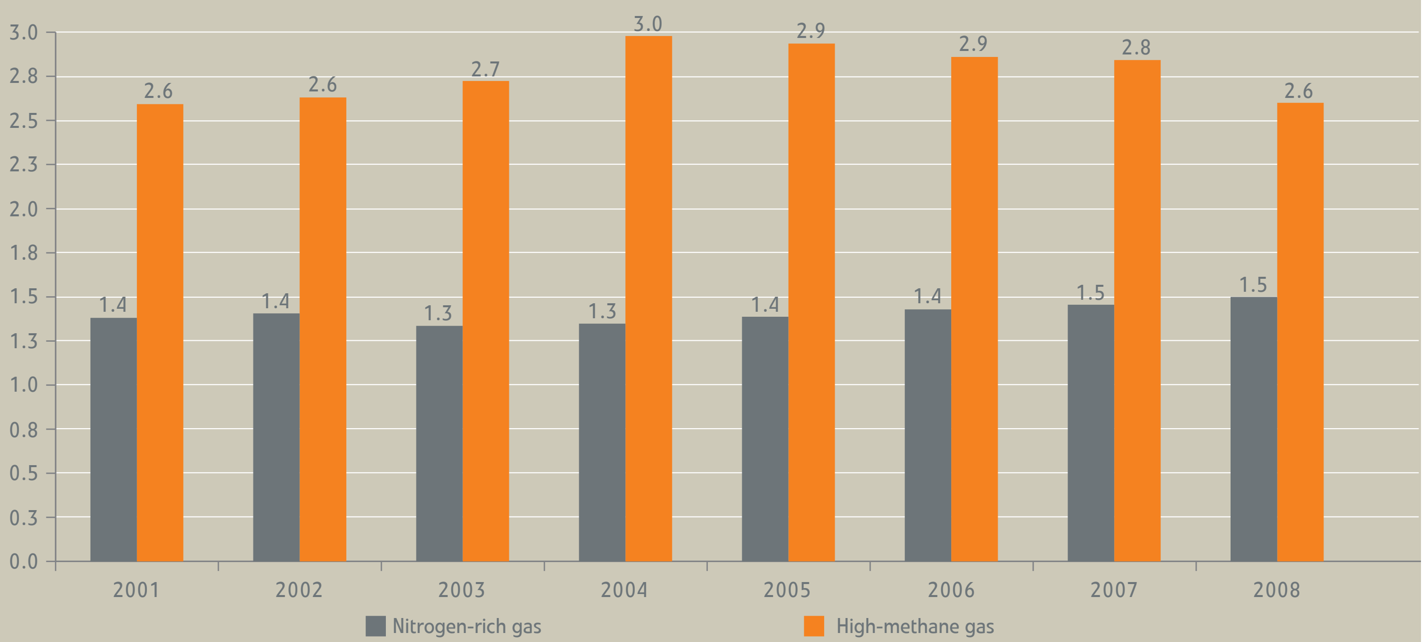
Crude oil is produced mainly by the Zielona Góra Branch at three Mine Centres: Gorzów Wielkopolski, Karlino and Grodzisk Wielkopolski. This branch produces from the largest reserve, the Barnówko-Mostno-Buszewo reserve (BMB), near Gorzów Wielkopolski, and the

PRODUCTION OF OTHER PRODUCTS IN 2005–2008

Product	Unit	2005	2006	2007	2008
Sulphur	ths. tonnes	21.2	20.7	23.3	21.3
Propane-butane (LPG)	ths. tonnes	16.0	17.1	18.2	17.4
Helium	mcm	2.7	2.4	2.3	2.2
LNG	mcm*	17.6	19.9	21.7	20.1

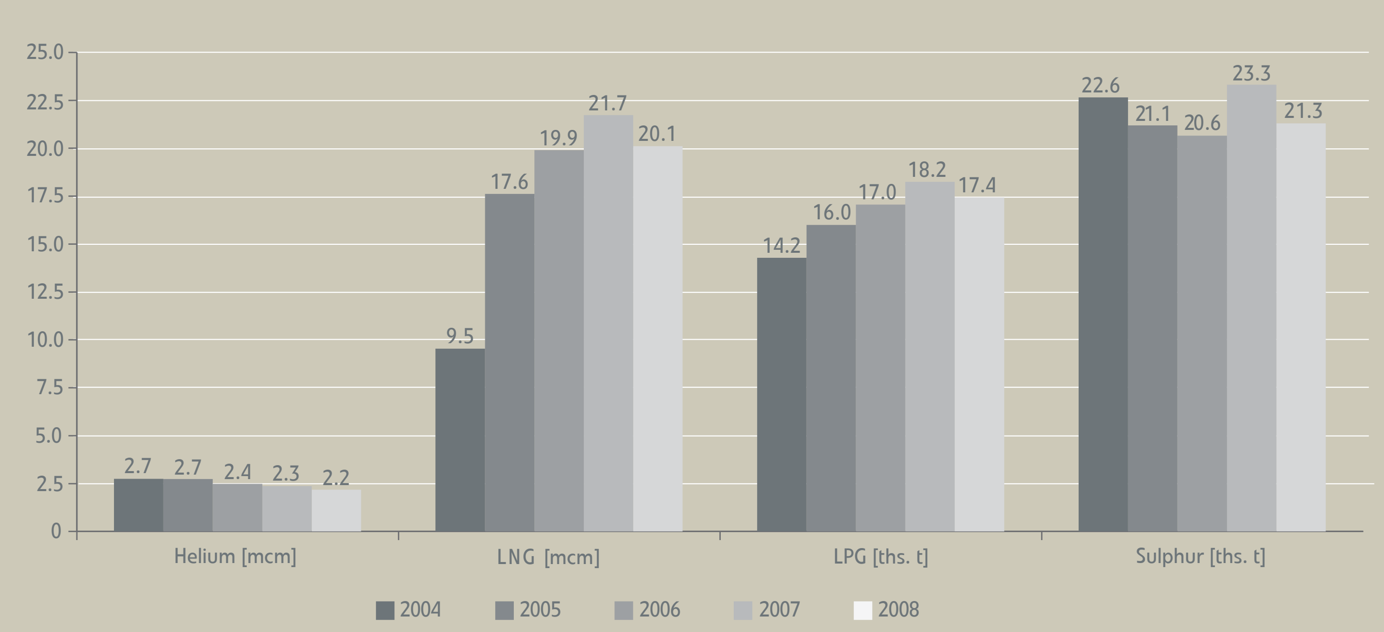
** As equivalent of high-methane natural gas in normal conditions.*

PRODUCTION OF HIGH-METHANE AND NITROGEN-RICH GAS IN 2001–2008 [BCM]*



** Including the production of the Odolanów Nitrogen Removal Facility.*

PRODUCTION VOLUME OF HELIUM, LNG*, LPG AND SULPHUR IN 2004–2008

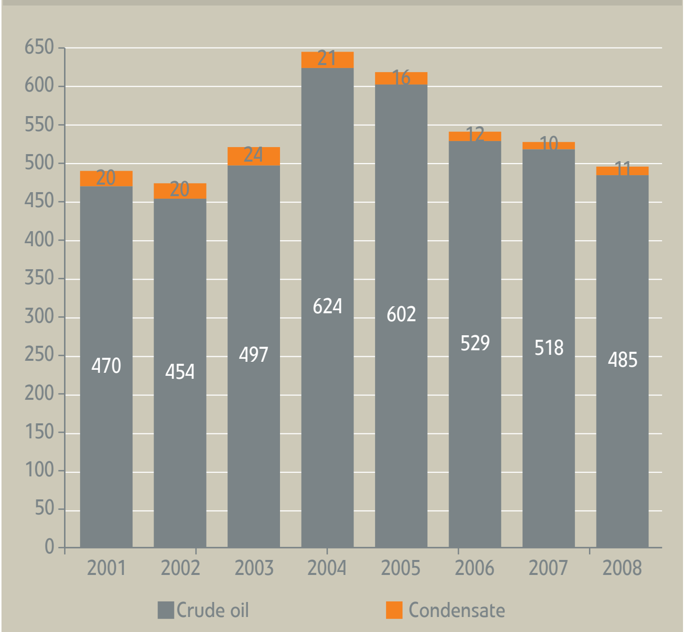


** As equivalent of high-methane natural gas in normal conditions.*

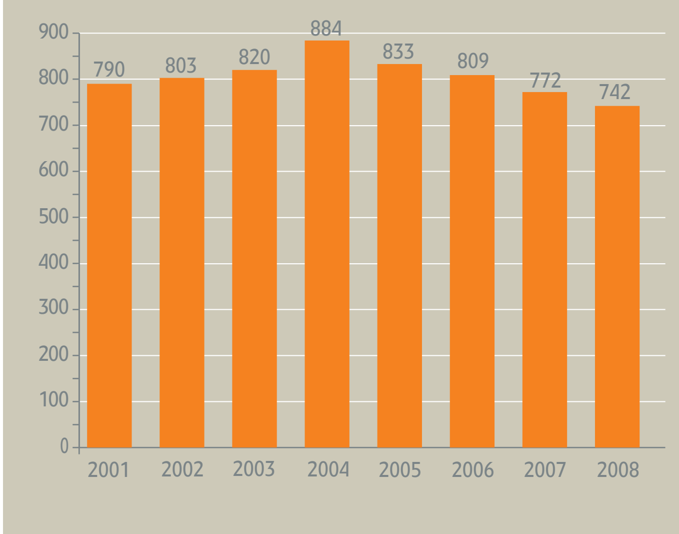
smaller ones including Górzyca, Buk or Lubiszyn. The total oil and condensate output in 2008 was 498 ths. tonnes, of which 452 ths. tonnes were attributable to the Zielona Góra Branch (including 376 ths. tonnes from the BMB reserve), and 46 ths. tonnes to the Sanok Branch. Compared with 2007, oil and condensate production dropped by 6%, from 528 ths. tonnes.

PGNiG SA plans to increase its oil output by developing and starting production from the Lubiatów-Międzychód-Grotów reserves (LMG) in 2013. The Company is also carrying on other projects designed to acquire new producing reserves.

PRODUCTION OF CRUDE OIL AND CONDENSATE IN 2001–2008 [THS. TONNES]



RESERVES OF NATURAL GAS AND CRUDE OIL IN 2001–2008 [MBOE]



Reserves

As at the end of 2008, the documented reserves of natural gas amounted to 93.3 bcm (high-methane equivalent), while the reserves of crude oil were estimated at 21.2m tonnes. The total reserves, expressed as barrel of oil equivalent, were 742m at the end of 2008. The size of the reserves was favourably assessed by the Mineral Reserves Commission and approved by the Minster of Environment. In 2008, the reserves fell by 2% year on year, driving down the reserve/production ratio from 25.8 in 2007 to 25.2. This means that with the current level of crude oil and natural gas production (excluding newly discovered resources), the reserves will be sufficient for 25 years of production.

In 2009, the Company plans to document the increases in producing reserves (over the respective figures as at December 31st 2008) totalling 9.2 bcm of natural gas (high-methane gas equivalent) and 230 ths. tonnes of crude oil.

Non-Regulated Sales of Crude Oil and Natural Gas

The sales of natural gas directly from deposits, through a dedicated pipeline, and the sales of crude oil are performed by the Exploration and Production segment and are not subject to regulation by the URE. Crude oil is sold to:
- foreign customers, to whom it is delivered via pipelines under renewable annual contracts (43% of total sales);
- customers in Poland, to whom it is delivered by road tankers and railway tank cars (57% of total sales).

The pipeline oil sales (via the Druzhba pipeline) are made to major PGNiG SA customers, namely Total Oil Trading SA, BP Oil International Ltd. and ESKO. Most of the oil sold domestically is delivered to the ORLEN Group (the refineries in Jedlicze and Trzebinia). The rest is sold to local and direct customers of the production branches. In 2008, PGNiG SA revenue from sales of crude oil and condensate was similar to that recorded in 2007 and amounted to PLN 779m. In 2008, PGNiG SA sold a total of 489 ths. tonnes of crude oil and condensate, that is by 8% less than in 2007.

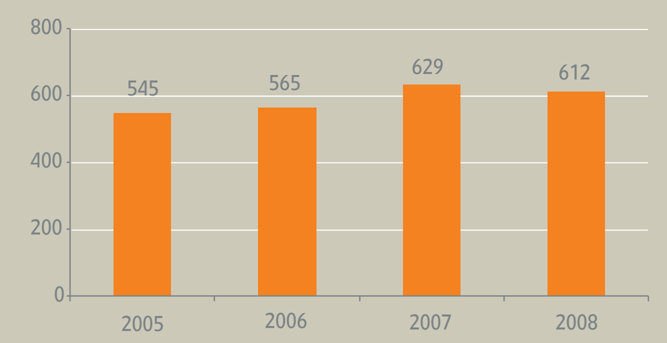
Non-regulated sales of gas are made by way of direct deliveries from PGNiG SA deposits (rather than via the transmission system). Sales transactions are executed on free-market terms, and the terms of delivery (including the gas price) are each time individually agreed upon with the customers and vary on a case-by-case basis.

In 2008, PGNiG SA sold directly from its deposits 612 mcm of gas, i.e. 3% less than in 2007. Direct sales represented 4% of total natural gas sales. Both high-methane and nitrogen-rich gas is sold this way, with 47.3 mcm and 564 mcm, respectively, sold in 2008.

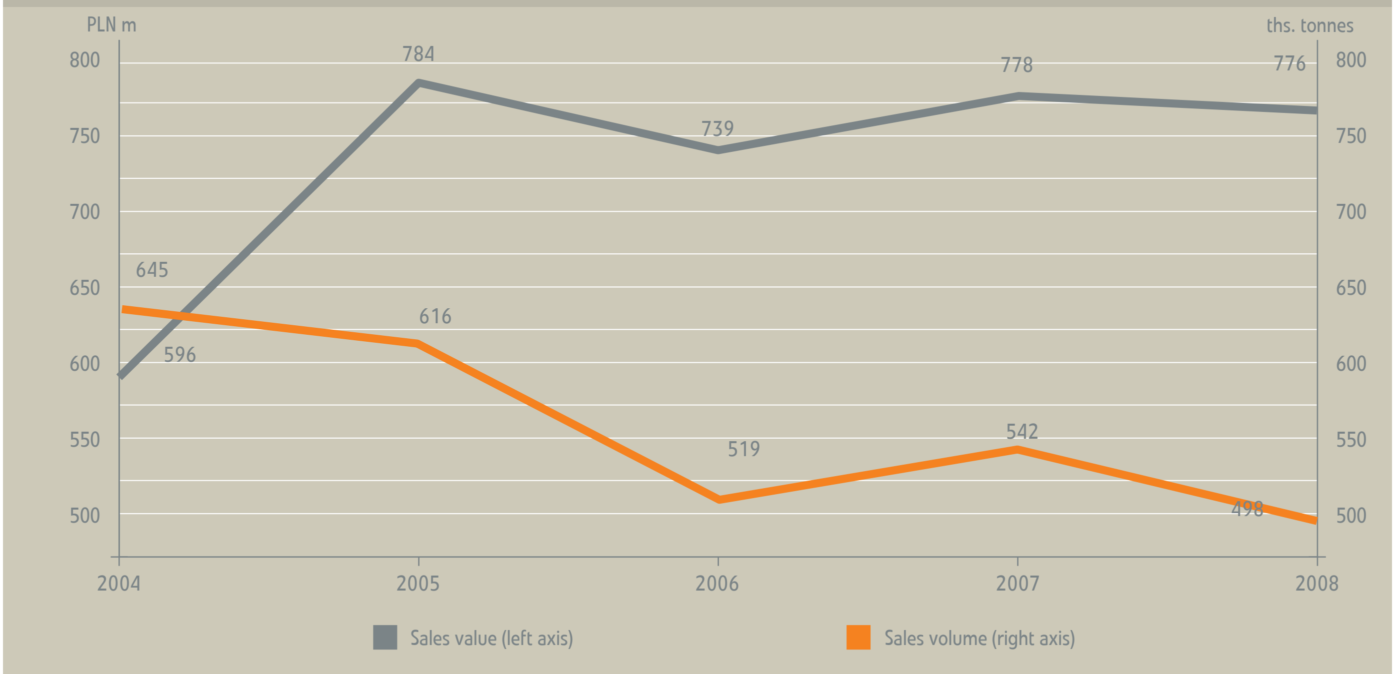
PGNiG SA's main customers purchasing natural gas were industrial enterprises, such as the Zielona Góra or Gorzów Wielkopolski CHP plants, Zakłady Azotowe (nitrogen plant) in Tarnów-Mościce, or Arctic Paper Kostrzyń. Their share in the volume of direct sales amounted to 85.9%. Direct sales are made mainly to customers who are located close to the mines and do not have access to the transmission or distribution system. Direct sales enable PGNiG SA to economically use deposits of gas which does not meet the quality standards of gas sold via networks and to attract customers who otherwise could not be served for technical or economic reasons.

Besides the non-regulated sales of natural gas and crude oil, PGNiG SA sells other products, namely helium, LNG and LPG.

NON-REGULATED SALES OF NATURAL GAS IN 2005-2008 [MCM]



VOLUME AND VALUE OF CRUDE OIL SALES IN 2004-2008



Sales of Other Products in 2005–2008

Product	Unit	2005	2006	2007	2008
Sulphur	ths. tonnes	21.2	20.0	23.4	20.3
Propane-butane (LPG)	ths. tonnes	16.0	16.9	18.4	17.4
Helium	mcm	2.7	2.4	2.4	2.2
LNG	mcm	17.6	19.9	21.2	19.8

** Sale of LNG is based on weight units (tonnes or kg) but the register is made in cu. metres.*

Investment Projects – Development of Reserves

The Group is implementing an investment programme designed to increase natural gas production capacities in a long term. The programme provides for the development of new fields and boreholes, modernisation and extension of the existing gas mines, construction of new and extension of the existing underground gas storage facilities. The Group will also carry out work aimed at maintaining the current levels of hydrocarbon production from the operated fields.

Development of Documented Reserves

In order to increase production, PGNiG SA plans to develop and exploit further documented natural gas fields, including Wielichowo-Ruchocice, Roszków and Międzychód (nitrogen-rich gas fields in western Poland), as well as Łukowa, Jasionka (II Phase), Kupno, Pilzno (II Phase), Rudka (II Phase) (high-methane gas fields in the Carpathian Foreland). Capital expenditure for reserve exploration totalled PLN 362.1m, including PLN 211.7m spent mainly on boreholes classified as positive or boreholes on which the drilling has not been completed yet.

Barnówko-Mostno-Buszewo (BMB) Project

The aim of the project is to maintain oil production rates from the exploited reserves at current levels and to achieve incremental production rates from new reserves which are just beginning to produce. Due to changes in geological conditions of the fields the total expenditure on the project was increased to approximately PLN 120m.

Lubiatów-Międzychód-Grotów (LMG) Project

In August 2008, a PLN 1.4 bcm contract was signed with a consortium led by PBG SA for the execution of the "Lubiatów-Międzychód-Grotów Project". The objective of the investment project is to develop the Lubiatów-Międzychód-Grotów reserves with view to increasing the production of crude oil. A significant increase in oil production is planned for 2013, following the development of and launch of production from the LMG field. The annual production is estimated at approximately 0.9m tonnes.

Originally, the project was to be launched in 2006. However, the Regional Court of Warsaw issued an order cancelling the tender process for development of the LMG reserves, which delayed the contractor selection by about two years.

Grodzisk Wielkopolski Project

The year 2010 is to see the completion of construction of the nitrogen removal facility in Grodzisk Wielkopolski, with a processing capacity of up to 500 mcm of fed gas. The goal behind the project is to create the second, after the Odolanów Branch, regulatory facility connecting the nitrogen-rich gas production system with the transmission system for high-methane natural gas. The project includes the development of the Wielichowo, Ruchocice, Jabłonna and Paproć gas fields. The total value of the project is estimated at PLN 440m, of which PLN 68m was expensed in 2008.

Presence on the Norwegian Continental Shelf (NCS)

The PGNiG Group's involvement in projects on the Norwegian Continental Shelf since 2006 is in line with its strategy designed to increase the reserves of crude oil and natural gas outside of Poland.

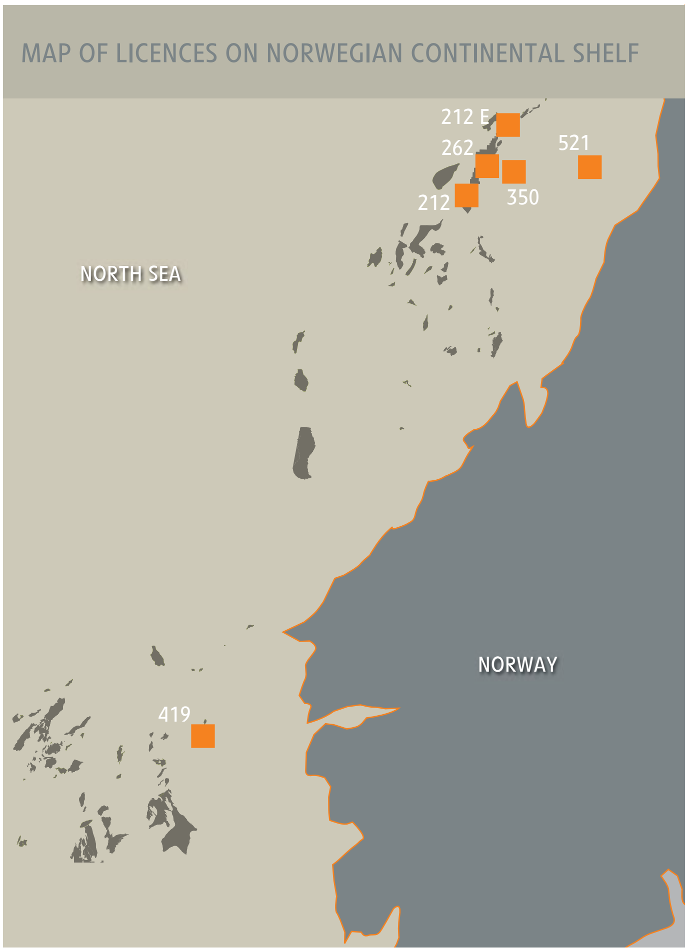
Acquisition of interests in the exploration and production licences in Norway is a long-term investment meant to ensure diversified sources of natural gas supplies and thereby increase the security of gas supplies to Poland. In 2007, PGNiG SA acquired a ca. 12% interest in the unitised development area (business unit) Skarv comprising the Skarv and Idun fields located within the area of licences PL 212, PL 212B, PL 262 and PL 159. Moreover, the Company purchased 15% of the adjacent exploratory areas 212E, Snadd S, Snadd N and Grasøl.

The implementation (development) phase of the project has formally commenced. Gas and oil production is due to be launched in the second half of 2011. Based on data approved by the Norwegian Petroleum Directorate, aggregate proved producing reserves of all the fields, corresponding to the acquired interest in the licence, are estimated (as at December 31st 2008) at:

- 41.5 bcm of natural gas;
- 16.5 bcm of crude oil and condensate;
- 5.4 bcm of NGL.

The fields are operated by BP Norge and its partners: E.ON Ruhrgas Norge and StatoilHydro.

At the beginning of 2009, PGNiG SA decided to acquire further exploration licences on the Norwegian Continental Shelf. PGNiG Norway acquired a 30% interest in licence PL 350 (operated by E.ON Ruhrgas Norge) and a 25% interest in licence PL 419 (operated by Nexen Exploration Norge). The area covered by licence PL 350 is located in close proximity to the earlier purchased Skarv and Idun fields. Seismic shots and analyses, as well as geophysical and geological interpretations have already been performed for the areas covered by the licences. Drilling of exploratory boreholes is currently planned. The cost of a borehole is estimated between USD 50m and USD 80m. PGNiG Norway would incur the part of the costs proportional to its interests in the licences. The Group's involvement in the projects on the Norwegian Continental Shelf enables it to fully exploit the tax incentive system, including accelerated depreciation (over six years), a special investment relief and instant reimbursement of 78% of cost of exploration.



TRADE AND STORAGE SEGMENT

The PGNiG Group's activities in the Trade and Storage segment comprise sales of imported natural gas and natural gas produced from the domestic reserves, as well as storage of gas in the underground storage facilities.

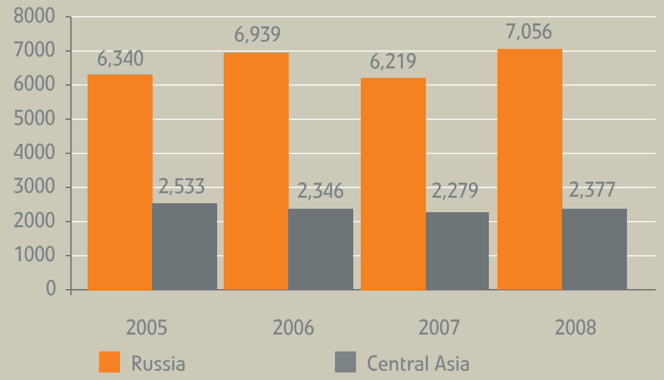
Imports

PGNiG SA is the largest natural gas importer in Poland. Natural gas imported by the Company is sourced mainly from Russia, but also from Turkmenistan and Uzbekistan, Germany, Ukraine and the Czech Republic. In 2008, PGNiG SA imported natural gas under the following contracts:

- long-term contract (in force until 2022) for supplies of gas from Russia, with OOO Gazexport (which on November 1st 2006 changed its name into OOO Gazprom Export), dated September 25th 1996, referred to as the Yamal contract;
- contract for sales of the Lasów natural gas executed with VNG-Verbundnetz Gas AG, dated August 17th 2006, which will remain in force until October 1st 2016;
- contract for sales of natural gas executed with VNG-Verbundnetz GAS AG/E.ON Ruhrgas AG, dated September 15th 2004, which will remain in force until September 30th 2008;
- contract for sales of natural gas executed with RosUkrEnergo AG, dated November 17th 2006, which will remain in force until January 1st 2010 and may be extended until January 1st 2012;
- contract for sales of the Lasów 2008 natural gas executed with VNG-Verbundnetz Gas AG, dated September 29th 2008, in force from October 1st 2008 to October 1st 2011.

In connection with the expiry on September 30th 2008 of the agreement on gas sales executed with VNG-Verbundnetz Gas AG/ E.ON Ruhrgas AG and the change in the volume of gas supplied by VNG-Verbundnetz Gas AG under the contract of August 17th 2006, on September 29th 2008, PGNiG SA and VNG-Verbundnetz Gas AG executed the agreement on sales of the Lasów 2008 natural gas. Under the agreement, the Company will purchase 0.5 bcm of natural gas annually. In 2008, total natural gas imports into Poland amounted to 10.3 bcm.

VOLUME OF NATURAL GAS IMPORTS FROM EASTERN SUPPLIERS IN 2005–2008 [MCM]

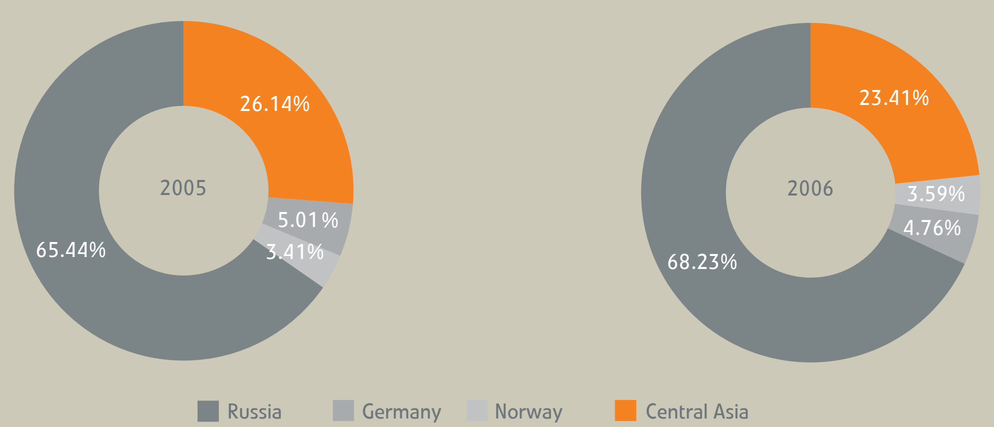


PGNiG SA is also involved in many projects aimed at diversification of the supplies of natural gas to Poland. The Company currently works on increasing the throughput of the gas pipeline on the Polish-German border in Lasów, from the current 1.0 bcm to 1.8 bcm in 2011, and the construction of a gas pipeline connecting Szczecin with the Berlin gas ring. PGNiG SA also actively participates in the Open Season procedures organised by the Polish transmission system operator and its foreign counterparts. The Open Season procedures included, among others, reservation of the transmission capacities of the Baltic Pipe (connecting Poland and Denmark) and of the Nabucco gas pipeline (connection to Baumgarten via the Czech Republic or Slovakia), which is to be constructed in near future.

Storage

PGNiG SA operates six underground gas storage (UGS) facilities with a working capacity of 1.66 bcm, which represents 11.9% of the annual gas consumption by domestic customers. The facilities are located in various geological structures (in salt caverns or worked out natural gas deposits), and have different gas injection and reception capacity.

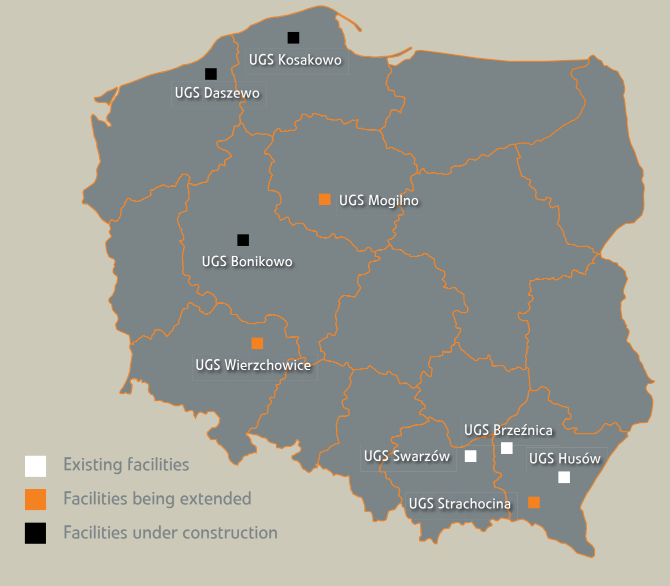
SOURCES OF GAS SUPPLIES IN 2005–2008



Our UGS facilities allow us to maintain an appropriate 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 to create and maintain mandatory reserves imposed under the Act on Mandatory Reserves. They also reduce our susceptibility to seasonal fluctuations (as they support optimisation of the natural gas supply chain) and 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 retrieved from the facilities.

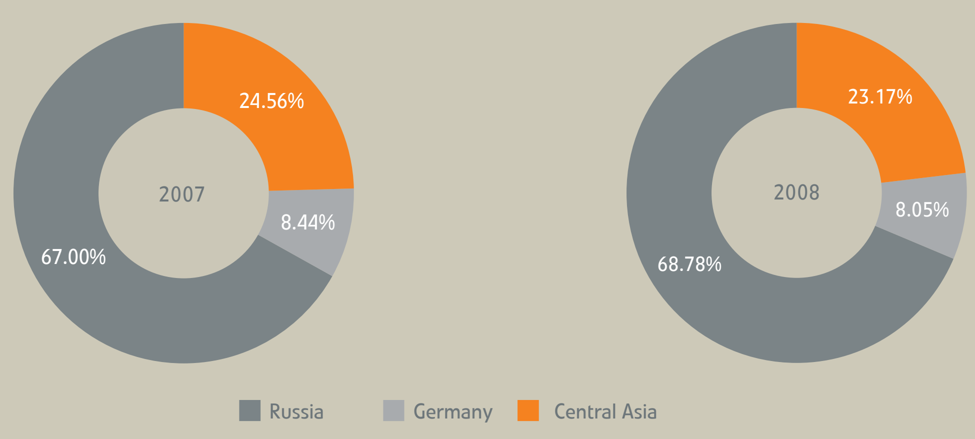
The UGS facilities in Wierzchowice, Husów and Mogilno allow us to meet the obligation to maintain mandatory reserves imposed under the Act on Reserves of Crude Oil, Petroleum Products and Natural Gas, as well as Rules of procedure to be followed when the state's fuel security is threatened or the petroleum market is disturbed, dated February 16th 2007.

Existing and planned Uderground Gas Storage Facilities



PGNiG SA follows an active policy aimed at increasing its storage capacities. In 2008, the Company's capital expenditure on underground gas storage facilities reached PLN 109m.

- the Bonikowo UGS Facility is designed to store nitrogen-rich gas (Lw). The construction of the facility will contribute to a better utilisation of the production capacities of the deposits and the Grodzisk blending plant and will allow us to intensify our efforts to connect new customers to the gas grid in the Poznań province. In 2008, an agreement was signed to drill the first boreholes and the general contractor for the construction of the surface infrastructure was selected. The project is valued at approx. PLN 160m;
- the Daszewo UGS Facility will also store nitrogen-rich gas (Ls). The construction of the facility will allow us to steadily recover gas from local deposits, while ensuring an appropriate gas composition for our customers. In 2008, an agreement was signed for the execution of construction and assembly work. The project's total value is estimated at approx. PLN 40m;
- the Kosakowo UGS Facility will be constructed in the area of the Gdańsk-Gdynia-Sopot agglomeration. The project involves the construction of ten storage caverns located in the rock salt deposit and the construction of a leaching unit and pipeline for brine discharge into the Puck Bay. The project's cost will amount to approx. PLN 425m;
- the Mogilno UGS Facility is the only cavern storage facility in Poland. The investment project involves gradual extension of the storage facility by adding new storage caverns as well as a parallel extension of the facility's systems and surface infrastructure. The project's cost is approx. PLN 525m;
- the Strachocina UGS Facility will be extended by adding 0.18 bcm of new working capacity by 2011. At the end of 2007, an agreement was concluded with PNiG Kraków for the drilling of boreholes. The tasks remaining to complete the project include the construction of the surface infrastructure together with a pipeline system. The project will cost PLN 209m;
- the Wierzchowice UGS Facility is currently the largest natural gas storage facility in Poland. The facility's working capacity will



be increased to 2.0 bcm by 2015. In November 2008, PGNiG SA and a consortium comprising PBG SA, Tecnimont SpA, Société Française d'Etudes et de Réalisations d'Equipements Gaziers „SOFREGAZ", Plynostav Pardubice Holding AS and Plynostav Regulace Plynu AS signed an agreement for extension of the Wierzchowice UGS Facility's capacity to 1.2 bcm. The work on the project is scheduled to be completed by the end of 2011, and the project's cost will reach approx. PLN 1.3bn.

Sales

PGNiG SA is the largest 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. As two types of gas (with different composition and parameters) are distributed:
- high-methane gas – with a nominal calorific value of 34.0 MJ/cubic meters;
- nitrogen-rich gas – with a nominal calorific value 26.0 MJ/cubic meters;

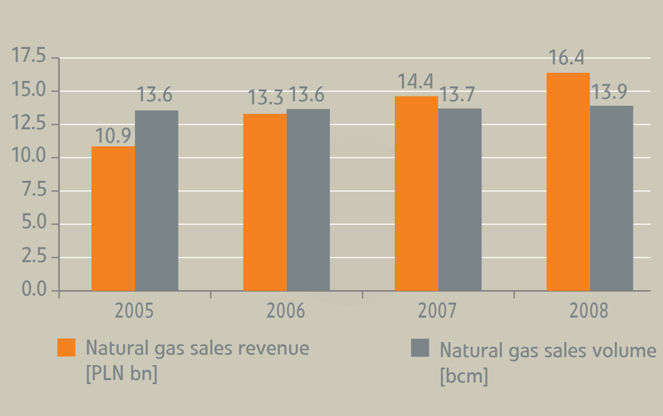
we operate two transmission networks interconnected with an installation for cryogenic separation of methane and nitrogen (located in Odolanów).

The high-methane natural gas transmission network is used for collection of imported gas, gas from southern Poland as well as gas derived from the nitrogen-rich gas at the Odolanów Branch 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.

In 2008, the total natural gas sales were 13.9 bcm, that is 0.2 bcm more than in 2007, 13.3 bcm of which was sold by the Trade and Storage segment. In 2008, 1.4 bcm of nitrogen-rich gas was pumped into the grid, and subsequent to nitrogen elimination the network was fed with 0.9 bcm of high-methane gas, which corresponds to the production levels of the last two years. When the nitrogen removal plant in Grodzisk Wielkopolski is commissioned and when the city of Poznań completes its transition to high-methane gas, then we will increase the output of our nitrogen-removal processes.

In 2008, our main customers receiving natural gas were the chemicals sector, the metallurgic industry and the power sector, as well as households. The latter were identified as the largest customer group (approx. 6.4m), accounting for 97% of the entire PGNiG SA's customer base. They received 3.6 bcm gas. The most prominent share in the natural gas sales was claimed by industrial customers, who received 8 bcm of natural gas.

NATURAL GAS SALES MEASURED AS HIGH-METHANE GAS EQUIVALENT IN 2005–2007



In 2008, PGNiG SA signed approx. 92 ths. new comprehensive agreements for supply of gaseous fuel, from both transmission and distribution systems, including 90.2 ths. agreements with households.

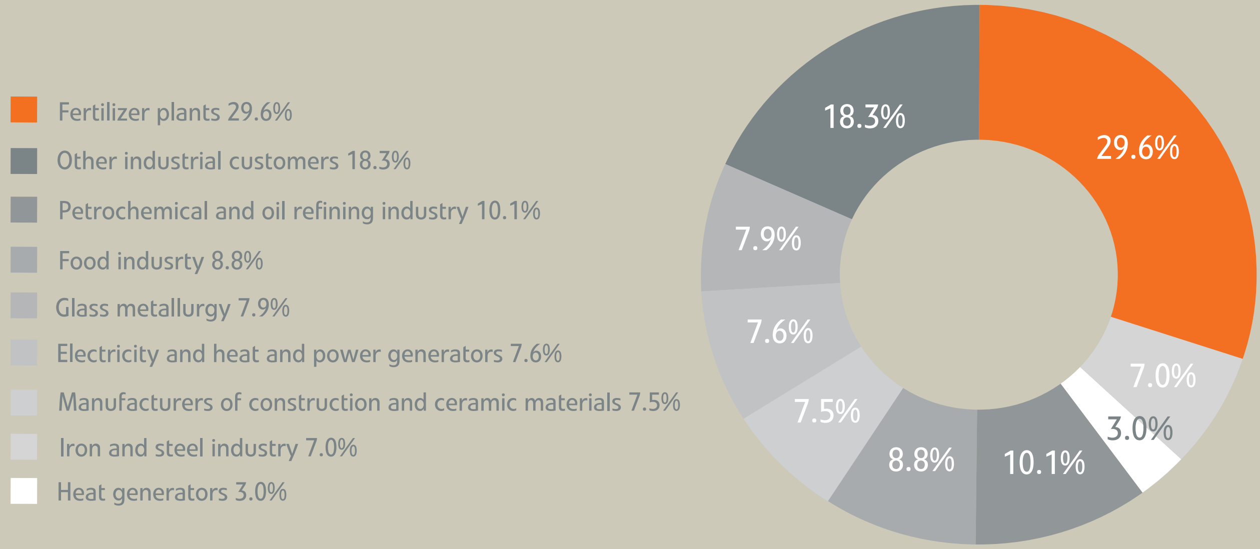
The projected rise in the natural gas sales volume is attributable to development investments of PGNiG SA's strategic customers in the petrochemical, construction and steel sectors. In 2007, PGNiG SA started cooperation concerning possible gaseous fuel supplies with several major prospective customers, including companies operating in the power sector and planning to replace hard coal fired generating units with gas fired ones. Supplies of natural gas for the needs of the upgraded power/CHP plants are planned to commence in 2012-2013.

In addition, PGNiG SA commenced talks with certain electricity suppliers concerning joint electricity and natural gas sales. It is assumed that in 2009 PGNiG SA will develop a cooperation model and undertake first joint implementations.

Facility	Type of project	Working capacity [bcm]	Target capacity [bcm]	Year completed
Bonikowo	construction		0.20	2010
Brzeźnica		0.07	0.07	
Daszewo	construction		0.03	2010
Husów	extension	0.40	0.50	2011
Kosakowo	construction		0.12	2015
Mogilno	extension	0.37	0.61	2015
Strachocina	extension	0.15	0.33	2011
Swarzów		0.09	0.09	
Wierzchowice*	extension	0.58	2.00	2015
TOTAL		1.66	3.96	

** Completion of the extension phase to the capacity of 1.20 bcm in 2012.*

PGNIG'S INDUSTRIAL CUSTOMERS IN 2008



Sales of natural gas directly from reserves as well as sales of other products of the PGNiG Group are conducted by the Exploration and Production segment on market terms, whereby prices are individually negotiated with customers on a case-by-case basis.

The territory of Poland is an important section in an over 4 ths. km gas pipeline used for transmission of natural gas from the Yamal Peninsula to Germany and other countries of Western Europe. In Poland, the pipeline's diameter is 1,400 mm, and the section's length is 682 km. It is owned by SGT EuRoPol GAZ SA, in which PGNiG SA holds 48% of shares. Natural gas is collected in two interconnector terminal points in Włocławek and Lwówek Wielkopolski. In 2008, SGT EuRoPol GAZ SA transmitted nearly 33.0 bcm of natural gas.

LNG

The interest in liquefied natural gas (LNG) has been growing on the global fuel markets. Imports of LNG to Poland will be an important source of supply necessary to meet the growing demand for gas. Importing LNG to Poland is also one of the elements of the strategy to diversify sources of natural gas supplies. A feasibility study concerning LNG imports to Poland, prepared at the end of 2006 and containing an analysis of the project's technological and economic objectives, was used as a basis for the decision to build an LNG terminal in Świnoujście.

In August 2008, the Council of Ministers adopted a resolution whereby the construction of the LNG terminal was proclaimed a strategic project for Poland, consistent with the natural gas supplies diversification plan and Poland's energy security. At the end of 2008, the company responsible for the project execution - Polskie LNG sp. z o.o. – was sold to the state-owned OGP GAZ-SYSTEM SA. The transaction was valued at PLN 52m.

It is assumed that the initial annual volumes of gas supplies from the LNG terminal to the network will be ca. 2.5 bcm. Depending on demand for gas, the annual throughput may increase to 7.5 bcm, without the need to extend the LNG terminal area. Two standard tanks of 160 tcm capacity are planned to be constructed at the LNG terminal. The first supplies of liquefied natural gas are planned for 2014.

CNG

Compressed natural gas (CNG) may be used as engine fuel in vehicles. Such application of CNG is both environment-friendly and economical. Currently, there are around 7.3m CNG fuelled vehicles all over the world, with the number growing extremely fast. 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 2008 is estimated at 1.5 ths., mostly owned by public transport companies and private road carriers. At the end of 2008, PGNiG SA operated 29 generally-accessible CNG filling stations.

DISTRIBUTION

The 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 operating, overhauling and extending the distribution network. As each of the Gas Companies operates in a separate region of Poland, the following undertakings have been set up within the PGNiG Group:

- Górnośląska Spółka Gazownictwa sp. z o.o. (GSG), with its head office in Zabrze, operating Gas Plant of Opole and Gas Plant of Zabrze;
- Karpacka Spółka Gazownictwa sp. z o.o. (KSG), with its head office in Tarnów, operating Gas Plant of Jarosław, Gas Plant of Jasło, Gas Plant of Kielce, Gas Plant of Kraków, Gas Plant of Lublin, Gas Plant of Rzeszów, Gas Plant of Sandomierz and Gas Plant of Tarnów;
- Mazowiecka Spółka Gazownictwa sp. z o.o. (MSG), with its head office in Warsaw, operating Gas Plant of Białystok, Gas Plant of Łódź, and Gas Plant of Warsaw;
- Pomorska Spółka Gazownictwa sp. z o.o. (PSG), with its head office in Gdańsk, operating Gas Plant of Bydgoszcz, Gas Plant of Gdańsk, and Gas Plant of Olsztyn;
- Wielkopolska Spółka Gazownictwa sp. z o.o. (WSG), with its head office in Poznań, operating Gas Plant of Kalisz, Gas Plant of Koszalin, Gas Plant of Poznań, and Gas Plant of Szczecin;
- Dolnośląska Spółka Gazownictwa sp. z o.o. (DSG), with its head office in Wrocław, operating Gas Plant of Wrocław, Gas Plant of Wałbrzych, and Gas Plant of Zgorzelec.

Distribution activities are conducted under licences. Based on a decision of the President of the URE, the Gas Companies have been granted the status of Distribution System Operators.

Until June 30th 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 SA performed a legal separation of the distribution and trade businesses. Consequently, in mid-2007 the Distribution System Operators were spun off (they currently operate as Gas Companies with their sole owner being PGNiG SA). Since Q4 2007, the entire trade business, including retail sales and wholesale, was integrated into the Company.

In 2008, the segment posted an operating profit of PLN 419m. This good result is primarily attributable to two factors. First,

EBIT was driven up by the separation of the distribution and trade businesses, which significantly reduced the operating risk of the Distribution segment, as the entire gas sales business was transferred to the Trade and Storage segment. Moreover, in 2008 the Company transferred the costs connected with the trade business from the Distribution segment to the Trade and Storage segment, which reduced the costs of the Distribution segment and benefited the segment's performance. Second, on April 25th 2008, new distribution tariffs took effect; under the new tariffs the distribution companies gain a higher margin on natural gas distribution.

The Gas Companies are strategic companies of the PGNiG Group. The profile of each individual Company depends on the location, historical factors, urban and industrial development of the location, or even economic standing of local populations.

The Gas Companies provide their services across Poland. The aggregate length of their network approximates 114 ths. km. The Companies deliver gas to 6.6m individual and industrial customers (where the former account for over 97% of the total number of customers).

The Gas Companies are responsible for management and operation of the distribution network by way of:

- transmitting natural gas to end customers;
- connecting new customers to the transmission network;
- managing transmission network assets;
- operating, maintaining and expanding the network.

When settling transactions with customers, the Gas Companies use the tariff effective from June 1st 2009.

The table presents key data on the Gas Companies

	MSG	WSG	DSG	GSG	KSG	PSG
Number of metering systems [ths.]	1,483	896	745	1,295	1,406	738
Volume of distributed gas [mcm]	1,897	1,725	998	1,371	2,004	882
Pipeline length, excluding connections [km]	18,337	14,572	7,637	20,489	43,928	8,970

Data for 2008.

EMPLOYMENT

People are the most valuable asset of the PGNiG Group. Without them, the Company's international successes and large-scale investment projects would not be possible. It is thanks to the thousands of its employees that the Group is able to provide top quality services to millions of its customers.

In the period from January 1st 2000 to December 31st 2008, the PGNiG Group implemented the "Programme of Employment Restructuring and Employee Protection Measures for PGNiG SA Branches and Subsidiaries". 21,551 employees were covered by various forms of employment restructuring under the programme. The headcount at PGNiG SA and its subsidiary undertakings covered by the programme was reduced by 14,689 staff (including the transfer of 2,181 employees as part of the spin-off of OGP GAZ-SYSTEM sp. z o.o.).

On December 11th 2008, the Extraordinary General Shareholders Meeting of PGNiG SA adopted the "Programme for Streamlining of Employment and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (phase III)". The programme came into force in January 2009. Contrary to the previous employment restructuring programmes, it may be implemented in special circumstances and requires the application by the individual Group members of procedures uniform across the PGNiG Group. The programme may be implemented only when it is justified by the scale of the planned restructuring measures resulting in workforce downsizing and/or liquidation of jobs.

Development

Investing in human resources creates favourable conditions for the implementation of a business's plans. This approach also allows employees to pursue their individual goals. Due to a wide spectrum of the subsidiaries' business activity, PGNiG SA allows the Group entities 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. Persons employed at the PGNiG Group are offered opportunities for improving their professional qualifications, for example through postgraduate studies, participation in national trade conferences, seminars and symposia, occupational training, and self-education (e-learning).

Moreover, the employees 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 these units, as well as improve their language skills.

Our 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 were co-financed with EU funds, including 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 Group's value, which is viewed positively primarily by investors and customers, and also by prospective employees. Currently, the Management Board of PGNiG SA is working on the implementation of an MBO Programme.

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 entitled persons enjoy the following benefits:
- organisation and additional financing of holiday rest for children and young people;
- financial assistance and material support for poorest families,
- repayable financial housing assistance;
- organization and additional financing of various forms of recreation;
- rehabilitation in the form of prophylactic holidays at occupational health and recreation centres.

Internships

PGNiG SA organises a students training programme for participants of the annual "Grasz o staż" initiative, the most popular and prestigious training programme addressed to Polish students and graduates. The programme has been organised since 1996 by PricewaterhouseCoopers and Gazeta Wyborcza. We organize paid summer internships.

We also offer unpaid internship to students of the Faculty of Gas Engineering at the Warsaw University of Technology, as well as periodic trainings for students from universities across Poland. The programme involves all our Polish subsidiaries.

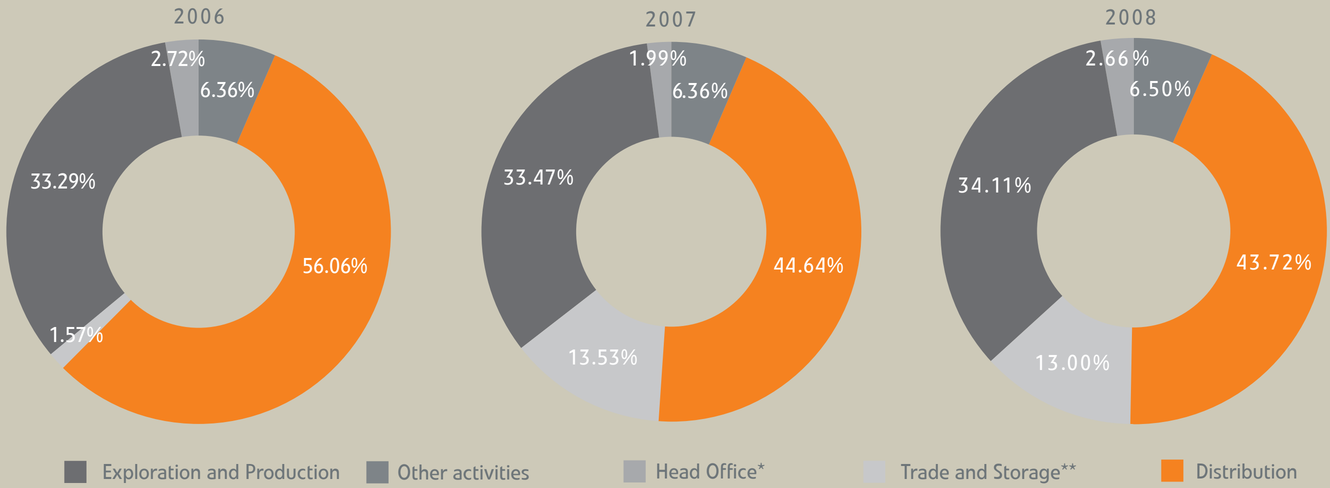
Recruiting the Best

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 them 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.

We Are a 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 as well as electronic means of communication are used. As part of our initiatives conducted 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 gazette devoted to key events connected with the Group's operations. We have also implemen-

EMPLOYMENT AT THE PGNIG GROUP BY SEGMENTS IN 2006-2008



** Head Office provides services for all segments and thus has not been allocated to any particular segment.*
*** Including companies consolidated with the equity method.*

ted a system based on "communicators" – persons responsible for disseminating information among our employees across the Group. We have also launched an IT platform enabling direct information exchange among the employees. The work on launching of an SMS-based information system for the employees has been completed. 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 by segments (no. of staff)

	2008	2007
Head Office	837	604
Exploration and Production	10,725	10,151
Trade and Storage	4,088	4,104
Distribution	13,746	13,538
Other activities	2,044	1,928
Total	31,440	30,325

THE PGNIG GROUP

As at December 31st 2008, the PGNiG Group comprised PGNiG SA (the parent undertaking) and 33 production and service companies, including:

- 26 subsidiaries of PGNiG SA;
- 7 indirect subsidiaries of PGNiG SA.

Equity Changes

In 2008, six Distribution System Operators changed its name to Gas Companies. In addition, the following changes occurred within the structure of the PGNiG Group:

- on February 4th 2008, amendments to the articles of association of PGNiG Finance B.V. were registered in the Netherlands. Under the amended articles of association, the company's name was changed (currently it is Polish Oil and Gas Company – Libya B.V.) and its business profile was redefined;
- on March 31st 2008, ZRUG Warszawa SA (in liquidation) was deleted from the Register of Entrepreneurs. Its shareholders included PGNiG SA with a 49% interest in the company's share capital and Mazowiecka Spółka Gazownictwa sp. z o.o. with a 49% interest;
- PGNiG SA and OGP GAZ-SYSTEM SA concluded a share purchase agreement providing for the sale of a 100% interest in Polskie LNG sp. z o.o. Under the agreement, PGNiG SA sold to OGP GAZ-SYSTEM SA 50,000 Polskie LNG sp. z o.o. shares, with a par value of PLN 1,000 per share, for a total price of PLN 52,000,000. The ownership title to the Polskie LNG sp. z o.o. shares was transferred to the purchaser on December 8th 2008.

Furthermore, on January 29th 2008, Geofizyka Kraków sp. z o.o. established a joint-stock company incorporated under Libyan law, under the name of Geofizyka Kraków Libya JSC. The shares in the company are held by two shareholders: Geofizyka Kraków sp. z o.o. (60% of the share capital) and BARARI Co. For Oil Services (40% of the share capital). The company's share capital amounts to LYD 1,000,000.00 and is divided into 10,000 shares with a par value of LYD 100 per share.

EXPLORATION AND PRODUCTION

PNiG Jasło sp. z o.o.	100%
GK PNiG Kraków	100%
PNiG NAFTA sp. z o.o.	100%
GK GEOFIZYKA Kraków	100%
GEOFIZYKA Toruń sp. z o.o.	100%
PN 'Diament' sp. z o.o.	100%
ZRG Krosno sp. z o.o.	100%
PGNiG Norway AS	100%
POGC - Libya B.V.	100%

The Capital Group of the Poszukiwania Nafty i Gazu Kraków is made up of a limited liability company Poszukiwania Nafty i Gazu Kraków sp. z o.o. and its subsidiary Oil Tech International F.Z.E.

The Capital Group of GEOFIZYKA Kraków is made up of a limited liability company Geofizyka Kraków sp. z o.o. and its subsidiary GEOFIZYKA Kraków Libya JSC.

CONSOLIDATED COMPANIES OF THE PGNIG CAPITAL GROUP

PGNiG SA

TRADE AND STORAGE

- INVESTGAS SA – 100%

DISTRIBUTION

- Dolnośląska Spółka Gazownictwa sp. z o.o. – 100%
- Górnośląska Spółka Gazownictwa sp. z o.o. – 100%
- Karpacka Spółka Gazownictwa sp. z o.o. – 100%
- Mazowiecka Spółka Gazownictwa sp. z o.o. – 100%
- Pomorska Spółka Gazownictwa sp. z o.o. – 100%
- Wielkopolska Spółka Gazownictwa sp. z o.o. – 100%

OTHER ACTIVITY

- B.SiP.G „Gazoprojekt" SA – 75%
- BUG Gazobudowa sp. z o.o. – 100%
- ZUN Naftomet sp. z o.o. – 100%
- Geovita sp. z o.o. – 100%
- BN Naftomontaż sp. z o.o. – 88,83%
  - NAFT-STAL sp. z o.o. – 67,40%

Exploration and Production Companies

GEOFIZYKA Kraków Group

The GEOFIZYKA Kraków Group provides geophysical services in the area of field seismics with 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 boreholes, interpretations and perforations. The group also offers drilling seismometry services.

With a view to starting operations in Libya, on January 29th 2008, GEOFIZYKA Kraków sp. z o.o. established a joint stock company under the name of GEOFIZYKA Kraków Libya JSC, however, the company did not commence business activity in that year.

In 2008, GEOFIZYKA Kraków sp. z o.o.'s sales revenue reached PLN 178.8m, with revenue from sales provided to the PGNiG Group accounting for 54%, and revenue from services provided to customers outside the PGNiG Group accounting for 46% of the total.

Abroad, the company primarily performed 2D and 3D seismics in the Czech Republic, Denmark, Libya and Pakistan, as well as geophysical drilling services in Latvia, Slovakia and Hungary. Seismic data processing and interpretation was performed for a Czech company Moravské Naftové Doly a.s. The company was also engaged by a Hungarian company MOL for the processing of data obtained during work performed under a license in Yemen. Due to unstable political situation in Pakistan, the execution of the contract concluded with ODGCL was suspended in accordance with applicable clauses of the contract. For the same reason, the company decided not to commit itself to execution of the second contract for MOL/Mari Gas.

In 2009, GEOFIZYKA Kraków sp. z o.o. entered into contracts providing for the performance of seismic work, processing and interpretation of data on the domestic market, as well as contracts for the performance of field seismics and geophysical drilling services in Slovakia, the Czech Republic and Hungary. In addition, the company won a tender for the performance of 2D and 3D seismics in Murzuq (Libya).

GEOFIZYKA Kraków Group

	Unit	2008	2007
Sales revenue	PLN m	178.8	226.5
Net profit/loss	PLN m	0.2	2.1
Equity	PLN m	90.1	64.0
Total assets	PLN m	205.0	202.0
Headcount as at December 31st	persons	1,124	874

GEOFIZYKA Toruń sp. z o.o.

GEOFIZYKA Toruń sp. z o.o. 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 boreholes, including their interpretation, as well as drilling services. In addition, GEOFIZYKA Toruń sp. z o.o.'s offering includes shallow geophysical tests as part of environmental protection activities, geological and hydrogeological tests, as well as design and installation of deep groundbeds for cathodic protection.

In 2008, GEOFIZYKA Toruń sp. z o.o.'s sales revenue amounted to PLN 332.4m, 65% of which accounted for revenue from services rendered to customers other than the PGNiG Group's companies (56% of that revenue accounted for export activities).

The company's services abroad included acquisition and processing of 2D and 3D seismic data in India, Syria and Germany. In Poland, GEOFIZYKA Toruń sp. z o.o. mainly carried out work for the PGNiG Group and for FX Energy Poland sp. z o.o. in the area of design and acquisition of data, processing of data and comprehensive geophysical and geological interpretations.

In 2009, GEOFIZYKA Toruń sp. z o.o.'s objective will be to consolidate its position on the domestic market and selected foreign markets (India, Iran, Germany, Syria and Thailand) through the expansion of its service portfolio and optimal utilisation of its resources. The company also plans to launch its services in Turkey, Yemen, Egypt and Saudi Arabia.

GEOFIZYKA Toruń sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	332.4	314.6
Net profit/loss	PLN m	32.2	16.9
Equity	PLN m	168.1	140.7
Total assets	PLN m	252.1	219.3
Headcount as at December 31st	persons	1,186	1,213

PNiG Jasło sp. z o.o.

The core business of Poszukiwania Nafty i Gazu Jasło sp. z o.o. consists in execution of exploratory and production boreholes, reconstruction and liquidation of boreholes and performance of specialist drilling services, including cementing, flushing, borehole reinforcement, as well as servicing of control and instrumentation at well surface installations.

In 2008, the company's sales revenue was PLN 281.9m, of which services provided to the PGNiG Group accounted for 73%. PNiG Jasło sp. z o.o.'s main customer in Poland was PGNiG SA. The company also executed boreholes for RWE Dea Polska sp. z o.o., drilled a geothermal borehole for the Lux Veritatis Foundation, and provided cementing and packer services to external customers, such as PRWiG, FX Energy Poland sp. z o.o. and Petrobaltic SA. Outside Poland, the company performed drilling work in Libya and geothermal drilling work in Germany. In Lithuania, Latvia and Ukraine, PNiG Jasło sp. z o.o. performed specialist services in the area of reconstruction and drilling, and cementing, as well as Datawell services.

In 2009 and beyond, Poland will remain PNiG Jasło sp. z o.o.'s nearest strategic market where the company will perform services for PGNiG SA, with auxiliary markets being Libya, Germany and – as of recently – Russia, where the company will be providing oil and geothermal services. In 2009, the company has already started reconstruction work in Russia and commenced drilling of the second geothermal hole in Germany.

PNiG Jasło sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	281.9	236.3
Net profit/loss	PLN m	18.2	9.2
Equity	PLN m	142.0	127.6
Total assets	PLN m	219.6	194.1
Headcount as at December 31st	persons	932	861

GK PNiG Kraków

The PNiG Kraków Group is composed of Poszukiwania Nafty i Gazu Kraków sp. z o.o. and Oil Tech International F.Z.E. The core business of PNiG Kraków sp. z o.o. consists in geological, exploratory and production drilling, reconstruction of boreholes and servicing related to drilling, sampling and operation of boreholes. The company also provides mine rescue services as well as hospitality, catering, rental and training services. Oil Tech International F.Z.E. provides services consisting in the provision of operator teams, materials, and plant and equipment used by PNiG Kraków sp. z o.o.

In 2008, the PNiG Kraków Group sales revenue reached PLN 360.2m, with revenue from services provided to customers from outside the PGNiG Group accounting for 65% of that figure. Foreign customers represented 62% of the revenue from services provided to external customers. The PNiG Kraków Group provided services in Kazakhstan, Mozambique, Uganda, Latvia and Ukraine. In Poland, the Group performed drilling work and provided maintenance services related to drilling, sampling and operation of boreholes under turn-key contracts, of which the majority was concluded with the PGNiG Group.

In 2009, the PNiG Kraków Group plans to continue executing contracts for drilling service concluded in 2008 in Kazakhstan, Pakistan, Uganda and Ukraine. In addition, the PNiG Kraków Group will continue work on the boreholes situated in Southern Poland, as well as perform probing and directional drilling services under contracts concluded in 2008.

GK PNiG Kraków

	Unit	2008	2007*
Sales revenue	PLN m	360.2	301.0
Net profit/loss	PLN m	5.6	17.3
Equity	PLN m	182.5	166.3
Total assets	PLN m	395.3	368.6
Headcount as at December 31st	persons	1,344	1,353

** Data for PNiG Kraków sp. z o.o.*

PNiG NAFTA sp. z o.o.

The core business of Poszukiwania Nafty i Gazu NAFTA sp. z o.o. comprises exploration of crude oil and natural gas reserves, primarily with respect to design, execution and documentation of research, prospecting, exploratory and production boreholes. The company also provides specialist drilling services, and deals with drilling of boreholes for underground storage of hydrocarbons, liquidation of boreholes in used-up reserves and reconstruction of developed boreholes. In addition, the company provides support services through its workshop specialising in repair of drilling equipment, and storage facilities.

In 2008, the PGNiG Group was the company's key customer in Poland. The exploration work was continued in North-West and Western Poland. The company's total sales revenue stood at PLN 284.7m, with the revenue from the services provided to the PGNiG Group accounting for 77% of that figure. The company performed exploration and prospecting drilling work for PGNiG SA and drilling work for the underground storage facility in Mogilno, as part of a project carried out by INVESTGAS SA. Outside Poland, the Company executed drilling work in Egypt, India and Hungary (the contract in India expired this year).

In Poland, PNiG NAFTA sp. z o.o. will continue drilling work at the underground storage facilities in Mogilno and Kosakowo for PGNiG SA, and drilling of an exploratory borehole for FX Energy Poland sp. z o.o. in 2009. Abroad, the company will perform drilling work in Egypt and Hungary.

PNiG NAFTA sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	284.7	262.0
Net profit/loss	PLN m	34.6	36.5
Equity	PLN m	180.2	160.9
Total assets	PLN m	318.2	267.1
Headcount as at December 31st	persons	773	713

PN 'Diament' sp. z o.o.

The core business of Poszukiwania Naftowe Diament sp. z o.o. consists in providing specialist drilling services, which include: borehole drilling, repair work, liquidation of boreholes, production sampling of boreholes, deep measurements, production intensification and other work with the use of coiled tubing and a nitrogen unit, as well as borehole reinforcement and drillstem testing with blowout prevention equipment. The company also conducts business activity comprising general construction engineering, road construction and municipal waste dump construction, and it provides vehicle repair, transport and equipment services.

In 2008, PN Diament sp. z o.o.'s sales revenue amounted to PLN 209.2m, 58% of which accounted for sales to customers other than the PGNiG Group's companies. A consortium of PN Diament sp. z o.o. and PNiG Jasło sp. z o.o. conducted drilling work for KGHM Polska Miedź SA at 26 exploratory boreholes in areas covered with copper deposit licences. Furthermore, the company rendered general construction engineering services (mainly related to road and on-ground structures). For the PGNiG Group the company conducted boreholes drilling work, carried out repairs and liquidations of boreholes, and provided a range of specialist services, including operational borehole production intensification and repair, cementing boreholes and work related to drilling fluids.

In 2009, as part of consortium with PNiG Jasło sp. z o.o., PN Diament sp. z o.o. will continue drilling work for KGHM Polska Miedź SA at six exploration boreholes. The company will also provide services related to general construction engineering for customers other than the PGNiG Group's companies, borehole drilling, repairs and liquidation of boreholes as well as other specialist services for the PGNiG Group.

PN 'Diament' sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	209.2	161.3
Net profit/loss	PLN m	6.8	8.8
Equity	PLN m	92.2	91.7
Total assets	PLN m	134.0	132.9
Headcount as at December 31st	persons	675	613

ZRG Krosno sp. z o.o.

Zakład Robót Górniczych Krosno sp. z o.o. is a specialist borehole mining service company. Its business activity comprises in particular work in producing boreholes, including repair and reconstruction of oil and gas production boreholes, shallow drilling (up to approx. 1,000 meters), production borehole recompletion, and liquidation of boreholes, infrastructure and drilling pits, as well as other liquidation of other effects of borehole mining. In addition, the company provides a wide range of production intensification, measurement and laboratory services.

In 2008, ZRG Krosno sp. z o.o. posted total sales revenue of PLN 79.1m, 84% of which accounted for sales to the PGNiG Group. Other customers include domestic borehole mining companies engaged in exploration of mineral reserves and geothermal water. In Poland, ZRG Krosno sp. z o.o. provided services at producing boreholes, chiefly related to repairs, reconstruction and liquidation. ZRG Krosno sp. z o.o. also provided borehole mining services on the international markets in Kazakhstan, Mozambique (for PNiG Kraków sp. z o.o.), Ukraine, Slovakia and Latvia.

PGNiG SA will remain the company's key partner in the coming years. In addition, ZGR Krosno sp. z o.o. plans to diversify into other markets in Central and Eastern Europe. In 2009, the company will continue its work at boreholes for customers in Poland, in particular work related to repair, reconstruction and liquidation of boreholes, and will take steps aimed at enhanced gas production in Kazakhstan and Ukraine.

ZRG Krosno sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	79.1	88.6
Net profit/loss	PLN m	3.9	3.9
Equity	PLN m	41.3	39.2
Total assets	PLN m	59.5	62.0
Headcount as at December 31st	persons	436	427

PGNiG Norway AS

PGNiG Norway AS was established to implement the project in the Norwegian Continental Shelf, which is aimed at increasing the volume of oil and gas reserves held outside of Poland. The Company holds a 15% interest in three licences PL 212, PL 212B and PL 262 covering the Skarv and Snadd fields. The remaining interests are held by British Petroleum, as the operator – (30%), StatoilHydro (30%) and E.ON Ruhrgas Norge (25%).

PGNiG Norway AS's core business comprises exploration and production of crude oil and natural gas reserves in the Norwegian Continental Shelf and participation in infrastructural projects related to crude oil and natural gas transmission activities.

Reserves are developed by British Petroleum and PGNiG Norway AS, StatoilHydro and E.ON Ruhrgas. As a result of combining the Skarv and Snadd fields with the Idun field in the Norwegian Continental Shelf, the companies' approximate shares in the exploration and production area are as follows:

- British Petroleum (the operator) 24 proc.
- StatoilHydro 36 proc.
- E.ON Ruhrgas Norge 28 proc.
- PGNiG Norway AS 12 proc.

In 2008, the Skarv project entered into the reserve development stage. Production is expected to commence in 2011. Under the development project, 16 boreholes will be drilled, including seven oil extraction boreholes, five natural gas extraction boreholes 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. Drilling equipment will be mobilised at the end of 2009.

On January 1st 2009, under an agreement with StatoilHydro Petroleum AS, PGNiG Norway AS acquired, free of charge, 30% of interest in PL 350 license in the Norwegian Continental Shelf. Once it receives an approval of the Norwegian Ministry of Petroleum and Energy and the Norwegian Ministry of Finance, PGNiG Norway AS will acquire a 25% interest in PL 419 license under an agreement with Nexen Exploration Norge AS.

PGNiG Norway AS

	Unit	2008	2007
Sales revenue	PLN m	0	0
Net profit/loss	PLN m	- 41.8	- 7.2
Equity	PLN m	162.8	217.5
Total assets	PLN m	1,412.3	1,075.4
Headcount as at December 31st	persons	19	10

POGC-Libia B.V.

On February 4th 2008, PGNiG Finance B.V. was transformed into Polish Oil and Gas Company-Libya B.V. to carry out exploration under the license No. 113 located in the Murzuq petroleum basin (western Libya). The company was issued a warranty by PGNiG SA securing its performance of the licence obligations. On February 25th 2008, POGC-Libya B.V. signed the Exploration and Production Sharing Agreement (EPSA) with state-owned Libyan oil company National Oil Corporation, which was ratified on June 1st 2008. In H1 2009, the acquisition of field data commenced.

POGC-Libia B.V.

	Unit	2008	2007
Sales revenue	PLN m	0	0
Net profit/loss	PLN m	- 8.1	- 1.4
Equity	PLN m	- 6.3	2.8
Total assets	PLN m	56.4	2.8
Headcount as at December 31st	persons	13	-

Trade and Storage Companies

IVNESTGAS SA

INVESTGAS SA specialises in the execution of projects in the area of hydrocarbon storage and transport. It also executes specialist and general construction projects. The company provides services covering the entire investment process, from the preparation, to design, construction, technological start-up and operation of storage facilities in salt caverns and other facilities.

In 2008, the company's sales revenue totalled PLN 65.5m. Revenue from sales of services to PGNiG SA represented 92% of total sales revenue. The services performed for PGNiG SA included:

- operation and extension of the Underground Gas Storage Cavern in Mogilno;
- preparation for the construction of the Underground Gas Storage Facility in Kosakowo;
- 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 SA and preparatory work preceding implementation of the Baltic Pipe project.

In 2009, 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 KGZ Kościan – KGHM Polkowice/Żukowice gas pipeline and preparatory work preceding execution of the next phase of the Ostrów Wielkopolski-Wrocław fuel pipeline construction for PKN ORLEN SA and supervision over the construction process. The company also

IVNESTGAS SA

	Unit	2008	2007
Sales revenue	PLN m	65.5	33.9
Net profit/loss	PLN m	4.0	2.6
Equity	PLN m	13.1	10.5
Total assets	PLN m	30.6	24.9
Headcount as at December 31st	persons	91	86

plans to increase the value of its sales by winning new, large fuel contracts for such investors as PKN ORLEN, LOTOS and PERN.

System Gazociągów Tranzytowych EuRoPol GAZ SA

The core business of SGT EuRoPol GAZ SA is transmission of natural gas. The company transmits gas and sells throughput capacities along the Polish section of the transit gas pipeline system (from the border between Belarus and Poland to the interconnector terminal points on the border between Poland and Germany). In 2008, the company transported 32.5 bcm of gas. PGNiG SA holds 48% of shares in SGT EuRoPol GAZ SA. The company's share capital stands at PLN 80m and is divided into 800,000 shares, with a par value of PLN 100 per share.

SGT EuRoPol GAZ SA

	Unit	2008	2007
Sales revenue	PLN m	1,244	1,508
Net profit/loss	PLN m	-112	418
Equity	PLN m	3,463	3,576
Total assets	PLN m	6,009	6,055
Headcount as at December 31st	persons	287	286

Distribution Companies

Dolnośląska Spółka Gazownictwa sp. z o.o.

Dolnośląska Spółka Gazownictwa sp. z o.o. supplies gas to customers in the Provinces of Wrocław, and Zielona-Góra, and in the Wolsztyn county (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, in whose case 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 Świętoszów, the company provides customers with gas in liquefied form (LNG).

The total volume of gas transmitted by DSG sp. z o.o. via the distribution network in 2008 was 997.8 mcm, of which high-methane gas, nitrogen-rich gas (Lw) and nitrogen-rich gas (Ls) accounted, respectively, for approx. 68%, 31.7% and approx. 0.3%. The company has some 745.4 ths. customers. In 2008, DSG sp. z o.o. connected to the gas network 6.3 ths. new customers. The annual consumption of gas by the new customers is estimated at 61 mcm.

In 2008, the company continued to replace the cast-iron piping whose further operation would have posed a safety hazard and resulted in considerable gas loss. It needs to be noted that the implementation of the cast-iron piping replacement programme, as well as regular technical inspections of the network, have resulted in a drop in the share of gas loss in relation to sales. Other work carried out by DSG sp. z o.o. in 2008 included the extension and modernisation of the gas network. The major projects completed in 2008 included:
- modernisation of the leaky pipeline from Zakęcie to Nowa Sól (to improve security of gas supplies);
- extension of the gas grid in the town of Żary (to improve security of gas supplies to Żary), and construction of the first-grade station within the Kronopol station.

In the years to come, DSG sp. z o.o. is going to focus on maintaining its current market position, while aiming to further increase gas throughput by:
- rexpanding 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 supply by means of LNG units.

In the area where DSG sp. z o.o. operates, a number of other gas sellers and distributors are intensifying their activities. In future, they may take over the company's existing or prospective customers (both industrial and individual ones). DSG sp. z o.o.'s

Dolnośląska Spółka Gazownictwa sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	339.6	711.3
Net profit/loss	PLN m	40.8	-165.9
Equity	PLN m	944.5	795.0
Total assets	PLN m	1,142.8	1,055.8
Length of network, excl. connections*	km	7,636.8	7,053.3
Headcount as at December 31st	persons	1,390	1,319

** Company's own and third-party networks.*

two key competitors are Media Odra Warta sp. z o.o. (MOW) and G.EN. GAZ ENERGIA SA.

Górnośląska Spółka Gazownictwa sp. z o.o.

Górnośląska Spółka Gazownictwa sp. z o.o. supplies gas to customers in the Provinces of Katowice and Opole, in 44 communes of the Province of Kraków, in 5 communes of the Province of Łódź and in 3 communes of the Province of Kielce. It serves some 1.3 million customers. The total volume of gas transmitted by GSG sp. z o.o. via the distribution network in 2008 was 1,371.2 mcm.

In 2008, GSG sp. z o.o. connected to the gas network 4.4 ths. new customers. The annual consumption of gas by the new customers is expected to reach approx. 260.1 mcm. In addition, the company carried out work on the network modernisation, while continuing to connect to the gas grid households and businesses located west of Częstochowa. The major projects that were underway in 2008 included:
- preconstruction of the approx. 5 km long gas pipeline from Zdzieszowice to Blachownia;
- modernisation of the approx. 20 km long gas pipeline from Zdzieszowice to Tworzeń (including modernisation of a 15 km stretch with the use of the Compact Pipe technology);
- connection of the village of Komprachcice to the gas supply system (the project comprises construction of approx. 40km of medium-pressure gas pipelines);
- connection of the commune of Dąbrowa to the gas supply system (the project comprises construction of approx. 23 km of medium-pressure gas pipelines);
- connection of the village of Herby and the town of Blachownia to the gas supply system (the project comprises construction of approx. 35 km of high- and medium-pressure gas pipelines).

In 2009, the company is going to continue work on the connection to the gas grid of areas located west of Częstochowa and around the city of Opole. In Upper Silesia and the Province of Opole, new sites are being designated for development projects and new road connections are being built. What this means for the company is a larger potential market for its distribution services, as new industrial plants appear which in future may become the company's institutional customers.

In the area of GSG sp. z o.o.'s operations, competitive gas distributors have been intensifying their presence. They provide integrated services by offering customers not only the construction of network connections, but also the supplies of gaseous fuel. The major ones are API Testo/KRI and CP ENERGIA SA/K&K. The strength of the competitive gas distributors lies in their ability to provide temporary supplies of liquefied gas when the gas network is still under construction. Moreover, the existing and prospective gas users have recently intensified their efforts aimed at establishing direct connections with the network of OGP GAZ-SYSTEM SA.

Górnośląska Spółka Gazownictwa sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	518.2	1,126.9
Net profit/loss	PLN m	19.5	19.2
Equity	PLN m	1,507.3	1,394.8
Total assets	PLN m	1,729.1	1,636.3
Length of network, excl. connections*	persons	20,488.7	19,827.4
Headcount as at December 31st	osoby	2,589	2,515

** Company's own and third-party networks.*

Karpacka Spółka Gazownictwa sp. z o.o.

The area covered by the company's operations includes 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 1.4 million customers. The total volume of gas transmitted by KSG sp. z o.o. via the distribution network in 2008 was 2,003.9 mcm.

In 2008, KSG sp. z o.o. connected to the gas network 18.6 ths. new customers. The annual consumption of gas by the new customers is estimated at 201.7 mcm. In addition, the company carried out work on the network extension and modernisation. The major projects that were underway in 2008 included:
- construction of an approx. 10.3 km long high-pressure gas pipeline to Zakład Przetwórstwa Wapienniczego Trzuskawica (a limestone processing plant);
- construction of an approx. 8.6 km long gas transmission pipeline from Werbkowice to Zamość;
- construction of an approx. 7.9 km long medium-pressure gas grid in the town of Jędrzejów.

The company plans to expand its distribution network by constructing traditional gas pipelines, as well as by developing the LNG market. It is planned that KSG sp. z o.o. will be responsible for liquefying and distributing the fuel. Distribution of LNG will support the initial provision of access to gas supply to those areas where the construction of traditional pipelines does not meet the necessary economic criteria. Once the local natural gas market is developed, distribution of LNG in such areas will enable the economically viable construction of traditional pipelines.

The company's other plans for the coming years include continued expansion of the distribution network in the Province of Kielce. Thanks to the flourishing minerals processing industry in the region, the company will be able to acquire new customers and achieve higher sales of distribution services.

However, it needs to be emphasised that in the area of KSG sp. z o.o.'s operations, one can observe intensified activity on the part of companies aiming to build their own distribution networks in places which are not yet connected to the gas grid, as well as on the part of distributors of gas in liquefied form.

Karpacka Spółka Gazownictwa sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	681.3	1,561.5
Net profit/loss	PLN m	67.3	-16.6
Equity	PLN m	2,189.2	1,947.8
Total assets	PLN m	2,577.7	2,405.9
Length of network, excl. connections*	km	43,927.7	42,820.4
Headcount as at December 31st	persons	3,306	3,265

** Company's own and third-party networks.*

Mazowiecka Spółka Gazownictwa sp. z o.o.

Mazowiecka Spółka Gazownictwa sp. z o.o. 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 (the aggregate area covered by the company's gas supply services is approx. 87 ths. km^2). The total volume of gas transmitted by MSG sp. z o.o. via the distribution network in 2008 was 1,897 mcm. Gas is supplied to some 1.5 million customers via the gas network and gas stations operated by the company.

In 2008, the company conducted projects consisting in operating, extending and upgrading the gas network. MSG sp. z o.o. connected 21.7 ths. new customers to the gas network. Major projects carried out in 2008 included:

- modernisation of an approx. 6.3 km long section of the gas grid from Białobrzegi to Grójec;
- modernisation of an approx. 5 km long section of the gas grid, extending along Trakt Lubelski street in Warsaw;
- construction of a gas grid section in Radomsko; providing gas supplies to the Łódź Special Economic Zone (streets: Sucharskiego, Pasieczna, Przemysłowa, Reja, Górnickiego, Witosa, Orzeszkowa and Narutowicza);
- construction of a connecting pipeline for Nova Ceramica in Mniszków;
- construction of a connecting pipeline for Procter &Gamble in Aleksandrów Łódzki;
- construction of a connecting pipeline for Indesit in Radomsko.

In 2009, MSG sp. z o.o. intends to focus on:

- ensuring an 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 for new customers;
- improving the security of operating the company's network assets;
- maintaining cooperation with PGNiG SA as part of a project which involves switching propane butane gas mixing/decompression plant into high-methane gas plant in the area covered by the Białystok Gas Plant.

Mazowiecka Spółka Gazownictwa sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	659.2	1,413.8
Net profit/loss	PLN m	91.9	-507.2
Equity	PLN m	1,793.9	1,381.1
Total assets	PLN m	2,224.2	1,803.0
Length of network, excl. connections*	km	18,361.0	16,634.0
Headcount as at December 31st	persons	2,895	2,920

** Company's own and third-party networks.*

Pomorska Spółka Gazownictwa sp. z o.o.

PSG sp. z o.o.'s geographical reach covers the Provinces of Gdańsk and Bydgoszcz, a part of the Province of Olsztyn, as well as two communes of the Province of Szczecin (Sławno and Postomino). When it comes to expanding the gas supply system, this area 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 sp. z o.o. via the distribution network in 2008 was 881.9 mcm. In 2008, the company provided its services to some 739.8 ths. customers and connected to the gas network approx. 6 ths. new customers. The annual consumption of gas by the new customers is estimated at 54.5 mcm.

In 2008, the Company modernised the low- and medium-pressure pipelines: it replaced a 9.5 km section of the emergency pipeline and a 3.8 km stretch of gas connections, and initiated further replacements with respect to a 2.3 km stretch of emergency pipeline and a 0.5 km segment of gas connections.

Major projects involving the extension of the gas network carried out in 2008 included:
- progress in the construction of the Bytów-Słupsk high-pressure pipeline and a first-grade pressure reduction and metering station; the primary objective of the extension is to improve security of gas supplies to Słupsk and its vicinity, as well as to enable connection of municipalities and communes located along the pipeline to the gas network; this project will ensure diversified gas supplies and connect the two gas systems supplying the Pomerania region: PSG sp. z o.o. and the WSG sp. z o.o.'s networks;
- construction of a high-pressure pipeline in Toruń, along with the first-grade pressure reduction and metering station, in order to improve security of gas supplies to the city of Toruń, industrial customers, Łysomice and Wielka Nieszawka communes and the Pomeranian Special Economic Zone;
- incorporating into the gas supply system and placing in service of the high-pressure pipeline from Szubin to Kruszyn, along with the first-grade pressure reduction and metering station (whose construction was completed in 2007);
- incorporating into the gas supply system and placing in service of the high-pressure pipeline from Nidzica to Szczytno (whose construction was completed in 2007).

On June 3rd 2008, an experimental CNG fuelling station was opened in Toruń under an agreement concluded between PSG sp. z o.o., Toruń Municipality, Toruń Municipal Transportation Company, Biogaz Inwestor sp. z o.o. and the Bydgoszcz Gas Company. The station is to ultimately distribute biogas as fuel for vehicles.

The company plans to carry on with its network-related projects by:
- constructing and modernising low- and medium-pressure pipelines in the areas which are covered by the gas supply system;
- constructing and modernising high-pressure pipelines to enable the supply of gas to areas which have not yet been covered by the gas supply system;
- connecting new customers;
- combining the pipelines into ring structures, 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. The company evaluates the potential of individual communes by assessing whether projects involving gas system expansion are economically viable.

Pomorska Spółka Gazownictwa sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	345.9	736.7
Net profit/loss	PLN m	21.2	-160.7
Equity	PLN m	805.7	672.5
Total assets	PLN m	1,189.0	1,017.7
Length of network, excl. connections*	km	9,014.2	8,125.4
Headcount as at December 31st	persons	1,760	1,741

** Company's own and third-party networks.*

In the area of the company's operations, a number of new players entered the market for distribution and trade in gaseous fuels. These include G.EN. GAZ ENERGIA SA, US.EN.EKO, KRI sp. z o.o., ENERGO-EKO-INWEST sp. z o.o. and P.L. Energia SA.

Wielkopolska Spółka Gazownictwa sp. z o.o.

WSG sp. z o.o. manages a network of distribution pipelines covering an area of approx. 68.1 km^2, including the Provinces of Poznań and Szczecin, several municipalities/communes in the Provinces of Łódź, Wrocław and Zielona Góra, as well as one municipality in the Province of Gdańsk. The percentage of households and businesses connected to the gas network within the area of WSG sp. z o.o.'s operations is approximately 44.4% (it is high in urban areas and towns, medium in mixed urban and rural areas, and low in typical rural areas).

The total volume of gas transmitted by WSG sp. z o.o. via the distribution network in 2008 was 1,725.3 mcm, including 1,027.2 mcm of high-methane gas. At the end of 2008, the total number of customers served by the company was 895.8 ths. The Company connected to the gas network approx. 7 ths. new customers. The annual consumption of gas by the new customers is estimated to reach 124.5 mcm.

The major projects completed in 2008 included:
- construction of 337.54 km of high-, medium- and low-pressure pipelines, 8,342 gas connections and 89 gas stations, including one first grade reduction and metering station, of which the most significant projects were the construction of the Trzemeszno-Witkowo high-pressure pipeline and the construction of a gas network for Ostrów Wielkopolski (Zacharzew housing estate) and Radłów;
- purchase of 45.57 km of medium- and low-pressure pipelines and 348 gas connections, of which the most significant project was the purchase of the gas network in the Santok commune;
- modernisation of 21.65 km of medium- and low-pressure pipelines, 9.4 km of gas connections and six gas stations, of which the most significant projects were the modernisation of a housing community gas network in Poznań, conversion of first grade gas station and providing power supply in the Rumin commune.

In addition, in Q2 2008 Stage 1 of the process of switching the left-bank part of Poznań and the East Poznań Province from less caloric nitrogen-rich gas to high-caloric high-methane gas was launched. This process will improve the security and capacity of the distribution network. The switching process will be completed in 2009.

To maintain its current market position and to extend its distribution network, the company undertook actions aimed at delivering gas to the communes of Witkowo, Strzałkowo, Powidz, Włoszakowice, Lipno and Przemęt. In the next few years, the company will focus on:
- rextension of the high-pressure distribution grid;
- cooperation with OGP GAZ-SYSTEM SA to determine planned projects related to the extension of distribution and transmission grids;
- cooperation with companies engaged in trade in gaseous fuels as part of projects to deliver gas to new areas.

In the company's area of operations there has been an increased activity in the business of distribution and trade in gaseous fuels by such operators as G.EN. GAZ ENERGIA SA, Media Odra Warta sp. z o.o., E.ON edis energia sp. z o.o., CP Energia SA, P.L. Energia SA.

Wielkopolska Spółka Gazownictwa sp. z o.o.

	Unit	2008	2007
Sales revenue	PLN m	515.8	1,116.6
Net profit/loss	PLN m	39.0	-299.1
Equity	PLN m	1,409.0	1,184.0
Total assets	PLN m	1,727.0	1,520.7
Network length (excluding connections)*	km	14,572.1	13,431.5
Headcount as at December 31st	persons	1,806	1,778

** Company's own and third-party networks.*

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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Auditor's Opinion

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

We have reviewed the attached consolidated financial statements of the Capital Group Polskie Górnictwo Naftowe i Gazownictwo SA with the registered office in Warsaw, ul. M. Kasprzaka 25, acting as a parent, including:

- consolidated balance sheet prepared as of 31 December 2008, with total assets and liabilities plus equity of PLN 29,745,277 thousand,
- consolidated income statement for the period from 1 January 2008 to 31 December 2008, disclosing a net profit of PLN 865,742 thousand,
- statement of changes in consolidated equity for the period from 1 January 2008 to 31 December 2008, disclosing a decrease in equity of PLN 305,840 thousand,
- consolidated cash flow statement for the period from 1 January 2008 to 31 December 2008, showing a net cash outflow of PLN 164,005 thousand,
- additional information and explanations.

Preparation of these financial statements is the responsibility of the Management Board of the Parent. Our responsibility was to audit and express an opinion on the accuracy, correctness and clarity of these consolidated financial statements.

The consolidated financial statements were drawn up using the full method for 23 subsidiaries (the number includes Polskie LNG sp. z o.o. sold on 8 December 2008) and the equity method for two associates. The financial statements of 15 subsidiaries and two associates were subject to review by other entities authorized to audit financial statements. We received financial statements of these subsidiaries and associates as well as opinions resulting from audit of these financial statements. Our opinion on the audit of the consolidated financial statements in respect to the data of these entities is based on opinions of certified auditors authorized to perform their audit. The data from the financial statements of subsidiaries in the case of which our audit was fully based on opinions of other certified auditors account for 5.2% and 9.4% of consolidated assets and consolidated sales revenues before consolidation adjustments, respectively.

Our audit of the consolidated financial statements was planned and performed in accordance with:

- section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002 No. 76, item 694 with subsequent amendments),
- auditing standards issued by the National Council of Statutory Auditors in Poland,

in such a way as to obtain reasonable basis for expressing an opinion as to whether the consolidated financial statements were free of material misstatements. Our audit included in particular examining, the consolidation documentation supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles (policy) applied in the preparation of the consolidated financial statements, related material estimates, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements of Capital Group Polskie Górnictwo Naftowe i Gazownictwo SA for the 2008 financial year were prepared in all material respects in accordance with the International Financial Reporting Standards as endorsed by the European Union and give true and fair view of all information essential for evaluation of the economic and financial standing as well as the financial profit/loss of the Capital Group as at and for the period of 12 months ended 31 December 2008.

Without qualifying the accuracy and fairness of the audited consolidated financial statements, we would like to point out the information presented in Note 6, in which the Parent's Management Board has presented factors resulting in uncertainty of assumptions on which measurement of shares in SGT EuRoPol GAZ SA co-subsidiary was based. Measurement of the shares was based on assumptions and future events beyond control of the Parent, whose effects could not have been clearly projected as at the date of the consolidated financial statements. The Parent's Management Board explained also reasons of having made impairment write-downs on the shares of the co-subsidiary.

The Report on the activities of the Capital Group in the 2008 financial year is complete in the meaning of Article 49 clause 2 of the Accounting Act and the Minister of Finance's ordinance of 19 February 2009 on current and periodical information submitted by issuers of securities, and consistent with the underlying information disclosed in the audited financial statements.

Maria Rzepnikowska
Chairman of the Board
Certified Auditor
No. 3499/1028

Piotr Sokołowski
Member of the Board
Certified Auditor
No. 9752

represented by

Deloitte Audyt Sp. z o.o.
18 Piekna St.
00-549 Warsaw

Entity entitled to audit
financial statements entered under
number 73 on the list kept by
National Council of Statutory Auditors

Warsaw, 7 April 2009

SELECTED FINANCIAL DATA
for the period ended 31 December 2008

	PLN		EUR	
	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
I. Net revenues from sales of products, goods and materials	18,432,048	16,652,134	5,218,439	4,409,059
II. Profit on operating activities	800,678	860,982	226,686	227,966
III. Profit before tax	935,366	1,002,728	264,819	265,497
IV. Net profit	865,742	916,065	245,107	242,551
V. Net cash flows from operating activities	1,492,920	3,028,891	422,672	801,973
VI. Net cash flows from investment activities	(2,208,895)	(2,455,582)	(625,377)	(650,175)
VII. Net cash flows from financial activities	551,970	(2,547,655)	156,272	(674,554)
VIII. Total net cash flows	(164,005)	(1,974,346)	(46,433)	(522,756)
IX. Profit per ordinary share (in PLN/EUR)	0.15	0.16	0.04	0.04
X. Diluted profit per ordinary share (in PLN/EUR)	0.15	0.16	0.04	0.04
	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
XI. Total assets	29,745,277	28,401,901	7,129,057	7,929,062
XII. Liabilities and provisions for liabilities	9,029,352	7,380,136	2,164,067	2,060,339
XIII. Non-current liabilities	4,058,629	3,879,566	972,732	1,083,073
XIV. Current liabilities	4,970,723	3,500,570	1,191,335	977,266
XV. Equity	20,715,925	21,021,765	4,964,990	5,868,723
XVI. Share capital	5,900,000	5,900,000	1,414,054	1,647,125
XVII. Number of shares (weighted average in '000)	5,900,000	5,900,000	5,900,000	5,900,000
XVIII. Book value per share (in PLN/EUR)	3.51	3.56	0.84	0.99
XIX. Diluted book value per share (in PLN/EUR)	3.51	3.56	0.84	0.99
XX. Declared or paid dividend per share (in PLN/EUR)	0.19	0.17	0.05	0.05

Income statement and cash flow statement items were translated at the average EUR exchange rate calculated as the arithmetic average of average rates announced by the National Bank of Poland (NBP) as at the last day of each month during the given financial period. Balance sheet items were translated at the EUR exchange rate published by the National Bank of Poland as at the end of the given period.

Average PLN/EUR exchange rates defined by the NBP

	31 December 2008	31 December 2007
Average exchange rate during the period	3.5321	3.7768
Exchange rate as at the end of the period	4.1724	3.5820

CONSOLIDATED INCOME STATEMENT
for the period ended 31 December 2008

	Notes to the financial statements	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
		(in PLN '000)	
Sales revenues	3	18,432,048	16,652,134
Raw materials and consumables used	4	(11,631,681)	(8,331,611)
Employee benefits	4	(2,161,954)	(2,014,073)
Amortization/depreciation		(1,424,944)	(1,430,273)
External services	4	(2,789,154)	(2,692,524)
Manufacturing cost of benefits for internal purposes		739,034	686,944
Other operating expenses (net)	4	(362,671)	(2,009,615)
Total operating expenses		(17,631,370)	(15,791,152)
Profit on operating activities		800,678	860,982
Financial revenues	5	213,238	248,264
Financial expenses	5	(78,771)	(90,492)
Share in profits/(losses) of entities measured using the equity method	6	221	(16,026)
Profit before tax		935,366	1,002,728
Income tax	7	(69,624)	(86,663)
Net profit		865,742	916,065
Attributable to:	9		
Equity holders of the parent		865,297	915,032
Minority interest		445	1,033
		865,742	916,065

Earnings per share attributable to ordinary equity holders of the parent	9		
- basic from net profit		0.15	0.16
- diluted from net profit		0.15	0.16

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

	Note	31 December 2008	31 December 2007
ASSETS		(in PLN '000)	
Non-current assets (long-term)			
Property, plant and equipment	11	20,587,027	18,715,509
Investment property	12	8,181	10,578
Intangible assets	13	151,721	84,636
Investments in associates measured using the equity method	6	556,882	557,529
Financial assets available for sale	14	42,935	19,997
Other financial assets	15	676,634	2,292,154
Deferred tax asset	16	514,867	419,814
Other non-current assets	17	35,343	30,873
Total non-current assets (long-term)		22,573,590	22,131,090
Current assets (short-term)			
Inventories	18	1,721,259	1,215,980
Trade and other receivables	19	3,716,923	3,331,046
Current tax receivables	20	59,614	17,499
Prepayments and accruals	21	70,262	82,355
Financial assets available for sale	22	6,495	22,406
Derivative assets	36	174,186	17,442
Cash and bank balances	23	1,421,939	1,583,635
Non-current assets held for sale	24	1,009	448
Total current assets (short-term)		7,171,687	6,270,811
Total assets		29,745,277	28,401,901
EQUITY AND LIABILITIES			
Equity			
Share capital	26	5,900,000	5,900,000
Exchange differences from translation of foreign operations		(39,060)	(44,525)
Surplus from sale of shares above face value		1,740,093	1,740,093
Other reserves		10,729,053	3,478,081
Retained earnings		2,376,809	9,939,427
Equity (attributed to equity holders of the parent)		20,706,895	21,013,076
Minority interest		9,030	8,689
Total equity		20,715,925	21,021,765
Non-current liabilities			
Borrowings and debt securities	27	41,055	31,377
Provisions	29	1,501,939	1,153,805
Deferred income	30	1,139,332	1,142,366
Deferred tax provision	31	1,352,241	1,530,359
Other non-current liabilities	32	24,062	21,659
Total non-current liabilities		4,058,629	3,879,566
Current liabilities			
Trade and other payables	33	3,222,540	2,407,981
Borrowings and debt securities	27	871,755	106,724
Liabilities due to derivative financial instruments	36	16,723	36,185
Current tax liabilities	20	47,552	281,399
Provisions	29	173,382	181,220
Deferred income	30	638,771	487,061
Total current liabilities		4,970,723	3,500,570
Total liabilities		9,029,352	7,380,136
Total equity and liabilities		29,745,277	28,401,901

CONSOLIDATED CASH FLOW STATEMENT
for the period ended 31 December 2008

	Notes to the financial statements	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
		(in PLN '000)	
Cash flows from operating activities			
Net profit		865,742	916,065
Adjusted by:			
Share in profits/(losses) of entities measured using the equity method		(221)	16,026
Amortization/depreciation		1,424,944	1,430,273
Net foreign exchange gains/losses		43,521	61,145
Net interest and dividends		(141,569)	(226,892)
Profit/loss on investing activities		(83,701)	1,407,233
Income tax for the current period		69,624	86,663
Income taxes paid		(609,555)	(482,222)
Other net items		(105,779)	43,844
Net cash generated by operating activities before movements in working capital		1,463,006	3,252,135
Movements in working capital:			
Net change in receivables	34	(501,898)	(923,627)
Change in inventories	34	(505,236)	136,734
Change in provisions	34	38,555	44,530
Change in current liabilities	34	861,225	180,350
Change in cost prepayments	34	(10,948)	(48,806)
Change in deferred income	34	148,216	387,575
Net cash generated by operating activities		1,492,920	3,028,891
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment as well as intangible assets		21,048	33,762
Proceeds from disposal of shares in entities not included in consolidation		-	-
Proceeds from disposal of short-term securities		73,682	51,304
Payments to acquire property, plant and equipment as well as intangible assets		(2,579,468)	(2,979,987)
Payments to acquire shares in entities not included in consolidation		(78,000)	(12)
Payments to acquire short-term securities		-	-
Received interest		135,164	232,705
Received dividends		4,770	24,759
Proceeds from finance lease		92,840	179,330
Other net items		121,069	2,557
Net cash (used in)/generated by investing activities		(2,208,895)	(2,455,582)
Cash flows from financing activities			
Net proceeds from issue of equity shares and other capital instruments as well as capital contributions		-	-
Proceeds from borrowings		807,316	40,287
Repayment of borrowings		(37,469)	(2,335,664)
Proceeds from issue of debt securities		-	-
Redemption of debt securities		-	-
Repayment of liabilities due to finance leases		(34,825)	(39,836)
Inflows related to derivatives		-	-
Outflows related to derivatives		-	-
Paid dividends		(171,006)	(153,002)
Interest paid		(9,737)	(43,337)
Other net items		(2,309)	(16,103)
Net cash (used in)/generated by financing activities		551,970	(2,547,655)
Net changes in cash and bank balances		(164,005)	(1,974,346)
Net foreign exchange differences		2,309	18,903
Cash and bank balances at the beginning of the financial period		1,584,868	3,559,214
Cash and bank balances at the end of the financial period		1,420,863	1,584,868

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended 31 December 2008

	Equity (attributed to equity holders of the parent)						Minority interest	Total equity
	Share capital	Exchange differences from translation of foreign operations	Share premium	Other reserves	Retained earnings	Total		
	(in PLN '000)							
1 January 2008	5,900,000	(44,525)	1,740,093	3,478,081	9,939,427	21,013,076	8,689	21,021,765
Exchange differences from translation of foreign operations	-	(8,849)	-	-	-	(8,849)	-	(8,849)
Measurement of financial instruments	-	-	-	(40,759)	-	(40,759)	-	(40,759)
Payment of dividend by an associate consolidated using the equity method	-	-	-	-	(868)	(868)	-	(868)
Other changes	-	-	-	-	(2)	(2)	2	-
Reclassifications	-	14,314	-	7,291,731	(7,306,045)	-	-	-
Payment of dividends to equity holders	-	-	-	-	(1,121,000)	(1,121,000)	(106)	(1,121,106)
Net profit	-	-	-	-	865,297	865,297	445	865,742
31 December 2008	5,900,000	(39,060)	1,740,093	10,729,053	2,376,809	20,706,895	9,030	20,715,925
1 January 2007	5,900,000	(15,609)	1,740,093	2,890,068	10,631,137	21,145,689	7,671	21,153,360
Exchange differences from translation of foreign operations	-	(28,916)	-	-	-	(28,916)	-	(28,916)
Payment of dividend by an associate consolidated using the equity method	-	-	-	-	(15,729)	(15,729)	-	(15,729)
Other changes	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	588,013	(588,013)	-	-	-
Payment of dividends to equity holders	-	-	-	-	(1,003,000)	(1,003,000)	(15)	(1,003,015)
Net profit	-	-	-	-	915,032	915,032	1,033	916,065
31 December 2007	5,900,000	(44,525)	1,740,093	3,478,081	9,939,427	21,013,076	8,689	21,021,765

NOTES
As at 31 December 2008

1. GENERAL INFORMATION

1.1. PGNiG Capital Group

Polskie Górnictwo Naftowe i Gazownictwo SA ("PGNiG SA", the "Company"; the "Parent") is the Parent of PGNiG Capital Group (the "Capital Group", the "Group") with its registered office in 01-224 Warsaw, ul. Marcina Kasprzaka 25. As of 23 September 2005, due to the sale of a new issue of shares on the Warsaw Stock Exchange ("WSE"), PGNiG SA was transformed from a entity wholly-owned by the State Treasury into a public company.

The Parent was created as a result of the transformation of the state enterprise operating under the name Polskie Górnictwo Naftowe i Gazownictwo into an entity wholly owned by the State Treasury. The transformation act and by-laws were drawn up in the form of a notarized deed on 21 October 1996.

In signing the act pursuant to which the state enterprise was transformed into a joint stock company the Minister of State Treasury executed the decisions specified in the Prime Minister's Ordinance of 30 September 1996 on the transformation of the state enterprise Polskie Górnictwo Naftowe i Gazownictwo with its registered office in Warsaw into a joint-stock company wholly owned by the State Treasury (Dz. U. No. 116 from 1996, item 553).

The Company was entered in the Commercial Register kept by the District Court for Warsaw, XVI Business Division on 30 October 1996, under number RHB 48382. Currently, the Company is entered in the Register of Entrepreneurs kept by the District Court for Warsaw, XII Business Division of the National Court Register under number KRS 0000059492.

The Company was assigned the statistical number REGON 012216736.

The joint stock company is the legal successor of the state enterprise. The assets and liabilities of the state enterprise were contributed to the joint stock company and recognized in the accounting records at amounts specified in the closing balances of the state enterprise.

The Company's core business involves exploration for and production of oil and gas, import, warehousing and sale of gaseous fuel.

The Capital Group is the only vertically integrated enterprise in the Polish gas sector and is the leader in areas of the gas sector in Poland. Polskie Górnictwo Naftowe i Gazownictwo SA is the Capital Group's parent.

The Capital Group's business involves explorations for deposits, natural gas and crude oil production from domestic deposits, import, warehousing as well as trading and distribution of gaseous fuels. The Capital Group is the main importer of gaseous fuels from Russia, Central Asia, Norway, Germany and the main producer of natural gas from domestic deposits. Natural gas and crude oil production is one of the key factors that ensures the Company's competitive position on the liberalized natural gas market.

Trading and distribution of natural gas, which are the Capital Group's core business along with the production of natural gas and crude oil, are regulated by the Energy Law and therefore subject to licensing. This also means that the Capital Group's revenue is dependent upon the level of gas fuel tariffs approved by the President of the Energy Regulatory Office. Exploration and production activities are regulated by the Geological and Mining Law and conducted based on granted concessions.

1.2. Description of the organization of the Capital Group, indicating entities included in consolidation

As at 31 December 2008 PGNiG Capital Group included PGNiG SA as the Parent as well as 33 companies whose activities focus on production and services, including:

- 26 PGNiG SA subsidiaries;
- 7 PGNiG SA indirect subsidiaries.

Presented in a table are PGNiG Capital Group entities as at 31 December 2008.

1.3. Changes in the structure of the business entity, including due to mergers, acquisitions or sale of entities of the issuer's capital group, long-term investments, division, restructuring and discontinuation of activity

The key changes in the structure of the PGNiG Capital Group in 2008 included:

- An increase in the share capital of Mazowiecki Operator Systemu Dystrybucyjnego sp. z o.o. (at present Mazowiecka Spółka Gazownictwa sp. z o. o.) by PLN 286,531 thousand to the level of PLN 1,217,350 thousand. The increase in the share capital of the company was registered in the National Court Register on 24 February 2008. A subsequent increase in the company's share capital by PLN 34,388 thousand, to PLN 1,251,738 thousand was registered on 9 September 2008;
- An increase in the share capital of Karpacki Operator Systemu Dystrybucyjnego sp. z o.o. (at present Karpacka Spółka Gazownictwa sp. z o. o.) by PLN 165,363 thousand to the level of PLN 1,476,112 thousand. The increase in the share capital of the company was registered in the National Court Register on 12 February 2008. A subsequent increase in the company's sha-

re capital by PLN 8,841 thousand, to PLN 1,484,953 thousand was registered on 22 August 2008;

- An increase in the share capital of Pomorski Operator Systemu Dystrybucyjnego sp. z o.o. (at present Pomorska Spółka Gazownictwa sp. z o. o.) by PLN 93,391 thousand to the level of PLN 596,141 thousand. The increase in the share capital of the company was registered in the National Court Register on 29 February 2008. A subsequent increase in the company's share capital by PLN 18,555 thousand, to PLN 614,696 thousand was registered on 4 August 2008;
- An increase in the share capital of Dolnośląski Operator Systemu Dystrybucyjnego sp. z o.o. (at present Dolnośląska Spółka Gazownictwa sp. z o. o.) by PLN 104,697 thousand to the level of PLN 651,145 thousand. The increase in the share capital of the company was registered in the National Court Register on 9 April 2008. A subsequent increase in the company's share capital by PLN 3,918 thousand, to PLN 655,063 thousand was registered on 30 October 2008;
- An increase in the share capital of Wielkopolski Operator Systemu Dystrybucyjnego sp. z o.o. (at present Wielkopolska Spółka Gazownictwa sp. z o. o.) by PLN 131,128 thousand to the level of PLN 978,287 thousand. The increase in the share capital of the company was registered in the National Court Register on 27 May 2008. A subsequent increase in the company's share capital by PLN 54,899 thousand, to PLN 1,033,186 thousand was registered on 22 January 2009;
- An increase in the share capital of Górnośląski Operator Systemu Dystrybucyjnego sp. z o.o. (at present Górnośląska Spółka Gazownictwa sp. z o. o.) by PLN 91,366 thousand to the level of PLN 1,288,680 thousand. The increase in the share capital of the company was registered in the National Court Register on 25 June 2008;

PGNiG Capital Group entities

	Company	Share capital (in PLN)	Share of PGNiG SA in the company's share capital (in PLN)	Percentage of share capital held by PGNiG SA	Percentage of PGNiG SA votes
	PGNiG SA subsidiaries				
1	Poszukiwania Nafty i Gazu Jasło sp. z o.o.	100,000,000.00	100,000,000.00	100.00%	100.00%
2	Poszukiwania Nafty i Gazu Kraków sp. z o.o.	105,231,000.00	105,231,000.00	100.00%	100.00%
3	Poszukiwania Nafty i Gazu NAFTA sp. z o.o.	60,000,000.00	60,000,000.00	100.00%	100.00%
4	GEOFIZYKA Kraków sp. z o.o.	64,400,000.00	64,400,000.00	100.00%	100.00%
5	Geofizyka Toruń sp. z o.o.	66,000,000.00	66,000,000.00	100.00%	100.00%
6	Poszukiwania Naftowe „Diament" sp. z o.o.	62,000,000.00	62,000,000.00	100.00%	100.00%
7	Zakład Robót Górniczych Krosno sp. z o.o.	26,903,000.00	26,903,000.00	100.00%	100.00%
8	PGNiG Norway AS (NOK)[1]	497,327,000.00	497,327,000.00	100.00%	100.00%
9	Polish Oil and Gas Company - Libya B.V. (EUR)[1]	20,000.00	20,000.00	100.00%	100.00%
10	„INVESTGAS" SA	502,250.00	502,250.00	100.00%	100.00%
11	Dolnośląska Spółka Gazownictwa sp. z o.o.	655,063,000.00	655,063,000.00	100.00%	100.00%
12	Górnośląska Spółka Gazownictwa sp. z o.o.	1,288,680,000.00	1,288,680,000.00	100.00%	100.00%
13	Karpacka Spółka Gazownictwa sp. z o.o.	1,484,953,000.00	1,484,953,000.00	100.00%	100.00%
14	Mazowiecka Spółka Gazownictwa sp. z o.o.	1,251,738,000.00	1,251,738,000.00	100.00%	100.00%
15	Pomorska Spółka Gazownictwa sp. z o.o.	614,696,000.00	614,696,000.00	100.00%	100.00%
16	Wielkopolska Spółka Gazownictwa sp. z o.o.	1,033,186,000.00	1,033,186,000.00	100.00%	100.00%
17	B.S. i P.G. „Gazoprojekt" SA	4,000,000.00	3,000,000.00	75.00%	75.00%
18	BUG Gazobudowa sp. z o.o.	39,220,000.00	39,220,000.00	100.00%	100.00%
19	Zakład Urządzeń Naftowych Naftomet sp. z o.o.	23,500,000.00	23,500,000.00	100.00%	100.00%
20	Geovita sp. z o.o.	86,139,000.00	86,139,000.00	100.00%	100.00%
21	Budownictwo Naftowe Naftomontaż sp. z o.o.	44,751,000.00	39,751,000.00	88.83%	88.83%
22	Górnictwo Naftowe sp. z o.o.	50,000.00	50,000.00	100.00%	100.00%
23	"NYSAGAZ sp. z o.o."	3,700,000.00	1,887,000.00	51.00%	51.00%
24	ZRUG sp. z o.o. (Pogórska Wola)	4,300,000.00	4,300,000.00	100.00%	100.00%
25	BUD-GAZ PPUH sp. z o.o.	51,760.00	51,760.00	100.00%	100.00%
26	PPUiH „TURGAZ" sp. z o.o.	176,000.00	90,000.00	51.14%	51.14%
	PGNiG SA indirect subsidiaries				
27	GEOFIZYKA Kraków Libya JSC (LYD)[1]	1,000,000.00[2]	600,000.00	60.00%	60.00%
28	Geofizyka Torun Kish Ltd (Rial)[1]	10,000,000.00	10,000,000.00[3]	100.00%	100.00%
29	Oil Tech International F.Z.E. (USD)[1]	20,000.00	20,000.00	100.00%	100.00%
30	Zakład Gospodarki Mieszkaniowej sp. z o.o. (Piła)	1,806,500.00	1,806,500.00	100.00%	100.00%
31	GAZ sp. z o.o. (Błonie)	300,000.00	153,000.00	51.00%	51.00%
32	GAZ MEDIA sp. z o.o. (Wołomin)	300,000.00	153,000.00	51.00%	51.00%
33	Naft-Stal sp. z o.o.	667,500.00	450,000.00	67.40%	67.40%

[1] *Values in foreign currencies.*
[2] *Capital paid: LYD 300,000.00, of which LYD 180,000.00 paid by GEOFIZYKA Kraków sp. z o.o.*
[3] *Capital not paid.*

The entities of the Capital Group included in consolidation as at the end of 2008

Name of the Company	Country	Percentage share in the share capital 31 December 2008	31 December 2007
Subsidiaries			
GK GEOFIZYKA Kraków sp. z o.o. [2]	Poland	100.00%	100.00%
GEOFIZYKA Toruń sp. z o.o.	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu Jasło sp. z o.o.	Poland	100.00%	100.00%
GK Poszukiwania Nafty i Gazu Kraków sp. z o.o. [3]	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu NAFTA sp. z o.o.	Poland	100.00%	100.00%
Zakład Robót Górniczych Krosno sp. z o.o.	Poland	100.00%	100.00%
Poszukiwania Naftowe „Diament" sp. z o.o.	Poland	100.00%	100.00%
PGNiG Norway AS	Norway	100.00%	100.00%
Polish Oil And Gas Company – Libya B.V.	Netherlands	100.00%	100.00%
Dolnośląska Spółka Gazownictwa sp. z o.o.	Poland	100.00%	100.00%
Górnośląska Spółka Gazownictwa sp. z o.o.	Poland	100.00%	100.00%
Karpacka Spółka Gazownictwa sp. z o.o.	Poland	100.00%	100.00%
Mazowiecka Spółka Gazownictwa sp. z o.o.	Poland	100.00%	100.00%
Pomorska Spółka Gazownictwa sp. z o.o.	Poland	100.00%	100.00%
Wielkopolska Spółka Gazownictwa sp. z o.o.	Poland	100.00%	100.00%
BUG Gazobudowa sp. z o. o. Zabrze	Poland	100.00%	100.00%
Budownictwo Naftowe Naftomontaż sp. z o.o.	Poland	88.83%	88.83%
Zakład Urządzeń Naftowych Naftomet sp. z o.o.	Poland	100.00%	100.00%
B.S. i P.G. „Gazoprojekt" SA	Poland	75.00%	75.00%
Geovita sp. z o.o.	Poland	100.00%	100.00%
INVESTGAS SA	Poland	100.00%	100.00%
Polskie LNG sp. z o.o.[4]	Poland	-	100.00%
Subsidiaries of BN Naftomontaż Krosno sp. z o. o. (a subsidiary)			
NAFT-STAL sp. z o.o.	Poland	59.88%	59.88%
Co-subsidiaries and associates measured in line with the equity method			
SGT EUROPOL GAZ SA [1]	Poland	49.74%	49.74%
GAS - TRADING SA	Poland	43.41%	43.41%

[1] *Including 48% direct share and a 1.74% indirect share through OGP GAS-TRADING SA.*
[2] *GEOFIZYKA Kraków sp. z o. o. Capital Group includes Geofizyka Kraków sp. z o.o. and its subsidiary GEOFIZYKA Kraków Libya JSC.*
[3] *Poszukiwania Nafty i Gazu Kraków sp. z o. o. Capital Group includes Poszukiwania Nafty i Gazu Kraków sp. z o. o. and its subsidiary Oil Tech International - F.Z.E.*
[4] *Consolidated until 8 December 2008, i.e. the date of being sold to GAZ-SYSTEM SA.*

- An increase in the share capital of Geofizyka Kraków sp. z o.o. by PLN 30,000 thousand to the level of PLN 64,400 thousand. The increase in the share capital of the company was registered in the National Court Register on 2 April 2008;
- An increase in the share capital of Polskie LNG sp. z o.o. by PLN 11,000 thousand to the level of PLN 50,000 thousand. The increase in the share capital of the company was registered in the National Court Register on 7 January 2008. On 28 April 2008 an agreement was concluded between PGNiG SA and OGP GAZ – SYSTEM SA regarding sale of 100% shares in Polskie LNG sp. z o.o. OGP GAZ – SYSTEM SA as an acquirer assumed 50,000 shares with face value of PLN 1,000 each on 8 December 2008.

Other changes in the share of PGNiG SA in the companies were related to the following operations:

- On 5 February 2008 the Extraordinary Shareholders' Meeting of Polski Serwis Płynów Wiertniczych sp. z o.o. passed a resolution on the redemption of 50 shares in PPiEZRiG PETROBALTIC SA without reducing the company's share capital. Based on a court decision of 10 March 2008 PPiEZRiG PETROBALTIC SA was removed from the National Court Register as a shareholder of Polski Serwis Płynów Wiertniczych sp. z o.o. As a result, the share of PGNiG SA in the votes at the Shareholders' Meeting increased to the level of 15.56%;
- On 31 March 2008 ZRUG Warszawa SA under liquidation was removed from the National Court Register;
- On 24 April 2008 Zakład Remontowy Urządzeń Gazowniczych Wrocław sp. z o.o. in bankruptcy was removed from the National Court Register.
- On 29 May 2008 an increase in the share capital of ZRUG Zabrze sp. z o.o. by PLN 2,500 thousand was recorded in the National Court Register. As PGNiG SA did not participate in this operation, its share in the share capital of the company redu-

ced to the level of 11.43%;
- On 18 June 2008 Management Board of Zakłady Azotowe w Tarnowie – Mościcach SA allocated to PGNiG SA 4,000,001 B series shares with face value of PLN 5.00 each and issue price of PLN 19.50 each, constituting 10.23% of the share capital of Zakłady Azotowe w Tarnowie – Mościcach SA. The increase of the aforementioned company's share capital was registered in the National Court Register on 22 July 2008. The total investment value amounted to PLN 78 million.

Additionally:
- On 4 February 2008 in Netherlands, amendments to the Articles of Association of PGNiG Finance B.V. were registered; the new Articles of Association include the change of the company name to Polish Oil And Gas Company Libya B.V. and a total change of its core business. At present, the Company's core business includes: production, transport, refining and sales of hydrocarbons.
- On 23 January 2008 a court decision was issued on declaring WALCOWNIA RUR JEDNOŚĆ sp. z o.o. bankrupt. The decision entered into force on 16 April 2008.

1.4. Composition of the Management Board of PGNiG SA

According to the Company's By-laws, the Management Board of PGNiG SA is composed of two to seven people. The number of the members in the Management Board is defined by the entity that appoints the Management Board. Members of the Management Board are appointed for a joint three year term. Members of the Management Board or the entire Management Board are appointed by the Supervisory Board. Each of the Members of the Management Board can be dismissed or suspended by the Supervisory Board or the General Shareholders Meeting. As long as the State Treasury is the Company's shareholder and the Company employs 500 persons on average per year, the Supervisory Board appoints one person selected by the employees to the Management Board for one term.

As at 31 December 2008 the Management Board of PGNiG SA was composed of five persons:
- Michał Szubski - Chairman of the Management Board;
- Mirosław Dobrut – Vice Chairman of the Management Board in Charge of Gas Production and Trade;
- Radosław Dudziński – Vice Chairman of Management Board in Charge of Strategy;
- Sławomir Hinc – Vice Chairman of the Management Board in Charge of Finance;
- Mirosław Szkałuba – Vice Chairman of the Management Board in Charge of Labour Issues and Restructuring.

The following changes in the composition of the Management Board of PGNiG SA took place in 2008:
- During a meeting on 12 March 2008, the Supervisory Board of PGNiG SA dismissed Krzysztof Głogowski, Zenon Kuchciak, Sławomir Niedbalec and Tadeusz Zwierzyński from the positions in the Management Board. At the same time, on 12 March 2008 the Supervisory Board of PGNiG SA appointed the following persons to the Management Board of PGNiG SA: Michał Szubski, Mirosław Dobrut, Radosław Dudziński and Sławomir Hinc.
- On 20 March 2008, the Supervisory Board of PGNiG SA dismissed Jan Anysz from the Management Board of PGNiG SA and simultaneously appointed Mirosław Szkałuba, who was selected by the employees of PGNiG SA.

The following changes in composition of the Management Board of PGNiG SA took place after 31 December 2008:
- On 28 January 2009, the Supervisory Board of PGNiG SA appointed Waldemar Wójcik a Member of the Management Board.

As at the date of these financial statements, the composition of the Management Board of PGNiG SA was as follows:
- Michał Szubski - Chairman of the Management Board;
- Mirosław Dobrut – Vice Chairman of the Management Board in Charge of Gas Production and Trade;
- Radosław Dudziński – Vice Chairman of Management Board in Charge of Strategy;
- Sławomir Hinc – Vice Chairman of the Management Board in Charge of Finance;
- Mirosław Szkałuba – Vice Chairman of the Management Board in Charge of Labour Issues and Restructuring;
- Waldemar Wójcik – Vice Chairman of the Management Board in Charge of Oil Mining.

1.5. Proxies of PGNiG SA

As at 31 December 2008, the Company's proxies were:
- Ewa Bernacik;
- Marek Dobryniewski;
- Stanisław Radecki;
- Waldemar Wójcik.

The following changes of the proxies of PGNiG SA took place in 2008:
- On 3 January 2008, the Management Board of PGNiG SA appointed the following persons as the Company's proxies: Jan Czerepok, Marek Dobryniewski and Waldemar Wójcik.
- On 17 March 2008, the proxy granted to Jan Czerepok was revoked. On 25 April 2008, the proxy granted to Bogusław Marzec was revoked.
- On 29 April 2008 the Management Board of PGNiG SA appointed Stanisław Radecki as the Company's proxy.

The following changes PGNiG SA proxies took place after 31 December 2008:
- On 14 February 2009, the power of proxy granted to Marek Dobryniewski and Waldemar Wójcik was revoked. At the same time, the Management Board of PGNiG SA granted Tadeusz Kulczyk and Zbigniew Król with the power of proxy.

As at the date of these financial statements, PGNiG SA was represented by the following proxies:
- Ewa Bernacik;
- Zbigniew Król;
- Tadeusz Kulczyk;
- Stanisław Radecki.

The powers of proxy are joint, i.e. in order for documents to be effective from the legal point of view, they must be signed by a proxy and a Member of the Management Board of PGNiG SA.

1.6. Composition of the Supervisory Board of PGNiG SA

According to the Company's By-laws, the Supervisory Board of PGNiG SA is composed of five to nine members appointed by the Shareholders Meeting for the period of a three year joint term ofoffice. As long as the State Treasury remains the Company's shareholder, the State Treasury is represented by the Minister of State Treasury, acting in cooperation with the Minister of Economy, who is authorized to appoint and dismiss one member of the Supervisory Board.

One member of the Supervisory Board appointed by the Shareholders Meeting should meet the following conditions:
1) should be elected according to the procedure referred to in § 36 clause 3 of the By-laws of PGNiG SA;
2) cannot be the Company's Related Party or its subsidiary;
3) cannot be a Related Party to the parent or parent's subsidiary; or
4) cannot be a person in any relationship with the Company or any of the entities listed in point 2) and 3), which could significantly affect the ability of such person holding the position of member of the Supervisory Board to pass unbiased decisions.

The relationships referred to above do not apply to membership in the Supervisory Board of PGNiG SA.

Pursuant to § 36 clause 3 of the By-laws of PGNiG SA, the member of the Supervisory Board who should meet the above criteria is elected by way of a separate vote. The right to submit written nominations of candidates to the Supervisory Board who must meet the above conditions to the Chairman of the General Shareholders' Meeting is reserved for shareholders who are present at the General Shareholders' Meeting summoned to select such a member. If the shareholders do not elect candidates, candidates to the Supervisory Board that should meet the aforementioned conditions are proposed by the Supervisory Board.

Two-fifths of the Supervisory Board are appointed from persons designated by the Company's employees.

As of 31 December 2008, the Supervisory Board consisted of nine members:
- Stanisław Rychlicki - Chairman of the Supervisory Board;
- Marcin Moryń – Vice Chairman of the Supervisory Board;
- Mieczysław Kawecki - Secretary of the Supervisory Board;
- Grzegorz Banaszek - Member of the Supervisory Board;
- Agnieszka Chmielarz - Member of the Supervisory Board;
- Maciej Kaliski - Member of the Supervisory Board;
- Marek Karabuła – Member of the Supervisory Board;
- Mieczysław Puławski – Member of the Supervisory Board;
- Jolanta Siergiej - Member of the Supervisory Board.

The following changes in the composition of the Supervisory Board of PGNiG SA took place in 2008:
- On 7 February 2008, Mirosław Szkałuba resigned from the position of Member of the Supervisory Board.
- The Extraordinary Shareholders Meeting of PGNiG SA dismissed the following persons from the Supervisory Board on 15 February 2008: Piotr Szwarc, Jarosław Wojtowicz, Andrzej Rościszowski, Wojciech Arkuszewski. At the same time, the Extraordinary Shareholders' Meeting of PGNiG SA appointed the following persons to the Supervisory Board on 15 February 2008: Stanisław Rychlicki and Grzegorz Banaszek.
- On 28 April 2008, the Extraordinary Shareholders Meeting of PGNiG SA dismissed Grzegorz Banaszek, Kazimierz Chrobak, Mieczysław Kawecki, Marcin Moryń, Mieczysław Puławski, and Stanisław Rychlicki from the positions of Members of the Supervisory Board as of 29 April 2008, following termination of their office.
- On 30 April 2008, the Extraordinary Shareholders' Meeting appointed Grzegorz Banaszek, Agnieszka Chmielarz, Mieczysław Kawecki, Hubert Konarski, Marcin Moryń, Mieczysław Puławski, Stanisław Rychlicki, Jolanta Siergiej and Joanna Stuglik to the positions of Members of the Supervisory Board for a joint term of office commencing on 30 April 2008.
- On 18 November 2008, Joanna Stuglik and Hubert Konarski were dismissed from the Supervisory Board and replaced by Maciej Kaliski and Marek Karabuła.

There were no changes in the composition of the Supervisory Board of PGNiG SA after 31 December 2008.

2. Information on the applied accounting principles

2.1. Basis of the preparation of the consolidated financial statements

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) as at 31 December 2008.

Pursuant to IAS 1 "Presentation of financial statements", IFRS consist of International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The scope of information disclosed in these financial statements complies with provisions of IFRS and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and conditions of considering information required by non-member state regulations as equivalent (Dz. U. No. 33, item 259).

The key accounting principles applied by PGNiG Capital Group are presented below.

The consolidated financial statements are presented in PLN, and all figures, unless stated otherwise, are presented in PLN thousands. Any potential differences between totals and their components arise from rounding.

The financial statements of the Group have been prepared under the going concern assumption for the period of at least 12 months after the balance sheet date as regards the Parent and the subsidiaries.

As at the date of signing the financial statements, the parent's Management Board was not aware of any facts and circumstances that could indicate that, as a result of intended or compulsory discontinuation or significant limitation of existing operations, the continuity of the Company's operations during 12 months after the balance sheet date could be threatened.

The financial statements will be signed and presented to the Management Board of the Parent for approval on 30 April 2009.

Statement of compliance

The International Financial Reporting Standards consist of standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee.

During the current year the Group adopted all new and verified standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee as approved for application in the European Union, applicable to the Company's operations and to annual reporting periods beginning on or after 1 January 2008. The adoption of new and verified standards and interpretations did not result in changes in the Group's accounting principles affecting the figures disclosed in the financial statements for previous years and the current year.

2.2. Effect of new standards and interpretations on the financial statements of the Group

The following interpretations are effective as at of 31 December 2008:
- IAS 39 (revised) Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – reclassification of financial assets (applicable to reclassifications carried out as at or after 1 July 2008).
- IAS 39 (revised) Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – reclassification of financial assets, effective date and transitional provisions (effective 1 July 2008).
- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions" (applicable to annual periods beginning on or after 1 March 2007).
- IFRIC 12 "Service Concession Arrangements" (applicable to annual periods beginning on or after 1 January 2008).
- IFRIC 14 "IRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".
- IFRIC 1 applies for the first time to annual periods beginning on or after 1 January 2008.

Adopting of the above interpretations did not result in material changes in the Group's accounting policy.

When approving the financial statements, the Group did not adopt the following standards and interpretations published and endorsed by EU that have not come into effect:
- IFRS 8 „Operating Segments" endorsed by EU on 21 November 2007 (effective 1 January 2009).
- IFRS 1 (revised) "First-time adoption of IFRS" and IAS 27 "Consolidated and separate financial statements" endorsed by EU on 23 January 2009 (effective 1 January 2009).
- IFRS (2008) „Revisions to International Financial Reporting Standards" endorsed by EU on 23 January 2009 (most of the revisions are effective 1 January 2009).
- IAS 32 (revised) Financial Instruments: Presentation" and IAS 1 (revised) „Presentation of financial statements" endorsed by EU on 21 January 2009 (effective 1 January 2009).
- IAS 1 (revised) „Presentation of financial statements" endorsed by EU on 17 December 2008 (effective 1 January 2009).
- IAS 23 (revised) „Borrowing Costs" endorsed by EU on 10 December 2008 (effective 1 January 2009).

- IFRS 2 (revised) „Share-based Payment" endorsed by EU on 16 December 2008 (effective 1 January 2009).
- IFRIC 13 "Customer Loyalty Programmes" endorsed by EU on 16 December 2008 (effective 1 January 2009).

The Group assessed the effects of these interpretations and changes in standards and concluded that the changes in IAS 1, IFRS 8 and IAS 23 may affect the presentation of the financial statements upon application. Effective from 1 January 2009 the Group's reporting will include the proposed amendments.

According to the Group's estimates the remaining changes would not have a material impact on the consolidated financial statements if adopted by the Group as at the balance sheet date. The Group does not intend to adopt these standards and interpretations before their effective date.

IFRS as endorsed by the EU do not differ significantly from the current regulations adopted by the International Accounting Standards Board, except for the following standards, which as at 7 April 2009 had not yet been endorsed:
- IFRS 3 (revised) "Business Combinations" (effective 1 July 2009);
- IFRS 1 (revised) "First-time Adoption of IFRS" (effective 1 July 2009);
- IFRS 7 (revised) „Financial Instruments: Disclosures" (effective 1 January 2009);
- IAS 27 (revised) "Consolidated and Separate Financial Statements" (effective 1 July 2009);
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement" (effective 1 July 2009);
- IAS 39 (revised) "Reclassification of Financial Assets" and to IFRS 7 "Financial Instruments: Disclosures: (effective 1 July 2008);
- IFRIC 9 (revised) "Reassessment of Embedded Derivatives" and to IAS 39 "Financial Instruments: Recognition and Measurement" (effective 30 June 2009);
- IFRIC 12 "Service Concession Arrangements" (effective 1 January 2009);
- IFRIC 15 "Arrangements for the Construction of Real Estate" (effective 1 January 2009);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective 1 October 2008);
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective 1 July 2009);
- IFRIC 18 "Transfer of Assets from Customers" (effective 30 June 2009).

According to the Group's estimates, the above standards, revisions to standards and interpretations would not materially impact the financial statements if adopted as at the balance sheet date.

At the same time, apart from regulations endorsed by the EU, there is hedge accounting of the portfolio of financial assets or liabilities not endorsed by the EU.

According to the Group's estimates, implementation of hedge accounting principles applicable to financial assets and liabilities portfolios in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" would not have had a material effect on the consolidated financial statements, if endorsed by the EU as of the balance sheet date.

2.3. Accounting principles applied

Consolidation principles

The consolidated financial statements include the financial statements of PGNiG SA acting as the Parent and the financial statements of the entities controlled by the Parent (or controlled by the Parent's subsidiaries) prepared as at 31 December 2008, except for subsidiaries, whose impact on the consolidated financial statements would not be material. An entity is considered to be controlled whenever the Parent has the ability to influence the financial and operational policy of the entity to generate benefits from its operations.

As at the date of acquisition, assets and liabilities plus equity of the acquiree are measured at their fair value. The surplus of the acquisition price over the fair value of the acquired identifiable net assets of the entity is recognized as goodwill. In case the acquisition price is lower than the fair value of identifiable net assets acquired from the entity, the difference is recognized as profit in the income statement for the period when the acquisition took place. The share of minority equity holders is disclosed in appropriate proportions of the fair value of the assets and equity. In subsequent periods losses attributable to individual minority equity holders over the value of their shares are charged to the Parent's equity.

Whenever necessary the financial statements of the subsidiaries or associates are adjusted in order to standardize the accounting principles applied by the entity with the accounting principles applied by the Parent.

All transactions, balances, revenues and expenses related to operations between related parties included in consolidation are eliminated from consolidation.

The profit or loss of the entities acquired or sold during the year is recognized in the consolidated financial statements from the moment of their acquisition and until their sale.

In case a subsidiary is no longer controlled, the consolidated financial statements should disclose the profit or loss for the part of the year covered by the financial statements when the Parent exercised such control.

Minority interest in 2008 includes the part of shares in BSiPG Gazoprojekt SA, BN Naftomontaż sp. z o. o. and Naft-Stal sp. z o.o. that do not belong to the Capital Group.

Investments in associates

An associate is an entity which the Parent can influence significantly, but with respect to which it does not exercise control, by participating both in the development of the financial and operational policy of such an associate, and which is not a joint venture. The financial interest of the Group in its associates is measured using the equity method, except for instances when an investment is classified as held for trading (see below). Investments in associates are measured at acquisition price after adjustment for changes in the Group's share in net assets which took place until the balance sheet date, less the impairment of individual investments. Losses of associates exceeding the value of the Group's share in such associates are not recognized.

The surplus of the acquisition price over the fair value of identifiable net assets of an associate as at the acquisition date is recognized under goodwill. When the acquisition price is lower than the fair value of identifiable net assets of an associate as at the acquisition date, the difference is recognized as profit in the income statement for the period when the acquisition was effected.

Profits and losses resulting from transactions between the Group and an associate are subject to consolidation eliminations in line with the Group's share in such an associate's equity. The balance sheet dates of the associates and the Group are identical and both the entities apply uniform accounting principles. Whenever necessary the financial statements of associates are adjusted in order to standardize the accounting principles applied by such an entity with the accounting principles applied by the Parent. Losses incurred by an associated entity can imply the impairment of its assets which results in the necessity to create an appropriate revaluation write-down.

Interests in joint ventures

The Group's interest in a joint venture is recognized in line with the equity method based on the principles described under investments in associates.

Translation of items denominated in foreign currencies

The Polish zloty (PLN) is the functional and presentation currency used by PGNiG SA and its subsidiaries, except for POGC Libya B.V. and PGNiG Norway AS. Transactions denominated in foreign currencies are initially recognized at the exchange rate of the functional currency as at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency as at the balance sheet date. All exchange differences are recognized in the consolidated income statement, except for exchange differences arising from the translation of assets and liabilities plus equity of foreign entities. These differences are recognized directly in equity until the moment of disposing of shares in these entities. Non-monetary items measured at historical cost in foreign currencies are translated at the exchange rate as at the initial transaction date. Non-monetary items measured at fair value in foreign currencies are translated at the exchange rate as at the fair value determination date.

The Parent uses foreign currency forwards and options to hedge against risks resulting from exchange rate fluctuations (accounting principles applied by the Capital Group with respect to derivative financial instruments are provided below).

The Pakistani rupee (PKR) is the functional currency of the Operator Branch in Pakistan and PLN for the Branch in Denmark, Egypt and Algeria, whereas the euro (EUR) and the Norwegian Krone (NOK) are the functional currencies of the subsidiaries (POGC Libya B.V. and PGNiG Norway AS), respectively. As at the balance sheet date the assets and liabilities of these foreign entities are translated into the presentation currency of PGNiG SA at the exchange rate ruling at the balance sheet date, whereas their income statements are translated at the average exchange rate for a given financial year. Forex differences resulting from such translations are recognized directly in equity as a separate item. Upon disposal of a foreign operation, accumulated deferred forex differences recognized in equity and related to the foreign operation are recognized in the income statement.

Property, plant and equipment

Property, plant and equipment is initially measured at acquisition price or manufacturing cost (historical cost measurement model).

The acquisition price or manufacturing cost includes the costs incurred on purchase or manufacture of property, plant and equipment and further expenditure incurred in order to increase the asset's useful life, replace its major components or its renovation. The acquisition price or manufacturing cost of property, plant and equipment does not include interest on borrowings and exchange differences related to the manufacture of property, plant and equipment components, which are charged to theincome statement upon their incurrence.

Spare parts and service equipment are disclosed under inventories and recognized in the income statement upon use. Material spare parts and emergency equipment qualifies for recognition as property, plant and equipment, if the Group expects to use such items for over a year and if it is possible to allocate them to individual components of property, plant and equipment.

The Group does not increase the carrying amount of property, plant and equipment by their current maintenance costs, which are charged to the income statement upon incurrence. Current maintenance costs of property, plant and equipment, i.e. repair and maintenance, include labor cost and costs of used materials and they can include the cost of immaterial spare parts.

Upon the initial recognition of an item of property, plant and equipment as an asset, the Group recognizes it at acquisition price or manufacturing cost less accumulated depreciation and impairment loss.

Depreciation is calculated for all property, plant and equipment, except for land and fixed assets under construction, during the estimated economic useful life of these assets using the straight-line method:

Buildings and structures	2 – 40 years
Plant and equipment, vehicles and other	2 – 35 years

Property, plant and equipment used under leases or similar agreements and classified as the entity's assets are depreciated over the asset's useful life, not longer however, than over the term of the agreement.

Upon disposal or liquidation of property, plant and equipment, the historical cost and accrued depreciation are derecognized from the balance sheet, while any gains or losses are charged to the income statement.

Fixed assets under construction are measured at acquisition price or the amount of total expenses directly connected with their manufacture, less impairment. Fixed assets under construction are not depreciated until they have been completed and commissioned.

Exploration and prospecting expenditure
Natural gas and oil exploration and prospecting expenditure includes geological work aimed at finding and documenting the deposit and are settled using the geological success method.

The Group recognizes expenditure incurred on initial land analysis (seismic work, development and drawing up of geological maps) directly as cost in the income statement for the period in which such expenditure was incurred. The Group recognizes bore hole expenditure incurred during exploration and prospecting in assets, as fixed assets under construction.

Previously activated expenditure for bore holes deemed as negative are charged by the Group to the income statement for the period in which such bore holes were deemed negative.

After natural gas and/or oil production has been proven technically feasible and commercially legitimate, the Group reclassifies mineral resource exploration and assessment assets to fixed assets or intangible assets, depending to what such assets refer to.

Borrowing costs

Borrowing costs are recognized under expenses at the moment they are incurred in line with the benchmark treatment defined in IAS 23.

Investment property

Investment property is the property (land, building, part of a building, or both) treated by the Company as a source of rental income or held for capital appreciation or both. Investment property is initially recognized at acquisition price plus transaction costs.

The Group has decided to measure its investment property based on the cost model and after initial recognition measures all its investment property in line with the requirements of IAS 16 defined for such a model i.e. at acquisition price or manufacturing cost less accumulated depreciation and impairment loss.

Investment property is derecognized upon its disposal or decommissioning, if no benefits are expected in the future from its sale. All gains and losses arising from the derecognition of investment property are charged to the income statement for the period in which such property is derecognized.

The Group depreciates investment property based on the straight-line method over the following useful life periods:

Buildings and structures	2 – 40 years

Intangible assets
Intangible assets are identifiable non-monetary assets without physical substance, controlled by the Group and which are likely to cause an inflow of economic benefits to the Group in the future.

The Group initially recognizes intangible assets at acquisition price or manufacturing cost. Subsequent to initial recognition, the Group measures intangible assets at acquisition price or manufacturing cost less amortization and total impairment loss.

The above amortization method reflects the manner in which the economic benefits associated with an intangible asset are used by the Group; however if the use of such benefits cannot be reliably determined, the straight-line method is applied. The adopted amortization method is applied consistently over subsequent periods, unless there is a change in the expected manner in which economic benefits will be used.

The amortization period and method are verified at least at the end of each financial year. If the expected useful life of an asset is significantly different from previous estimates, the amortization period is changed. If the manner in which economic benefits are expected to be used over time has altered significantly, the amortization method is changed accordingly, to reflect such an alteration. The above changes are recognized by the Group as changes of accounting estimates and are charged to the income statement for the period in which such estimates are changed.

The following economic useful lives are typically applied in the amortization of intangible assets:

Acquired licenses, patents and similar items	2-15 years
Acquired computer software	2-10 years
Land perpetual usufruct	40-99 years

The perpetual usufruct right acquired free of charge pursuant to an administrative decision issued based on the Law of 20 September 1990 amending the Law on land management and property expropriation is recognized by the Group in off balance sheet records only.

Land perpetual usufruct right acquired in exchange for consideration is presented as intangible assets and amortized during its useful life. The useful life of the surplus of the first payment over the annual perpetual usufruct fee is equal to the perpetual usufruct period determined in the perpetual usufruct right agreement.

The period of land perpetual usufruct acquired for a fee from an entity other than the State Treasury or local government unit is equal to the period from the usufruct acquisition date to the last day of the perpetual usufruct period determined in the perpetual usufruct agreement.

Intangible assets with an indefinite useful life are not subject to amortization.

Intangible assets with an indefinite useful life as well as intangible assets which are not yet used are subject to periodic (once a year) testing for impairment.

R&D expenses
R&D expenses are not subject to capitalization and are presented in the income statement as costs in the period, in which they were incurred.

R&D expenses are capitalized only when:
- a precisely specified project is realized (e.g. software or new procedures);
- it is likely that the asset will generate future economic benefits
- costs connected with the project can be reliably estimated.

R&D expenses are amortized using the straight-line method over their economic useful life.

If it is impossible to isolate the item of assets manufactured by the entity itself, R&D expenses as recognized in the income statement in the period, in which they were incurred.

Leases

Leases are classified as finance lease, when the terms and conditions of the agreement transfer in principal all potential benefits as well as risk resulting from being the owner onto the lessee. All other forms of leases are treated as operating leases.

The Group as a Lessor
Assets provided to other entities under finance leases are recognized in the balance sheet under receivables in the amount of the net lease investment, less the principal portion of lease payments for a given financial period calculated to reflect the fixed periodical return rate on the unsettled portion of the net lease investment.

Revenues from interest payable due to finance leases are recognized in appropriate periods using the fixed rate of return on the net value of the Company's investment due to leases.

Revenues due to operating leases are recognized in the income statement using the straight line method during the period resulting from the lease contract.

The Group as a Lessee
Assets used under finance leases are treated as the Group's assets and are measured at fair value upon their acquisition, not higher however than the current value of minimum lease payments. The resulting liabilities toward the Lessor are presented in the balance sheet under finance lease liabilities. Lease payments have been broken down into the interest and principal, so that the interest rate on the remaining liability is fixed. Financial expenses are charged to the income statement.

Payments from operating leases are recognized in the income statement using the straight line method during the period resulting from the lease contract.

Financial assets

If market practice foresees the delivery of financial assets after a precisely specified period following the transaction date, investments in financial assets are recognized in the accounting records and derecognized from the accounting records upon the conclusion of the purchase or sale transaction.

All investments are measured initially at purchase price adjusted by transaction costs. Investments are classified as "held for trading" or "available for sale" and measured at fair value at the balance sheet date. Gains and losses resulting from changes in the fair value are recognized in the income statement for a given period.

Financial assets with fixed or determinable payments and fixed maturity are classified as investments „held to maturity" provided that the Group definitively intends to and is capable of holding them until this date.

Long-term investments held to maturity are measured at adjusted acquisition price determined using the effective interest rate. Discounts or bonuses obtained upon the acquisition of the investment and settled over the period during which it was held to maturity are taken into account when determining the adjusted acquisition price. Gains or losses from investments measured at adjusted acquisition price are recognized in revenues during their settlement in the period and upon their derecognition from the balance sheet or upon the occurrence of impairment.

Positive measurement of derivatives which are not classified as hedging instruments is conducted at fair value through the financial result and disclosed at fair value, including the recognition of fair value changes in the income statement. Positive measurement of derivatives is disclosed in separate items of current assets.

Non-current assets held for sale

The Group classifies a non-current asset (or a group of assets for disposal) as held for sale if its carrying amount will be recovered primarily through a sale transaction rather than is further use.

Such is the case, if the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or a group of assets for disposal), while its sale is highly probable.

An asset (or a group of assets for disposal) is classified as held for sale after an appropriate decision is passed by a duly authorized body under the Company's By-laws / Articles of Association – the Company's Management Board, Supervisory Board or Shareholders' Meeting/General Shareholders' Meeting. In addition, an asset (or a group of assets for disposal) must be actively offered for sale at a reasonable price as regards its present fair value. Additionally, it should be expected that the sale will be effected within one year from the date of such classification.

The Group does not depreciate non-current assets after they have been classified as held for sale.

Inventories

The value of inventories in the warehouse is determined at acquisition price or manufacturing cost or at net realizable value, whichever lower, less impairment resulting from reduction of is economic usefulness. The acquisition price or manufacturing cost includes all costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition.

Net realizable value is the difference between the estimated selling price in the ordinary course of business and the estimated costs of completion and the estimated costs necessary to execute the sales transaction.

Gas fuel in storage facilities is measured separately for each storage facility at the weighted average price of gas fuel acquisition. The release of gas fuel for internal consumption in Underground Gas Storage (UGS) Facilities as well as balance sheet differences are measured by the Company's Head Office at the weighted average acquisition price, which consists of the cost of acquiring gas fuel from all sources abroad, actual cost of production from domestic sources, the cost of denitration and the cost of acquisition from other domestic sources. The release of gas fuel for external sales is measured at gas fuel acquisition cost, i.e. the average actual acquisition price.

Trade and other receivables

Trade receivables are initially recognized at fair value. Upon initial recognition, receivables are measured at amortized cost using the effective interest rate method. Measurement differences are charged to the income statement. The Group does not discount receivables maturing in less than 12 months from the balance sheet date and in cases, when the discounting effect would be immaterial.

Receivables are revalued based on the probability of their recovery, if there is objective evidence that the receivables will not be fully recovered.

Revaluation write-downs of receivables for gas deliveries to small customers (low consumption of gas), settled in line with tariff groups 1-4, are calculated on a statistical basis. Write-downs are created based on an analysis of historical data regarding settlement of receivables during the year. Using the results of the analysis, repayment ratios are calculated, and on this basis, the aging analysis of receivables is prepared.

The Group creates revaluation write-downs for gas delivery receivables from customers from tariff groups 5-7 which are overdue by more than 90 days. Their amounts are calculated individually based on the Group's information on the debtor's financial position.

A 100% write-down is created for all accrued interest.

Revaluation write-downs on receivables are charged to other operating expenses or financial expenses, respectively, according to the type of receivables, to which the revaluation write-down applies.

Irrecoverable receivables are charged to losses upon the assessment of their irrecoverability.

Writing-off or derecognition of receivables due their o expiry or irrecoverability results in the reduction of previously created write-downs.

Receivables redeemed or written-off due to expiry or irrecoverability which were not written down or were partially written down are classified as other operating expenses or financial expenses, as appropriate.

Cash and bank balances

Cash and bank balances disclosed in the balance sheet include cash at bank and in hand as well as short-term financial assets with high liquidity and the initial maturity not exceeding three months, easily convertible to specified cash amounts and subject to an insignificant value fluctuation risk.

The balance of cash and bank balances disclosed in the consolidated cash flow statement consists of the aforementioned cash and bank balances, less unpaid overdraft facilities.

Impairment

The Group tests its assets for impairment at each balance sheet date. If circumstances indicating impairment exist, the recoverable amount of a given asset is estimated in order to determine the potential impairment loss. When an asset does not generate cash flows which are highly independent from the cash flows generated by other assets, the analysis is conducted for the cash flow generating group of assets to which such an asset belongs. Intangible assets with indefinite useful lives are tested for impairment on an annual basis and whenever there is an indication that an asset may be impaired.

The recoverable amount is determined as the higher of the two following amounts: The fair value less costs to sell or the value in use. The last value corresponds to the present value of the estimated future cash flows discounted using a discount rate that reflects the current market time value of money and risks specific for the given asset.

If the recoverable amount of an asset (or asset group) is lower than its net carrying amount, the book value is reduced to the recoverable amount. The related impairment loss is recognized as a cost in the period, when the impairment occurred.

Upon the reversal of impairment, the net value of an asset (group of assets) is increased to the newly estimated recoverable value, however no higher than the net value of this asset which would be determined if impairment was not recognized in previous years. Reversed impairment loss is recognized under revenues.

Equity

Equity is recorded in the accounting records by type and in accordance with principles specified in legal regulations and in the Parent's By-laws.

Share capital is disclosed at face value in amounts complying with the Parent's By-laws and the entry in the commercial register.

Declared but not transferred capital contributions are recognized as called up share capital. Own shares and called-up share capital reduce the value of the Parent's equity.

The share premium is created from the surplus of the issue price of shares over their face value less issue costs.

Share issue costs incurred upon establishment of a joint stock company or increase in the share capital are charged to the share premium up to the share premium amount, while the remaining amount is charged to other reserves.

The effects of measurement resulting from the first time adoption of IFRS and all changes in revalued property, plant and equipment as well as intangible assets are charged to retained earnings/losses.

In accordance with IAS, previous year net profit can be allocated only to capital or dividends for shareholders. The option foreseen by the Polish legal system under which profit can be allocated to the Company's Social Benefits Fund, Restructuring Fund, employee profit-sharing schemes or other purposes is not reflected in IAS. Therefore, the Group recognizes the aforementioned reductions in profit as the cost of the period in which the binding obligation to release the funds occurred. Distribution of profit among employees is recognized in payroll cost, while funds transferred to the Company's Social Benefits Fund are recognized under employee benefits costs.

Borrowings

Interest bearing bank loans are recorded at the value of obtained inflows less the direct cost of obtaining these funds. Following initial recognition interest-bearing loan facilities and loans are recognized at adjusted acquisition price using the effective interest rate. The adjusted acquisition price includes borrowing costs as well as discounts and premiums received upon the settlement of the liability.

The difference between net inflows and redemption value is disclosed in financial revenues or expenses over the loan term.

Provisions

Provisions are created when a potential liability (legal or constructive) of a reliably estimated value, which will most likely result in the outflow of assets generating economic benefits from the Company, is generated as a result of future events. The value of created provisions is verified at the balance sheet date in order to be adjusted to the current forecast.

The Group measures its provisions by discounting them, if the effect of changes in the time value of money is material; using a pre-tax discount rate which reflects current market estimates of the time value of money as well as risks related to a given liability which are not reflected in the most appropriate cost estimate. If a provision is discounted, increases in its value over time are recognized as borrowing costs. The discount rate should not bear the risk by which future estimated cash flows have been adjusted.

When provisions pertain to the cost of liquidating production related assets, the initial value of the provision increases the value of the respective fixed asset. Subsequent adjustments of the provision resulting from changes of estimates are also treated as a fixed asset value adjustment.

A detailed description of the bases of the Group's provisions is provided in point 29.

Prepayments and accruals

The Capital Group's constituent entities create prepayments for expenses pertaining to future reporting periods. They are presented in the balance sheet as a separate item of assets.

Accruals are liabilities related to goods or services which have been obtained/received, but not yet paid for, billed or formally agreed on with the supplier, together with amounts payable to employees (e.g. amounts related to accrued remuneration for paid vacation). These settlements are recognized in the balance sheet under equity and liabilities jointly with trade and other liabilities.

The Capital Group's constituent entities recognize deferred income in order to allocate revenues to future reporting periods upon realization.

The Parent's deferred income includes the value of revenues related to future periods due to forecasted gas sales and additional payments for uncollected gas resulting from take or pay contracts.

Gas Companies classify the value of gas infrastructure received free of charge (by 1998) and connection fees as deferred income. Respective revenues are realized together with created depreciation charges on the aforementioned service lines. These settlements are disclosed in the balance sheet as a separate item of liabilities and equity.

Trade and other liabilities

Trade liabilities are liabilities payable for goods or services which have been obtained/received and have been billed or formally agreed upon with the supplier.

Other liabilities include mainly liabilities resulting from the current activity of the Group's companies, i.e. payroll and other current employee benefits as well as accruals and public law liabilities.

Financial liabilities

Financial liabilities are measured at amortized cost, excluding derivatives (negative measurement). Negative measurement of derivatives which are not classified as hedging instruments is conducted at fair value through the financial result and disclosed at fair value, including the recognition of fair value changes in the income statement.

Sales revenues

Revenues are recognized in the amount of the potential reliably estimated economic benefits that will be obtained by the Group from a particular transaction. The following criteria are also applied to the recognition of revenues:

Sale of goods and products
Sales revenues are recognized at fair value of payments due or received and represent receivables for services, products and goods supplied under regular business operations less discounts, VAT and other sale-related taxes (excise duty). Sales of goods and products are recognized at the moment of delivery of goods and transfer of the related ownership title.

In order to ensure classification of gas sales revenue to a correct reporting period, as at the balance sheet date volume of gas supplied to individual customers is estimated in accordance with so-called "purchase method".

Additional sales not invoiced within the given reporting period is determined based on gas collection characteristics of individual customers in comparable reporting periods. The value of estimated sales of gas is arrived at as a product of the number assigned to individual tariff groups and rates defined in the valid tariff.

Services
Revenues from services are recognized according to their actual stage of completion as at the balance sheet date. If services include an indefinable number of actions performed within a finite period, revenues are recognized on a straight line basis (equally distributed) over the entire period. If a certain action is more important than other actions, the recognition of revenues is deferred until the action is performed. If the result of the service-related transaction cannot be reliably estimated, revenues from the transaction are recognized only up to the amount of incurred expenses, which the entity expects to recover.

Interest
Interest revenue is recognized incrementally with respect to the principal, in line with the effective interest rate method.

Dividends
Dividend revenue is recognized when the cum dividend is established.

Rental income
Income from the rental of investment property is recognized in accordance with conditions resulting from concluded leases.

Construction contracts

Revenues from contracts are measured at the fair value of received or due payments.

If the outcome of a construction contract can be reliably measured, revenues and expenses are recognized in relation to the stage of completion of the contract as at the balance sheet date. The stage of completion is measured as the proportion of incurred costs to the total estimated contract costs except for cases when such a methodology would not reflect the actual stage of completion. Any changes in the scope of work, claims and bonuses are recognized at levels agreed upon with the client.

If a contract value cannot be reliably estimated, contractual revenues are recognized in accordance with the probable level of contract costs which will be covered. Contract related costs are recognized as expenses of the period in which they were incurred.

If there is a probability that contract related costs will exceed revenues, the expected loss on the contract is immediately recognized as an expense.

Government grants

Government grants to non-current assets are presented in the balance sheet as deferred income and gradually charged to the income statement over their expected useful life in the form of equal annual write-offs.

Income tax

The statutory appropriations include: due corporate income tax and deferred tax.

The current tax liability is calculated based on the tax base for a given financial year. Tax profit (loss) differs from net book profit (loss) due to the exclusion of taxable revenues and expenses classified as tax-deductible in the following years as well as items of expenses and revenues which will never be subject to taxation. Tax charges are calculated based on tax rates applicable in a given financial year.

Deferred tax is calculated based on the balance-sheet method as tax payable or refundable in the future based on the difference between the carrying amount of assets and liabilities and their corresponding tax values used for the calculation of the tax base. A provision for deferred tax is created on all temporary positive differences subject to taxation, whereas deferred tax assets are recognized up to the amount of probable negative temporary differences that may reduce future taxable income. Tax assets or liabilities do not occur if the temporary difference results from goodwill or the initial recognition of another asset or liability in a transaction which does not affect either the tax or accounting profit/loss. The deferred tax provision is recognized based on temporary tax differences arising as a result of investments in subsidiaries and associates as well as joint ventures, unless the Group is capable of controlling the reversal of temporary differences and it is likely that in the foreseeable future the temporary difference will not be reversed.

The value of the deferred tax asset is subject to analysis as at every balance sheet date and if the expected future tax income is insufficient to realize the asset or its part, a relevant write-down is created.

Deferred tax is calculated based on tax rates applicable when the given asset is realized or the liability becomes due. Deferred income tax is charged to the income statement, except for cases when it is related to items directly recognized in equity. In this case, deferred tax is also charged directly to equity.

2.4. Main reasons for uncertainty of the estimate data

During the Group's development of the accounting policy described above, the Company made the following assumptions regarding uncertainty and estimates which had the most significant impact on values presented in the financial statements. Due to the above, there is a risk of material changes in the future periods regarding mainly the following areas:

Capital contributions to PI GAZOTECH sp. z o.o.
In 2008, cases filed by PGNiG SA were pending regarding the cancellation or revocation of resolutions passed by the Extraordinary Shareholders' Meeting of PI GAZOTECH sp. z o.o. regarding contribution to the company's capital. By the date of the financial statements, the cases had not been decided.

On 4 February 2008 the Appeal Court dismissed the appeal of PGNiG SA regarding the case on revocation of the resolutions passed by the Extraordinary Shareholders' Meeting of PI GAZOTECH sp. z o.o. of 23 April 2004, including the resolution obliging PGNiG SA to make a capital contribution of PLN 52,000 thousand for the benefit of that company. The judgment is valid. The claims ceased to be secured through suspension of the execution of the resolutions on capital contributions upon the Appeal Court judgment. On 8 July 2008 a plea of nullity was filed in respect to the judgment of the Appeal Court of 4 February 2008. By the date of the financial statements, the Company had not received any information regarding the decision of the Appeal Court.

On 5 February 2008 the Appeal Court in Warsaw dismissed the appeal of PGNiG SA regarding the case on the non-existence of a resolution regarding share redemption, passed by the Shareholders' Meeting of PI GAZOTECH sp. z o.o. on 23 April 2004. The judgment is valid. On 27 May 2008 a plea of nullity was filed in respect to the judgment of the Appeal Court of 5 February 2008. On 5 December 2008, the Court decided to dismiss the plea of nullity of 27 May 2008. This means that the Company's claim was legally and finally dismissed.

In a decision of 31 October 2008, the District Court dismissed the claim of PGNiG SA against PI GAZOTECH sp. z o.o. regarding cancellation of a resolution passed by the Shareholders' Meeting of PI GAZOTECH sp. z o.o. of 19 January 2005, obliging PGNiG SA to make a capital contribution of PLN 25.999 thousand. On 13 January 2009, the Company filed an appeal against the decision of the District Court. By the date of the financial statements, the Company had not received any information regarding the decision of the Appeal Court.

In the case regarding cancellation of a resolution passed by the Shareholders' Meeting of PI GAZOTECH sp. z o.o. of 6 October 2005, obliging PGNiG SA to make a capital contribution of PLN 6,552 thousand, on 30 May 2008, the District Court dismissed the claim of PGNiG SA and cancelled a decision on securing PGNiG SA claim. On 22 January 2008, the Company filed an appeal against the proceeding, and on 29 July 2008, against the decision of the District Court. On 12 November, the Appeal Court accepted the Company's appeal against the decision of the District Court of 30 May 2008 regarding cancellation of the decision on securing the claim and forwarded the case to the District Court for re-examining. On 14 January 2009, the District Court cancelled the decision on securing the claim. The Company motioned for justification of the District Court's decision. As regards the appeal against the decision of 30 May 2008, by the date of the financial statements, the Company did not receive any information from the Appeal Court. On 20 October 2008, a claim was filed regarding cancellation of resolutions passed by Shareholders Meeting of PI GAZOTECH sp. z o.o. of 19 September 2008. The grounds of the claim were limited to strictly formal issues (the meeting being called by unauthorized individuals, and resolutions passed with the use of a provision giving privilege to shares held by Abit-Invest SA, which was contrary to the equal treatment principle applicable to shareholders of a capital-based company). By the date of the financial statements, the cases had not been decided.

On 7 November 2008, the Company motioned to the District Court to decide that the votes arising from shares in PI GAZOTECH sp. z o.o. held by Fundusz Kapitałowy Abit-Inwest SA were not privileged. By the date of the financial statements, the cases had not been decided.

Due to the above, the financial statements for 2008 include the Parent's liability and receivables from PI GAZOTECH sp. z o.o. due to capital contributions in the amount of PLN 82,472 thousand as well as a revaluation write-down of PLN 82,472 thousand corresponding to the receivables in question. Additionally, the Parent increased the value of the provision for potential expenses to the amount of PLN 2,408 thousand (from the level of PLN 924 thousand as at the end of 2007).

Impairment of non-current assets
The Group's basic operating assets include mine assets, transmission infrastructure and gas storage facilities. These assets were tested for impairment. The Group calculated and recognized impairment losses in the accounting records based on the assessment of their useful life, planned liquidation or disposal. Assumptions regarding usefulness, liquidation and disposal of certain assets may change. Appropriate information regarding the value of impairment loss has been provided in Note 11.2.

As regards the mine assets, an uncertainty exists as to the estimates applied to gas and oil resources, based on which cash flows related to such assets are estimated. A change in the estimates related to resources directly affects the amount of revaluation write-downs created on mine assets.

Additionally, the risk that the decision of the Energy Regulatory Office as to the level of prices for gaseous fuel distribution services may change accounts for that uncertainty considerably. The price change has a significant impact on the change in cash flows of the distribution companies, which may require an update of revaluation write-downs on the distribution assets.

Useful life of property, plant and equipment
Depreciation rates applied to the main groups of fixed assets were presented in point 2.3 of the financial statements. The useful lives of fixed assets were defined based on assessments of technical services responsible for their operation. These estimates are connected with uncertainty regarding the future ope-

rating environment, technological changes and market competition, which may result in a modified assessment of the economic useful life of assets and their remaining useful life, which may significantly impact the value of these assets and future depreciation costs.

Estimated sales of gas
In order to ensure classification of gas sales revenue to a correct reporting period, as at the balance sheet date volume of gas supplied to individual customers is estimated.

The value of uninvoiced gas supplied to individual customers is estimated based on their previous collection characteristics in comparable reporting periods. There is a risk that actual gas sales figures may differ from the estimates. This may result in recognizing additional estimated but unrealized sales in the period profit/loss.

Provisions for environmental protection
A provision for costs of well reclamation and other environmental provisions as described in note 29 constitutes a material item of the financial statements. The provision is based on estimates of future liquidation and reclamation costs, which is highly dependent on the discount rate and estimated cash flow period.

Impairment of shares in SGT EUROPOL GAZ SA
The Parent conducted impairment tests of the shares in SGT EUROPOL GAZ SA using the discounted cash flows method. The calculations were based on data included in the financial plan of SGT EUROPOL GAZ SA for the years 2006–2019 as described in detail in Note 6. Results of impairment tests performer indicate significant differences depending on assumptions regarding future cash flows, discount rate and estimated cash flow period. As a result, the tests may significantly impact future value of shares.

2.5. Changes of presentation in the financial statements

Changes in income statement presentation

The Company introduced changes in the income statement for 2007 in order to ensure the comparability of data for the comparative and current period.

The Group introduced changes to presentation of financial expenses due to measurement and settlement of derivative transactions hedging the foreign exchange rate in purchasing of imported gas.

Exchange differences and expenses related to the measurement and settlement of derivative transactions in line with IAS should adjust the income statement items they refer to. Such a presentation of expenses ensures a clear picture of the Group, which limits presentation of the financial expenses to those related to contracting or granting loans, whereas the operating expenses include costs directly related to this activity, e.g. realized exchange differences on purchase of foreign currencies in order to pay for imported gas. Therefore, the change is consistent with the adopted presentation of exchange differences on trade settlements, which have been presented under operating activity.

Therefore, in the income statement for the first half of 2007, the Group reclassified revenues and expenses related to trade liabilities settlement (including those arising from the purchase of gas) and measurement of derivatives hedging trade liabilities (gas purchase) reclassifying them from financial revenues or expenses to „Other operating expenses (net)”. As a result, operating profit/loss in both comparative periods presented in the

Income statement (selected items)	Previously presented amounts	Period from 1 January 2007 to 31 December 2007			Amounts after adjustments
		Reclassification of exchange gains/losses on measurement and settlement of derivatives related to gas purchases*	Reclassification of measurement and settlement of derivatives related to foreign assets**	Reclassification of discount regarding provisions for liquidation of non-current assets**	
Other operating expenses (net)	**(2,019,001)**	**(7,930)**	**13,391**	**3,925**	**(2,009,615)**
Total operating expenses	**(15,800,538)**	**(7,930)**	**13,391**	**3,925**	**(15,791,152)**
Profit on operating activities	**851,596**	**(7,930)**	**13,391**	**3,925**	**860,982**
Financial revenues	**282,287**	**(16,707)**	**(13,391)**	**(3,925)**	**248,264**
Financial expenses	**(115,129)**	**24,637**	**-**	**-**	**(90,492)**
Profit before tax	**1,002,728**	**-**	**-**	**-**	**1,002,728**
Income tax	**(86,663)**	**-**	**-**	**-**	**(86,663)**
Net profit	**916,065**	**-**	**-**	**-**	**916,065**

** The change impacts the trade and storage segment.*
*** The change impacts the exploration and production segment (increases the profit/loss by PLN 4,687 thousand) and the trade and storage segment (decreases the profit/loss by PLN 762 thousand).*

report changed. The profit/loss before tax and net profit/loss did not change.

The Group introduced changes to presentation of measurement and settlement of derivative transactions hedging foreign assets. Before, measurement and settlement of the transactions was presented in financial activities, while forex differences regarding hedged assets were recognized in operating activities. Since the hedging items regard assets used in operating activities, currently the Group presents them in operating activities of the income statement. Therefore, the Group reclassified corresponding items in the 2007 income statement. In the Company's opinion, the change allows better reflecting operating and financial profit/loss of the Group in the financial statements.

Additionally, the Group changed the presentation of discount regarding provisions for liquidation of fixed assets. Before, changes of the discount-related portion of the provision had been presented as financial operations in the income statement. Currently, it is presented in operating activity along with other changes regarding the provision. Therefore, the Group reclassified corresponding items in the 2007 income statement.

Changes in the operating profit/loss and net profit/loss result from the introduction of the above changes in presentation are presented in the table below.

Changes in cash flow statement presentatio

In relation to the change in presentation of profit/loss on derivatives hedging exchange rate at the purchase of imported gas, the Group introduced relevant changes to the cash flow statement. The amounts currently realized on derivative transactions hedging the exchange rate at the purchase of imported gas are presented in operating activities, while realized transactions hedging loan amounts are presented in investment activities. Therefore, the amount of PLN 200 thousand (PLN 301 thousand inflows and PLN 101 thousand outflows) was reclassified from 2007 income statement to "Other net items" under operating activities. The change resulted in a drop in cash from financing activity accompanied with an increase in cash from operating activities by PLN 200 thousand.

The change in the net cash balance and other items did not change as a result of the above reclassifications.

Changes in segment reporting presentation

Additionally, the Group reclassified capital expenditure for property, plant and equipment and intangible assets in its segment reporting for 2007. The value of expenditure incurred on fixed assets under construction related to expenditure on wells in the amount of PLN 254,940 thousand was reclassified from the segment „trade and storage" to "exploration and production".

Such expenditure is recognized in the trade segment but in fact these assets are used in the exploration segment following their commissioning. Hence, the Group recognized such expenditure in 2008 in the exploration and production segment and applied relevant adjustments to the comparative data for 2007.

The Group adjusted presentation of overstated trade amount in exploration and production segment in the 2007 segment reporting. The adjustment involved reclassification of the same amount of PLN 376,301 thousand from inter-segment sales and other segment costs to the elimination column; therefore, the change does not impact the segment profit/loss or other reported amounts. The adjustment results from the amount of eliminated intercompany trade in the amount of PLN 188,105 thousand with the opposite sign.

3. Segment reporting

It has been decided that segment reporting will be conducted by business segments. The Group operates in the following four segments:

a) ***Exploration and production.*** This segment involves acquisition of hydrocarbons from deposits as well as preparation of products for sale. It covers the entire natural gas and oil production process from deposits, from geological analyses, geophysical testing and drilling up to development and exploitation of deposits. Activities related to exploration and production are conducted by both PGNiG SA and the Capital Group entities providing this type of services.

b) ***Trade and storage.*** This segment involves sales of natural gas imported and produced from domestic deposits and uses underground gas storage facilities for commercial purposes. As a result of the completion of the trade integration process, PGNiG SA is in charge of natural gas sales. The segment uses three underground gas storage facilities located in Mogilno, Wierzchowice and Husów. PGNiG SA and INVESTGAS SA (a constituent company of the Capital Group) administer and expand the gas storage facilities. The segment is responsible for sales of high-methane an nitrated gas in the transmission and distribution systems. Gas trading activity is conducted based on the provisions of the Energy Law, whereas the prices are determined in accordance with the tariffs approved by the President of the Energy Regulatory Office.

c) ***Distribution.*** This segment focuses mainly on natural gas transmission via the distribution network. Six Gas Companies – are responsible for natural gas distribution. These companies supply gas to households, industrial and wholesale clients. Additionally, the companies are in charge of maintenance, repairs and development of the distribution network.

d) ***Other activities.*** This segment is in charge of designing and construction of facilities, machines and equipment for the mining, fuel and energy industries as well as provision of services related to the hotel and catering industry. The aforementioned activities are conducted mainly by the companies of the Capital Group.

Segment assets include all operating assets used by a given segment, including mainly cash, receivables, inventories as well as fixed assets less depreciation charges and revaluation write-downs. While most assets can be directly allocated to individual segments, the value of assets used by two or more segments is allocated to individual segments based on the extent the respective segments use these assets.

Segment liabilities include any operating liabilities, mainly trade, payroll and tax liabilities, both due and accrued as well as any provisions for liabilities that can be allocated to a given segment. Both segment assets and segment liabilities are net of deferred tax. Intra-segment transactions were eliminated.

All transactions between segments are concluded based on internally agreed prices.

3.1. Business segments

The following tables present data on revenues, costs and profits as well as certain assets and liabilities broken down into the Group's business segments for periods ended 31 December 2008 and 31 December 2007.

In Q1 and Q2 of 2007, the Gas Companies in the Capital Group were in charge of both natural gas trading and distribution. As a result of legal unbundling of the gas distribution activity from the trade activity in mid 2007, the gas trade activity of the Capital Group was integrated in PGNiG SA. The Gas Companies were transformed into Distribution System Operators (DSO). Due to the above, in the following segment reporting pertaining to the comparative period ended 31 December 2007 the distribution segment includes also revenues and expenses related to Q1 and Q2 2007, related to the gas sold, whereas in the segment reporting pertaining to the current period the distribution segment includes only revenues and expenses related to the distribution service while revenues and expenses related to the gas sold are presented in the trade and storage segment.

Period ended 31 December 2008	Exploration and production	Trade and storage	Distribution	Other	Eliminations	Total
Income statement						
Sales to external customers	2,129,205	16,116,182	27,763	158,898	-	18,432,048
Inter-segment sales	1,429,715	603,609	3,031,602	205,986	(5,270,912)	-
Total segment revenues	3,558,920	16,719,791	3,059,365	364,884	(5,270,912)	18,432,048
Amortization/depreciation	(586,439)	(138,558)	(690,721)	(9,226)	-	(1,424,944)
Other expenses	(2,054,039)	(17,091,128)	(1,949,933)	(342,970)	5,231,644	(16,206,426)
Total segment expenses	(2,640,478)	(17,229,686)	(2,640,654)	(352.196)	5,231,644	(17,631,370)
Result on the segment operating activities	918,442	(509,895)	418,711	12,688	(39,268)	800,678
Net financial expenses						134,467
Share in profits/(losses) of entities measured using the equity method		221				221
Profit before tax						935,366
Income tax						(69,624)
Net profit	-	-	-	-	-	865,742
Balance sheet						
Segment assets	10,007,258	9,985,923	10,187,503	280,628	(2,004,906)	28,456,406
Investments in entities measured using the equity method		556,882				556,882
Unallocated assets						217,122
Deferred tax assets						514,867
Total assets	-	-	-	-	-	29,745,277
Total equity						20,715,925
Segment liabilities	2,966,720	3,433,856	2,194,396	109,959	(2,004,906)	6,700,025
Unallocated liabilities						977,086
Deferred tax provision						1,352,241
Total liabilities and equity	-	-	-	-	-	29,745,277
Other segment information						
Capital expenditure on property, plant and equipment and intangible assets	(1,453,750)	(225,258)	(879,372)	(21,088)	-	(2,579,468)
Revaluation write-downs on assets	(2,588,441)	(2,072,672)	(10,888,031)	(5,486)	-	(15,554,630)
Revaluation write-downs on unallocated assets						(53,346)

Period ended 31 December 2007	Exploration and production	Trade and storage	Distribution	Other	Eliminations	Total
Income statement						
Sales to external customers	2,054,235	9,468,768	5,013,685	115,446	-	16,652,134
Inter-segment sales	1,475,122	4,416,236	1,643,624	218,236	(7,753,218)	-
Total segment revenues	3,529,357	13,885,004	6,657,309	333,682	(7,753,218)	16,652,134
Amortization/depreciation	(582,467)	(126,746)	(711,187)	(9,873)	-	(1,430,273)
Other expenses	(1,927,746)	(12,571,274)	(7,257,185)	(315,469)	7,710,795	(14,360,879)
Total segment expenses	(2,510,213)	(12,698,020)	(7,968,372)	(325,342)	7,710,795	(15,791,152)
Result on the segment operating activities	1,019,144	1,186,984	(1,311,063)	8,340	(42,423)	860,982
Net financial expenses						157,772
Share in profits/(losses) of entities measured using the equity method		(16,026)				(16,026)
Profit before tax						1,002,728
Income tax						(86,663)
Net profit						916,065
Balance sheet						
Segment assets	9,058,665	11,777,275	9,183,395	279,444	(2,938,092)	27,360,687
Investments in entities measured using the equity method		557,529				557,529
Unallocated assets						63,871
Deferred tax assets						419,814
Total assets						28,401,901
Total equity						21,021,765
Segment liabilities	2,183,691	3,655,773	2,377,749	105,937	(2,938,092)	5,385,058
Unallocated liabilities						464,719
Deferred tax provision						1,530,359
Total liabilities and equity						28,401,901
Other segment information						
Capital expenditure on property, plant and equipment and intangible assets	(1,941,110)	(205,956)	(822,178)	(10,743)	-	(2,979,987)
Revaluation write-downs on assets	(2,661,341)	(2,617,292)	(10,531,312)	(5,488)	-	(15,815,433)
Revaluation write-downs on unallocated assets						(55,628)

3.2. Geographical segments

The Group operates mostly in Poland. Revenues from the export sales of products, goods and materials in 2008 represent 5.21% (6.94% in 2007) of total net revenues from the sales of products, goods and materials.

The Group' sales are addressed mainly to the following countries: Switzerland, Great Britain, India, Kazakhstan, Libya, Egypt, Pakistan, Mozambique, Germany, the Czech Republic, Ukraine, Belgium, Norway, Hungary, Austria and Slovenia.

In addition, the majority of the Group's assets are located in Poland. As at 31 December 2008, the value of assets located

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Domestic sales	17,470,943	15,496,872
High-methane gas	15,007,748	13,343,694
Nitrogen-rich gas	1,343,745	1,255,456
Crude oil	430,388	335,142
Helium	12,280	12,270
Propane-butane gas (LPG)	42,578	43,712
Gasoline	2,950	1,650
Decompressed gas	20,209	18,513
Geophysical and geological services	124,493	45,079
Exploration services	137,381	75,018
Construction and assembly services	56,603	25,095
Design services	17,241	10,971
Hotel services	37,054	33,043
Other services	172,933	251,067
Other products	44,758	22,193
Goods and materials	20,582	23,969
Export sales	961,105	1,155,262
High-methane gas	28,380	27,877
Nitrogen-rich gas	-	-
Crude oil	345,199	442,731
Helium	15,295	18,228
Propane-butane gas (LPG)	-	-
Gasoline	-	-
Decompressed gas	61	-
Geophysical and geological services	236,345	326,534
Exploration services	306,050	302,632
Construction and assembly services	7,438	14,098
Design services	-	875
Hotel services	-	-
Other services	7,832	6,197
Other products	12,803	14,114
Goods and materials	1,702	1,976
Total	18,432,048	16,652,134

abroad accounted for 6.19% of the total assets (4.68% as at 31 December 2007).

The operations of the Group's constituent entities in Poland are not regionally diversified as regards risk and ROI level. Therefore, the Group presents information by business segments only.

	31 December 2008	31 December 2007
Assets located in Poland	29,904,046	27,072,496
Assets located abroad*	1,841,231	1,329,405
Total	29,745,277	28,401,901

** Of which the amount of PLN 1,412,335 thousand was related to PGNiG Norway AS as at 31 December 2008 (1,075,353 as at the end of 2007).*

4. Operating expenses

4.1. Raw materials and consumables used

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Gas purchase	(10,982,923)	(7,727,120)
Consumption of other materials	(648,758)	(604,491)
Total	(11,631,681)	(8,331,611)

4.2. Employee benefits

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Payroll	(1,637,925)	(1,488,811)
Social security and other benefits	(524,029)	(525,262)
Total	(2,161,954)	(2,014,073)

4.3. External services

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Purchase of transmission services	(1,367,121)	(1,464,580)
Other external services	(1,422,033)	(1,227,944)
Total	(2,789,154)	(2,692,524)

4.4. Other operating expenses (net)

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Change in net provisions	(173,602)	47,906
Change in net write-downs*	(53,592)	(1,517,347)
Taxes and charges	(450,238)	(462,908)
Net interest on operating activities	162,075	308,245
Net exchange differences on operating activities	(107,511)	(51,480)
Profit/loss on derivatives related to operating activity	360,451	(128,412)
Value of goods and materials sold	(21,924)	(51,854)
Revenues from the current settlement of deferred income recognized in the balance sheet	76,282	76,952
Difference from measurement of assets handed over as a dividend	14,881	226,567
Provision for costs related to withdrawal of assets from lease	48,448	(229,975)
Profit/loss on disposal of non-financial non-current assets	(30,909)	(19,395)
Property and casualty insurance	(33,274)	(35,501)
Business trips within the country and abroad	(50,221)	(52,237)
Change in inventories	7,942	(16,703)
Other net expenses	(111,479)	(103,473)
Total	(362,671)	(2,009,615)

** Data for 2007 include DCF revaluation write down on to the Gas Companies' assets in the amount of PLN (1,317,341) thousand.*

5. Financial revenues and expenses

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Financial revenues	213,238	248,264
Profit on derivatives	-	-
Interest income	70,864	90,800
Exchange gains	10,629	-
Revaluation of investments	58,211	79,675
Gain on disposal of investments	68,395	50,194
Dividends and profit sharing	4,770	27,027
Other financial revenues	369	568
Financial expenses	(78,771)	(90,492)
Loss on derivatives	-	-
Interest expense	(17,153)	(44,108)
Exchange losses	-	(20,014)
Revaluation of investments	(52,726)	(16,245)
Loss on disposal of investment	-	-
Commissions on loans	(1,897)	(7,502)
Costs of granted guarantees	(1,576)	(1,201)
Other financial expenses	(5,419)	(1,422)
Profit/loss on financing activity	134,467	157,772

6. Measurement of associates using the equity method

6.1. Carrying value of investments in associated entities measured using the equity method

SGT EUROPOL GAZ SA	31 December 2008	31 December 2007
Share of PGNiG SA Capital Group in the company's share capital*	49.74%	49.74%
Core business	Gas fuel transmission	Gas fuel transmission
Measurement of shares using the equity method	1,389,089	1,522,822
Acquisition price	38,400	38,400
Share in changes in capital	1,427,489	1,561,222
Impairment write-down	(888,789)	(1,022,522)
Carrying amount of investment	538,700	538,700

** Including a 48% direct share and a 1.74% indirect share through GAS-TRADING SA.*

GAS-TRADING SA		
Share of PGNiG SA Capital Group in the company's share capital	43.41%	43.41%
Core business	Trade	Trade
Measurement of shares using the equity method	16,891	17,538
Acquisition price	1,291	1,291
Share in changes in capital	18,182	18,829
Impairment write-down	-	-
Carrying amount of investment	18,182	18,829
Total carrying amount of investment	556,882	557,529

6.2. Reconciliation of investments in associates measured using the equity method

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Opening balance of the investment's carrying amount	**557,529**	**589,284**
Dividend paid by GAS-TRADING SA	**(868)**	**(15,729)**
Measurement charged to profit/loss, including:	**221**	**(16,026)**
Measurement of SGT EUROPOL GAZ SA	**-**	**(17,300)**
Measurement of GAS TRADING SA	**221**	**1,274**
Closing balance of the investment's carrying amount	**556,882**	**557,529**

The Parent estimated its share in the equity of SGT EUROPOL GAZ SA based on the value of such equity resulting from the financial statements of SGT EUROPOL GAZ SA as at 31 December 2008 prepared in line with the Accounting Act, adjusted by differences in the accounting principles applied in the Group as well as the results on intragroup transactions. The differences in accounting principles concerned the recognition of interest expenses in the net value of fixed assets. The Group applies the benchmark approach for recognizing borrowing costs (IAS 23), under which the gross value of fixed assets does not include borrowing costs. Subsequently, the Parent conducted impairment tests of the shares in SGT EUROPOL GAZ SA using the discounted cash flows method. The calculations were based on data included in the financial plan of SGT EUROPOL GAZ SA for the years 2006–2019. Discounted cash flows include all cash flows generated by SGT EUROPOL GAZ SA, including those related to servicing external funding sources bearing an interest (interest costs and repayment of loans and borrowings). As at 31 December 2008, in using the equity method, the Parent calculated the value of its stake in the co-subsidiary's equity at PLN 1,427,489 thousand.

The results of impairment tests show significant differences depending on the adopted assumptions.

For reasons beyond the Company's control, the assumptions adopted in the measurement of the value of shares include a significant uncertainty related to material fluctuations in exchange rates and tariff policy changes.

Considering the above, the carrying amount of SGT EUROPOL GAZ SA measured by the Parent as at 31 December 2008 in line with the DCF method amounted to PLN 538,700 thousand. The measurement did not change as compared to the measurement conducted as at 31 December 2007.

7. Income tax

The Capital Group does not constitute a taxable capital group under Polish regulations. Each of the constituent entities of the Group is a separate taxpayer.

7.1. Income tax disclosed in the income statement

	Note	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Profit before tax		935,366	1,002,728
Tax rate applicable in the period		19%	19%
Tax according to the applicable tax rate		(177,720)	(190,518)
Permanent differences between the gross profit (loss) and tax base		108,096	103,855
Tax liability disclosed in the income statement		(69,624)	(86,663)
Current income tax	7.2.	(333,593)	(578,753)
Deferred income tax	7.3.	263,969	492,090
Effective tax rate		7%	9%

7.2. Current income tax

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Profit before tax (consolidated)	935,366	1,002,728
Consolidation adjustments	935	182,376
Differences between the gross profit/loss and income tax base	678,928	1,776,266
Revenues not included in taxable income	1,933,153	2,178,306
Costs not classified as tax-deductible	(2,821,351)	(4,030,691)
Taxable income not classified as revenues for accounting purposes	1,152,784	1,637,765
Tax-deductible expenses not classified as expenses for accounting purposes	(1,364,702)	(1,671,381)
Deductions from income	2,648	(42,503)
Income tax base	1,615,229	2,961,370
Tax rate for the given period	19%	19%
Income tax	(306,894)	(562,660)
Increases, releases, exemptions, deductions and reductions in taxes	(26,699)	(16,093)
Current income tax disclosed in the tax return for the period	(333,593)	(578,753)
Current income tax recognized in the income statement	(333,593)	(578,753)

7.3. Deferred income tax

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Origination and reversal of deferred tax due to negative temporary differences*	85,720	(33,625)
Provisions due to payment of pension allowances	(3,852)	(3,990)
Provisions due to payment of severance and jubilee bonuses	(6,949)	6,537
Provision for payment of termination benefits	(3,114)	344
Provision for unused paid vacation	667	1,059
Provision for liquidation of wells	19,775	(13,177)
Other provisions	12,733	4,844
Revaluation write-downs on fixed assets	3,754	2,581
Revaluation write-down on shares	(643)	(96)
Revaluation write-downs on interest on receivables	-	520
Costs of hedging transactions for FX and interest rate risk	(3,365)	(3,552)
Expenses related to transactions hedging FX and interest rate risk	-	(19,217)
Exchange losses	6,217	11,997
Interest accrued on loans and liabilities	33	(953)
Connection fee	10,101	18,941
Tax loss	(4,752)	4,752
Unpaid salaries	2,736	294
Costs related to sales where the tax liability is originated in the subsequent month	-	(29,599)
Hyperinflationary remeasurement of deferred income	(1,027)	(1,027)
Investment allowances (Norway)	50,034	15,168
Other	3,372	(29,051)
Origination and reversal of deferred tax due to positive temporary differences	178,249	525,715
Exchange gains on credit facilities and deposits	(2,522)	426
Interest accrued on loans	(2,055)	(968)
Interest accrued on receivables	4	(498)
Positive valuation of hedging transactions for FX and interest rate risk	(23,759)	852
Revenue arising from tax obligation falling due in the following month	4,205	68,260
Difference between the tax and accounting value of non-current assets	204,461	473,497
Other	(2,085)	(15,854)
Deferred income tax disclosed in the consolidated income statement	263,969	492,090

** Without a change in the deferred tax of PLN 9,200 thousand recognized directly in the capital and related to measurement of financial instruments and differences on translation of deferred tax of foreign companies.*

The current reporting period covered the tax period from 1 January 2008 to 31 December 2008.

A 19% CIT rate was applicable in 2008 for businesses operating in Poland. In the comparative period in 2007, the tax rate was also 19%. Regulations on VAT, CIT and social security contributions are subject to frequent changes, and there is often no reference to established regulations or legal precedents. Additionally, the applicable regulations include ambiguities which give rise to discrepancies in the legal interpretation of tax regulations both among the state authorities and between the state authorities and companies. Tax and other settlements (e.g. customs or foreign currency settlements) can be subject to inspection by authorities entitled to impose high fines. Liabilities assessed as a result of inspections have to be settled together with high interest. As a result, the tax risk in Poland is higher than in countries where the tax system is more mature. There are no formal procedures in Poland enabling taxpayers to determine the final value of their tax liability. Tax settlements may be subject to inspection during a period of five years. Consequently, the amounts presented in the financial statements can change at a later date, after they have been finally assessed by tax authorities.

Foreign subsidiaries and branches of the Parent and of Polish subsidiaries are subject to tax regulations of the countries of their operation and to double taxation treaty regulations. In 2008 and 2007 tax rates applicable to foreign branches of subsidiaries ranged from 30% to 37% of the tax base. In 2008 and 2007, the foreign branches of the Parent did not pay income tax.

For PGNiG Norway AS, the margin interest rate is 78% of the tax base, the reason being that its operations on the continental shelf is taxed under two separate tax systems:
- Income tax (28% tax rate);
- Oil tax (an additional 50% tax rate).

The high tax rate is related, though, to several investment allowances and tax deductions, such as:
- Opportunity to apply a high depreciation rate (16.67% per year), i.e. commencing depreciation immediately after investment outlays are incurred. In the first year, the company is entitled to full annual depreciation regardless of the outlay date.
- An opportunity to apply an investment allowance of 7.5% for the period of four years under the oil tax regime. The allowance relates to investment outlays incurred in relation to the Norwegian Continental Shelf (NCS) (except from exploration costs) and amounts to 30% of spends subject to depreciation (7.5% times four - for four years). The allowance is deducted only from the oil tax base (the 50% rate) and does not apply to the standard CIT. It is to be an incentive for further investments in NCS. If the allowance amount exceeds income generated in the given year, it can be deducted in subsequent years.
- Total spends incurred for exploration of the field may be immediately deducted from revenue. If a company does not generate income allowing deduction of the exploration expenses (as PGNiG Norway AS at present), it is entitled to immediate return of 78% of exploration costs. The return is made in cash, and the transfer to the company's bank account shall be effected by the end of the year following the tax returns one.
- Financial expenses may be deducted under both taxation systems.

Therefore, PGNiG Norway AS commenced depreciation of its investments and applied the allowance in 2008, initially recognizing them as deferred tax (in the amount recorded under "Investment allowance (Norway)" in table 7.2.). Once revenue is generated (i.e. after 2011), the amounts will be deducted from the current tax base.

Importantly, the Norwegian tax system allows settlement of loss without time limitation. Additionally, losses incurred after 2002 bear interest. For such losses, interest is calculated as risk-free interest increased by a markup including income tax (28%). In other words, losses incurred by PGNiG Norway AS in the years 2007-2011 increased by interest will reduce its current tax payable once production from the Skarv field starts up.

The balance of deferred tax presented in the financial statements is reduced by the adjustment arising from temporary differences whose realization for tax purposes is not certain.

8. Discontinued operations

The Group did not discontinue any operations in 2008, nor is it planning to discontinue any of its current operations.

9. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the reporting period attributable to ordinary equity holders of the Parent by the weighted average number of issued ordinary shares that existed during the financial period.

Diluted earnings per share are calculated by dividing the net profit (loss) for the reporting period attributable to ordinary equity holders (after the deduction of interest on redeemable preference shares which are convertible into ordinary shares) by the weighted average number of issued ordinary shares that existed during the period (adjusted by the effect of diluted shares and redeemable preference shares that are convertible to ordinary shares).

The weighted average number of shares was calculated in the manner presented in the following table:

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Net profit attributable to equity holders of the Parent	**865,297**	**915,032**
Net profit attributable to equity holders of the Parent used for calculating diluted earnings per share	**865,297**	**915,032**
Weighted average number of ordinary shares used for calculating basic earnings per share ('000)	**5,900,000**	**5,900,000**
Weighted average number of ordinary shares used for calculating diluted earnings per share ('000)	**5,900,000**	**5,900,000**
Basic earnings for the financial year per share attributable to ordinary equity holders of the Parent	**0.15**	**0.16**
Diluted earnings for the financial period per share attributable to ordinary equity holders of the Parent	**0.15**	**0.16**

Start date	End date	Number of ordinary shares on the market ('000)	Number of days	Weighted average number of shares ('000)
31 December 2008				
2008-01-01	**2008-12-31**	**5,900,000**	**366**	**5,900,000**
Total			**366**	**5,900,000**
31 December 2007				
2007-01-01	**2007-12-31**	**5,900,000**	**365**	**5,900,000**
Total			**365**	**5,900,000**

10. Dividends paid and proposed

Dividends declared and paid in the period	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Dividend paid per share (in PLN)	0.19	0.17
Number of shares ('000)	5,900,000	5,900,000
Dividend value in PLN '000, including:	1,121,000	1,003,000
- dividend in kind paid to the State Treasury	949,994	849,998
- cash dividend paid to the State Treasury	6	2
- cash dividend paid to other equity holders	171,000	153,000

Dividend for 2007 was paid on 1 October 2008, and for 2006 was paid on 1 October 2007.
The effect on the result for the periods due to the surplus of the value of assets handed over as in-kind dividends over the net book value in the balance sheet as at the dividend payment date was presented in note 4.4.

By the date of these financial statements, no decision was made regarding 2008 profit distribution / loss coverage.

11. Property, plant and equipment

	31 December 2008	31 December 2007
Land	82,372	83,570
Buildings and structures	13,557,215	12,542,252
Technical equipment and machinery	2,322,574	2,129,116
Vehicles and other	903,316	860,554
Total fixed assets	16,865,477	15,615,492
Fixed assets under construction	3,721,550	3,100,017
Total property, plant and equipment	20,587,027	18,715,509

FIXED ASSETS

31 December 2008	Land	Buildings and structures	Technical equipment and machinery	Vehicles and other	Total
As at 1 January 2008, including depreciation	83,570	12,542,252	2,129,116	860,554	15,615,492
Increase	1,988	1,129,077	66,973	14,463	1,212,501
Decrease	(3,621)	(284,105)	(17,483)	(20,799)	(326,008)
Reclassification from fixed assets under construction and between groups	1,392	1,049,653	456,035	186,539	1,693,619
Impairment loss	20	28,186	29,866	10,598	68,670
Depreciation for the financial year	(977)	(907,848)	(341,933)	(148,039)	(1,398,797)
As at 31 December 2008, including accumulated depreciation	82,372	13,557,215	2,322,574	903,316	16,865,477
As at 1 January 2008					
Initial value	91,877	28,486,648	3,857,286	1,609,789	34,045,600
Accumulated depreciation and impairment loss	(8,307)	(15,944,396)	(1,728,170)	(749,235)	(18,430,108)
Net carrying amount as at 1 January 2008	83,570	12,542,252	2,129,116	860,554	15,615,492
As at 31 December 2008					
Initial value	91,488	29,962,452	4,320,545	1,764,607	36,139,092
Accumulated depreciation and impairment loss	(9,116)	(16,405,237)	(1,997,971)	(861,291)	(19,273,615)
Net carrying amount as at 31 December 2008	82,372	13,557,215	2,322,574	903,316	16,865,477

31 December 2007	Land	Buildings and structures	Technical equipment and machinery	Vehicles and other	Total
As at 1 January 2007, including depreciation	88,469	13,899,904	2,119,767	879,491	16,987,631
Increase	132	102,578	11,297	4,071	118,078
Decrease	(5,305)	(103,244)	(50,552)	(40,320)	(199,421)
Reclassification from fixed assets under construction and between groups	2,215	850,083	405,927	170,614	1,428,839
Impairment loss	(964)	(1,284,344)	(20,495)	(12,879)	(1,318,682)
Depreciation for the financial year	(977)	(922,725)	(336,828)	(140,423)	(1,400,953)
As at 31 December 2007, including accumulated depreciation	83,570	12,542,252	2,129,116	860,554	15,615,492
As at 1 January 2007					
Initial value	94,947	27,651,578	3,520,586	1,493,880	32,760,991
Accumulated depreciation and impairment loss	(6,478)	(13,751,674)	(1,400,819)	(614,389)	(15,773,360)
Net carrying amount as at 1 January 2007	88,469	13,899,904	2,119,767	879,491	16,987,631
As at 31 December 2007					
Initial value	91,877	28,486,648	3,857,286	1,609,789	34,045,600
Accumulated depreciation and impairment loss	(8,307)	(15,944,396)	(1,728,170)	(749,235)	(18,430,108)
Net carrying amount as at 31 December 2007	83,570	12,542,252	2,129,116	860,554	15,615,492

11.1. Property, plant and equipment used under finance leases

The Capital Group uses the following property, plant and equipment under finance leases.

	31 December 2008				31 December 2007		
	Initial value of capitalized finance leases	Depreciation	Revaluation write-down	Net carrying amount	Initial value of capitalized finance leases	Depreciation	Net carrying amount
Buildings and structures	-	-	-	-	9,252	(3,240)	6,012
Technical equipment and machinery	98,010	(28,619)	-	69,391	103,053	(43,183)	59,870
Vehicles and other	19,302	(3,310)	(490)	15,502	16,832	(6,327)	10,505
	117,312	(31,929)	(490)	84,893	129,137	(52,750)	76,387

11.2. Revaluation write-downs on property, plant and equipment

The opening value of revaluation write-downs on property, plant and equipment was equal to PLN 13,281,016 thousand, including:

- assets used directly in production activity – PLN 2,061,567 thousand;
- distribution assets – PLN 10,479,748 thousand;
- other assets – PLN 739,701 thousand.

Revaluation write-downs were increased during the current year by PLN 360,287 thousand (of which PLN 238,459 thousand was related to assets used directly in production) and decreased by PLN (428,957) thousand (of which PLN (330,862) thousand was related to assets used directly in production).

Due to the transfer of contributions in kind consisting of transmission and distribution network components, the corresponding revaluation write-downs in the amount of PLN 397,751 thousand were reclassified from the Parent to the distribution companies.

The closing balance of revaluation write-downs on fixed assets amounted to PLN 13,212,346 thousand, of which:

- assets used directly in production activity – PLN 1,969,164 thousand;
- distribution assets – PLN 10,444,209 thousand;
- other assets – PLN 798,973 thousand.

As at the end of 2008, the revaluation write-downs on fixed assets under construction included PLN 361,362 thousand related to capitalized outlays on wells (as at the end of 2007 this write-down amounted to PLN 347,402 thousand).

	Land	Buildings and structures	Technical equipment and machinery	Vehicles and other	Total fixed assets	Fixed assets under construction	Total property, plant and equipment
As at 1 January 2008	4,400	12,381,403	627,224	267,989	13,281,016	379,105	13,660,121
Increase	886	303,260	52,778	3,363	360,287	81,420	441,707
Decrease	(906)	(331,446)	(82,644)	(13,961)	(428,957)	(65,234)	(494,191)
As at 31 December 2008	4,380	12,353,217	597,358	257,391	13,212,346	395,291	13,607,637
As at 1 January 2007	3,436	11,097,059	606,729	255,110	11,962,334	273,834	12,236,168
Increase	1,974	1,876,146	190,120	28,458	2,096,698	127,164	2,223,862
Decrease	(1,010)	(591,802)	(169,625)	(15,579)	(778,016)	(21,893)	(799,909)
As at 31 December 2007	4,400	12,381,403	627,224	267,989	13,281,016	379,105	13,660,121

12. Investment property

	31 December 2008	31 December 2007
Opening balance, including depreciation	**10,578**	**6,765**
Increase	**1,759**	**-**
Decrease	**(4,357)**	**(5)**
Reclassifications from/to property, plant and equipment	**160**	**4,512**
Impairment loss	**575**	**15**
Depreciation for the financial year	**(534)**	**(709)**
Closing balance, including accumulated depreciation	**8,181**	**10,578**
Opening balance		
Initial value	**14,398**	**9,505**
Accumulated depreciation and impairment loss	**(3,820)**	**(2,740)**
Net carrying amount	**10,578**	**6,765**
Closing balance		
Initial value	**11,334**	**14,398**
Accumulated depreciation and impairment loss	**(3,153)**	**(3,820)**
Net carrying amount	**8,181**	**10,578**

The Group's investment property includes social and office buildings partially designated for rent, industrial buildings and structures as well as land. The carrying amount of social and office buildings recognized as investment property as at the end of the current period amounted to PLN 4,201 thousand (PLN 4,285 thousand at the end of 2007), whereas the carrying amount of industrial buildings and structures as at the end of the current period amounted to PLN 3,755 thousand (PLN 4,392 thousand as at the end of 2007). The value of land and land perpetual usufruct right amounted to PLN 225 thousand as at the end of the current period (PLN 1,901 thousand as at the end of 2007).

In the current period, the Group generated revenues from investment property rental in the amount of PLN 2,942 thousand (PLN 2,813 thousand in the first half of 2007).

Operating expenses related to investment property and associated with rental income amounted to PLN 2,478 thousand in the current period (PLN 1,959 thousand in the first half of 2007).

Due to the immaterial nature of investment property in the balance sheet, the Group does not measure such property in order to determine its fair value.

13. Intangible assets

31 December 2008	R&D expenses	Goodwill	Other intangible assets	Total
As at 1 January 2008, including depreciation	1,132	-	83,504	84,636
Increase	-	-	24,144	24,144
Decrease	-	-	(22,495)	(22,495)
Reclassification from fixed assets under construction and between groups	548	-	90,396	90,944
Impairment loss	-	-	105	105
Depreciation for the financial year	(221)	-	(25,392)	(25,613)
As at 31 December 2008, including accumulated depreciation	1,459	-	150,262	151,721
As at 1 January 2008				
Initial value	2,145	-	189,805	191,950
Accumulated depreciation and impairment loss	(1,013)	-	(106,301)	(107,314)
Net carrying amount as at 1 January 2008	1,132	-	83,504	84,636
As at 31 December 2008				
Initial value	2,693	-	280,790	283,483
Accumulated depreciation and impairment loss	(1,234)	-	(130,528)	(131,762)
Net carrying amount as at 31 December 2008	1,459	-	150,262	151,721

31 December 2007	R&D expenses	Goodwill	Other intangible assets	Total
As at 1 January 2007, including depreciation	592	-	80,215	80,807
Increase	-	-	4,110	4,110
Decrease	-	-	(1,821)	(1,821)
Reclassification from fixed assets under construction and between groups	883	-	37,030	37,913
Impairment loss	-	-	(7,762)	(7,762)
Depreciation for the financial year	(343)	-	(28,268)	(28,611)
As at 31 December 2007, including accumulated depreciation	1,132	-	83,504	84,636
As at 1 January 2007				
Initial value	1,262	-	141,974	143,236
Accumulated depreciation and impairment loss	(670)	-	(61,759)	(62,429)
Net carrying amount as at 1 January 2007	592	-	80,215	80,807
As at 31 December 2007				
Initial value	2,145	-	189,805	191,950
Accumulated depreciation and impairment loss	(1,013)	-	(106,301)	(107,314)
Net carrying amount as at 31 December 2007	1,132	-	83,504	84,636

13.1. Revaluation write-downs on intangible assets

R&D costs	R&D costs	Goodwill	Other intangible assets	Total
As at 1 January 2008	-	-	8,032	8,032
Increase	-	-	15	15
Decrease	-	-	(120)	(120)
As at 31 December 2008	-	-	7,927	7,927
As at 1 January 2007	-	-	270	270
Increase	-	-	7,762	7,762
Decrease	-	-	-	-
As at 31 December 2007	-	-	8,032	8,032

14. Non-current available for sale financial assets

	31 December 2008	31 December 2007
Unlisted shares (gross value)	**11,004**	**18,696**
Listed shares available for sale (gross value)	**78,000**	**-**
Other financial assets available for sale (gross value)	**56,316**	**54,121**
Total gross value	**145,320**	**72,817**
Unlisted shares (net value)*	**8,153**	**13,264**
Listed shares available for sale (net value)**	**27,680**	**-**
Other financial assets available for sale (net value)*	**7,102**	**6,733**
Total net value	**42,935**	**19,997**

** Less revaluation write-down.*
*** Shares in Zakłady Azotowe in Tarnów.*

„Other financial assets available for sale" include financial assets available for sale, which do not meet the conditions allowing their classification as current financial assets or non-current financial assets held for sale, since the date of their potential disposal is unknown.

"Listed shares available for sale" include shares in Zakłady Azotowe Mościce SA in Tarnów. Negative valuation of shares in Zakłady Azotowe Tarnów was recognized in revaluation reserve. The Group recognized value decrease as revaluation, not impairment, bearing in mind a short period of holding the shares (since June 2008). Investment in the entity is treated as long-term one with an active market; therefore, changes in the value of investment resulting from changes in its current market value are recognized directly in equity until a decision is made to dispose of it.

15. Other financial assets

	31 December 2008	31 December 2007
Finance leases receivables (note 15.1.)	674,484	2,288,845
Originated loans	-	2,070
Receivables from sale of fixed assets	-	-
Receivables from guarantees and security	62	1,230
Long-term deposits	251	211
Other	1,879	1,868
Total gross value	676,676	2,294,224
Impairment loss	(42)	(2,070)
Total net value	676,634	2,292,154

15.1. Finance leases

The lease contract of 6 July 2005 signed between PGNiG SA and OGP GAZ-SYSTEM sp. z o.o. (currently OGP GAZ-SYSTEM SA) is an element of the "PGNiG SA restructuring and privatization program" approved by the Council of Ministers on 5 October 2004. Transmission activity was unbundled from production and trade activities through the transfer of transmission assets for use to OGP GAZ-SYSTEM SA The lease covers property, movables and property rights. The contract was concluded for a period of 17 years.

The sum of payments, less discount, determined as at the contract date and due within its period exceeds 90% of the market value of its subject as at that date. Therefore, the lease is recognized as a finance lease in accordance with IAS 17. Lease payments include the principal and interest. The interest portion is calculated based on WIBOR 3M rates applicable in the month preceding the month to which the calculated lease installment pertains plus a markup.

Inflows from the lease of the transmission system

	31 December 2008	31 December 2007
Interest installment	125,374	219,085
Principal installment	92,840	188,177
Total	218,214	407,262

The table below presents finance lease receivables by maturity

	31 December 2008	31 December 2007
- up to 1 year	52,385	163,772
- between 1 and 5 years	185,603	593,676
- over 5 years	488,881	1,695,169
Total	726,869	2,452,617
- current receivables	52,385	163,772
- non-current receivables	674,484	2,288,845

16. Deferred tax asset

	31 December 2008	31 December 2007
Provisions due to payment of pension allowances	7,775	11,628
Provisions due to payment of severance and jubilee bonuses	60,723	70,299
Provision for payment of termination benefits	-	3,141
Provision for unused paid vacation	6,546	5,892
Provision for liquidation of wells	95,531	75,756
Other provisions	38,384	25,651
Revaluation write-downs on fixed assets	74,265	71,765
Revaluation write-down on shares	9,594	10,236
Revaluation write-downs on interest on receivables	53	544
Costs related to sales where the tax liability is originated in the subsequent month	3,421	6,911
Exchange losses	25,870	19,528
Interest accrued on loans and liabilities	224	180
Connection fee	66,180	59,973
Unpaid remuneration with Social Security premiums	19,424	17,276
Tax loss	-	4,752
Hyperinflationary remeasurement of deferred income	10,788	11,815
Investment allowances (Norway)	65,418	15,168
Other	30,671	9,299
Total	514,867	419,814

17. Other non-current assets

	31 December 2008	31 December 2007
Geological information	28,244	24,688
Fees for establishing mining usufruct	3,618	722
Reusable materials	125	3,580
Other prepayments	3,356	1,883
Total	35,343	30,873

18. Inventories

	31 December 2008	31 December 2007
Materials		
At acquisition price, including:	1,718,379	1,226,794
- gas fuel	1,378,648	975,966
At net realizable value including:	1,703,697	1,193,990
- gas fuel	1,378,648	958,302
Semi-finished products and work in progress	-	
At acquisition price/manufacturing cost	11,007	15,658
At net realizable value	10,888	14,465
Finished products	-	
At acquisition price/manufacturing cost	5,444	6,143
At net realizable value	5,384	6,087
Goods	-	
At acquisition price	1,437	1,702
At net realizable value	1,290	1,438
Total inventories, at the lower of the following two values: at purchase price (manufacturing cost) and net realizable value	1,721,259	1,215,980

19. Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	3,888,697	3,536,650
Trade receivables from related parties	46,632	48,463
VAT receivables	363,433	283,221
Receivables from other taxes, customs duty and social security	9,192	6,080
Due portion of originated loans	136,869	141,536
Receivables from associates measured using the equity method	3,840	2,378
Finance lease receivables	52,385	163,772
Other receivables from related parties	83,638	85,798
Other receivables	165,838	149,499
Total gross receivables	4,750,524	4,417,397
Including gross receivables from related parties (note 39.1.)	270,979	278,175
Revaluation write-downs on doubtful receivables (note 19.1.)	(1,033,601)	(1,086,351)
Total net receivables	3,716,923	3,331,046
including:		
Trade receivables	3,216,506	2,805,602
Trade receivables from related parties	2,822	3,689
VAT receivables	363,433	283,221
Receivables from other taxes, customs duty and social security	9,192	6,080
Due portion of originated loans	-	-
Receivables from associates measured using the equity method	3,840	2,378
Finance lease receivables	52,385	163,772
Other receivables from related parties	37	2,193
Other receivables	68,708	64,111
Including net receivables from related parties (note 39.1.)	6,699	8,260

Trade receivables arise mainly from the sale of gaseous fuel and distribution services.

Standard terms of payment for receivables related to regular sales in the Capital Group are equal to 14-30 days.

19.1. Revaluation write-downs on receivables

	31 December 2008	31 December 2007
Opening balance of revaluation write-down	(1,086,351)	(1,064,025)
Revaluation write-down created	(149,921)	(421,785)
Revaluation write-down released	186,600	395,934
Revaluation write-down applied	17,944	8,172
Reclassification between current and non-current portion	(1,873)	(4,647)
Closing balance of revaluation write-down	(1,033,601)	(1,086,351)

20. Current tax settlements

	31 December 2008	31 December 2007
Opening balance of current tax liabilities	281,399	184,556
Change in current tax receivables*	42,115	312
Opening balance of current tax receivables	17,499	17,187
Closing balance of current tax receivables	59,614	17,499
Income tax (cost of the period)	333,593	578,753
Income tax paid in the period	(609,555)	(482,222)
Closing balance of current tax liabilities	47,552	281,399

**The Capital Group is not a taxable capital group and therefore CIT assets and liabilities are not netted off.*

21. Prepayments and accruals

	31 December 2008	31 December 2007
Real property tax	24	-
Deposit development costs	25,392	27,879
Property and casualty insurance	7,961	7,276
Measurement of long-term contracts	17,571	5,342
Geological information	3,020	2,375
Prepayments related to leased fixed assets	-	18,174
Repairs carried forward	33	2,932
Software support and update	1,413	3,357
Rent and fees	2,514	1,852
Financial expenses carried forward	116	207
Other expenses carried forward	12,218	12,961
Total	70,262	82,355

22. Financial assets available for sale

	31 December 2008	31 December 2007
Unlisted shares (gross value)	-	6,678
Listed shares (gross value)	-	-
Short-term deposit (gross value)	113	45
Investment fund units (gross value)	7,662	18,491
Treasury bills (gross value)	-	-
Total gross value	7,775	25,214
Unlisted shares (net value)*	-	3,870
Listed shares (net value)*	-	-
Short-term deposit (net value)	113	45
Investment fund units (net value)	6,382	18,491
Treasury bills (net value)	-	-
Total net value	6,495	22,406

**Less revaluation write-down.*

23. Cash and bank balances

	31 December 2008	31 December 2007
Cash in hand and at bank	155,600	211,570
Bank deposits	763,022	725,002
High liquidity short-term securities*	496,010	635,800
Other cash**	7,307	11,263
Total	1,421,939	1,583,635

** Bills (commercial, treasury, NBP, etc.), certificates of deposit maturing within 3 months.*
*** Cash in transit and checks and bills of exchange maturing within 3 months.*

Group constituent companies deposit cash in renown Polish and international banks, therefore the occurrence of concentration risk with respect to deposited cash is limited.

24. Non-current assets held for sale

The following assets have been classified by the Capital Group as held for sale

Non-current asset (or group)	Expected disposal date	Carrying amount as at 31 December 2008	Terms of disposal
Land and perpetual usufruct rights	First half of 2009	339	tender
Buildings and structures	First half of 2009	386	tender
Technical equipment and machinery	First half of 2009	-	tender
Vehicles	First half of 2009	284	tender
Other	First half of 2009	-	tender
Total		1,009	

25. Contingent assets

25.1. Contingent receivables from received sureties and guarantees

Provider of contingent receivables	Value of the received contingent receivables in the currency	Currency of the contingent receivables
Contingent receivables received by PGNiG SA		
Minex Centrala Exportowo - Importowa SA	1,035	PLN
Zakład Elektroenergetyczny H. Cz. ELSEN sp. z o. o.	2,871	PLN
GASLINIA sp. z o. o.	3,125	PLN
GASLINIA sp. z o. o.	3,056	PLN
KRI SA	2,000	PLN
KRI SA	1,750	PLN
Linia K&K sp. z o.o.	896	PLN
K.D.P. sp. z o. o.	5,000	PLN
K.D.P. sp. z o. o.	5,725	PLN
K.D.P. sp. z o. o.	7,000	PLN
Media Odra Warta sp. z o.o.	3,000	PLN
PZU Oddział Okręgowy w Łodzi	920	PLN
Winnicki Paweł "WINNICKI"	536	PLN
PBG SA	2,722	PLN
PBG SA	1,963	PLN
PBG SA	85,217	PLN
Syndicate: PBG SA, Tecnimont SpA, Societe Francaise d'Etudes de Realisations d'Equipements Gaziers "SOFREGAZ" Plynoslav PARDUBICE HOLDING AS Plynoslav REGULACE PLYNU AS	66,429	PLN
Gazomontaż SA	531	PLN
PUT Nafta-Gaz-Serwis in Sanok	657	PLN
INTERSPEED	1,200	PLN
Przedsiębiorstwo Robót Inżynieryjnych FART	880	PLN
Zakłady Przemysłu Wapienniczego TRZUSKAWICA SA	2,000	PLN
Zakłady Przemysłu Wapienniczego TRZUSKAWICA SA	1,600	PLN
STAR - DUST sp. z o.o.	5,100	PLN
Ceramika Końskie sp. z o.o.	2,000	PLN
MAN Trucks sp. z o.o.	951	PLN
POLDIM SA	608	PLN
Kopalnia Wapienia "Czatkowice" sp. z o.o.	511	PLN
Zakłady Chemiczne "Alwernia" SA	1,000	PLN
Przedsiębiorstwo Energetyki Cieplnej "Geotermia Podhalańska" SA	590	PLN

Value of the received contingent receivables* in PLN	Expiry date of the contingent receivables	Type of granted contingent receivables
1,035	27 July 2010	*declaration of voluntary submission to enforcement
2,871	25 February 2009	*declaration of voluntary submission to enforcement
3,125	31 January 2009	bank guarantee
3,056	21 December 2017	*declaration of voluntary submission to enforcement
2,000	17 December 2017	*declaration of voluntary submission to enforcement
1,750	11 February 2009	insurance guarantee
896	5 February 2018	*declaration of voluntary submission to enforcement
5,000	31 December 2015	*declaration of voluntary submission to enforcement
5,725	31 December 2015	*declaration of voluntary submission to enforcement
7,000	31 December 2015	*declaration of voluntary submission to enforcement
3,000	31 December 2009	bank guarantee
920	30 June 2010	performance bond
536	30 January 2009	performance bond
2,722	16 October 2009	insurance guarantee
1,963	15 December 2009	insurance guarantee
85,217	30 April 2013	performance bond
66,429	18 January 2013	insurance guarantee
531	4 December 2010	performance bond
657	28 June 2009	performance bond
1,200	31 March 2009	bank guarantee
880	7 July 2009	bank guarantee
2,000	31 December 2010	bank guarantee
1,600	unlimited	*declaration of voluntary submission to enforcement
5,100	31 December 2013	*declaration of voluntary submission to enforcement
2,000	31 December 2008	*declaration of voluntary submission to enforcement
951	unlimited	bank guarantee
608	31 December 2009	bank guarantee
511	unlimited	receivables transfer agreement
1,000	18 April 2011	*declaration of voluntary submission to enforcement
590	5 November 2010	*declaration of voluntary submission to enforcement

25.1. Contingent receivables resulting from sureties and guarantees received (continued)

Provider of contingent receivables	Value of the received contingent receivables in the currency	Currency of the contingent receivables
Ceramika Tubądzin sp. z o.o. Ozorków	3,200	PLN
Poland Central Unit	550	PLN
Przeds. Robót Drog.-Most. sp. z o. o.	592	PLN
Reckitt Beckiser Produktion (Poland)	830	PLN
Huta Szkła CZECHY SA	950	PLN
EWE ENERGIA sp. z o.o.	1,150	PLN
Homanit Polska sp. z o.o. sp. komandytowa	2,250	PLN
Porcelana Chodzież	500	PLN
Farmutil	2,000	PLN
BRENNTAG POLSKA sp. z o.o.	703	PLN
PBG SA, Wysogotowo Przeźmierowio	1,035	PLN
ZRUG sp. z o.o. Poznań	796	PLN
CETUS Energetyka Gazowa sp. z o.o. Świerklany	536	PLN
Pol-Max SA Świebodzin	750	PLN
Other received guarantees and sureties (each with a value of less than PLN 500 thousand)	26,263	PLN
Contingent liabilities received by Gas Companies		
Energomontaż-Południe SA	1,092	PLN
CETUS Energetyka Gazowa sp. z o.o.	901	PLN
RZOUG GAZ-TECHNIKA sp. z o.o.	860	PLN
GAZOWNIA SERWIS sp. z o.o.	770	PLN
Górnośląski Zakład Obsługi Gazownictwa sp. z o.o. in Zabrze	901	PLN
TESGAS sp. z o.o.	1,079	PLN
TESGAS SA	735	PLN
Firma Budowlana Eugeniusz Dota	673	PLN
Other (each below PLN 500 thousand)	3,270	PLN
Contingent receivables received by the remaining companies from PGNiG SA Capital Group		
FUNDACJA LUX VERITATIS	14,000	PLN
ATREM sp. z o.o. Przeźmierowo	717	PLN
Przedsiębiorstwo Budownictwa Ogólnego i Usług Piotr Flens	586	PLN
Siemens Financial Service Gmbh	742	PLN
Siemens Financial Service Gmbh	3,711	PLN
Other (each below PLN 500 thousand)	2,560	PLN
Total		

** Declaration of voluntary submission to enforcement in line with Article 777 § 1 point 4 of the Civil Proceedings Code.*

Value of the received contingent receivables* in PLN	Expiry date of the contingent receivables	Type of granted contingent receivables
3,200	unlimited	*declaration of voluntary submission to enforcement
550	31 December 2018	*declaration of voluntary submission to enforcement
592	14 February 2009	insurance guarantee
830	7 May 2009	bank guarantee
950	31 December 2009	bank guarantee
1,150	30 September 2009	bank guarantee
2,250	31 March 2010	bank guarantee
500	max 12 months from the contract expiry date	*declaration of voluntary submission to enforcement
2,000	max 12 months from the contract expiry date	*declaration of voluntary submission to enforcement
703	10 February 2009	bank guarantee
1,035	30 September 2008	performance bond
796	30 November 2011	performance bond
536	29 November 2011	performance bond
750	31 December 2008	bank guarantee
26,263	2008-2018	bank guarantees, performance bonds etc.
1,092	30 June 2009	performance bond
901	27 February 2009	insurance guarantee
860	27 February 2009	insurance guarantee
770	27 February 2009	insurance guarantee
901	27 February 2009	insurance guarantee
1,079	4 June 2010	bank guarantee
735	30 April 2011	insurance guarantee
673	10 June 2009	insurance guarantee
3,270	2008-2011	bank guarantees, performance bonds etc.
14,000	31 May 2009	bank guarantee
717	5 November 2009	performance bond
586	30 June 2009	performance bond
742	3 April 2009	performance bond
3,711	3 April 2009	performance bond
2,561	2008-2011	bank guarantees, performance bonds etc.
285,576		

25.2. Contingent receivables due to received bills of exchange

Entity for which the bill-of-exchange was issued	Value of the bill-of-exchange granted in currency	Currency of the bill of exchange	Value of the granted bill-of-exchange in PLN	Bill of exchange expiry date
Bills of exchange received by PGNiG SA				
K.D.P. sp. z o. o.	4,181	PLN	4,181	10 November 2009
Systemy Grzewcze PHU "BEST"	500	PLN	500	unlimited
K&K sp. z o.o.	3,000	PLN	3,000	unlimited
Fabryka Porcelany Wałbrzych SA	1,000	PLN	1,000	31 December 2009
Fabryka Porcelany Wałbrzych SA	800	PLN	800	21 August 2012
HUTA SZKŁA LUCYNA Zakład NYSA	800	PLN	800	unlimited
Porcelana Śląska sp. z o.o. Katowice	3,461	PLN	3,461	unlimited
ZP Jopex Franciszek Jopek Zabrze	1,944	PLN	1,944	unlimited
Huta Będzin SA Będzin	510	PLN	510	unlimited
Jopex sp. z o.o.	1,029	PLN	1,029	unlimited
Uzdrowisko Krynica "Żegiestów" SA	500	PLN	500	unlimited
Kuźnia "Glinik" sp. z o.o. Gorlice	1,000	PLN	1,000	unlimited
Huta Szkła "MAKORA" s.j. Krosno	1,000	PLN	1,000	unlimited
Huta Szkła Deco-Glass Krosno	2,000	PLN	2,000	unlimited
Spółdzielnia Mleczarska Ryki	532	PLN	532	4 April 2018
Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji w Lublinie sp. z o.o.	500	PLN	500	14 August 2018
DEKORGLASS DZIAŁDOWO SA	790	PLN	790	unlimited
ZPJ Wistil SA	500	PLN	500	31 January 2009
Other bills of exchange received (each below PLN 500 thousand)	5,483	PLN	5,483	2008-2011
Bills of exchange received by Gas Companies				
ZRUG Spółka z o.o. Poznań	2,289	PLN	2,289	2008-2011
Gazobudowa sp. z o.o. Poznań	706	PLN	706	2005-2010
PHARMGAS sp.z o.o. Poznań	2,159	PLN	2,159	2008-2011
PBG SA	1,436	PLN	1,436	2008-2011
TESGAS sp.z o.o. Przeźmierowo	1,213	PLN	1,213	2008-2011
PHARMAGAZ POZNAŃ	723	PLN	723	28 December 2009
PUH INTER-TECH Komorniki	699	PLN	699	2007-2010
PHARMGAS sp. z o.o. Poznań	524	PLN	524	30 January 2012
Other bills of exchange received (each below PLN 500 thousand)	3,574	PLN	3,574	2008-2010
Bills of exchange received by other companies from PGNiG SA Capital Group				
IZOSTAL SA Zawadzkie	1,500	PLN	1,500	6 September 2012
Other bills of exchange received (each below PLN 500 thousand)	2,423	PLN	2,423	2008-2012
Total			46,776	

26. Share capital

	31 December 2008	31 December 2007
Total number of shares in ‘000	5,900,000	5,900,000
Face value per share in PLN	1	1
Total share capital	5,900,000	5,900,000

27. Borrowings and debt securities

	Currency	31 December 2008	31 December 2007	Effective interest rate	Repayment/ redemption date	31 December 2008	31 December 2007	Collateral
Non-current		Value in the currency				Value in PLN		
Lease liabilities	PLN	17,880	10,733	6 - 9%	2008-2010	17,880	10,733	-
Lease liabilities	CHF	5,029	5,998	8% on average	11 July 2010	14,087	12,963	-
Lease liabilities	USD	3,068	3,154	LIBOR 1M	20 September 2012	9,088	7,681	-
Total non-current						41,055	31,377	

Current	Currency	31 December 2008	31 December 2007
		Value in currency	
Current portion of lease liabilities	PLN	11,356	21,803
Current portion of lease liabilities	CHF	4,418	4,868
Current portion of lease liabilities	USD	1,359	413
Loan facility at Pekao SA Kraków branch	PLN	17,869	20,890
Loan facility at Societe Generale SA	PLN	341	2,768
Overdraft facility at Bank Handlowy SA	PLN	2,268	-
Overdraft facility at Millennium SA	PLN	7,560	9,304
Overdraft facility at Raiffeisen Bank Polska SA	PLN	3,291	-
Working capital loan at BRE SA	PLN	2,600	-
Overdraft facility at Bank Societe Generale SA	PLN	1,911	-
Overdraft facility at Pekao SA	PLN	23	192
Overdraft facility at Pekao SA	PLN	4,041	3,946
Working capital loan at Pekao SA	PLN	5,501	4,000
Overdraft facility at Bank Societe Generale SA	USD	-	1,484
Overdraft facility at Pekao SA	PLN	19,878	19,462
Loan facility at ING Bank Śląski SA	PLN	-	4,801
Overdraft facility at BRE SA	PLN	-	1,236
Working capital loan at BRE SA	PLN	-	3,000
Short-term loan at ING Bank Śląski SA	PLN	4,532	200
Overdraft at BGK SA Piła	PLN	12,533	-
Limit on Visa cards in Kredyt Bank	PLN	148	-
Overdraft on current account at BZ WBK SA Wrocław	PLN	908	-
Loan facility at Konsorcjum Kredytowe (Bank Handlowy)	PLN	760,592	-
Total current			

Effective interest rate	Repayment/redemption date	31 December 2008	31 December 2007	Collateral
		Value in PLN		
6 - 9%	2009	11,356	21,803	-
8% on average	2009	12,376	9,659	-
LIBOR 1M	2009	4,027	1,848	-
WIBOR 1M+0.3	31 December 2010	17,869	20,890	capped mortgage
WIBOR 1M+0.5	31 December 2010	341	2,768	assignment of receivables, blank bill of exchange
WIBOR 1M+0.5	8 February 2009	2,268	-	assignment of receivables, blank bill of exchange
WIBOR 1M+0.5	23 December 2009	7,560	9,304	POA for the current account
WIBOR 1M+0.4	29 May 2009	3,291	-	blank bill of exchange
WIBOR 1M+0.4	24 August 2009	2,600	-	blank bill of exchange
WIBOR 1M+0.4	29 May 2009	1,911	-	POA for the current account
WIBOR 1M+0.3	30 September 2009	23	192	registered pledge; assignment of receivables up to 50%
WIBOR 1M+0.7	31 January 2009	4,041	3,946	bill of exchange and registered pledge
WIBOR 1M+0.7	31 January 2009	5,501	4,000	bill of exchange and registered pledge
LIBOR 1M+0.4	31 August 2008	-	3,615	assignment of receivables
WIBOR 1M+0.4	31 December 2009	19,878	19,462	assignment of receivables
WIBOR 1M+1.2	27 November 2008	-	4,801	blank bill of exchange; assignment of receivables
WIBOR 1M+1.2	13 November 2008	-	1,236	cash deposits, mortgage, assignment of the insurance policy
WIBOR 1M+1.2	30 April 2008	-	3,000	cash deposits, mortgage, assignment of the insurance policy
WIBOR 1M+0.65	28 August 2009	4,532	200	bill of exchange and registered pledge
WIBOR 3M+0.3	31 May 2010	12,533	-	capped mortgage, registered pledge, assignment of receivables
Limit on Visa cards		148	-	-
WIBOR+1.2%	31 January 2009	908	-	registered pledge on participation units; POA on current account
6.36%	26 January 2009	760,592	-	guarantees of gas companies
		871,755	106,724	

In addition, the Group had credit lines, as listed in the note below.

27.1. Amount of granted and unused loan facilities

Bank	31 December 2008		31 December 2007	
	Amount of granted loan facilities	Amount of unused loan facilities	Amount of granted loan facilities	Amount of unused loan facilities
Komercni Banka a.s. Ostrava, the Czech Republic	-	-	1,348	1,348
PEKAO SA	-	-	4,500	4,308
Bank Handlowy SA	-	-	6,000	6,000
BRE Bank SA	-	-	2,000	764
BZ WBK SA	-	-	2,000	2,000
PEKAO SA	21,000	3,131	-	-
Societe Generale SA	3,000	2,659	3,000	232
Bank Handlowy SA	5,000	2,732	-	-
Millennium SA	10,000	2,440	10,000	696
RAIFFEISEN BANK SA	6,000	2,709	6,000	6,000
BRE Bank SA	6,000	3,400	5,000	5,000
Societe Generale SA	6,000	4,089	5,000	5,000
PEKAO SA	5,000	959	-	-
PEKAO SA	10,000	-	8,000	54
ING Bank Śląski SA	12,000	7,768	-	-
PEKAO SA	20,000	122	20,000	538
Societe Generale SA	3,615	3,615	3,653	38
Bank BGK	25,000	12,467	10,000	10,000
PEKAO SA	6,000	5,977	-	-
BRE Bank SA	11,000	8,985	-	-
KREDYT BANK SA	3,000	2,814	-	-
ING Bank Śląski SA	5,000	5,000	5,000	199
BZ WBK	3,900	2,992	-	-
PKO BP SA	500	500	-	-
PEKAO SA (formerly BPH SA)	-	-	40,000	40,000
Bank Handlowy SA	40,000	40,000	40,000	40,000
Millennium SA	40,000	40,000	40,000	40,000
PKO BP SA	30 000	30 000	40,000	40,000
PEKAO SA	40,000	40,000	40,000	40,000
Societe Generale SA	40,000	40,000	40,000	40,000
BRE Bank SA	40,000	40,000	40,000	40,000
Consortium of banks (agent: Bank Handlowy SA in Warsaw)*	2,503,440	1,705,093	3,223,800	3,223,800
Total	2,895,455	2,007,452	3,595,301	3,545,977

** A loan facility for EUR 600 million with maturity date 27 July 2010 from a syndicate of banks (Bank Handlowy w Warszawie SA, Bank Polska Kasa Opieki SA, Calyon SA, Fortis Bank (Nederland) N.V., Powszechna Kasa Oszczędności BP, Societe Generale SA branch in Poland, ING Bank Śląski SA, West LB AG, Bank BPH SA, Bank Millennium SA, Nordea Bank Polska SA, Landesbank Sachsen Girozentrale, DnB NOR Bank ASA).*

Although unused in full, the credit lines increase the Group's security as regards the payment of current liabilities.

28. Finance lease liabilities (disclosed under liabilities)

Maturity:	31 December 2008		
	Value of (discounted) payments disclosed in the balance sheet	Interest	Value of actual installments to be paid
up to 1 year	27,759	2,368	30,127
from 1 year to 5 years	41,055	2,188	43,243
over 5 years	-	-	-
Total	68,814	4,556	73,370

Maturity:	31 December 2007		
	Value of (discounted) payments disclosed in the balance sheet	Interest	Value of actual installments to be paid
up to 1 year	33,310	2,184	35,494
from 1 year to 5 years	31,371	1,361	32,732
over 5 years	6	-	6
Total	64,687	3,545	68,232

29. Provisions

	Jubilee bonuses and retirement severance	Provision for gas allowances	Provision for termination benefits	Provision for well reclamation costs
As at 1 January 2008	358,872	61,199	16,000	706,834
Created during the year	47,491	1,073	57	413,993
Reclassifications	-	-	-	-
Applied	(89,274)	(21,349)	(16,057)	(79,396)
As at 31 December 2008	317,089	40,923	-	1,041,431
Non-current	301,710	19,516	-	1,017,468
Current	15,379	21,407	-	23,963
As at 31 December 2008	317,089	40,923	-	1,041,431
Non-current	304,020	38,802	11,467	684,552
Current	54,852	22,397	4,533	22,282
As at 31 December 2007	358,872	61,199	16,000	706,834

Provision for fines imposed by the Office for Competition and Consumer Protection	Provisions for environmental protection	Provision for potential transmission service liabilities	Central Restructuring Fund	Other	Total
2,000	84,535	22,500	7,540	75,545	1,335,025
-	55,339	21,800	-	104,505	644,258
-	-	-	-	-	-
(2,000)	(6,021)	-	(780)	(89,085)	(303,962)
-	133,853	44,300	6,760	90,965	1,675,321
-	129,015	-	-	34,230	1,501,939
-	4,838	44,300	6,760	56,735	173,382
-	133,853	44,300	6,760	90,965	1,675,321
-	81,276	-	-	33,688	1,153,805
2,000	3,259	22,500	7,540	41,857	181,220
2,000	84,535	22,500	7,540	75,545	1,335,025

Provision for jubilee bonuses and retirement severance

Constituent entities of the Capital Group implemented a jubilee bonus and retirement severance scheme. Respective payments are charged to the income statement in such a way as to distribute the cost of jubilee bonuses and retirement severance over the entire period of employment in respective companies. Costs resulting from the aforesaid benefits are determined using the actuarial projected unit credit method.

The technical interest rate assumed for calculation of the discounted value of future payment due in relation to pension severance was established as 2.0% as a resultant of return on long-term treasury bonds with annual profitability of 6.5% and annual inflation rate of 4.4% (in 2007, the assumed rate was 3.8% as a resultant of 5.7% and 1.8%, respectively).

The provision for jubilee bonuses is disclosed in the current amount of liabilities resulting from actuarial calculations. The balance of provisions for retirement severance is recognized in the balance sheet in the net amount of the liability, i.e. after adjustment by unrecognized actuarial gains and losses and past employment costs– non-eligible benefits.

Unrecognized actuarial gains and losses as well as past employment costs are charged to the current income statement for 15 years.

	31 December 2008	31 December 2007
Jubilee bonuses		
Opening balance of liability disclosed in the balance sheet	**263,096**	**240,476**
Interest expense	**11,576**	**9,138**
Current employment costs	**9,490**	**16,247**
Past employment costs	**1,303**	**-**
Paid benefits	**(43,485)**	**(38,633)**
Actuarial gains/losses	**(25,082)**	**42,885**
Gains/losses due to limitations and settlements	**-**	**(7,017)**
Other (a subsidiary excluded from consolidation)	**(4)**	**-**
Closing balance of liability disclosed in the balance sheet	**216,894**	**263,096**
Retirement severance		
Opening balance of liability disclosed in the balance sheet	**95,776**	**97,024**
Current employment costs	**6,219**	**5,750**
Interest expense	**5,152**	**4,015**
Net actuarial profit/loss recognized during the year	**954**	**75**
Paid benefits	**(10,220)**	**(8,286)**
Past employment costs	**2,314**	**909**
Gains/losses due to limitations and settlements	**-**	**(3,711)**
Closing balance of liability disclosed in the balance sheet	**100,195**	**95,776**
Total closing balance of liability disclosed in the balance sheet	**317,089**	**358,872**

As at the end of 2008, following the completion of the employment restructuring program in PGNiG SA Capital Group, the Group changed the method of revaluating jubilee award and pension severance provisions.

According to the Company, the new method is better suited to the needs of PGNiG SA Capital Group. Key changes involved modification of the following assumptions:

- Assumptions regarding probability of turnover and Retirement: at present, based on information provided by the Group entities with regard to employees, whose job relationship terminated in the years 2005-2008, turnover and retirement probability tables were built divided into sex, total years in service, years in service with the Group and remuneration. The turnover probability table does not include cases related to implementing of the restructuring plans and organizational changes introduced over last years. Previously, the retirement tables were only based on age and sex of employees and based on 1993-1999 separation data including 2004-2007 headcount restructuring;
- Death rate assumptions: at present, the calculations are based on standard life span tables, whereas previously they were based on the data provided by the Group entities.
- Payroll increase assumptions: at present, the calculations are based on market trends, whereas previously they were based on trends observed in the Group entities.
- Discount ratio: at present, 2% level has been assumed (the decrease resulting from a change in interest on securities and in inflation); previously it was 3.8%.

The Company estimated that the amount of jubilee bonus and pension severance provisions of the Group calculated in accordance with the previous approach would amount to PLN 388,717 as at 31 December 2008 (instead of PLN 317,089 recognized in the balance sheet). Had the Group recognized provisions calculated in line with the previous approach, instead of a decrease by PLN 41,783 thousand compared to the end of 2007, the provisions would have grown by PLN 29,845 thousand, reducing the Group's 2008 net operating profit/loss by PLN 71,628 thousand, and the net profit/loss by PLN 58,019 thousand.

Provision for gas allowances to former employees

The Parent pays allowance for gas to its employees who retired by the end of 1995. This payment system will be in force until 2010; thereafter the Parent will cease to pay the allowances. The value of the provision for gas allowances is determined in accordance with actuarial valuation principles applied in the estimation of the provision for jubilee bonuses and retirement severance.

Provision for payment of termination benefits

The Capital Group constituent entities create a provision for termination benefits paid to employees laid off in connection with the employment restructuring program. The provision is estimated based on planned employment reduction and the amount of one-off severance payments.

The provision for costs of termination benefits is recognized only when the Group has presented the detailed and formal restructuring plan to all interested parties.

Following actual completion of the employment restructuring in 2008, the Group has released the provision. Additional details on the restructuring are presented in note 41.

Other provisions for retirement and similar benefits

The Capital Group constituent entities also create provisions for retirement and similar benefits, including the provision for group layoff severance pay.

Provision for well reclamation costs

The Parent creates a provision for future costs of well reclamation and for contributions to the Mine Liquidation Fund.

The provision for well reclamation costs is calculated based on the average cost of well reclamation in particular mining facilities over the last three years, adjusted by forecasted CPI and changes in the time value of money. A three year time horizon was adopted in these calculations due to the varied number of reclaimed wells and their reclamation costs in individual years.

The gross value of the provision is charged to the relevant fixed asset. Subsequent adjustments of the provision resulting from changes of estimates are also treated as a fixed asset value adjustment.

The Mine Liquidation Fund is created based on the Act of 27 July 2001 amending the Mining and Geological Law. Write-offs to the Mine Liquidation Fund are created at 3-10% of the value of the tax depreciation of mining assets in correspondence with other operating expenses.

The value of the provision for well reclamation cost is adjusted by unused write-offs to the Mine Liquidation Fund.

Following the change of the discount rate used to revalue jubilee bonus and pension severance provision at the end of 2008, the discount rate used to calculate the well reclamation provision changed respectively. The change in the discount rate from 3.8% to 2% resulted in a significant increase of the well reclamation provision by PLN 111,711 thousand. The remaining increase resulted mainly from a significant growth of the average well reclamation cost. For the Sanok Branch, the cost increased by 31% to PLN 321.45 thousand in 2008 from PLN 245.11 thousand in 2007; for Zielona Góra Branch, the cost increased by 29% to PLN 802.97 in 2008 compared to PLN 622.26 thousand in 2007.

Provision for fines from the Office for Competition and Consumer Protection

As at 1 January 2008, the balance of provision related only to the fine imposed by the Chairman of the Office for Competition and Consumer Protection for a competition restricting practice involving abuse of the Company's dominant position on the domestic gas transmission market in the form of refusing PHZ Bartimpex SA transmission services in relation to gas produced abroad.

On 31 January 2007, the Competition and Consumer Protection Court decided to fine PGNiG SA Since on 27 March 2008, the Appeal Court dismissed the appeal of PGNiG SA against the decision, the Company paid a fine to the Office for Competition and Consumer Protection applying the entire provision created for this purpose.

Provisions for environmental protection

The Capital Group constituent companies create provisions for future liabilities due to the reclamation of contaminated soil or elimination of hazardous substances if there is a relevant legal or constructive obligation. The created provision reflects potential costs foreseen to be incurred, estimated and verified periodically according to current prices.

Provision for potential transmission service liabilities

Following a court case of SGT EUROPOL GAZ SA against a decision of the President of the Energy Regulatory Office regarding gas transmission tariffs in 2007, the Parent calculated additional costs to be incurred by PGNiG SA if the 2007 tariff is revoked. Based on the last valid tariff from the second half of 2005, the additional payment for gas transmission in 2007 is estimated at PLN 22,500 thousand. Therefore, in 2007 PGNiG SA created a provision of PLN 22,500 thousand for the above payment. Since the above case was still pending at the end of 2008, PGNiG SA has maintained the provision in its accounting records, and at the end of 2008 increased it by the estimated additional payment for gas transmission services in 2008 in the amount of PLN 21,800 thousand.

Central Restructuring Fund

The Central Restructuring Fund was created in order to provide termination benefits for employees covered by the Restructuring Program. Detailed principles of the fund's operation as well as the catalogue of increases and expenses are specified in the Company's internal resolutions.

Other provisions

The Capital Group constituent entities create other provisions for future, probable expenses related to commercial activity.

30. Deferred income

	31 December 2008	31 December 2007
Non-current		
Non-depreciated value of gas service lines financed by customers	**646,792**	**707,721**
Connection fee	**487,461**	**427,203**
Other	**5,079**	**7,442**
Total non-current	**1,139,332**	**1,142,366**
Current		
Non-depreciated value of gas service lines financed by customers	**60,377**	**60,888**
Connection fee	**24,412**	**15,720**
Gas sales forecast	**540,029**	**396,612**
Other	**13,953**	**13,841**
Total current	**638,771**	**487,061**

31. Deferred tax provision

	31 December 2008	31 December 2007
Exchange gains	5,170	2,619
Accrued interest	3,624	1,605
Positive valuation of hedging transactions for FX and interest rate risk	26,871	3,112
Revenue arising from tax obligation falling due in the following month	8,774	13,338
Difference between the tax and accounting value of non-current assets	1,300,010	1,502,548
Other	7,792	7,137
Total	1,352,241	1,530,359

32. Other non-current liabilities

	31 December 2008	31 December 2007
Liabilities due to licenses, rights to geological information and mining usufruct	21,741	20,577
Other non-current liabilities	2,321	1,082
Total	24,062	21,659

33. Trade and other payables

	31 December 2008	31 December 2007
Trade liabilities	1,475,214	885,061
Trade liabilities to related parties	7,697	9,894
VAT liabilities	934,766	800,840
Liabilities due to other taxes, customs duty and social security	138,739	124,204
Liabilities due to dividend for the owner	-	-
Payroll liabilities	52,487	40,421
Liabilities due to unused paid vacation	28,744	32,164
Liabilities due to purchase of non-financial non-current assets	228,827	271,484
Liabilities due to purchase of non-financial non-current assets from related parties	37,253	34,092
Liability due to capital contribution adopted by resolution*	82,472	82,472
Liabilities to associates measured using the equity method	7,955	27,794
Other liabilities to related parties	7,148	910
Accruals and advances for deliveries	124,025	66,734
Other	97,213	31,911
Total	3,222,540	2,407,981
Including related parties (Note 39.1.)	142,525	155,162

** Disputed contribution to the capital of Gazotech sp. z o.o., details provided in note 2.4.*

34. Reasons for differences between balance sheet changes in certain items and changes arising from the cash flow statement

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
1) Cash opening balance (balance sheet)	1,583,635	3,539,078
a) Opening balance of net exchange differences on cash*	(1,233)	(20,136)
Opening balance of cash and bank balances in the cash flow statement (1-a)	1,584,868	3,559,214
2) Cash closing balance (balance sheet)	1,421,939	1,583,635
b) Closing balance of net exchange differences on cash	1,076	(1,233)
Closing balance of cash and bank balances in the cash flow statement (2-b)	1,420,863	1,584,868
I. Change in the balance of cash in the balance sheet (2-1)	(161,696)	(1,955,443)
II. Change in net exchange differences on cash (b-a)	2,309	18,903
Change in the balance of cash in the cash flow statement (I. - II.)	(164,005)	(1,974,346)

** Negative amounts denote a surplus of exchange losses on cash and they are charged to the balance of cash in the balance sheet. These differences are eliminated in the cash flow statement.*

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Balance sheet change in other financial assets	1,615,520	983,225
Balance-sheet change in net receivables	(385,877)	(857,635)
Change in lease receivables under financial assets - adjustment of investing activities	(1,614,361)	(983,280)
Change in the balance of lease liabilities – adjustment of investing activities	(111,387)	(55,151)
Change in investment receivables due to sale of intangible assets and property, plant and equipment	(3,735)	(6,857)
Change in receivables due to exclusion of Polskie LNG sp. z o.o. from consolidation	(2,049)	-
Other	(9)	(3,929)
Change in net receivables disclosed in the cash flow statement	(501,898)	(923,627)

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Balance-sheet change in inventory	(505,279)	135,223
Fixed assets under construction reclassified to inventories – adjustments to investing activities	43	1,511
Change in inventories disclosed in the cash flow statement	(505,236)	136,734

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Balance-sheet change in provisions	340,296	(18,622)
Change in the provision for reclamation of wells adjusting property, plant and equipment - adjustment of investing activities	(301,940)	63,152
Change in receivables due to exclusion of Polskie LNG sp. z o.o. from consolidation	199	-
Change in provisions in the cash flow statement	38,555	44,530

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Balance sheet change in current liabilities	814,559	234,494
Change in investment liabilities due to acquisition of intangible assets and property, plant and equipment	39,496	(53,110)
Change in receivables due to exclusion of Polskie LNG sp. z o.o. from consolidation	7,170	-
Other	-	(1,034)
Change in current liabilities disclosed in the cash flow statement	861,225	180,350

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Balance-sheet change in other assets	(4,470)	17,799
Balance sheet change in cost prepayments	12,093	(50,029)
Prepayments related to leased fixed assets - reclassification within operating activity	(18,487)	(16,576)
Change in receivables due to exclusion of Polskie LNG sp. z o.o. from consolidation	(84)	-
Change in cost prepayments in the cash flow statement	(10,948)	(48,806)

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Balance sheet change in deferred income	148,676	387,575
Deferred income from leased fixed assets – reclassification within operating activity	(39)	-
Non-current assets obtained free of charge	(577)	-
Change in deferred income due to exclusion of Polskie LNG sp. z o.o. from consolidation	156	-
Change in deferred income disclosed in the cash flow statement	148,216	387,575

35. Financial instruments and principles of financial risk management

35.1. Financial instruments – by category (carrying amount)

	31 December 2008	31 December 2007
Financial assets measured at fair value through profit or loss	-	-
Financial assets available for sale (unlisted shares)	15,255	23,867
Financial assets available for sale (listed shares)	27,680	-
Financial investments held to maturity	-	-
Loans and receivables	5,286,459	6,713,237
Positive value of derivatives	174,186	17,442
Cash (cash in hand and at bank as well as checks and cash in transit)	162,907	222,833
Financial liabilities measured at amortized cost	3,004,676	1,570,112
Negative value of derivatives*	16,723	36,185

**The company does not apply hedge accounting.*

The disclosed values of financial instruments do not differ at all or differ insignificantly from their fair value. Therefore, amounts presented in the table above may be considered identical to their fair value amounts.

35.2. Net gains and losses on financial assets and liabilities

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Financial assets measured at fair value through profit or loss	-	-
Financial assets available for sale	353	471
Impairment recognized in profit or loss for the period	353	471
Financial investments held to maturity	-	-
Loans and receivables	248,117	465,848
Interest on time deposits, BSB and REPO	60,733	76,730
Interest on receivables*	163,600	308,998
Interest on originated loans	10,095	14,070
Net revenues from short-term securities	64,167	48,852
Revaluation write-downs on receivables	(81,201)	(16,992)
Revaluation write-downs on loans	6,736	63,735
Measurement of originated foreign currency loans	23,987	(29,545)
Positive value of derivatives	612,715	30,199
Financial liabilities measured at amortized cost	(27,182)	(45,300)
Negative value of derivatives	(252,264)	(158,611)
Total impact on profit/loss	581,739	292,607

** Including PLN 125,374 thousand of interest on finance lease receivables (PLN 219,085 thousand in 2007).*

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Financial assets available for sale (measurement recognized directly in capital)	(50,320)	-
Total impact on capitals	(50,320)	-

The full amount of change in measurement resulting from revaluation of financial instruments, recognized directly in capitals relates to the shares in Zakłady Azotowe w Tarnowie-Mościcach SA.

35.3. Objectives and principles of financial risk management

The business operations of the Parent are associated with financial risks, including in particular:

- credit risk;
- market risk, including:
  - interest rate risk;
  - currency risk;
  - commodity risk;
- liquidity risk.

Credit risk

Credit risk is defined as the probability of late settlement or failure to settle liabilities by a counterparty. Credit risk resulting from third parties being unable to meet their obligations under contracts related to the Group's financial instruments is in principle limited to the potential surplus of third parties' liabilities over those of the Group. The Capital Group follows the principle of entering into transactions in financial instruments with multiple companies of high creditworthiness. When selecting finance partners, first of all the Group takes into account their financial standing verified by rating agencies, market share and reputation.

The Group has the following credit risk exposure:

- originated loans;
- trade receivables;
- deposits;
- granted financial guarantees;
- concluded derivatives.

Presented below are the maximum exposures to credit risk for individual classes of financial instruments.

Exposure to credit risk due to originated loans results from loans granted by the Parent to subsidiaries and associates from the Capital Group. Loans are granted to these companies in line with internal procedure called "Principles of granting loans by Polskie Górnictwo Naftowe i Gazownictwo SA to companies from the Capital Group and with capital participation of PGNiG SA" which defines detailed process of concluding and monitoring loan agreements, thus minimizing exposure of the Parent Company to the related credit risk. Loans are granted only after the applying companies have met specified terms and provided collateral. In addition, these companies support the shared interest of the Company, which significantly reduces the related credit risk.

The highest values of credit risk are related to receivables. Receivables from gas fuel sales effected by PGNiG SA are the largest item among receivables.

In order to minimize the risk of irrecoverability of receivables from sold gaseous fuel, uniform principles for gaseous fuel sales contracts are being introduced to secure trade receivables.

Prior to concluding sales contracts of material value, prospective clients are verified and their financial position analyzed based on generally available financial information (in the Register of Debtors) in order to determine a client's financial reliability. PGNiG SA requests special collateral, upon disclosure of the client entry in the Register of Debtors.

Clients are analyzed on an ongoing basis as to the fulfillment of contractual obligations related to financial settlements. The majority of concluded contracts require that clients make advance payments within deadlines provided for in contracts. At the end of the settlement period defined in the contract, clients have to pay for actually used gaseous fuel within deadlines determined in the contract. The standard payment period is 14 days from the invoice issuance date. Other payment periods are also used.

The Company is planning to verify the creditworthiness of all clients based on the company's financial documents for a given cycle (every 6 months or once a year). The objective is to determine the financial position of each client and assess the extent to which a client can contract debt before losing financial liquidity and to identify any indications that clients may be declared bankrupt.

PGNiG SA accepts the following instruments as performance bonds:

- Mortgages (ordinary, capped amount);
- Bank guarantees;
- Deposits;
- Ordinary and registered pledges;
- Insurance guarantees;
- Blank bills of exchange;
- Declarations of voluntary submission to enforcement pursuant to Article 777 of the Civil Proceedings Code;
- Assignment of receivables arising from long-term contracts;
- Cash deposits on accounts indicated by PGNiG SA;
- Ratings;
- Sureties.

As regards new contracts, the form of collateral is agreed upon by PGNiG SA and the Client. Within the statutory process of harmonizing contracts with Energy Law requirements, negotiations will be undertaken with certain clients in order to establish or increase collateral.

The balance of receivables from clients is monitored on an ongoing basis, in line with the internal procedures applied in the Company. Appropriate debt collection procedures are undertaken if payment is delayed.

The debt collection procedures are undertaken based on "Guidelines for monitoring and collection of receivables from customers of gas/oil/other products" and the "Interest receivable management procedure". Appropriate legal instruments and collection measures aimed at assessing the level of the associated risk and its cause are utilized as part of debt collection procedures. Standard collection activities are undertaken in this respect: request for payment, telephone call with the client, notice and suspension of gaseous fuel deliveries as well as contract termination pursuant to Article 6 clause 3a of the Energy Law. As a last resort, court claims are lodged and the client is submitted to the National Debt Register operated by Biuro Informacji Gospodarczej SA in Wrocław.

Statutory interest is accrued on each delayed payment.

If a client is experiencing temporary financial problems, an agreement can be signed upon the client's request to divide the outstanding payment into installments and additional collateral is simultaneously negotiated.

As a rule, no agreements for the remittance of the principal amount and interest are signed.

Maximum credit risk exposure

	31 December 2008	31 December 2007
Originated loans	-	-
Deposits in other entities (bank deposits, BSB, REPO)	1,265,778	1,379,549
Trade receivables	4,020,681	5,333,688
Positive value of derivatives	174,186	17,442
Granted financial guarantees	8,276,643	7,902,149
Total	13,737,288	14,632,828

Client requests to remit interest (exceeding the equivalent of EUR 5 000) are forwarded to the Supervisory Board for approval in accordance with corporate procedures.

At the end of 2008, the overdue unimpaired receivables recognized in the Group's balance sheet amounted to PLN 797,748 thousand (PLN 518,570 thousand as at the end of 2007).

The Group identifies, measures and minimizes its own credit risk exposure to individual banks in which it has deposits. Credit exposure was reduced by diversifying the portfolio of counterparties (in particular with regard to banks) with whom deposit transactions are concluded. The Group additionally signed Framework Agreements with all banks in which its funds are deposited. These agreements define the terms of concluding and settling all types of financial transactions. In 2008 the Group invested significant long-term surpluses of liquid cash in credit-risk-free instruments with high liquidity, in particular in treasury bills and bonds issued by the State Treasury.

The Group measures the related credit risk through ongoing verification of the financial standing of banks, reflected in changes in their financial ratings granted by the following rating agencies: Fitch, Standards&Poor's and Moody's.

Credit risk resulting from granted guarantees, to which the Capital Group is exposed, is in principle limited to the risk that the bank in which the Group purchased the guarantees in question will default. However, the Group purchases guarantees in renowned banks with high ratings and therefore the probability of default and the related risk are insignificant.

The above risk is measured through the ongoing verification of the financial standing of banks which sell guarantees, similarly as with the risk related to deposit transactions.

Credit risk exposure resulting from concluded derivatives is equal to the carrying amount of their positive balance sheet measurement at fair value. Similarly as with deposit transactions, derivative transactions are concluded with renowned banks that have a good financial standing. In addition, Framework Agreements or ISDA master agreements, which regulate the principles of cooperation and define threshold values, have been concluded with all cooperating banks.

As a result of all these activities the Group does not anticipate any significant credit risk related losses.

Age analysis of overdue unimpaired receivables as at 31 December 2008

Overdue period	31 December 2008
up to 1 month	639,081
from 1 to 3 months	152,019
from 3 months to 1 year	5,970
from 1 year to 5 years	587
over 5 years	91
Total net overdue receivables	797,748

Market risk

Market risk is defined as the probability of the unfavorable effect of changes on financial and commodity markets on the economic value or profit/loss of a business.

The core task in the market risk management process involves the identification, measurement, monitoring and mitigation of basic risk sources including:
- currency risk;
- interest rate risk;
- commodity (gas, crude oil) risk.

Currency risk

Currency risk is defined as the probability of the unfavorable effect of FX fluctuations on a company's profit/loss.

In 2008, the Group took no significant loans denominated in foreign currencies.

Trade liabilities due to long-term gas fuel purchase contracts are denominated in USD and EUR.

The Group's exposure to currency risk is significant and is presented in the "Sensitivity analysis".

The key objective of the Parent's currency risk hedging activities is to protect it against exchange rate fluctuations inherent to foreign currency payments for gaseous fuel. The Company hedges its liabilities primarily using forwards and option-based strategies.

Interest rate risk

Interest rate risk is defined as the probability of the unfavorable effect of interest rate fluctuations on a company's profit/loss.

Interest rate risk resulting from originated loans and received loan facilities was insignificant and the Capital Group did not hedge this risk.

In December 2008, the Parent took a loan facility, and as at 31 December 2008, its applied amount was PLN 760 million. The loan is based on WIBOR 1M plus 0.2% markup variable rate. The interest rate risk related to this loan is very small and as such, not collateralized. Interest rate risk resulting from originated loans and received loan facilities was insignificant and the Capital Group did not hedge this risk.

The Parent measures market (currency and interest rate) risk by monitoring VAR on a daily basis. VAR (Value At Risk) means that the maximum loss due to change of the market (fair) value of given probability (e.g. 99%) will not exceed the value in the period of n working days. VAR is estimated based on the variance – covariance method using the Mondrian application.

Commodity risk
Commodity risk is defined as the probability of the unfavorable effect of commodity price fluctuations on a company's profit/loss. The Group's exposure to commodity risk associated mainly with gaseous fuel delivery contracts is substantial. Fluctuations in the prices of crude oil products on fuel markets are the main risk factor. In certain contracts the formula for calculating the purchase price of gas fuel limits the volatility of prices by using weighted average prices from previous months. Additionally the energy law enables entities to apply for the amendment of the tariff, if the gas purchase cost increases by more than 5% during one quarter. In 2008, the Parent did not identify in detail and hedge this risk.

As at 31 December 2008 the Group held a financial instruments in the form of 4,000,001 shares of Zakłady Azotowe w Tarnowie-Mościcach SA listed on the Warsaw Stock Exchange, and exposed to price fluctuation risk. Since the Company treats the investment as a long-term one, and there is no appropriate instrument available on the market to hedge the company share prices, the Company did not hedge from the risk. The change of the instrument value, recognized directly in equity, is presented in Note 35.2.

Liquidity risk
The key objective of the liquidity risk management process is the ongoing control and planning of liquidity. The liquidity level is controlled through the preparation of cash flows projections that cover a period of at least 12 months and are regularly updated every month. The realization of planned cash flows is verified on a regular basis and includes among others an analysis of unrealized cash flows, their causes and effects. Liquidity risk related threats should not be associated only with the loss of the Company's liquidity. Structural excessive liquidity, which negatively impacts the profitability of a company, is another significant threat.

The Capital Group controls and plans its financial liquidity level on an ongoing basis. As at 31 December 2008, the Group had agreements for loan facilities totaling to PLN 2,895,455 thousand (PLN 3,595,301 thousand in 2007) in order to hedge liquidity risk. Relevant details have been presented in note 27.1.

As at 31 December 2008, the Parent used the amount of PLN 760 million from the loan facility of EUR 600 million. Other Capital Group companies applied their loan facilities in 2008 on a level slightly higher than as at the end of 2007.

In order to avoid excessive liquidity, the Capital Group invests cash surpluses mostly in profitable securities issued by the State Treasury and deposits in renowned banks.

The liquidity risk was significantly mitigated by the Management Board of the Parent approving the "Liquidity Management Procedure for PGNiG SA" on 4 July 2007. The procedure was implemented in all organizational units and regulated activities that ensure proper liquidity management through: payments, cash flow projections, optimized free cash management, obtaining and restructuring funds for current business activities and investments, hedging the risk of temporary liquidity loss due to unexpected disruptions and servicing of concluded loan agreements.

The liquidity risk is measured based on ongoing detailed cash flow control, which takes into account probable cash flow dates and the planned net cash position.

The tables below present the analysis of financial liabilities by maturity.

In the current and comparative period the Group settled its loan liabilities on a timely basis. No contractual provisions which might lead to shortening of the repayment period were breached.

No material risks were identified in the daily business operations of the Capital Group.

Analysis of financial liabilities measured at amortized cost by maturity

31 December 2008	Loan liabilities	Finance lease liabilities	Trade liabilities	Total expenditure
up to 1 year	843,996	30,127	3,222,540	4,096,663
from 1 year to 5 years	-	43,243	17,810	61,053
over 5 years	-	-	6,252	6,252
Total	843,996	73,370	3,246 602	4,163 968

31 December 2007	Loan liabilities	Finance lease liabilities	Trade liabilities	Total expenditure
up to 1 year	73,414	35,494	2,407,981	2,516,889
from 1 year to 5 years	-	32,732	17,654	50,386
over 5 years	-	6	4,005	4,011
Total	73,414	68,232	2,429,640	2,571,286

Risk Management Policy

In order to effectively manage financial risk, on 17 February 2003 the Parent's Management Board approved the "Financial Risk Management Policy for PGNiG SA", which defines the competencies and tasks assigned to individual organizational units in the process of financial risk management and control.

The Management Board is responsible for the Parent's financial risk management and compliance with the adopted policy, whereas risk management related duties are vested with individual organizational units.

The following units are responsible for compliance with the "Financial Risk Management Policy for PGNiG SA" and its periodic revision:
1. the Risk Committee, which presents proposed principles, conducts an ongoing assessment of the adequacy of the risk policy and implements necessary modifications;
2. the Management Board, which formally approves the policy.

Sensitivity analysis

In order to determine a rational scope of swaps on individual currency risk factors, the Company used the (implied) market volatility for the period of six months and assumed the average ratio of 30% for sensitivity analysis as at the end of 2008 (for 2007, the assumed volatility ratio was 10%). The six-month period corresponds to frequency of disclosures regarding sensitivity of financial instruments in financial statements of the Company.

When conducting the analysis of sensitivity to currency risk as at 30 June 2008, one can observe that the net profit would have been lower by PLN 271.51 million had the exchange rate of EUR, USD and NOK as well as other currencies increased by 30% compared to PLN with all other variables remaining flat (profit decrease of PLN 296.53 million resulting from NOK appreciation and PLN 5.65 million due to the appreciation of USD, as well as by PLN 0.28 million due to appreciation of the other currencies with a simultaneous increase of PLN 30.94 million due to appreciation of EUR).

Decrease in the positive and increase in the negative measurement of CCIRS derivatives hedging a loan granted to PGNiG Norway AS (eliminated from the consolidated financial statements) has a key impact on the sensitivity analysis.

Had the loan been recognized in the balance sheet (as in the individual financial statements), the cash flows resulting from the loan and the hedging transactions would have been netted off, hence the changes in the positive (negative) measurement of the loan would have been netted off with negative (positive) changes in CCIRS measurement. Together the items would not be sensitive to FX rate and interest rate fluctuations.

The lower profit would result primarily from an increase in the negative portion of the fair value of financial derivatives (negative fair value of swap transactions).

The negative impact on the result on financial instruments denominated in NOK would be partially reduced by an increase in the positive portion of the fair value of financial derivatives in USD and EUR as well as measurement of assets denominated in such currencies. As a result of a 30% rate increase, the positive portion of the fair value of financial derivatives in USD and EUR would increase, as well as exchange losses on trade liabilities denominated in these currencies.

The net profit as at 31 December 2008 would have been PLN 419.73 million higher had the exchange rate of EUR, USD, NOK dropped by 30% compared to PLN with all other variables remaining flat (PLN 316.93 million increase due to NOK depreciation and by PLN 111.96 million due to USD depreciation, with a simultaneous decrease of PLN 9.433 million due to EUR depreciation, and an increase of PLN 0.28 due to the depreciation of the other currencies). The positive result would result primarily from an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions denominated in NOK). The positive result would be considerably reduced by a decrease in the positive portion of the fair value of financial derivatives in USD, hedging liabilities and expenditure arising from gas fuel purchases.

When conducting the analysis of sensitivity to currency risk as at 31 December 2007, one can observe that the net profit would have been lower by PLN 46.85 million had the exchange rate of EUR, USD and NOK as well as other currencies increased by 10% compared to PLN with all other variables remaining flat (profit decrease of PLN 69.70 million resulting from NOK appreciation accompanied with an increase of PLN 20.65 million due to the appreciation of USD, as well as by PLN 2.14 million due to appreciation of EUR and of PLN 0.05 million due to appreciation of other currencies).

Positive and negative measurement of CCIRS derivatives hedging a loan granted to PGNiG Norway AS (eliminated from the consolidated financial statements) has a key impact on the sensitivity analysis.

Had the loan been recognized in the balance sheet (as in the individual financial statements), the cash flows resulting from the loan and the hedging transactions would have been netted off, hence the changes in the positive (negative) measurement of the loan would have been netted off with negative (positive) changes in CCIRS measurement. Together the items would not be sensitive to FX rate and interest rate fluctuations.

The lower profit would result primarily from an increase in the negative portion of the fair value of financial derivatives (negative fair value of swap transactions).

The negative impact on the result on financial instruments denominated in NOK would be partially reduced by an increase in the positive portion of the fair value of financial derivatives in USD and EUR as well as measurement of assets denominated in such currencies. As a result of a 10% rate increase, the negative portion of the fair value of financial derivatives in USD and EUR would decrease, whereas exchange losses on trade liabilities denominated in these currencies would increase.

The net profit as at 31 December 2007 would have been PLN 15.00 million higher had the exchange rate of EUR, USD, NOK

Analysis of derivatives by maturity

	carrying amount as at 31 December 2008*	contractual cash flows, including:	up to 1 year	from 1 year to 5 years	over 5 years
- Interest Rate Swaps and forwards used for risk hedging purposes	2,527	68,633	9,961	58,672	-
- inflows	-	1,349,674	95,874	1,253,800	-
- outflows	-	(1,281,041)	(85,913)	(1,195,128)	-
- FX options**	122,166	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- option premiums paid	32,770	-	-	-	-
Total	157,463	68,633	9,961	58,672	-

	carrying amount as at 31 December 2007*	contractual cash flows, including:	up to 1 year	from 1 year to 5 years	over 5 years
- Interest Rate Swaps and forwards used for risk hedging purposes	12,733	62,850	61,278	1,572	-
- inflows	-	1,042,967	61,278	981,689	-
- outflows	-	(980,117)	-	(980,117)	-
- FX options**	(32,537)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- option premiums paid	1,061	-	-	-	-
Total	(18,743)	62,850	61,278	1,572	-

** Carrying value (positive measurement of assets minus negative measurement of assets) shows the fair value, i.e. swap transaction payments are discounted, whereas cash flows are left undiscounted.*
*** As regards FX options, due to their option character (cash flows are conditional upon FX rates at the time of option realization on the market), cash flows have not been presented.*

Analysis of sensitivity of financial instruments to interest rate changes

	carrying amount	change by	
	Balance as of 31 December 2008	+300 bp	-300 bp
Loans received	843,996	25,320	(25,320)
Lease liabilities	68,814	2,064	(2,064)
Total	912,810	27,384	(27,384)
	carrying amount	change by	
	balance as at 31 December 2007	+100 bp	-100 bp
Loans received	73,414	734	(734)
Lease liabilities	64,687	647	(647)
Total	138,101	1,381	(1,381)

Analysis of sensitivity of the financial instruments denominated in foreign currencies to FX rate fluctuations

Carrying amount as at 31 December 2008	FX rate change by:
Financial assets	
Financial assets available for sale	435
Other financial assets	-
Trade and other receivables	123,757
Financial assets held for trading	-
Derivative assets	174,186
Cash and bank balances	92,830
Impact on financial assets before tax	
19% tax	
Impact on financial assets after tax	
total currencies	
Financial liabilities	
Loans, borrowings and debt securities (including finance leases)	39,578
Trade and other payables	1,182,740
Liabilities due to derivative financial instruments	16,723
Impact on financial liabilities before tax	
19% tax	-
Impact on financial liabilities after tax	
total currencies	
Total increase/decrease	
total currencies	
Exchange rates as at the balance sheet date and their changes:	
EUR/PLN exchange rate	3.3542
USD/PLN exchange rate	2.1194
NOK/PLN exchange rate	0.4197

and the other currencies dropped by 10% compared to PLN with all other variables remaining flat (PLN 69.70 million increase due to NOK depreciation with a simultaneous decrease of PLN 51.33 million due to USD depreciation, a decrease of PLN 3.31 million due to EUR depreciation and a decrease of PLN 0.05 due to the depreciation of the other currencies). The positive result would result primarily from an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions denominated in NOK). The positive result would be considerably reduced by an increase in the negative portion of

Currency risk							
30%				-30%			
for EUR	for USD	for NOK	for the other currencies	for EUR	for USD	for NOK	for the other currencies
125	5	-	-	(125)	(5)	-	-
-	-	-	-	-	-	-	-
5,465	25,013	438	6,210	(5,465)	(25,013)	(438)	(6,210)
-	-	-	-	-	-	-	-
63,474	251,441	(7,489)	-	(36,921)	(113,871)	368,753	-
10,826	4,602	7,302	5,119	(10,826)	(4,602)	(7,302)	(5,119)
79,890	281,061	251	11,329	(53,337)	(143,491)	361,013	(11,329)
(15,179)	(53,402)	(48)	(2,152)	10,134	27,263	(68,592)	2,152
64,711	227,659	203	9,177	(43,203)	(116,228)	292,421	(9,177)
301,750				123,813			
-	3,934	-	7,939	-	(3,934)	-	(7,939)
41,692	284,097	25,301	3,732	(41,692)	(284,097)	(25,301)	(3,732)
-	-	341,033	-	-	6,322	(4,962)	-
41,692	288,031	366,334	11,671	(41,692)	(281,709)	(30,263)	(11,671)
(7,922)	(54,726)	(69,603)	(2,218)	7,922	53,525	5,750	2,218
33,770	233,305	296,731	9,453	(33,770)	(228,184)	(24,513)	(9,453)
573,259				(295,920)			
30,941	(5,646)	(296,528)	(276)	(9,433)	111,956	316,934	276
(271,509)				419,733			
3.6896	3.3542	3.3542	3.3542	3.0188	3.3542	3.3542	3.3542
2.1194	2.3313	2.1194	2.1194	2.1194	1.9075	2.1194	2.1194
0.4197	0.4197	0.4617	0.4197	0.4197	0.4197	0.3777	0.4197

the fair value of financial derivatives in USD, hedging the liabilities and expenditure due to gaseous fuel purchases.

Presented below are details of the analysis of sensitivity of the Group's financial instruments denominated in foreign currencies to FX rate fluctuations, for 2008 and 2007, respectively.

The Company tested sensitivity of financial instruments due to originated loans, borrowings taken and variable lease liabilities to interest rate changes by +/- 300 base points for 2008 (for

Carrying amount as at 31 December 2007	FX rate change by:
Financial assets	
Financial assets available for sale	9,029
Other financial assets	-
Trade and other receivables	165,545
Financial assets held for trading	-
Derivative assets	17,442
Cash and bank balances	91,671
Impact on financial assets before tax	
19% tax	
Impact on financial assets after tax	
total currencies	
Financial liabilities	
Loans, borrowings and debt securities (including finance leases)	35,765
Trade and other payables	484,279
Liabilities due to derivative financial instruments	36,185
Impact on financial liabilities before tax	
19% tax	-
Impact on financial liabilities after tax	
total currencies	
Total increase/decrease	
total currencies	
Exchange rates as at the balance sheet date and their changes:	
EUR/PLN exchange rate	3.5820
USD/PLN exchange rate	2.4350
NOK/PLN exchange rate	0.4497

2007, the variability was set for +/-100 base points).

As at 31 December 2008, the sensitivity of floating rate loan and lease liabilities to an interest rate change by +/- 300 base points amounted to +/- PLN 27.38 million.

As at 31 December 2007, the sensitivity of floating rate loan and lease liabilities to an interest rate change by +/- 100 base points amounted to +/- PLN 1.38 million.

As the commodity risk identification is inaccurate, no sensitivity analysis for this type of risk was conducted.

Currency risk							
10%				-10%			
for EUR	for USD	for NOK	for the other currencies	for EUR	for USD	for NOK	for the other currencies
36	867	-	-	(36)	(867)	-	-
-	-	-	-	-	-	-	-
1,958	8,498	243	5,855	(1,958)	(8,498)	(243)	(5,855)
-	-	-	-	-	-	-	-
7,989	13,776	(16,093)	-	(59)	(226)	83,797	-
1,193	4,611	2,839	525	(1,193)	(4,611)	(2,839)	(525)
11,176	27,752	(13,011)	6,380	(3,246)	(14,202)	80,715	(6,380)
(2,123)	(5,273)	2,472	(1,212)	617	2,698	(15,336)	1,212
9,053	22,479	(10,539)	5,168	(2,629)	(11,504)	65,379	(5,168)
26,161				46,078			
-	1,314	-	2,262	-	(1,314)	-	(2,262)
9,609	32,126	2,632	4,061	(9,609)	(32,126)	(2,632)	(4,061)
(1,086)	(31,188)	70,406	-	10,449	82,616	(2,701)	-
8,523	2,252	73,038	6,323	840	49,176	(5,333)	(6,323)
(1,619)	(428)	(13,877)	(1,201)	(160)	(9,343)	1,013	1,201
6,904	1,824	59,161	5,122	680	39,833	(4,320)	(5,122)
73,011				31,071			
2,149	20,655	(69,700)	46	(3,309)	(51,337)	69,699	(46)
(46,850)				15,007			
3.9402	3.5820	3.5820	3.5820	3.2238	3.5820	3.5820	3.5820
2.4350	2.6785	2.4350	2.4350	2.4350	2.1915	2.4350	2.4350
0.4497	0.4497	0.4947	0.4497	0.4497	0.4497	1.9453	0.4497

36. Hedging derivatives measured at fair value through profit or loss

Derivative valuation methods

In accordance with International Financial Reporting Standards the Parent discloses all derivatives in the financial statements at fair value.

As at 31 December 2008, the Parent held 3 types of derivatives: Currency Basis Swaps, purchased Call options and the so called risk reversal strategies (purchased FX Call options and sold Put options). Measurement to fair value was conducted with the Risk Hedging application, whereas swap measurement was provided by banks being parties to the transactions.

The measurement of Call and Put options to fair value was conducted in line with the Garman-Kohlhagen model based on the following market data: interest rates, FX rates and volatility as at 31 December 2008.

Hedge accounting

In 2008 the Capital Group did not apply hedge accounting principles. Therefore changes in the fair value of hedged financial instruments and hedging instruments were presented in the income statement for the reporting period.

Positive measurement of derivatives as at the period end is presented in the balance sheet in a separate current assets item. Negative measurement of derivatives is presented in the balance sheet in a separate current liabilities item. Effects of measurement of open items are recognized in profit/loss of the period. Upon realization of a derivative, the difference between the last measurement and the current realized value is recognized in the profit/loss of the period.

Derivatives

Hedged instrument	Face value in foreign currency	Hedge start date	Maturity date	Instrument realization price or price range	Measurement at the instrument fair value	
					31 December 2008	31 December 2007
			Call option*			
payment for gas	USD 10 million	25 July 2008	9 January 2009	2.1900	7,738	-
payment for gas	EUR 5 million	25 July 2008	9 January 2009	3.3200	4,270	-
payment for gas	USD 20 million	28 July 2008	9 January 2009	2.3000	13,279	-
payment for gas	USD 20 million	28 July 2008	9 January 2009	1.9100	-	-
payment for gas	USD 15 million	28 July 2008	9 January 2009	2.2000	11,457	-
payment for gas	USD 15 million	29 July 2008	9 January 2009	2.2200	11,158	-
payment for gas	USD 15 million	29 July 2008	20 January 2009	2.2200	11,197	-
payment for gas	EUR 5 million	29 July 2008	20 January 2009	3.3200	4,279	-
payment for gas	USD 20 million	31 July 2008	20 January 2009	2.3100	13,134	-
payment for gas	USD 20 million	31 July 2008	20 January 2009	1.9230	-	-
payment for gas	USD 20 million	31 July 2008	20 January 2009	2.2300	14,729	-
payment for gas	USD 20 million	1 August 2008	9 January 2009	2.3350	12,579	-
payment for gas	USD 20 million	1 August 2008	9 January 2009	1.9300	-	-
payment for gas	EUR 6 million	17 September 2008	9 January 2009	3.4500	4,345	-
payment for gas	EUR 7 million	17 September 2008	10 February 2009	3.4900	4,852	-
payment for gas	EUR 8 million	18 September 2008	20 February 2009	3.5050	5,463	-
payment for gas	EUR 8 million	19 September 2008	10 March 2009	3.4600	5,848	-
payment for gas	EUR 9 million	22 September 2008	20 March 2009	3.4400	6,785	-
payment for gas	EUR 3 million	23 September 2008	20 February 2009	3.4300	2,265	-
payment for gas	USD 20 million	15 October 2008	10 February 2009	2.8000	4,819	-
payment for gas	USD 10 million	5 November 2008	10 February 2009	3.0000	1,392	-
payment for gas	USD 15 million	5 November 2008	9 January 2009	3.3000	114	-
payment for gas	USD 15 million	5 November 2008	9 January 2009	2.4705	-	-
payment for gas	USD 10 million	13 November 2008	10 February 2009	3.4000	506	-
payment for gas	USD 10 million	13 November 2008	20 January 2009	3.3800	193	-
payment for gas	USD 10 million	14 November 2008	10 February 2009	3.3000	639	-
payment for gas	USD 10 million	14 November 2008	10 February 2009	3.3000	639	-
payment for gas	USD 10 million	17 November 2008	20 January 2009	3.3000	264	-
payment for gas	USD 10 million	17 November 2008	10 February 2009	3.3800	530	-
payment for gas	USD 10 million	24 November 2008	20 February 2009	3.4500	597	-
payment for gas	USD 10 million	24 November 2008	20 February 2009	3.4500	597	-
payment for gas	USD 10 million	25 November 2008	10 March 2009	3.4500	762	-
payment for gas	USD 10 million	25 November 2008	10 March 2009	3.4500	762	-
payment for gas	USD 10 million	25 November 2008	20 February 2009	3.4200	633	-
payment for gas	USD 10 million	26 November 2008	10 March 2009	3.4000	832	-
payment for gas	USD 10 million	27 November 2008	10 March 2009	3.3300	944	-
payment for gas	USD 10 million	28 November 2008	20 March 2009	3.4000	945	-
payment for gas	USD 10 million	8 December 2008	10 March 2009	3.4000	832	-
payment for gas	USD 10 million	8 December 2008	10 March 2009	3.4000	832	-
payment for gas	USD 10 million	8 December 2008	20 February 2009	3.3800	686	-
payment for gas	USD 10 million	9 December 2008	20 February 2009	3.4000	659	-
payment for gas	USD 10 million	9 December 2008	20 February 2009	3.4000	659	-
payment for gas	USD 10 million	12 December 2008	10 March 2009	3.4000	832	-
payment for gas	USD 10 million	15 December 2008	20 March 2009	3.4000	945	-
payment for gas	USD 10 million	15 December 2008	20 March 2009	3.4000	945	
payment for gas	EUR 5 million	10 August 2007	10 January 2008	3.8400	-	200
payment for gas	EUR 5 million	23 October 2007	10 March 2008	3.6800	-	317
payment for gas	USD 10 million	20 November 2007	18 April 2008	2.5800	-	419
payment for gas	USD 10 million	26 November 2007	18 April 2008	2.5700	-	413
					154,936	1,349

			Collar			
payment for gas	USD 10 million	19 July 2007	10 January 2008	2.8600-2.6195	-	(1,840)
payment for gas	USD 10 million	19 July 2007	10 January 2008	2.8600-2.6185	-	(1,830)
payment for gas	USD 10 million	28 August 2007	10 January 2008	3.0000-2.6750	-	(2,394)
payment for gas	USD 10 million	7 September 2007	18 January 2008	2.9900-2.6550	-	(2,187)
payment for gas	USD 10 million	7 September 2007	8 February 2008	2.9900-2.6550	-	(2,171)
payment for gas	USD 10 million	7 September 2007	10 March 2008	2.9900-2.6490	-	(2,105)
payment for gas	USD 10 million	10 September 2007	18 January 2008	2.9900-2.6000	-	(1,639)
payment for gas	USD 10 million	11 September 2007	8 February 2008	2.9900-2.5945	-	(1,581)
payment for gas	USD 10 million	11 September 2007	10 March 2008	2.9900-2.5890	-	(1,542)
payment for gas	USD 10 million	12 September 2007	8 February 2008	2.9500-2.5815	-	(1,456)
payment for gas	USD 10 million	13 September 2007	8 February 2008	2.9500-2.5680	-	(1,329)
payment for gas	USD 10 million	13 September 2007	18 January 2008	2.9500-2.5690	-	(1,332)
payment for gas	USD 10 million	19 September 2007	10 March 2008	2.9000-2.5680	-	(1,352)
payment for gas	USD 10 million	20 September 2007	10 March 2008	2.8700-2.5690	-	(1,360)
payment for gas	USD 10 million	20 September 2007	18 January 2008	2.8700-2.5665	-	(1,307)
payment for gas	USD 10 million	2 October 2007	10 January 2008	2.8000-2.5599	-	(1,244)
payment for gas	USD 10 million	2 October 2007	20 February 2008	2.8000-2.5500	-	(1,175)
payment for gas	EUR 5 million	2 October 2007	8 February 2008	3.8700-3.7070	-	(621)
payment for gas	USD 10 million	10 October 2007	20 March 2008	2.8300-2.5300	-	(1,035)
payment for gas	USD 10 million	10 October 2007	20 March 2008	2.8300-2.5300	-	(1,035)
payment for gas	USD 10 million	23 October 2007	10 January 2008	2.7000-2.4755	-	(433)
payment for gas	USD 10 million	24 October 2007	20 February 2008	2.7500-2.4350	-	(312)
payment for gas	USD 10 million	5 November 2007	10 April 2008	2.7500-2.3705	-	(171)
payment for gas	USD 10 million	5 November 2007	20 February 2008	2.7500-2.3760	-	(105)
payment for gas	USD 10 million	6 November 2007	10 April 2008	2.7500-2.3380	-	(102)
payment for gas	USD 10 million	7 November 2007	20 February 2008	2.7500-2.2700	-	(6)
payment for gas	USD 10 million	9 November 2007	20 March 2008	2.7500-2.2765	-	(21)
payment for gas	USD 10 million	12 November 2007	10 April 2008	2.7500-2.3350	-	(97)
payment for gas	USD 10 million	12 November 2007	10 April 2008	2.7500-2.3400	-	(106)
payment for gas	USD 10 million	20 November 2007	9 May 2008	2.7700-2.3100	-	(82)
payment for gas	USD 10 million	28 November 2007	20 May 2008	2.7400-2.3100	-	(79)
payment for gas	EUR 5 million	28 November 2007	25 January 2008	3.7800-3.5630	-	(69)
payment for gas	EUR 5 million	29 November 2007	10 April 2008	3.7600-3.5830	-	(167)
payment for gas	USD 10 million	29 November 2007	18 January 2008	2.6500-2.3510	-	(9)
payment for gas	EUR 5 million	30 November 2007	22 February 2008	3.7400-3.5700	-	(110)
payment for gas	USD 10 million	30 November 2007	20 February 2008	2.7400-2.2850	-	(10)
payment for gas	USD 10 million	30 November 2007	20 March 2008	2.7400-2.2750	-	(19)
payment for gas	EUR 5 million	30 November 2007	25 March 2008	3.7500-3.5470	-	(84)
payment for gas	USD 10 million	30 November 2007	18 April 2008	2.7400-2.2730	-	(28)
payment for gas	USD 10 million	5 December 2007	9 May 2008	2.7300-2.2740	-	(30)
payment for gas	EUR 5 million	5 December 2007	9 May 2008	3.7500-3.5090	-	(35)
payment for gas	USD 10 million	7 December 2007	18 January 2008	2.6300-2.3100	-	(1)
payment for gas	USD 10 million	7 December 2007	20 February 2008	2.6600-2.3075	-	(15)
payment for gas	USD 10 million	7 December 2007	20 February 2008	2.6600-2.2860	-	(5)
payment for gas	USD 10 million	10 December 2007	18 January 2008	2.6400-2.3275	-	(3)
payment for gas	USD 10 million	10 December 2007	8 February 2008	2.6300-2.3050	-	(5)
payment for gas	USD 10 million	10 December 2007	18 April 2008	2.6500-2.3000	-	(19)
payment for gas	EUR 5 million	10 December 2007	18 April 2008	3.7600-3.4600	-	(1)
payment for gas	USD 10 million	11 December 2007	20 February 2008	2.6400-2.2930	-	(4)
payment for gas	USD 10 million	11 December 2007	20 May 2008	2.6600-2.2940	-	(17)
payment for gas	USD 10 million	11 December 2007	20 May 2008	2.6600-2.2980	-	(22)
payment for gas	USD 10 million	13 December 2007	9 May 2008	2.6600-2.2980	-	(22)
payment for gas	USD 10 million	13 December 2007	18 January 2008	2.6400-2.2990	-	-
payment for gas	USD 10 million	28 December 2007	10 April 2008	2.7000-2.2910	-	(30)
payment for gas	USD 10 million	28 December 2007	10 March 2008	2.7200-2.2980	-	(26)
payment for gas	USD 10 million	28 December 2007	9 May 2008	2.7100-2.2960	-	(46)
					-	(32,826)

Forward						
Investment purchase	USD 1,54 million	10 January 2007	5 May 2008	2.7495	-	(484)
Investment purchase	USD 0.56 million	11 January 2007	1 April 2008	2.7450	-	(174)
					-	(658)
Cross Currency Interest Rate Swap						
PGNiG Norway loan	NOK 300 million	8 November 2007	17 January 2011	0.4686	3,430	4,605
PGNiG Norway loan	NOK 300 million	12 November 2007	17 January 2011	0.4627	(1)	4,833
PGNiG Norway loan	NOK 300 million	15 November 2007	17 January 2011	0.4596	1,645	2,522
PGNiG Norway loan	NOK 300 million	19 November 2007	17 January 2011	0.4534	(2,954)	1,868
PGNiG Norway loan	NOK 300 million	22 November 2007	17 January 2011	0.4588	1,388	2,265
PGNiG Norway loan	NOK 300 million	30 November 2007	17 January 2011	0.4461	(1,682)	(2,701)
PGNiG Norway loan	NOK 300 million	18 January 2008	17 January 2011	0.4530	1,026	-
PGNiG Norway loan	NOK 300 million	18 January 2008	17 January 2011	0.4530	(325)	-
					2,527	13,392
Total					157,463	(18,743)
	including:	premiums on options*	assets		32,770	1,061
		positive measurement	assets		141,416	16,381
		negative measurement*	liabilities		(16,723)	(36,185)

** The portion of the premium related to derivatives with negative measurement is presented in assets.*

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Profit/loss on measurement of derivatives - unrealized	143,839	30,199
Profit/loss on derivatives - realized	216,612	(158,611)
Total profit/loss on derivatives recognized in the income statement	360,451	(128,412)

37. Contingent liabilities

37.1. Contingent liabilities arising from granted sureties and guarantees

As at 31 December 2008 the agreement concluded by PGNiG SA and Gas Companies on 22 September 2005, which concerned a guarantee in connection with the Loan Agreement concluded between PGNiG SA and a consortium of banks on 27 July 2005, was binding. The aforementioned agreement concerned a joint and several, irrevocable and unconditional guarantee granted by the Companies to Bank Handlowy w Warszawie SA (the Loan

Borrower	Contingent liability granted in foreign currency	Currency of the contingent liability
Contingent liabilities granted by PGNiG SA		
PGNiG Norway AS	627,556	EUR
EUROPOL GAZ SA	56,000	PLN
Polish Oil and Gas Company - Libya B.V.	108,000	USD
Other (each below 500 k PLN)	406	EUR
Contingent liabilities granted by Gas Companies		
Contingent liabilities granted by Gas Companies	1,250,000	EUR
Contingent liabilities granted by Geofizyka Kraków sp. z o.o.		
Pakistani Customs Office	800	USD
Oil India Company LTD	2,363	USD
Oil India Limited Libya	664	EUR
Oil India Limited Libya	1,000	USD
Oil & Gas Development Company Pakistan	1,470	USD
Meezan Bank Limited	100	USD
Komercni Banka a.s.	5,000	CZK
Contingent liabilities granted by Geofizyka Toruń sp. z o.o.		
Oil India	1,386	USD
CAIRN	1,194	USD
Cairn	1,240	USD
Oil India	1,801	USD
RIL	640	USD
ADANI	1,259	USD
Jubilant	354	USD
Oil India	658	USD
Comissioner	2,223	INR
ADANI	650	USD
GSPC	1,156	USD
GSPC	1,974	USD
Other (each below 500 k PLN)	370	USD
Other (each below 500 k PLN)	33	PLN
Contingent liabilities granted by PNiG Jasło sp. z o.o.		
PeBeKa SA	987	PLN
RWE DEA GmbH	550	EUR
Contingent liabilities granted by BUG Gazobudowa Zabrze sp. z o.o.		
GAZ-SYSTEM SA Warsaw	388	PLN
IMP Promont Montaza Lubljana	128	EUR
Hydrobudowa Polska SA Przeźmierowo	2,298	PLN
GAZ-SYSTEM Branch in Gdańsk	655	PLN
Contingent liabilities granted by Naftomontaż Krosno sp. z o.o.		
MICROTECH Ltd SA Wrocław	112	PLN
Contingent liabilities granted by Diament sp. z o.o.		
GS Engineering&Construktion	535	PLN
Other (each below 500 k PLN)	1,234	PLN

**Contingent liabilities in foreign currency are translated at the NBP exchange rate as at 31 December 2008.*

Agent) of the timely repayment of a loan up to the amount of EUR 1,250,000 thousand within 18 months after the termination date of the agreement for Loan Tranche A, i.e. by 27 January 2012. The Company repaid EUR 600,000 thousand of the term loan and simultaneously secured access to the same amount as part of a revolving loan. The loan is collateralized with guarantees granted by Gas Companies.

The above table does not present bank guarantees issued per Parent's order to beneficiaries whom the Parent owed material liabilities arising from contracts on supplies of goods and services. As of 31 December 2008, such bank guarantees amounted to PLN 754,714 and PLN 1,051,920 as at 31 December 2007.

Contingent liability granted in PLN	Contingent liability expiry date	Type of contingent liability granted
2,618,413	1 January 2050	guarantee
56,000	30 September 2012	loan surety
319,874	1 June 2013	guarantee
1,692	28 February 2010	bank guarantee
5,215,500	27 January 2012	repayment guarantee
237	31 December 2009	customs guarantee
6,998	31 August 2009	performance bond
2,771	23 March 2010	performance bond
2,962	27 January 2009	tender bond
4,353	28 April 2009	performance bond
296	31 January 2009	performance bond
783	31 March 2009	bank guarantee
4,104	15 November 2010	bank guarantee
3,536	11 November 2010	bank guarantee
3,673	8 February 2010	bank guarantee
5,334	15 September 2009	bank guarantee
1,896	30 December 2009	bank guarantee
3,730	25 July 2010	bank guarantee
1,048	5 October 2009	bank guarantee
1,948	17 December 2010	bank guarantee
136	10 February 2009	bank guarantee
1,925	30 July 2009	bank guarantee
3,422	18 December 2009	bank guarantee
5,847	2 November 2009	bank guarantee
1,095	2009-2010	bank guarantee
33	2009	bank guarantee
987	4 December 2009	performance bond
2,295	17 April 2009	performance bond
388	30 May 2012	performance bond
533	8 March 2013	performance bond
2,298	31 December 2010	performance bond
655	30 December 2012	performance bond
112	18 December 2009	bill-of-exchange endorsement
535	14 February 2010	performance bond
1,234	2009-2011	performance bond
8,276,643		

37.2. Contingent bill of exchange liabilities

Entity for which the bill-of-exchange was issued	Value of the bill-of-exchange granted in currency	Currency of the bill of exchange	Value of the granted bill-of-exchange in PLN	Bill of exchange expiry date
Bills of exchange issued by Geofizyka Kraków sp. z o.o.				
ECS, BPH Leasing, Sogelege	2,134	PLN	2,134	30 September 2012
Bills of exchange issued by Geofizyka Toruń sp. z o.o.				
BRE BANK SA	6,000	PLN	6,000	24 August 2009
Raiffeisen Bank SA	6,000	PLN	6,000	29 May 2009
Bills of exchange issued by PNiG Jasło sp. z o.o.				
Bank PEKAO SA	5,000	PLN	5,000	31 January 2009
Bank PEKAO SA	10,000	PLN	10,000	31 January 2009
Bank PEKAO SA	987	PLN	987	4 December 2009
ING BANK ŚLĄSKI SA	12,000	PLN	12,000	27 August 2009
Bills of exchange issued by Diament sp. z o.o.				
BRE BANK SA	4,000	PLN	4,000	unlimited
Bills of exchange issued by Wielkopolska Spółka Gazownictwa sp. z o.o.				
Europejski Fundusz Leasingowy	190	PLN	190	15 February 2009
Bills of exchange issued by Gazobudowa Zabrze sp. z o.o.				
PKN Orlen	20	PLN	20	unlimited
TU ALLIANZ Polska SA Warsaw	8,000	PLN	8,000	14 March 2009
ERGO HESTIA Katowice	1,000	PLN	1,000	unlimited
PKN Orlen	10	PLN	10	unlimited
Bills of exchange issued by Naftomontaż Krosno sp. z o.o.				
TU InterRisk SA Kielce Branch	6,382	PLN	6,382	7 May 2009
Other (each below 500 k PLN)	1,197	PLN	1,197	2009-2011
Bills of exchange issued by Geovita sp. z o.o.				
PKO BP SA	1,000	PLN	1,000	31 March 2010
Total			63 920	

37.3. Other contingent liabilities

Real estate tax

Based on a decision of the Supreme Administrative Court in Warsaw of 2 July 2001 undertaken by 7 judges, excavations were not subject to real property tax. Since in the case of oil and gas production wells are excavations, local authorities from the Zielona Góra Branch's area of operation withdrew from the enforcement of real property tax; however some authorities have decided that well supporting infrastructure is subject to taxation. Pipeline tax was introduced in 2001. In the previous years, the Zielona Góra Branch created provisions for the claims of the local authorities due to real estate tax in the amount of PLN 821.3 thousand. Following favorable outcome of court cases regarding the claim up to date, PGNiG SA re-assessed the risk of related claims and, having considered it low, released the provision in 2007. On the other hand, the local authorities in Podkarpacie have not filed any related claims so far. Therefore, mines located in Podkarpacie did not declare or account for a property tax on excavations for the years 2001-2008. As at the end of 2008, the Company recalculated the liability. The related current liability with interest, not recognized in the balance sheet, amounted to PLN 123,145.6 thousand as at 31 December 2008 (as at the end of 2007, it amounted to PLN 125,495.8 thousand).

Real property related claims

Additionally, claims have been lodged against PGNiG SA by land owners in relation to the following:

- land via which pipelines are planned to run;
- land where gas pipelines and other facilities have been installed.

Potential liabilities arising from claims concerning real property cannot be quantified due to the fact that such claims are often groundless (which is confirmed by expert opinions).

38. Off-Balance sheet liabilities

38.1. Operating lease liabilities

	31 December 2008	31 December 2007
up to one year	18	1,952
from 1 to 5 years	30	1,082
over 5 years	-	-
Total	48	3,034

38.2. Investment liabilities

	31 December 2008	31 December 2007
Contractual liabilities	3,071,099	625,761
Stage of completion of contract as at the balance sheet date	302,909	320,755
Contractual liabilities after the balance sheet date	2,768,190	305,006

39. Related parties

Related party		Sales to related parties	Purchase from related parties
Associates consolidated using the equity method	31 December 2008	36,001	510,515
	31 December 2007	50,302	96,113
Subsidiaries and associates not included in consolidation	31 December 2008	20,882	587,794
	31 December 2007	21,458	215,834
Total related parties	31 December 2008	56,883	1,098,309
	31 December 2007	71,760	311,947

39.1. Related party transactions

The key transactions with shareholders in 2008 and 2007 included dividend payment presented in details in note 10.

In 2008, the Parent did not conclude any material transactions with related parties on non-arms-length terms.

Documentation of related party transactions developed by the Group complies with Article 9a of the CIT Act. The procedure is applied each time entities of PGNiG Capital Group conclude agreements (including framework agreements), annexes to agreements, place orders (conclude detailed agreements) or make orders based on framework agreements with related parties if the total amount payable/receivable (arising on a single contract with a single contractor) or its PLN equivalent exceeds the amount of EUR 100 thousand in the calendar year for goods transactions and EUR 30 thousand for transactions involving provision of services, selling or providing access to intangible assets. The Group calculates profit and the price of transaction subjects indicated in Article 11 of the CIT Act. i.e. comparable uncontrolled price, re-selling price, cost plus margin and additional transactional profit methods (profit distribution, transactional net margin).

39.2. Transactions with entities for which the State Treasury is a shareholder

In 2008 the Parent Entity entered into transactions involving the largest turnover with the following entities for which the State Treasury is a shareholder: Operator Gazociągów Przesyłowych „GAZ-SYSTEM" sp. z o.o., Polski Koncern Naftowy ORLEN SA, Rafineria Trzebinia SA, Zakłady Azotowe ANWIL SA, Zakłady Azotowe POLICE SA, Zakłady Azotowe PUŁAWY SA. Sales to the aforementioned entities in 2008 amounted to PLN 3,019 million, which accounted for 16.4% of the sales revenue (in 2007 PLN 2,634 million and 15.8% respectively). Purchases from the aforementioned entities in 2008 amounted to PLN 1,401 million, which accounted for 7.9% of the operating expense (in 2007 PLN 1,497 million and 9.5% respectively). As at 31 December 2008 the carrying amount of receivables was PLN 1,119 million (in 2007 PLN 2,792 million), whereas liabilities amounted to PLN 84 million (in 2007 PLN 110 million).

Gross receivables from related parties	Net receivables from related parties	Gross loans granted to related parties	Net loans granted to related parties	Liabilities to related parties
3,840	3,840	120,526	-	7,955
2,378	2,378	131,083	-	27,794
130,270	2,859	16,343	-	134,570
134,261	5,882	12,523	-	127,368
134,110	6,699	136,869	-	142,525
136,639	8,260	143,606	-	155,162

39.3. Information on remuneration of members of management and supervisory bodies of the Capital Group constituent entities

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2007 to 31 December 2007
Remuneration paid to the management	20,799	21,854
Parent	4,641	1,780
Subsidiaries	13,570	11,364
Co-subsidiary	1,929	8,130
Associates	659	580
Remuneration paid to the supervisory bodies	7,682	9,235
Parent	312	305
Subsidiaries	3,677	3,287
Co-subsidiary	3,119	5,153
Associates	574	490
Total	28,481	31,089

39.4. Loans granted to Members of the Management and Supervisory Boards of the Capital Group constituent entities

	31 December 2008	31 December 2007
Members of the Management Boards		
Interest rate (%)	1%-5%	1%-5%
Repayment terms (period)	3-10 years	1,5-10 years
Value of loans remaining to be repaid	128	110
Members of the Supervisory Boards		
Interest rate (%)	0%-5%	0%-5%
Repayment terms (period)	1,25-5 years	1,25-5 years
Value of loans remaining to be repaid	8	17
Total value of loans remaining to be repaid	136	127

39.5. Remuneration paid to Members of the Parent's Management and Supervisory Board

	Period covered : 01 January 2008 to 31 December 2008		
Full name	**Total compensation. additional benefits and bonuses paid in 2008**	**Total remuneration due to duties performed in subsidiaries paid in 2008**	**Total remuneration paid in 2008**
Management Board in total, including:	4,641.25	2,716.97	7,358.22
Michał Szubski - Chairman of the Management Board	211.37	240.04	451.41
Mirosław Dobrut – Vice Chairman of the Management Board	184.80	82.39	267.19
Radosław Dudziński – Vice Chairman of Management Board	189.35	203.00	392.35
Sławomir Hinc – Vice Chairman of the Management Board	184.12	218.33	402.45
Mirosław Szkałuba – Vice Chairman of the Management Board	192.83	130.33	323.16
Ewa Bernacik – Proxy	334.57	74.39	408.96
Marek Dobryniewski - Proxy	342.25	37.24	379.49
Stanisław Radecki - Proxy	401.39	37.24	438.63
Waldemar Wójcik - Proxy	442.51	36.95	479.46
Management Board members in 2008 not performing duties as at 31 December 2008:			
Krzysztof Głogowski	318.05	386.91	704.96
Jan Anysz	337.75	271.76	609.51
Zenon Kuchciak	315.85	323.64	639.49
Stanisław Niedbalec	268.22	270.33	538.55
Tadeusz Zwierzyński	318.59	174.69	493.28
Jan Czerepok	352.90	133.26	486.16
Bogusław Marzec	246.70	96.47	343.17
Total Supervisory Board, including:	312.23	165.30	477.53
Stanisław Rychlicki	32.65	48.49	81.14
Marcin Moryń	37.24	-	37.24
Mieczysław Kawecki	37.24	34.89	72.13
Agnieszka Chmielarz	24.96	21.65	46.61
Grzegorz Banaszek	32.65	-	32.65
Maciej Kaliski	4.65	-	4.65
Marek Karabuła	4.65	-	4.65
Mieczysław Puławski	37.24	-	37.24
Jolanta Siergiej	24.96	18.91	43.87
Supervisory Board members in 2008 not performing duties as at 31 December 2008:			
Wojciech Arkuszewski	4.73	-	4.73
Kazimierz Chrobak	12.27	2.00	14.27
Hubert Konarski	20.48	-	20.48
Andrzej Rościszewski	4.73	-	4.73
Joanna Stuglik	20.48	19.34	39.82
Mirosław Szkałuba	3.84	-	3.84
Piotr Szwarc	4.73	20.02	24.75
Jarosław Wojtowicz	4.73	-	4.73
Total	4,953.48	2,882.27	7,835.75

Full name	Period covered : 01 January 2007 to 31 December 2007		
	Total compensation, additional benefits and bonuses paid in 2007	Total remuneration due to duties performed in subsidiaries paid in 2007	Total remuneration paid in 2007
Management Board in total, including:	**1,779.89**	**2,816.67**	**4,596.56**
Krzysztof Głogowski – Chairman of the Management Board	222.74	840.75	1,063.49
Jan Anysz – Member of the Management Board	270.31	178.21	448.52
Zenon Kuchciak – Member of the Management Board	242.26	779.49	1,021.75
Stanisław Niedbalec – Member of the Management Board	251.72	377.95	629.67
Tadeusz Zwierzyński – Member of the Management Board	226.04	130.28	356.32
Bogusław Marzec – Proxy	315.06	470.38	785.44
Ewa Bernacik - Proxy	251.76	39.61	291.37
Total Supervisory Board, including:	**304.74**	**128.47**	**433.21**
Andrzej Rościszewski	33.86	-	33.86
Piotr Szwarc	33.86	56.66	90.52
Kazimierz Chrobak	33.86	6.00	39.86
Wojciech Arkuszewski	33.86	-	33.86
Mieczysław Kawecki	33.86	31.95	65.81
Marcin Moryń	33.86	-	33.86
Mieczysław Puławski	33.86	-	33.86
Szkałuba Mirosław	33.86	33.86	67.72
Jarosław Wojtowicz	33.86	-	33.86
Total	**2,084.63**	**2,945.14**	**5,029.77**

39.6. Fees paid or payable to the auditing entity for the obligatory audit of the annual consolidated financial statements of the Capital Group and for other services

The consolidated financial statements of the PGNiG Capital Group and the financial statements of PGNiG SA for 2008 are audited by Deloitte Audyt sp. z o.o. The agreement with the auditing entity was entered into for a period of three years (2007-2009) on 16 August 2007. The scope of the agreement is as follows:

- audit of the financial statements for 2007, 2008, 2009;
- review of the financial statements for Q1 2008, 2009, 2010;
- review of the financial statements for the first half of 2007, 2008, 2009;
- review of the financial statements for 3 quarters of 2007, 2008, 2009.

The fees paid or payable to the entity authorized to audit the financial statements for 2007-2008 are presented in the table below.

39.7. Joint ventures not included in consolidation

In 2008, PGNiG SA cooperated with the following companies in Poland: FX Energy Poland sp. z o.o., EuroGas Polska sp. z o.o., Energia Bieszczady sp. z o.o.

FX Energy Poland sp. z o.o., registered office: Warsaw 00-613, ul. Chałubińskiego 8.

In 2008, PGNiG SA continued joint work with FX Energy Poland sp. z o.o. in the following areas:

- "Płotki" (Joint Operations Agreement of 12 May 2000 with subsequent amendments);
- "Płotki – PTZ" (the so called Extended Area of Zaniemyśl, Operating Agreement of Mine Users of 26 October 2005);
- "Poznań" (Joint Operations Agreement of 1 June 2005);
- Block 255 (Joint Operations Agreement of 29 October 1999).

Based on the Agreement on settlements of natural gas produced from the "Klęka 11 well", the Klęka deposit was exploited. Additionally, reprocessing and reinterpretation of seismic data were continued within the "Płotki" area. Capacity measurements and deposit tests were conducted in the Roszków-1 well drilled in 2007. In 2008, the Roszków natural gas deposit of 0.9 billion cubic meters minable resources was documented.

Reprocessing and interpretation of seismic data was conducted in "Poznań" area in 2008 in order to prepare new sites for drilling in 2008 and subsequent years. In 2008, 2D seismic photographs

	Period from 1 January 2008 to 31 December 2008	Period from 1 January 2008 to 31 December 2008
Audit of the annual consolidated financial statements	**155**	**185**
Audit of the annual individual financial statements	**175**	**205**
Other attestation services, including for the review of the financial statements	**540**	**440**
Tax advisory services	**-**	**-**
Other services	**288**	**26**
Total	**1,158**	**856**

were taken in Lutynia-Taczanów and 3D ones in Kórnik-Środa Wielkopolska and Żerków-Pleszew region. Drilling of three exploration wells: Grundy-2, Kromolice-1 and Środa Wielkopolska-6 was completed, and work on Kromolice-2 well commenced.

In 2008, the exploration of the Zaniemyśl natural gas deposit within the "Płotki" – "PTZ" area as well as production of natural gas from the Wilga (Block 255) deposit were continued by:
- EuroGas Polska sp. z o.o., registered office: Pszczyna 43-200, ul. Górnośląska 3
- Energia Bieszczady sp. z o.o., registered office: Warsaw 00-654, ul. Śniadeckich 17

In 2008, PGNiG SA, Eurogas Polska sp. z o.o. and Energia Bieszczady sp. z o.o. conducted study work and geological and geophysical analyses in order to indicate areas places for prospecting and recognition of hydrocarbon beds in the "Bieszczady" area. Additionally, 2D seismic photos of Kostarowce-Zahutyń were taken. The licenses and mining usufruct right related to the prospecting for and recognition of oil and natural gas deposits in the above area belong to the operator, i.e. PGNiG SA.

None the aforementioned joint ventures were included in consolidation in 2008 and 2007, as all the related assets, liabilities, revenues and expenses were recognized in the balance sheet and income statement of PGNiG SA proportionally to its share in the respective joint ventures.

39.8. Foreign operations

PGNiG SA's shares in foreign companies

Ukraine

"Dewon" ZSA is an unlisted joint stock company. It was established on 17 November 1999. The main objective and purpose of the company is to provide crude oil and natural gas production related services, well reconstruction services as well as management and exploration of the Ukrainian deposits.

The share capital of the Company amounts to UAH 11,146.8 thousand, i.e. PLN 5,366.1 thousand (based on the NBP's exchange rate of 31 December 2008) and is divided into 120.0 thousand shares with a face value of UAH 92.89 each. Capital commitment in the company amounts to UAH 4,055.2 thousand, i.e. PLN 1,952.2 thousand (based on the NBP's exchange rate of 31 December 2008).

The shareholder structure is as follows:
- PGNiG SA 36.38%
- Prawniczyj Alians sp. z o.o. 25.99%
- Ferrous Trading Ltd. 25.08%
- NAK Neftiegaz Ukrainy 12.13%
- Oszkader Walentyna Georgijewna 0.41%
- SZJu Ltawa sp. z o.o. 0.01%

Natural gas production was launched by the Company in November 2003. Gas is produced from the Sakhalin gas condensate deposit in the Krasnokuck Region of the Kharkov Province (East Ukraine). The Company produces hydrocarbons, natural gas and condensate and sells these products on the Ukrainian market.

Exploitation of the Sachalinskoje deposit is included into the joint venture operations based on an agreement concluded between "Dewon" ZSA and NAK "Nadra Ukrainy" (a hydrocarbon production license holder) and PoltavaNaftoGasGeologia. The license held by NAK "Nadra Ukrainy" was granted for two years, and it expires on 24 April 2009.

Oman

The share capital of Sahara Petroleum Technology Llc amounts to RO 150.0 thousand (Omani rial), i.e. PLN 1,155.7 thousand (based on the NBP's exchange rate of 31 December 2008) and is divided into 150.0 thousand shares with a face value of RO 1 each. The capital commitment of PGNiG SA in the company amounts to RO 73.5 thousand, i.e. PLN 566.3 thousand (based on the NBP's exchange rate of 31 December 2008). The shareholder structure is as follows:
- PGNiG SA 73,500 shares 49%
- Petroleum and Gas Technology llc P.O. Box 3641, Ruwi, Oman. 76,500 shares 51%

The Company was founded by Zakład Robót Górniczych in Krosno (PGNiG SA branch until 30 June 2005, presently fully owned by PGNiG SA) in 2000. The company's main objective is to provide technical services related to reconditioning and reconstruction of wells, linear technique operations, maintenance of heads of exploration machines as well as light and medium drilling jobs using the technical potential of PGNiG SA.

The Company has never started the activities for which it was established. Therefore, PGNiG SA's objective is to liquidate the company and withdraw its shares.

Germany

On 1 July 2005, in Potsdam PGNiG SA and VNG-Verbundez Gas AG signed two incorporation agreements pursuant to German law:
- InterTransGas GmbH (ITG);
- InterGasTrade GmbH (IGT).

Both partners assumed 50% of shares in each of the companies. The share capital of each of the incorporated companies amounts to EUR 200 thousand (i.e. PLN 834.5 thousand at the average exchange rate of the National Bank of Poland as at 31 December 2008). Their registered offices are located in Potsdam. The 50% share of PGNiG SA amounted to PLN 417.2 thousand as at the end of 2008.

InterGasTrade GmbH has not been entered into the commercial register.

On 9 August 2005, InterTransGas GmbH was entered into the commercial register in Potsdam. The scope of the company's activities includes the construction, operation and sale of transmission capacity.

InterTransGas GmbH was incorporated to build an interconnector between the Polish and European gas transmission system, which would constitute one of the elements of the diversification of gas supplies to Poland. At present, based on the Shareholders' decision, InterTransGas GmbH operates at minimum cost. When circumstances will enable the construction of a pipeline connecting the Polish and German transmission system, the company will be able to start its core activity defined in its Articles of Association.

In 2007, pursuant to the resolution of the Shareholders Meeting, the registered office of InterTransGas GmbH was moved from Potsdam to Leipzig.

In June 2008, the Shareholders' Meeting passed a resolution on the Shareholders' payment to the reserve capital in the amount of EUR 80 thousand.

Norway

On 24 May 2007, PGNiG SA formed a subsidiary in Norway – PGNiG Norway AS with registered office in Stavanger, Norway, a limited liability company acting as a special purpose entity for the operations of PGNiG in Norwegian Continental Shelf (NCS). The Company was registered on 9 June 2007.

As at 31 December 2008, capital exposure of PGNiG SA to the company amounted to NOK 497,327 thousand, i.e. PLN 210,767 thousand (at the NBP exchange rate of 31 December 2008).

PGNiG Norway AS enables the Capital Group to achieve the following goals:
- Gas supply diversification;
- Increased gas supply safety;
- International expansion in the oil and gas exploration and production sector;
- Development of international gas fuel trading operations.

PGNiG Norway AS was incorporated in particular to execute an agreement signed on 28 February 2007 between PGNiG SA, Mobil Development Norway A/S and ExxonMobil Produktion Norway Inc. for the purchase of 15% shares in three concessions for Skarv, Snadd and Idun deposits in Norwegian Continental Shelf (license PL 212, PL 212B, PL 262). In line with the joint venture agreement, PGNiG Norway AS holds the title to 11.9175% (following uniting Skarv and Snadd deposits with Idun deposit on 14 September 2007) of the Skarv/Snadd/Idun production.

In 2008, PGNiG Norway AS continued development work on the deposits. For the purpose of purchasing shares in the fields and further investment, the Parent granted the company with a loan of NOK 3,800,000 thousand. The loan is extended in tranches, with the repayment deadline set for December 2022. In 2008, the Company received a subsequent loan tranche of NOK 688,000 thousand. The balance of loan received by PGNiG Norway AS as at 31 December 2008 was NOK 2,488,000 thousand, i.e. PLN 1,054,414 thousand (at the NBP exchange rate of 31 December 2008).

Polskie Górnictwo Naftowe i Gazownictwo SA with registered office in Warsaw is the sole shareholder of PGNiG Norway AS. The scope of PGNiG Norway's business operations includes in particular crude oil and natural gas production as well as other similar and related operations. PGNiG Norway AS can also take part in infrastructural projects such as the construction and operation of pipelines.

Netherlands - Libya

PGNiG Finance B.V. was incorporated on 14 September 2001 for PGNiG SA bond issue management (bonds denominated in EUR). PGNiG SA is the Company's sole shareholder. Its share capital amounts to EUR 20 thousand, i.e. PLN 83 thousand (at the NBP exchange rate of 31 December 2008).

In January 2008, the Management Board of PGNiG SA passed a resolution as regards granting a consent for using PGNiG Finance B.V. for the purpose of conducting exploration and production activities on the territory of Libya. On the same day the Management Board of PGNiG SA passed a Resolution regarding a change in the Articles of Association and the Management Board of PGNiG Finance B.V. as well as its opening a Libyan branch.

The change in the company's Articles of Association was registered in the Netherlands on 4 February 2008. The new Articles of Association changed the name of the Company to Polish Oil and Gas Company – Libya B.V. (POGC – Libya B. V.).

The Management Board of Polish Oil and Gas Company – Libya B.V. undertook measures resulting in the conclusion of the Exploration and Production Sharing Agreement (EPSA) in February 2008 with a Libyan company operating under the name National Oil Corporation. The Agreement defined the terms and condition for the execution of an exploration and production project in Libya due to winning a tender for a license in area 113 of 5,494 square kilometers, located at the border of the Murzuq and Gadamesh basins near the Algerian border. In line with the tender submitted, the company undertook to carry out prospecting work for the total amount of USD 108,000 thousand including: 3000 square kilometers of 2D seismics, 1500 square kilometers of 3D seismics and drilling of 8 wells.

In February 2008, PGNiG SA issued a guarantee for National Oil Corporation in relation to the fulfillment of POGC – Libya B.V. concession related obligations in the amount of USD 108,000 thousand, i.e. PLN 319,874 thousand (at the NBP exchange rate of 31 December 2008).

In June 2008, PGNiG SA granted the Company a loan of USD 20,000 thousand, i.e. PLN 59,236 thousand (at the NBP exchange rate of 31 December 2008). In line with the presented Operations Plan for 2008, the loan is aimed to ensure the fulfillment of concession related obligations during the first year of the Company's operations.

The Group's share in exploration licenses

Norwegian Continental Shelf project
PGNiG SA established a subsidiary in Norway – PGNiG Norway AS for the purpose of implementing the Norwegian Continental Shelf (NCS) project. On 30 October 2007, PGNiG Norway AS purchased from Mobil Development Norway A/S and Exxon Mobil Produktion Norway Inc 15% share in three license areas including Skarv and Snadd fields (marked PL 212, PL 212B and PL 262). The remaining shares are held by: British Petroleum (Operator) – 30%, StatoilHydro – 30%, E.ON Ruhrgas Norge – 25%. The subsidiary's key business activity involves with exploration and production of oil and natural gas resources in NCS and participation in infrastructure projects related to maritime transmission.

The fields are developed by British Petroleum in cooperation with PGNiG Norway AS, StatoilHydro and E.ON Ruhrgas. Following utilization of Skarv and Snadd deposits with Idun at NCS, shares of each company in the production and prospecting area are as follows:

- British Petroleum (Operator) 24%
- StatoilHydro 36%
- E.ON Ruhrgas Norge 28%
- PGNiG Norway AS 12%

At present, the production project is in the field development phase. Commencement of production is planned for 2011. The field development project includes 16 wells including seven for oil production, five for gas production and four injection wells (for pumping). In a later stage, the injection wells will be converted to gas exploitation ones for the purpose of full exploitation of the field. The drilling equipment mobilization is planned for 2009.

According to estimates, capital expenditure related to deposit development will amount to approx. USD 5 billion, of which approx. USD 600 million will be incurred by the Group. Capital expenditure incurred by the Group (through a subsidiary of PGNiG SA) and disclosed in the Group's balance sheet as at 31 December 2007 amounted to NOK 2,966,985 thousand, i.e. PLN 1,257,408 thousand (according to the NBP's exchange rate applicable on 31 December 2008), whereas the related direct costs recognized in the 2008 income statement amounted to NOK 91,796 thousand, i.e. PLN 39,151 thousand (translated at the average NOK exchange rate constituting the arithmetic mean of average exchange rates defined by the NBP for the last day of each month in the financial year).

Other foreign exploration
PGNiG SA is conducting exploration work in Pakistan based on the Agreement concluded between PGNiG SA and the Pakistani Government on 18 May 2005 as regards hydrocarbon exploration within the Kirthar concession regulated region. Exploration work within the Kirthar block is conducted together with Pakistan Petroleum Ltd., in accordance with the following distribution of shares and expenses: PGNiG SA – 70% and PPL – 30%. Due to lack of equipment, drilling of the first Rahman -1 exploration well was postponed to Q1 2009.

On 6 December 2007, PGNiG SA concluded a share assignment agreement as regards the exploration license 1/05 on the territory of Denmark and became the operator. At present, the shares are as follows: PGNiG SA– 40%, Odin Energi A/S – 40%, Nordsofonden – a Danish government company – 20%. On 5 April based on a decision of the Danish Energy Agency, the aforementioned license was extended until 5 October 2009 provided that a 3D seismic photograph of an area of at least 50 km^2 is taken. In the current year, archived 2D seismic materials were reprocessed in order to determine location of the 3D photo planned for 2009. On 3 April 2009 PGNiG SA purchased 40% of shares in the Danish concession from Odin Energi A/S. The value of the transaction was DKK 6.25 million, i.e. PLN 3.74 million (at the exchange rate of the National Bank of Poland as at 3 April 2009).

In 2007, PGNiG SA won a tender for the Bahariya exploration and production license (Block 3) in Egypt. The license applies to the total area of 4,414.4 square kilometers. Following the ratification of the PSA (Production Sharing Agreement), PGNiG SA plans to conduct reprocessing and 1,450 square kilometers of 2D seismic work.

In 2007, PGNiG SA won an operator tender and was granted the right to conduct exploration work based on exploration and production license no. 113 located in the Murzuq oil basin (west Libya). On 4 February 2008 the change in the name of PGNiG Finance B.V. to Polish Oil And Gas Company Libya B.V. was registered for the project purposes. The Company was granted with a performance bond by PGNiG SA. On 25 February 2008 POGC-Libya B.V. entered into the EPSA Agreement (Exploration and Production Sharing Agreement) with National Oil Corporation - a state-owned Libyan oil company. The Agreement was ratified by the Libyan government on 1 June 2008. Commencement of 2D and 3D seismic work took place in Q1 2009.

In February 2008, PGNiG SA signed a mandate letter with Iranian Offshore Oil Company (IOOC) regarding development of the Lavan gas and condensate deposit.

The Group's foreign branches

The Group has foreign branches which conduct operating activity or support the development of the Group's operations abroad.

PGNIG SA - Parent:
Operator Branch in Pakistan – Islamabad;
Branch in Egypt – Cairo;
Branch in Denmark – Copenhagen;
Branch in Algeria – Alger.

Geofizyka Kraków sp. z o.o.:
Operator Branch in Pakistan - Islamabad;
Slovak Plant in Bratislava;
Czech Plant in Ostrava;
Libya Branch - Tripoli.

Geofizyka Toruń sp. z o.o.:
Branch in Jebel Ali – United Arab Emirates, Dubai;
Branch in Yemen – Sana, Al.-Amana Region;
Branch in Syria – Damascus;
Branch in Tahiland – Bangkok.

PNiG Jasło sp. z o.o.:
Branch in Libya – Tripoli.

PNiG Kraków sp. z o.o.:
Branch in Pakistan – Karachi;
Branch in Kazakhstan – Almaty.

PNiG Piła sp. z o.o.:
Branch in India – Baroda;
Branch in Egypt – Cairo.

40. Employment (number of employees)

Number of employees as at the end of the period, by segments	31 December 2008	31 December 2007
PGNiG SA Head Office*	837	604
Exploration and production	10,725	10,151
Trade and storage	4,088	4,104
including companies consolidated using the equity method	295	294
Distribution	13,746	1,538
Other	2,044	1,928
Total	31,440	30,325

** PGNiG SA Head Office provides services to all other segments and is therefore not allocated to any of these segments.*

41. Information on the capital group's restructuring process

In 2008, stage 2 of the employment restructuring in PGNiG Capital Group was completed. The completion had been initially planned for 2007, but had been extended to 2008 by a resolution of Extraordinary Shareholders Meeting. As a result of implementation of the Program, in the years 2000 – 2008, restructuring affected the total of 21,159 employees of PGNiG SA and Capital Group companies. Implementation of the Program significantly contributed to headcount reduction by the total of nearly 15,500 people, i.e. from approximately 42 thousand to 26.4 thousand of employees on unlimited job contracts.

In 2008, market conditions stopped employment reduction in the Capital Group, and the number of new hires exceeded the number of employees included into the restructuring program. Program's evolving towards additional bonuses for early retirement was contradictory to business objectives of the Capital Group. Therefore, the Social Partners and Management Board of PGNiG SA decided that the employment restructuring program was completed in its previous form after nine years of implementation.

In 2008, following negotiations with Social Partners, contents of „Employment rationalization and termination packages for employees of PGNiG Capital Group for the years 2009-2011 (stage 3) were determined. On 11 December 2008, Extraordinary Shareholders Meeting approved the Program, which is effective from 1 January 2009. Unlike former employment restructuring programs, the Program follows a "stand by" formula, for special cases that require an employer to apply a unified procedure defined in the Program for all companies.

The Program may be implemented in the given calendar year only following a relevant resolution of a competent body, in line with the company by-laws, and for branches of PGNiG SA, following a resolution passed by the Management Board of PGNiG SA. Decisions to implement the Program will be made "only in cases justified with the scale of projected restructuring measures related to headcount reduction and/or liquidation of jobs". Only when corporate procedures are fulfilled including competencies of labor unions, title to the so-called termination benefits is obtained.

By means of a separate resolution of the Extraordinary Shareholders Meeting, the life of Central Restructuring Fund reserve was extended to the years 2009-2011. As in previous years, the Fund may be used on terms defined by the Program, only following a specific resolution of the Extraordinary Shareholders Meeting, among others for former employees of Capital Group companies facing financial and economic problems.

The above assumptions were confirmed by an Agreement concluded in Warsaw on 22 December 2008 by and between PGNiG SA represented by the Chairman and Vice Chairman in Charge of HR and Restructuring and competent oil and gas mining labor unions represented by their Chairmen.

Changes in natural gas trade were introduced. As a result, the separate Trading Branch was liquidated and replaced with appropriate Head Office Departments and six Gas Trading Branches (Oddział Obrotu Gazem): Dolnośląski in Wrocław, Górnośląski in Zabrze, Karpacki in Tarnów, Mazowiecki in Warsaw, Pomorski in Gdańsk, Wielkopolski in Poznań.

In line with directions as defined in Strategy of PGNiG SA (approved by the Management Board and published on 13 November 2008, report No. 87/2008) analytical and project work on organizing Capital Group structures through consolidation of companies with similar profiles was continued. One of project objectives is to establish operationally and financially sustainable companies that in future may carry put key investment and prospecting work of key importance for Polish gas and oil industry, both in Poland and abroad.

42. Statement and explanation of differences between data disclosed in the financial statements and comparative financial data as well as the previously prepared and published financial statements

As compared to data presented in the financial statements for Q4 2008 published on 2 March 2008, the following changes have been introduced in these financial statements:

Changes in operating profit

Operating profit from the financial statements for Q4 2008	**885,495**
a) Changes in revaluation write-downs on assets	**(83,582)**
b) Other	**(1,235)**
Operating profit from the financial statements for 2008	**800,678**

Changes in net profit for the financial period

Net profit for the reporting period from the financial statements for Q4 of 2008	**928,987**
a) Changes in revaluation write-downs on assets	**(83,582)**
b) Other	**7,837**
c) Income tax related to applied adjustments	**8,507**
d) Adjustment of deferred tax	**3,993**
Net profit for the reporting period from the financial statements for 2008	**865 742**

The main adjustment of the profit/loss resulted from increased revaluation write-downs on receivables (PLN 46,071 thousand) and property, plant and equipment (PLN 35,786 thousand).

In the current reporting period, the Company reviewed the applied method of calculating estimated revenue from gas fuel supplies to individual customers.

Following the analysis, the Company adjusted previous years' overstated revenue estimates totaling to PLN 46,071 thousand. In line with IAS 8, changes in the estimates result from the current judgment and projected benefits related to the estimated revenue from gas fuel supplies to individual customers.

Following verification of cash flows generated by mining assets that provide the basis for impairment testing, the Parent increased revaluation write-downs on assets of several mines in the total amount of PLN 35,786 thousand.

43. Equity management

The main objective of the Group's equity management is to ensure its ability to operate as a going concern including the execution of planned investments, and at the same time, to increase its shareholder value.

The Group is monitoring the equity level with the leverage ratio, calculated as the ratio of net debt to total equity increased by net debt. According to the Company's principles, the leverage ratio may not exceed 35%. The net debt includes loans and credit facilities, finance lease liabilities, trade liabilities and other liabilities less cash and bank balances. Equity includes equity assigned to the shareholders of the Parent.

	31 December 2008	31 December 2007
Loans, borrowings and finance lease liabilities	**912,810**	**138,101**
Trade and other liabilities	**3,294,154**	**2,711,039**
Cash and bank balances (-)	**(1,421,939)**	**(1,583,635)**
Net debt	**2,785,025**	**1,265,505**
Equity (attributed to equity holders of the parent)	**20,706,895**	**21,013,076**
Equity and net debt	**23,491,920**	**22,278,581**
Leverage ratio	**11.9%**	**5.7%**

44. Information regarding free-of-charge acquisition of shares in PGNiG SA by entitled employees

Pursuant to the Act on commercialization and privatization of 30 August 1996 ("the Act") Company employees are entitled to acquire 15% of its shares free of charge. The above title is vested with so called "entitled employees", i.e. those referred to in Article 2 point 5 of the Act. The title to acquire company shares free of charge is vested after three months from the date of the State Treasury disposing of first shares on general terms.

On 30 June 2008, State Treasury disposed of one share in PGNiG SA on general terms.

Therefore, pursuant to Article 38 point 2 of the Act, the entitled employee's title to acquire the Company shares free of charge is vested on 1 October 2008 and expires on 1 October 2009. Since on 12 February 2009, an amendment to the Act on commercialization and privatization of 19 December 2008 came into effect, pursuant to amended Article 38 clause 2, the termination of the title to acquire the Company shares free of charge was postponed until 1 October 2010.

Pursuant to Article 36 clause 1 of the Act, entitled employees can free of charge acquire 15% of shares assumed by the State Treasury as at the date of the Company being entered to the register, i.e. up to 750,000,000 shares with face value of PLN 1 each. The list of entitled employees was put together in December 1997 and includes 61,516 individuals. In line with the adopted schedule, the process of releasing shares is going to start on 6 April 2009.

As at the report date (7 April 2009), the market value of the above package amounted to PLN 2,512,500 thousand.

Pursuant to Article 38 clause 3 of the Act, shares acquired free of charge by entitled employees cannot be traded prior to 1 July 2010, whereas shares acquired free of charge by Management Board members cannot be traded prior to 1 January 2011.

The key principle of IFRS 2 "Share-based Payment" is recognizing the cost of employee benefits in the period they are actually received. The title to acquire company's shares free of charge established by the Act was originally intender to compensate entitled employees for the period prior to its coming into effect, in particular for the period prior to 1989, when the political and economic system in Poland was transformed. In line with IFRS 2, the value of the scheme should be defined as at the date of determining the number of shares per employee based on the fair value of the shares. For PGNiG SA, the shares will be released from the pool held by the State Treasury. Therefore, the Company incurs only administrative costs related to the operation of releasing the shares to entitled employees.

45. Post-Balance sheet date events

a. **Reduction of eastern gas deliveries and limiting supplies to large customers.** Following the "gas dispute" between Gazprom and Ukraine, from 2 January 2009, gas deliveries to PGNiG SA from the East were limited. As a result, the Company decided to reduce supplies of gas to Zakłady Azotowe Puławy SA and PKN ORLEN SA The reduction occurred between 7 and 9 January 2009. The Company kept its customers informed by communications no. 1/2009, 2/2009, 3/2009, 4/2009, 6/2009, 7/2009, 11/2009, 12/2009, 13/2009, 14/2009. According to the last one (as at the financial statements date) no. 29/2009, natural gas deliveries from the East reached 75% of the initially planned volume. This means that supplies contracted with RosUkrEnergo AG were not provided. The missing volume was supplied from underground gas tanks, which allowed full coverage of demand. Thus, by the financial statements date, demand for natural gas in Poland was fully met.

b. **Assuming shares in licenses.** On 6 January 2009, PGNiG Norway AS informed the Parent about free-of-charge assuming of 30% of shares in PL350 license on the Norwegian Continental Shelf following an agreement concluded with StatoilHydro Petroleum AS. E.ON Ruhrgas Norge A/S (40% of shares) is the direct License operator. Other partners include StatoilHydro ASA (25% shares) and StatoilHydro Petroleum AS (5% of shares). Following a permit granted by the Norwegian Oil and Gas Ministry in February 2009 with regard to the free-of-charge assuming of 30% of shares in PL350 license, PGNiG Norway AS became a license owner effective 1 January 2009. On 13 February 2009 PGNiG Norway AS assumed 25% of shares in PL419 license on the Norwegian Continental Shelf based on an agreement concluded with Nexen Exploration Norge AS. In accordance with the agreement, PGNiG Norway assumed 25% of shares in the license for symbolic NOK 1.00 (the equivalent of PLN 0.5377 according to the average forex table of the National Bank of Poland no. 31/A/NBP/2009 of 13 February 2009). Nexen Exploration Norge AS (30% of shares) is the direct License operator, other partners being Wintershall Norge ASA (25% of shares) and Edison International Spa (20% of shares). The assuming of shares in LP419 License depends on a permit granted by the Norwegian Ministry of Hydrocarbons and Energy and the Norwegian Ministry of Finance.

c. On 22 January 2009, the District Court for Poznań-Nowe Miasto i Wilda in Poznań, VIII Business Division of the National Court Register, issued a decision regarding increase of the share capital of Wielkopolska Spółka Gazownictwa sp. z o.o. („WSG"). The share capital of the entity was increased from PLN 978,287 thousand to PLN 1,033,186 thousand, i.e. by PLN 54,899 thousand, through the issuance of 54,899 (say: fifty-four-thousand-eight-hundred-ninety-nine) new, equal and indivisible shares with a face value of PLN 1,000 (say: PLN one thousand) each. The newly created shares were assumed by the sole shareholder - PGNiG SA, and covered by a non-cash contribution in the form of non-current assets that constituted elements of the transmission ordistribution network. The book value of contributed-in-kind assets recorded in the accounting records of PGNiG SA amounts to PLN 54,899 thousand. After the registration of the increase in share capital of WSG sp. z o.o., the total number of votes is equal to 1,033,186. PGNiG SA holds 100% of shares in PLNG, which represents 100% of votes at the shareholders meeting.

d. On 28 January 2009, the Supervisory Board of PGNiG SA appointed Waldemar Wójcik a Member of the Management Board, Vice President in Charge of Oil Production.

e. On 14 February 2009, the power of proxy granted to Marek Dobryniewski and Waldemar Wójcik was revoked. At the same time, the Management Board of PGNiG SA granted Tadeusz Kulczyk and Zbigniew Król with the power of proxy.

f. On 23 February, labor unions operating in PGNiG SA entered into the collective dispute with the employer. The dispute regards determining the payroll increase ratio in 2009 for PGNiG SA In light of the economic situation in Poland and the current standing of the Company, the Management Board decided not to include requests of the unions regarding determination of the payroll increase ratio of 11% per year, including 5.5% to be applied in the first half of 2009. Management Board stated to make every effort to find out solutions that would allow termination of the dispute in a manner including financial capacity of the Company.

g. On 2 March 2009, Management Board of PGNiG SA stated that the analysis of the ongoing natural gas production indicated a change in production projections for 2009, which will drop from approx. 4.6 billion cubic meters to about 4.3 billion cubic meters. The new production forecast results from the slight drop in demand for nitrated gas declared by some industrial clients provided with gas straight from the field. Additionally, the lower projection result from investments in development of new fields being postponed, and geological problems faced at currently exploited beds. At the same time, the Management Board stated that the natural gas production projection for 2010 amounted to 4.3 billion cubic meters.

Definition and illustration

bcm	billion cubic meters
Central Asia countries	Kazakhstan, Uzbekistan and Turkmenistan
CNG	fuel, compressed natural gas at a pressure of 20–25 MPa, used as vehicle fuel for spark ignition and compression ignition engines
direct gas pipeline	the gas pipeline used for transmission of gaseous fuel directly to the customer's installation
distribution	transport of gaseous fuels to customers via distribution networks
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 a distribution system operator
E&P	(Exploration and Production) – one of PGNiG's segments of operation; the companies operating in this segment are engaged in exploration, geophysical and geological work; the segment also involves production of natural gas and crude oil
gas companies	an energy company involved in the distribution of gaseous 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 in the relevant geographical area
	Gasoline mixture of hydrocarbons of low molecular weight, emitted by wet natural gas and refinery gases, among other things, used as solvent and petrol additive
KGZ	natural gas mine
KRNiGZ	crude oil and natural gas mine
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
mcm	million cubic meters
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
OGP GAZ-SYSTEM SA	abbreviated name of Operator Gazociągów Przesyłowych GAZ-SYSTEM SA (Transmission System Operator OGP GAZ-SYSTEM SA); the company was established on April 16th 2004 under the name PGNiG Przesył sp. z o.o. as a wholly-owned subsidiary of PGNiG; on April 28th 2005, 100% of the company shares were acquired by the State Treasury; currently, OGP GAZ-SYSTEM conducts business activities of a gas transmission system operator under a licence issued by the Energy Regulatory Office
PGNiG SA	Polskie Górnictwo Naftowe i Gazownictwo SA (Polish Oil and Gas Company SA)
SGT EuRoPol GAZ SA	abbreviated name of System Gazociągów Tranzytowych EuRoPol GAZ SA; the company is responsible for natural gas transmission along the Polish section of the Yamal transit pipeline, connecting the Russian Federation with Western Europe
tcm	thousand cubic meters
TPA (Third Party Access)	right to free use of transmission services and free choice of a supplier Transmission transportation of gaseous fuels through transmission networks to distribution networks or end customers connected to the transmission Network
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
TSO Transmission System Operator	an energy company involved in the transmission of gaseous fuels, responsible for network traffic in the gas transmission system, ongoing and long-term security of the system's operation, as well as operation, maintenance, repair and necessary extension of the transmission network, including interconnections with other gas systems
UGS	underground gas storage; the PGNiG Group is the exclusive owner of underground gas storage facilities operated domestically; six such facilities are in Poland – five of them located in worked out natural gas caverns, and the sixth one in a salt cavern in Mogilno
URE	Energy Regulatory Office. 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 gaseous fuels
Yamal Contract	contract for purchase of Russian natural gas, concluded by PGNiG and Gazexport (changed it name into Gazprom Export) on September 25th 1996 in Warsaw
Yamal Pipeline	transit gas pipeline between Russia and Western Europe, running through the territory of Poland and other countries

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