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

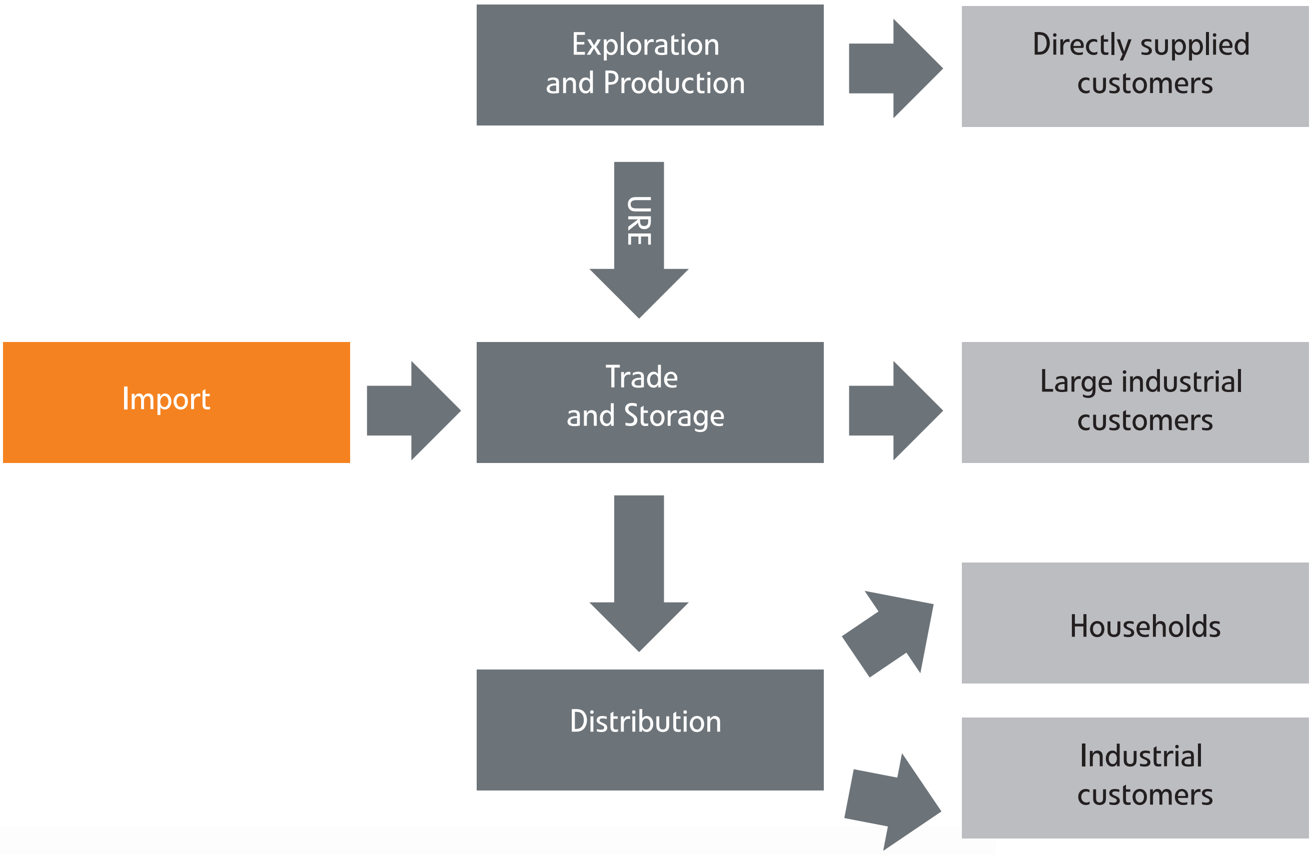
13.9 bcm

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.

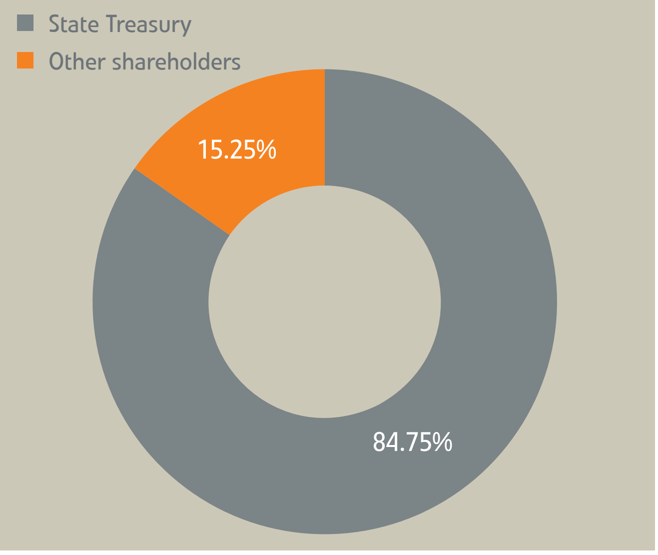
Shareholder Structure

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.

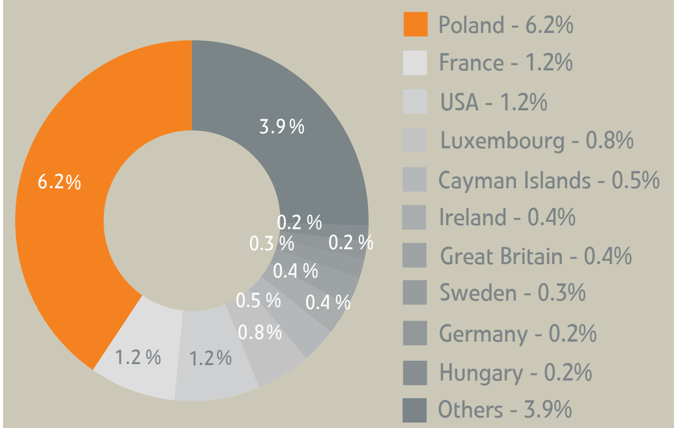
Performance of the PGNiG SA Stock in 2008

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.

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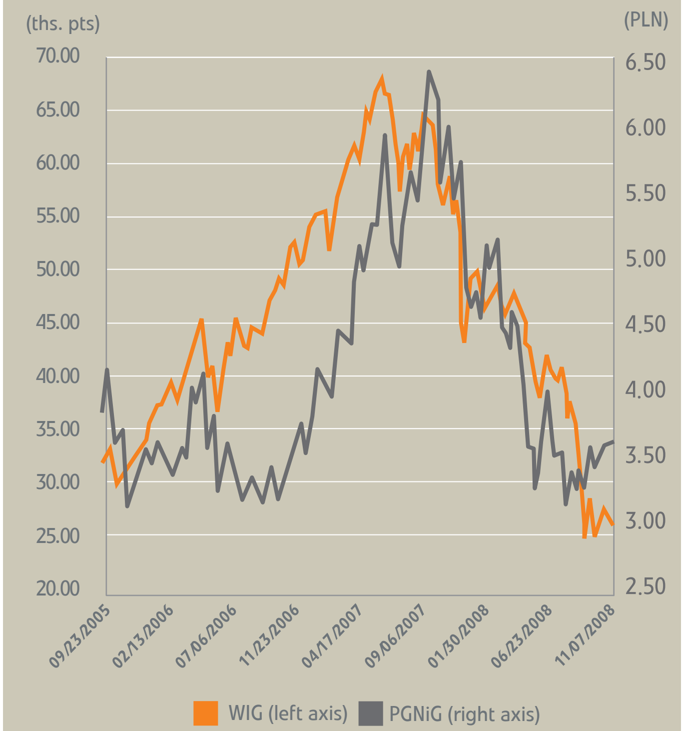
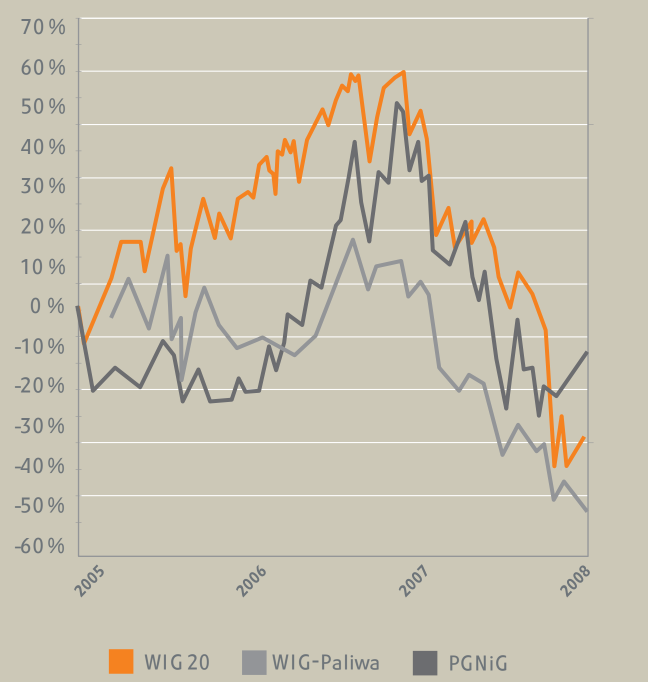


PERCENTAGE CHANGES IN PGNIG STOCK PRICE, THE WIG20 INDEX AND WIG-PALIWA INDEX REBASED TO THE COMPANY'S DEBUT



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.

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.

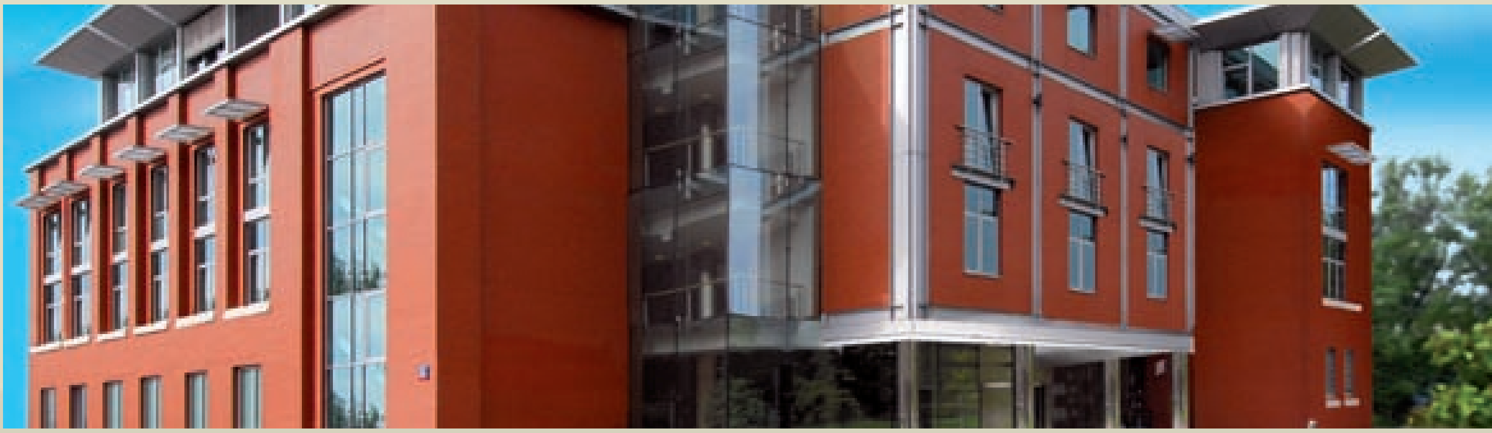
November

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.



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:

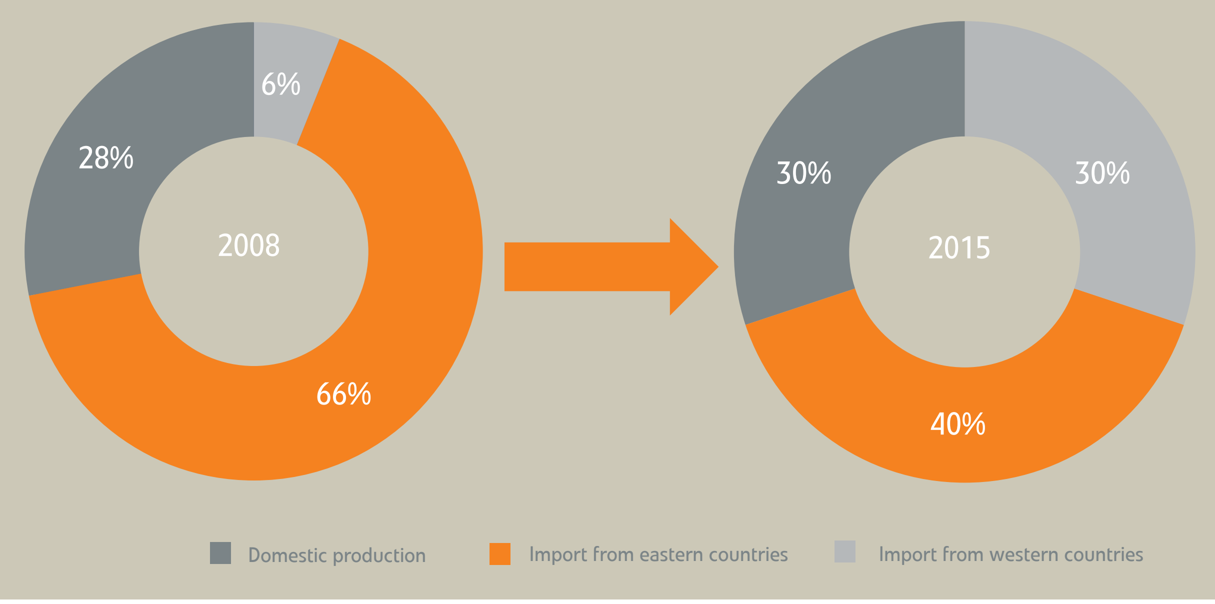
- increasing own production of natural gas to approx. 6.2 bcm (high-methane gas equivalent) and of crude oil to approx. 1.8m tonnes annually in the coming years;
- streamlining operations in the exploration and production segment;
- positioning of PGNiG SA as an international gas player.

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 multi-faceted 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:

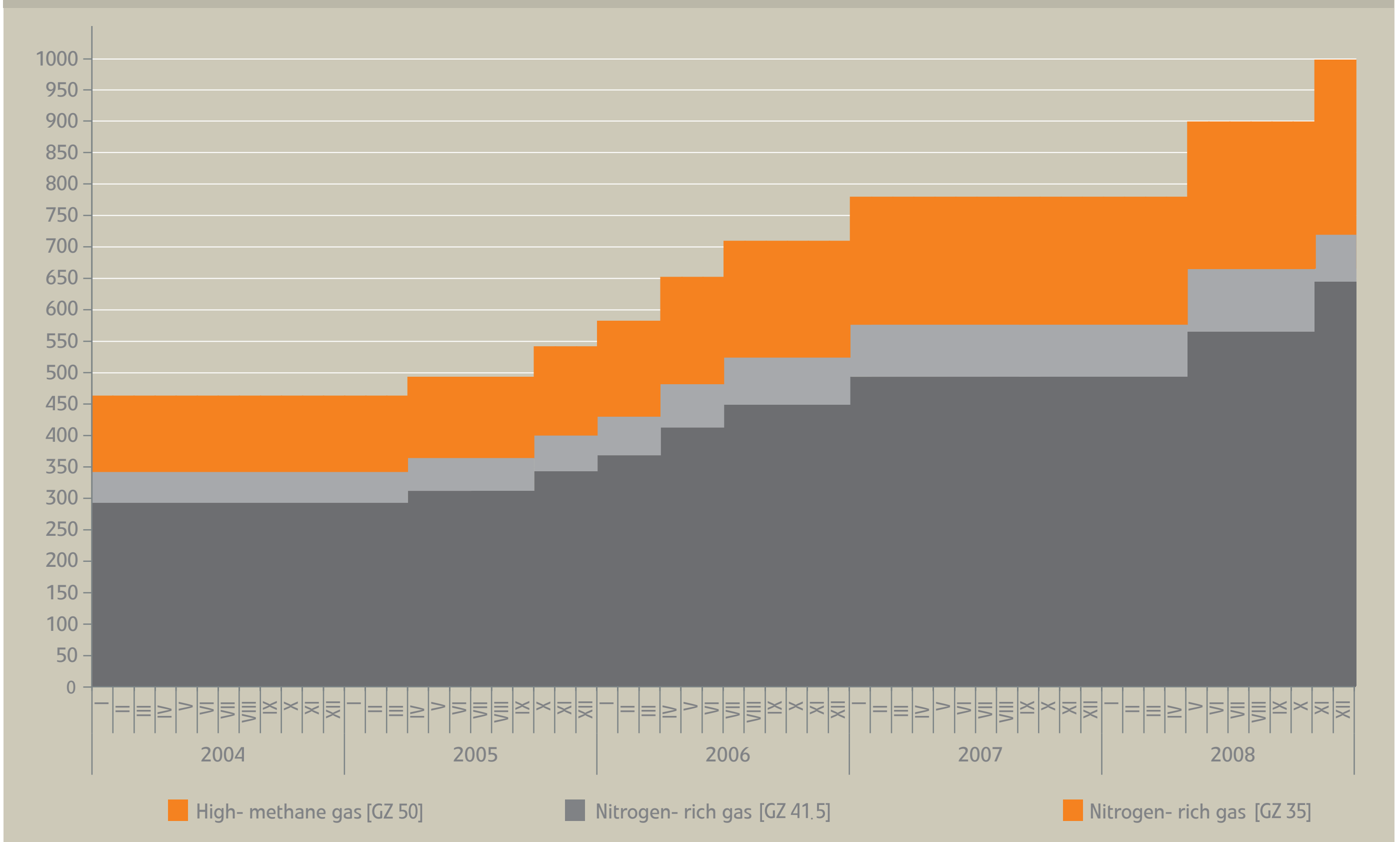
- charge rates for gaseous fuel distribution services and subscription fees;
- manner for determination of fees for connecting to the high-pressure network, as well as of fees for connecting to medium- and low-pressure networks.

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

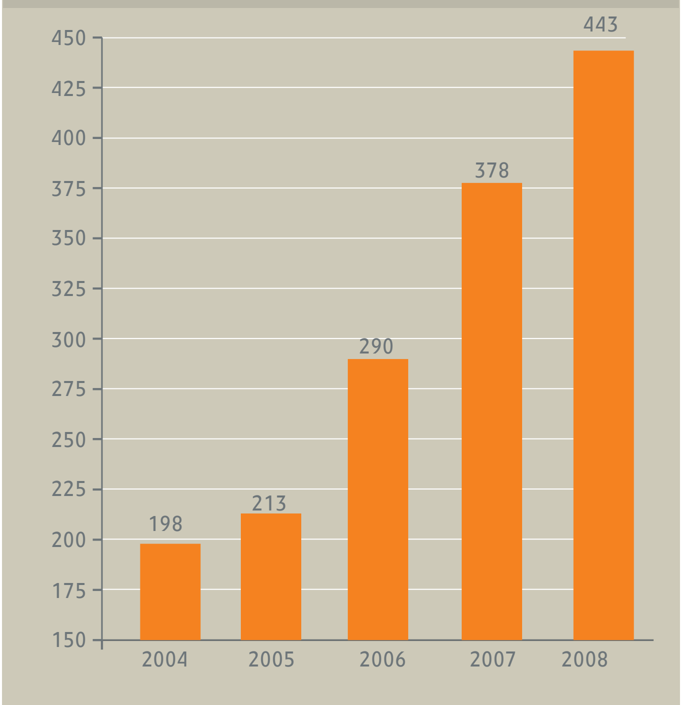
The PGNiG Group conducts exploration and prospecting work domestically and abroad. Its work in that area involves mainly exploration of geological structures for hydrocarbon reserves in the form of natural gas and crude oil. The exploration and prospecting of reserves comprise a study of historical data, 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.

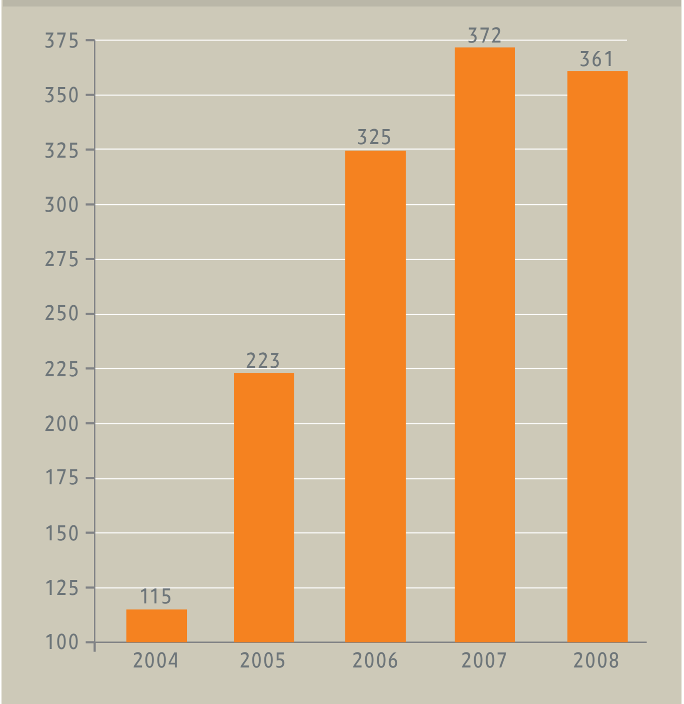
In 2008, a total of 65.347 km of drillings were made in Poland. The drilling work covered 35 boreholes, including 24 exploratory boreholes and 11 prospecting boreholes. At six of the boreholes, drilling commenced in 2007. Until the end of 2008, drillings were completed at 27 boreholes, including 18 exploratory 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.

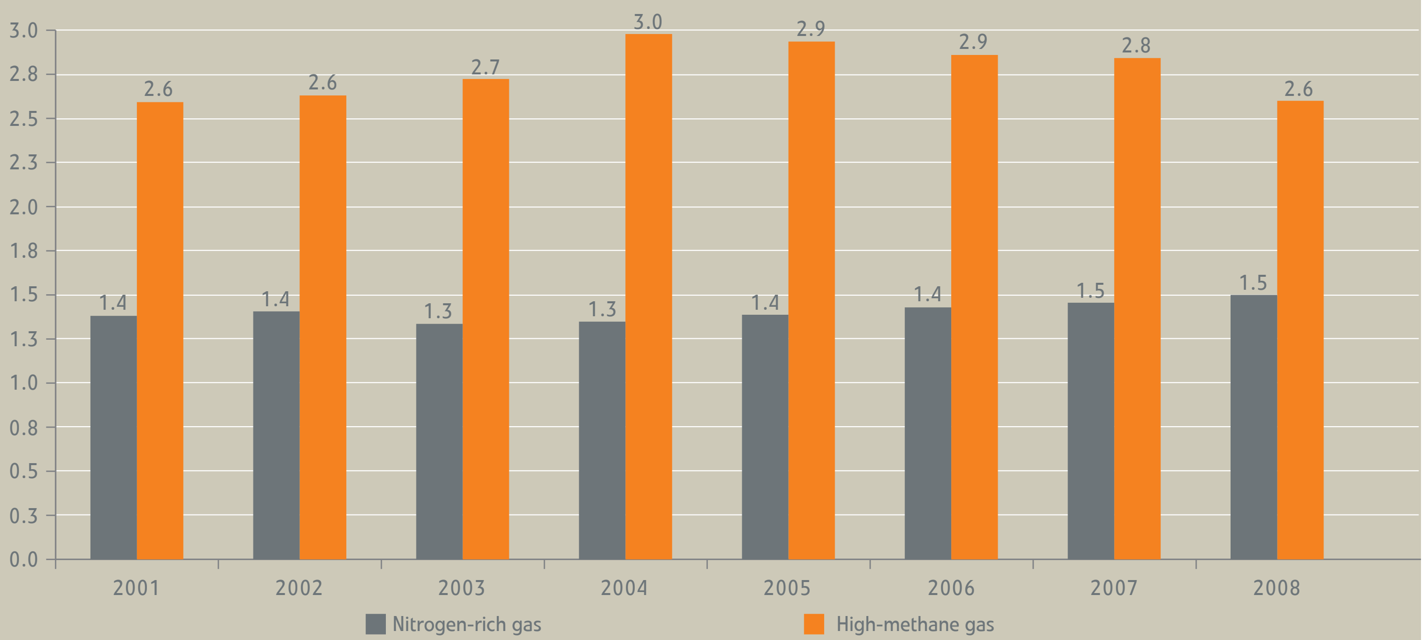
Crude oil is produced mainly by the Zielona Góra Branch at three Mine Centres: Gorzów Wielkopolski, Karlino and Grodzisk Wielkopolski. This branch produces from the largest reserve, the Barnówko-Mostno-Buszewo reserve (BMB), near Gorzów Wielkopolski, and the

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

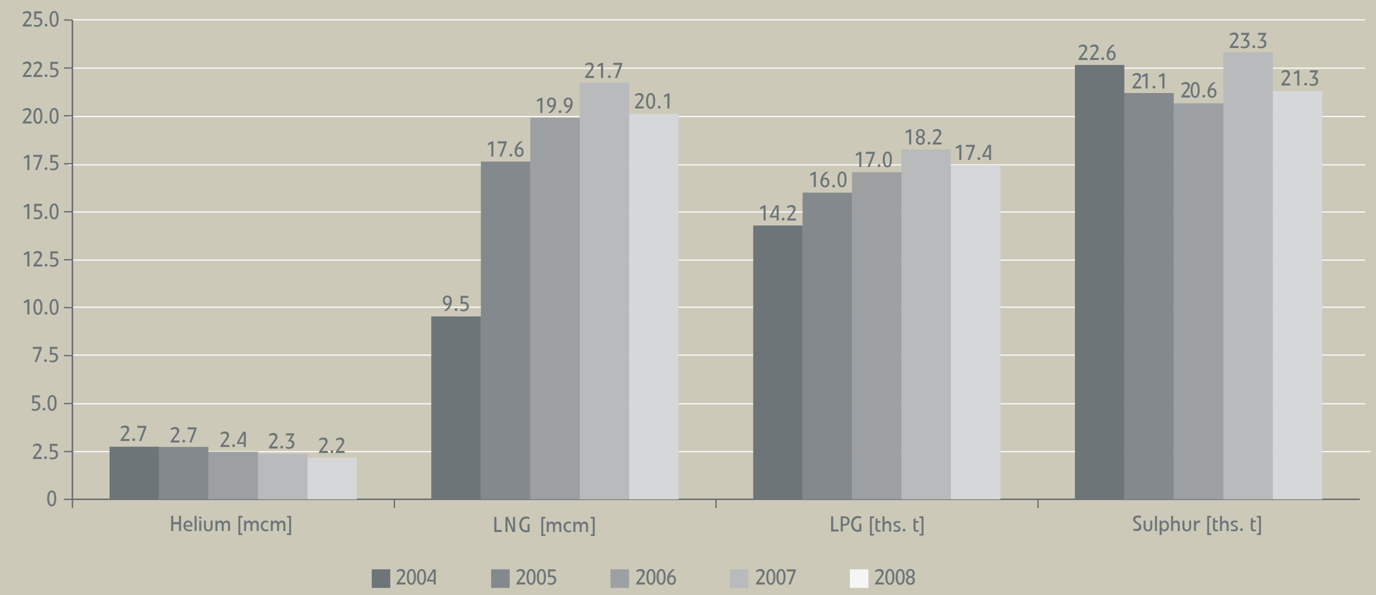
** As equivalent of high-methane natural gas in normal conditions.*

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

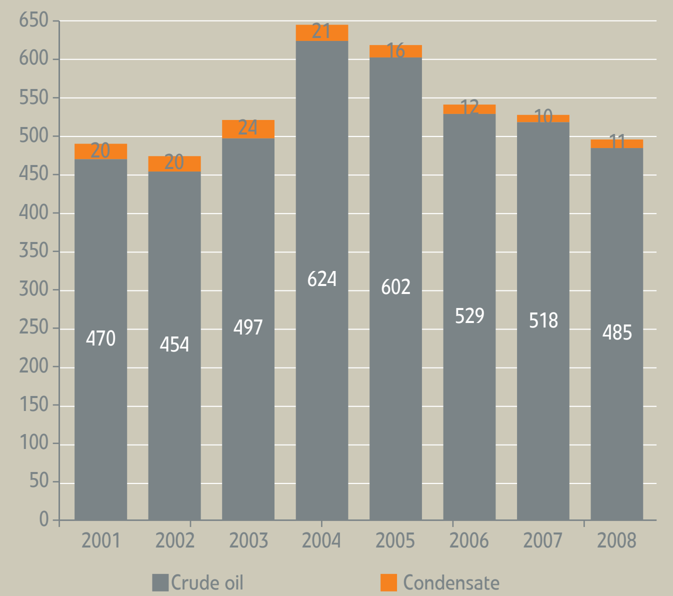


** As equivalent of high-methane natural gas in normal conditions.*

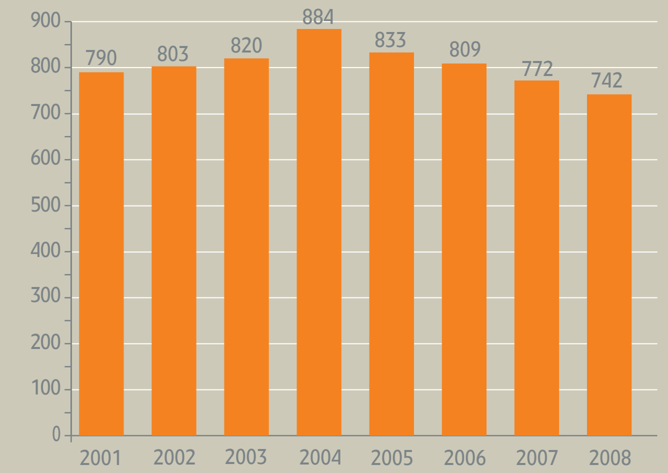
smaller ones including Górzyca, Buk or Lubiszyn. The total oil and condensate output in 2008 was 498 ths. tonnes, of which 452 ths. tonnes were attributable to the Zielona Góra Branch (including 376 ths. tonnes from the BMB reserve), and 46 ths. tonnes to the Sanok Branch. Compared with 2007, oil and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

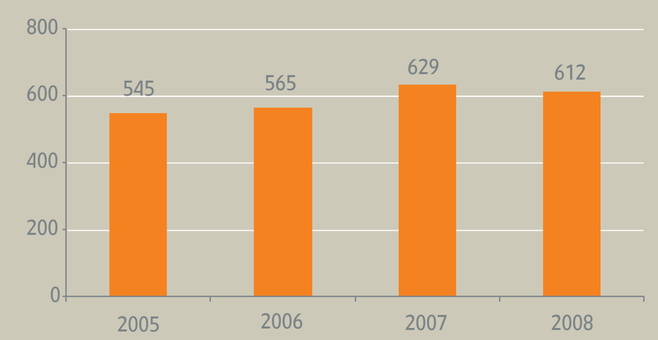
Non-regulated sales of gas are made by way of direct deliveries from PGNiG SA deposits (rather than via the transmission system). Sales transactions are executed on free-market terms, and the terms of delivery (including the gas price) are each time individually agreed upon with the customers and vary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

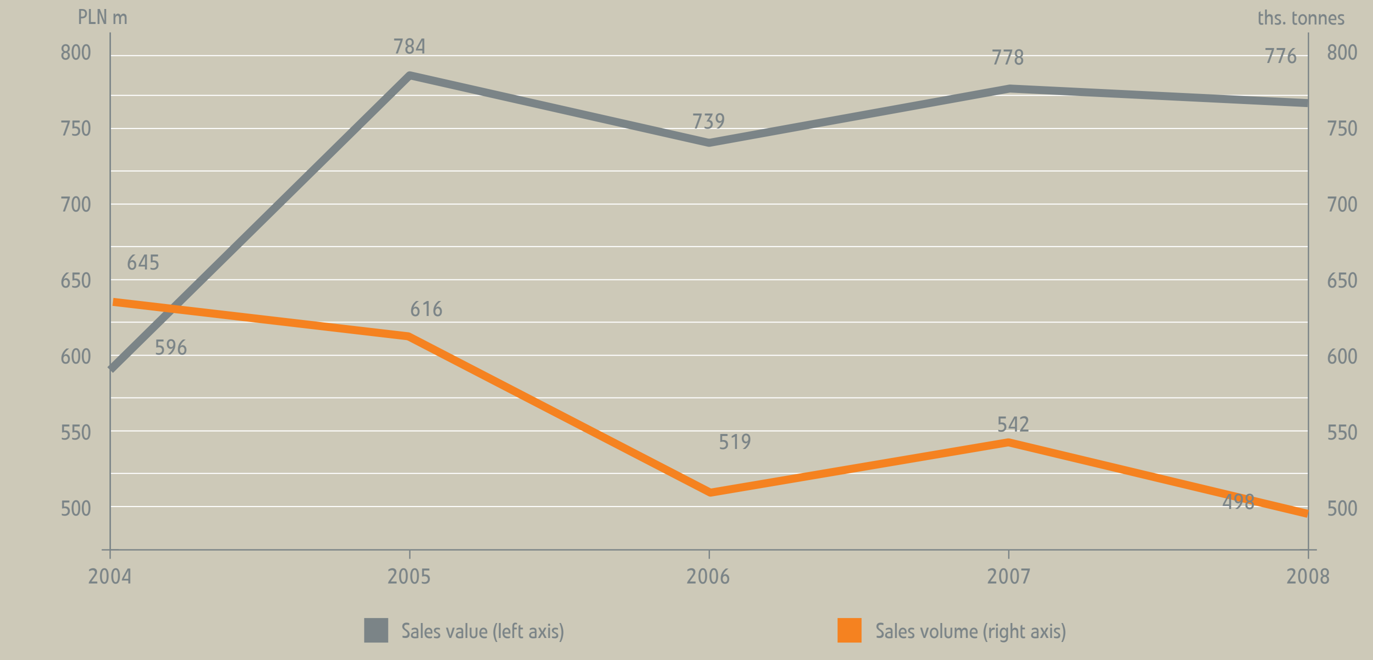
PGNiG SA's main customers purchasing natural gas were industrial enterprises, such as the Zielona Góra or Gorzów Wielkopolski CHP plants, Zakłady Azotowe (nitrogen plant) in Tarnów-Mościce, or Arctic Paper Kostrzyń. Their share in the volume of direct sales amounted to 85.9%. Direct sales are made mainly 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.

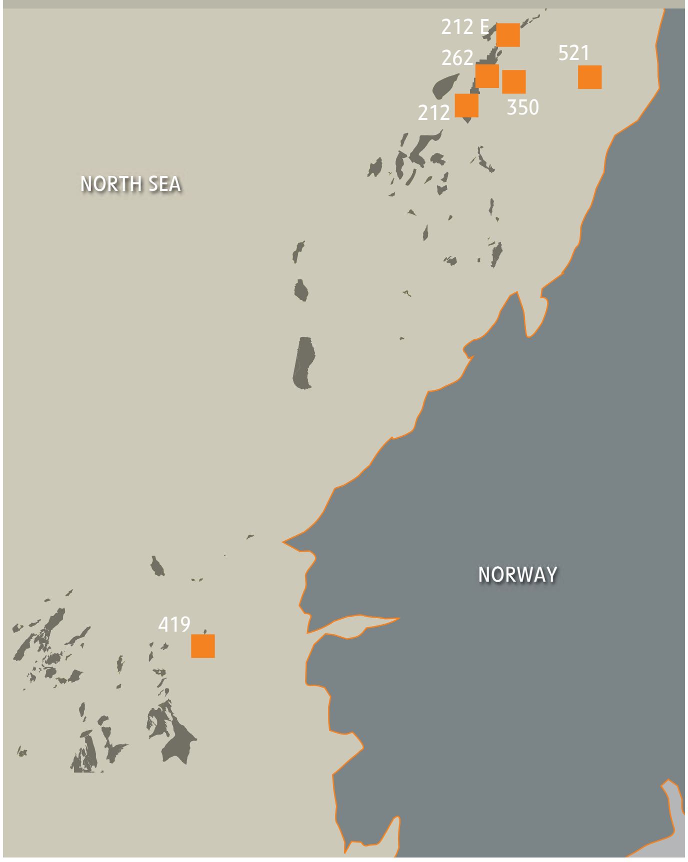
The implementation (development) phase of the project has formally commenced. Gas and oil production is due to be launched in the second half of 2011. Based on data approved by the Norwegian Petroleum Directorate, aggregate proved producing reserves of all the fields, corresponding to the acquired interest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

MAP OF LICENCES ON NORWEGIAN CONTINENTAL SHELF



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.

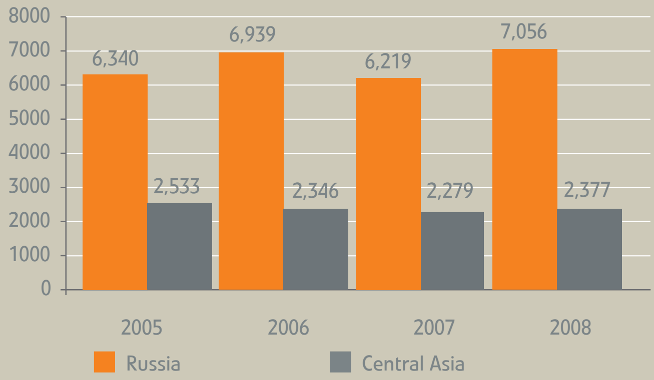
Imports

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]

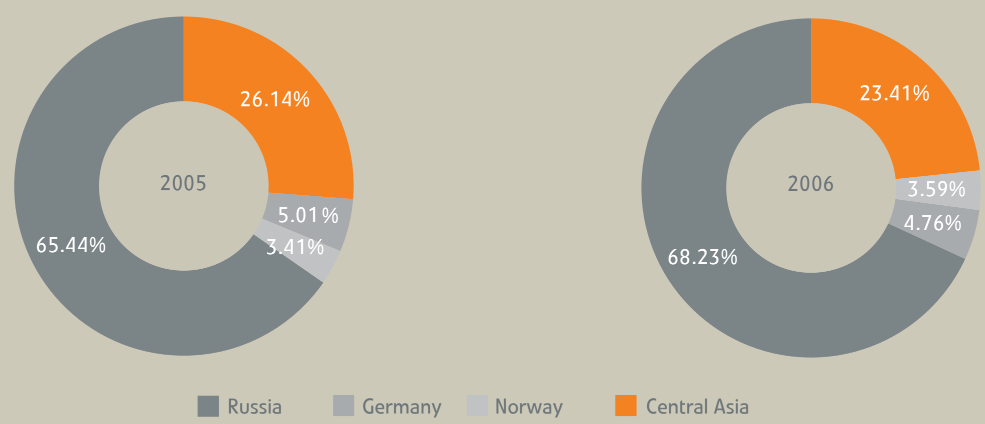


PGNiG SA is also involved in many projects aimed at diversification of the supplies of natural gas to Poland. The Company currently works on increasing the throughput of the gas pipeline on the Polish-German border in Lasów, from the current 1.0 bcm to 1.8 bcm in 2011, and the construction of a gas pipeline 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

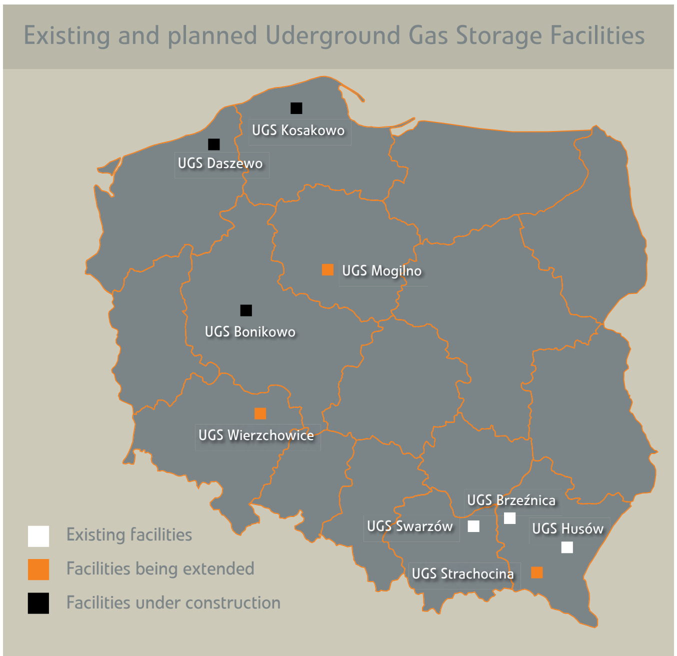
PGNiG SA operates six underground gas storage (UGS) facilities with a working capacity of 1.66 bcm, which represents 11.9% of the annual gas consumption by domestic customers. The facilities are located in various geological structures (in salt caverns or worked out natural gas deposits), and have different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

SOURCES OF GAS SUPPLIES IN 2005–2008



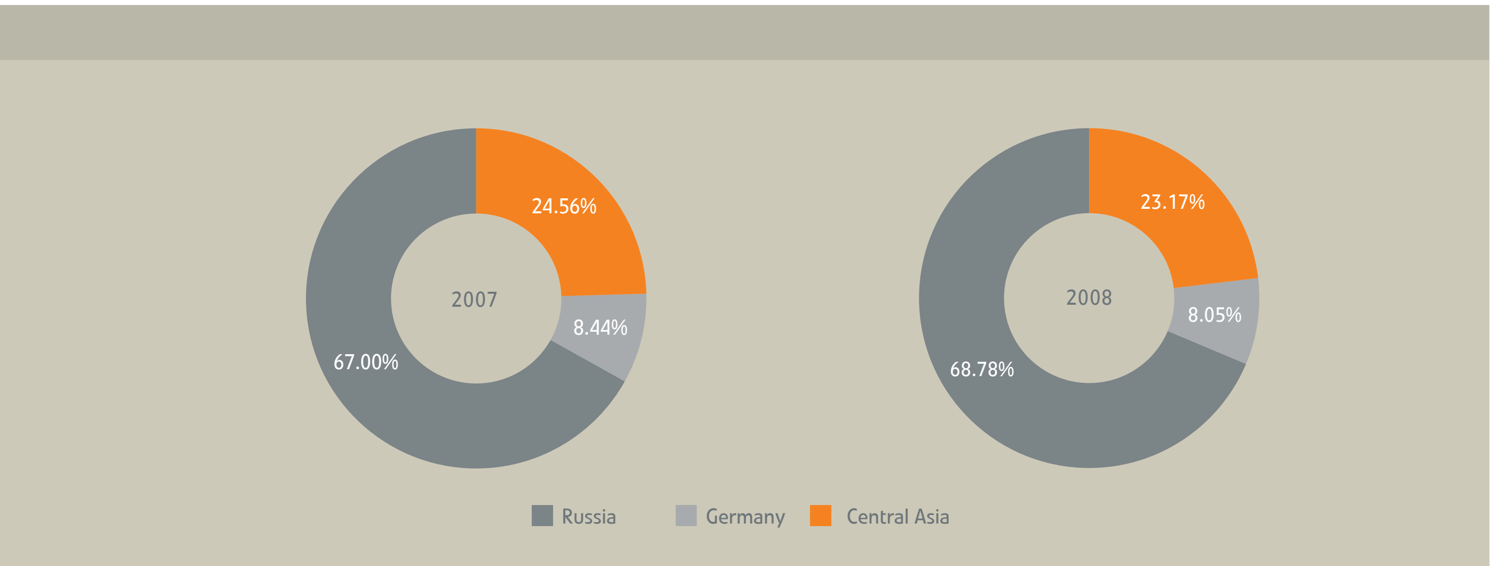
Our UGS facilities allow us to maintain an appropriate level of reserves for periods of short-term disruptions in gas supplies caused by system failures or limited gas availability. These facilities help us meet our obligations to create and maintain mandatory reserves imposed under the Act on Mandatory 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.



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

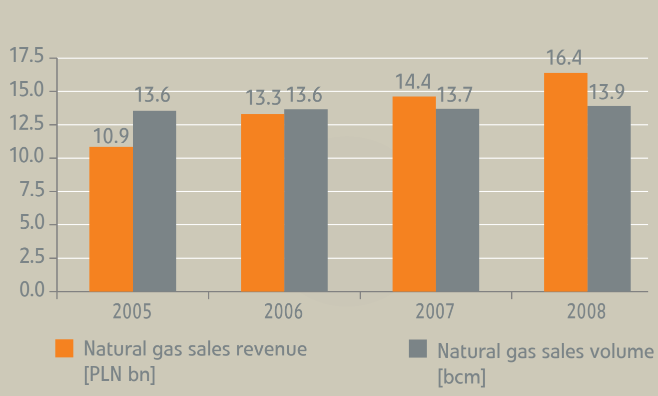
PGNiG SA is the largest seller of natural high-methane and nitrogen-rich gas fed into the transmission and distribution networks. Gas trading is regulated by the Polish Energy Law, with prices established on the basis of tariffs approved by the President of URE. As two types of gas (with different composition 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.

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



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.

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.

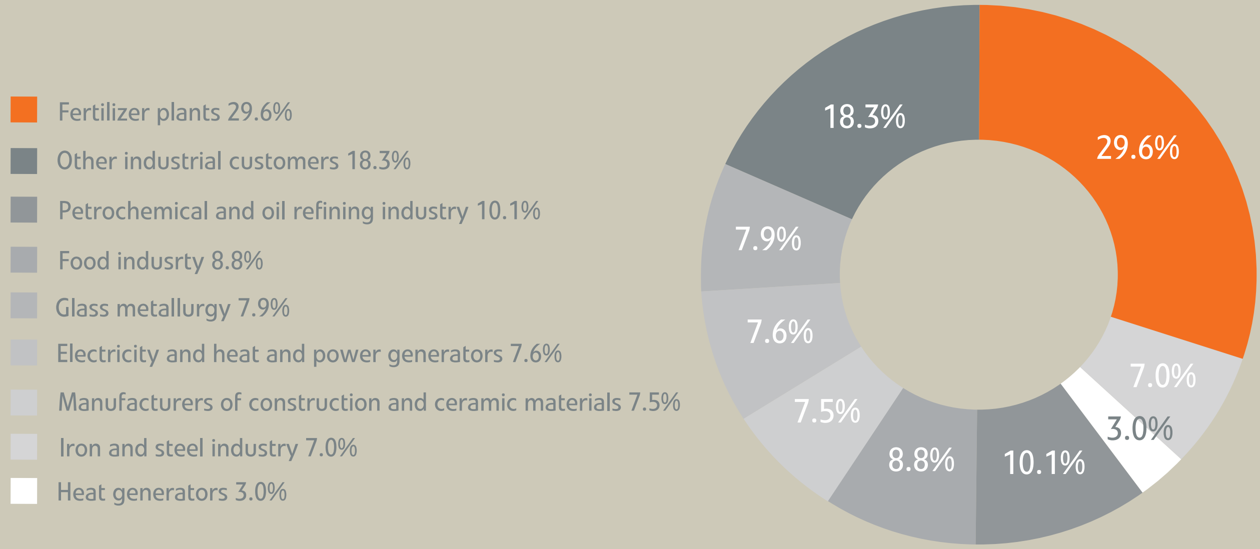
The projected rise in the natural gas sales volume is attributable to development investments of PGNiG SA's strategic customers in the petrochemical, construction and steel sectors. In 2007, PGNiG SA started cooperation concerning possible gaseous fuel supplies with several major prospective customers, 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.

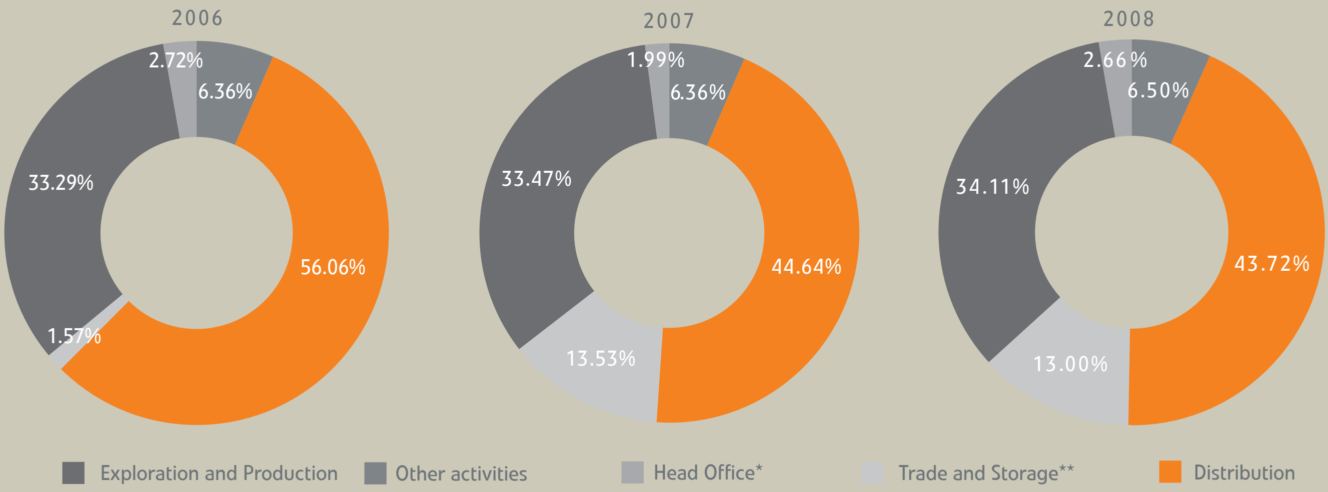
Recruiting the Best

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:

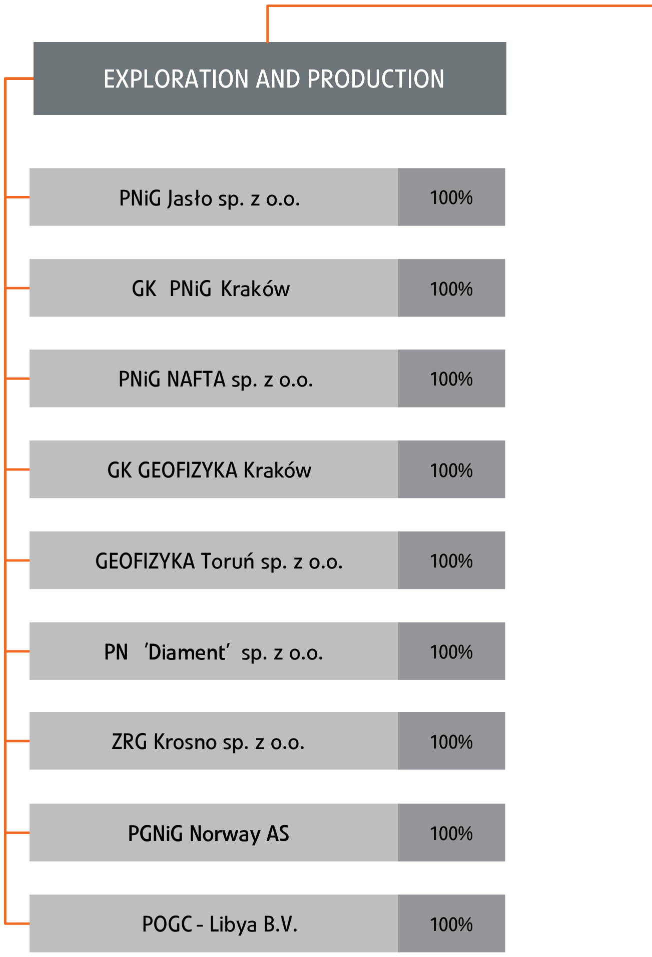
- 26 subsidiaries of PGNiG SA;
- 7 indirect subsidiaries of PGNiG SA.

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.



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.*

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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