

# 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**