



REGULATORY ENVIRONMENT

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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

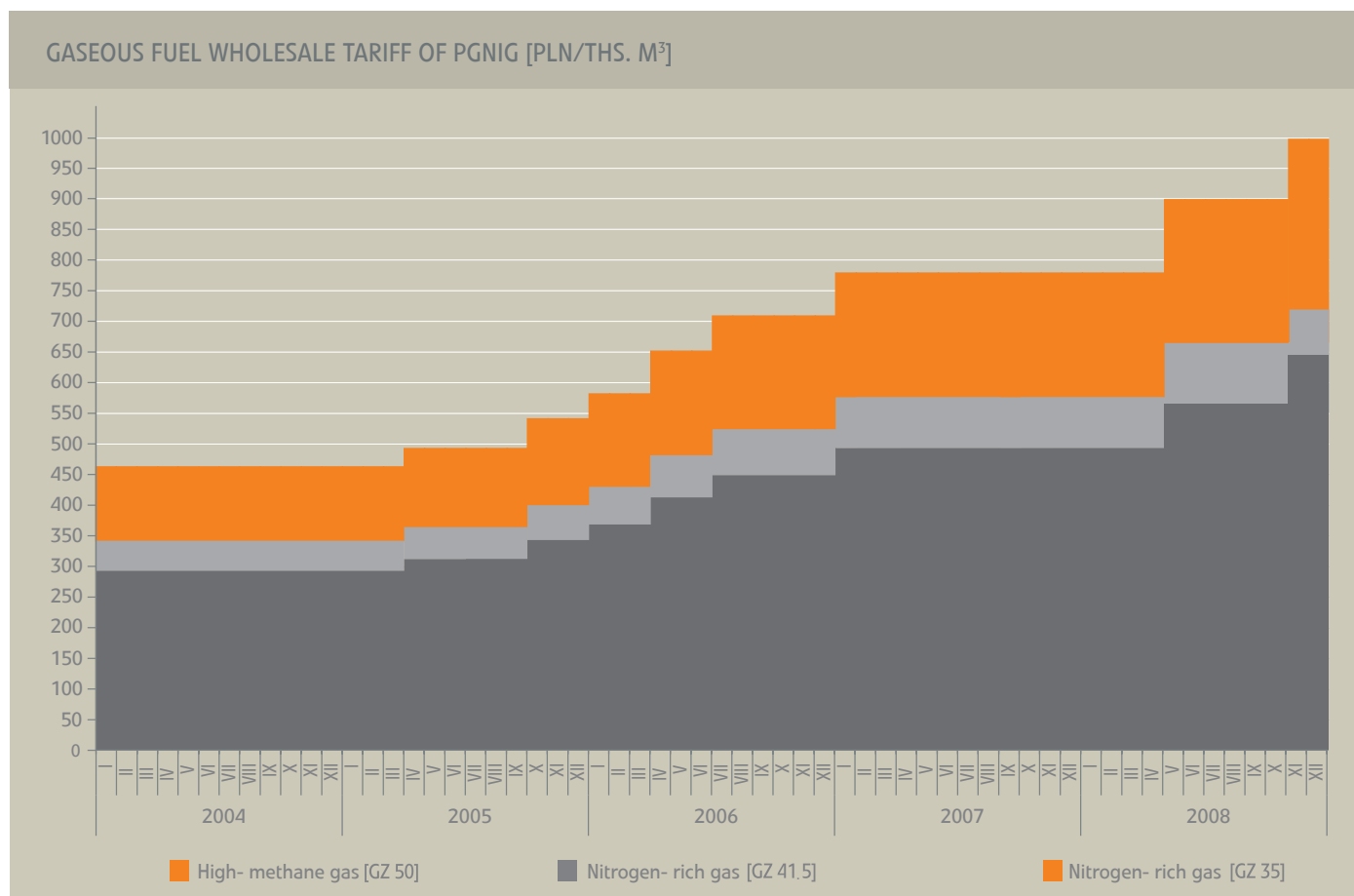
Companies had to apply Gaseous Fuel Tariff No. 2/2006, approved by the President of URE on March 17th 2006. In his decisions of April 10th 2008, the President of URE approved the Tariffs for Gaseous Fuel Distribution Services. The Tariffs, which for the purposes of settlements with customers took effect 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



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.

