



Annual Report **2007**



Key Figures

Selected Financials

	PLN m	2007	2006	2005
Sales revenue		16,652	15,198	12,560
EBIT		852	1,470	1,398
EBITDA		2,282	2,766	2,800
Net profit		916	1,328	881
EPS [PLN]		0.16	0.22	0.17
DPS [PLN]		0.19 ¹⁾	0.15	0.10
Assets		28,402	30,677	30,364
Equity		21,022	21,153	20,768
Net debt		(1,446)	(1,082)	(742)

¹⁾ Dividend will be paid on 1st October of 2008.

Financial Ratios

	2007	2006	2005
Net profitability on sales	5.5%	8.7%	7.0%
ROE	4.4%	6.3%	4.2%
ROA	3.2%	4.3%	2.9%
Current ratio	1.8	2.7	2.3
Quick ratio	1.4	2.2	2.0
Debt to total liabilities	26.0%	31.0%	31.6%
Debt to equity	35.1%	45.0%	46.2%

PGNiG in numbers



Gas and oil reserves

787
mboe



Natural gas imports

58.5
mboe
(9.3 bcm)



Natural gas sales

86.2
mboe
(13.7 bcm)



Oil and condensate sales

3.97
mboe
(542 ths. tonnes)



Length of distribution network*

107
ths km
* excluding connections



No. of customers

6.5
million

The PGNiG Group is the leader of the Polish natural gas market, as well as the only vertically integrated gas company in Poland. Its parent undertaking is Polskie Górnictwo Naftowe i Gazownictwo. Formation of the Group's enabled coordination of the upstream and downstream operations – from exploration and production, to storage, to trade and distribution of gaseous fuels.

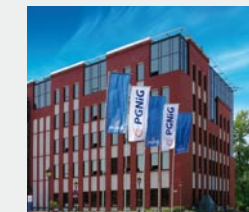
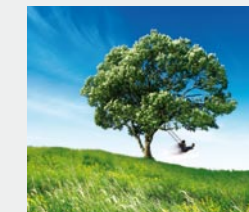
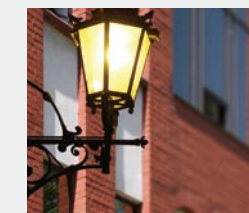
The Company owes its competitive edge on the gas market, which is now in the process of deregulation, chiefly to the natural gas and crude oil production. The core business of the PGNiG Group includes trade in and distribution of natural gas. Following the separation of its gas trade business from the operation of the gas distribution network – completed in 2007 – the entire trading business has been taken over by PGNiG,

while distribution is now handled by six Distribution System Operators belonging to the PGNiG Group.

On September 23rd 2005, PGNiG floated its shares on the Warsaw Stock Exchange, in the largest public offering in 2005. The Company's main shareholder is the State Treasury, which holds 84.75% of its shares.

Given its revenue and profit streams, the Company ranks among the largest and most profitable enterprises in Poland. In 2007, it posted PLN 16.7bn in revenue and PLN 916m in net profit. With the headcount of approximately 30 thousand, PGNiG is also counted among Poland's largest employers.

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Letter from the President of the Management Board



In 2007, we continued along the path of value growth. Amid pressures related to the massive organisational change, PGNiG SA reported a net profit of PLN 2.2bn, which represented a 96.4% improvement year on year.

Dear Ladies and Gentlemen,

The year 2007 was a breakthrough one for our Group. Under the EU directive and the Polish Energy Law in effect since May 2005, July 1st 2007 marked the deadline for full deregulation of the electricity and gas markets in the EU member states. Since that day, all citizens of the EU have been free to choose their own suppliers of electricity and gas. The date represented a landmark for consumers of gas and electricity and for the entire industry. To comply with the requirements imposed by the new laws, our Group undertook an organisational and legal separation of its transmission network and gas trading business.

Designated as "integration of gas trade", the project involved a dozen or so thousand employees, mainly at the field units of the PGNiG Group. This extremely difficult – yet unavoidable – task was successfully completed. Simultaneously, throughout 2007 we continued to implement complex projects aimed at exploring new development opportunities and positioning our organisation for entry onto the Europe-wide gas market. The strong market position and financial standing of our Group will serve as a springboard for its further growth and continued implementation of its pipeline of upgrade and investment projects. A quantifiable measure of our success was the profit earned by the PGNiG SA and the 2007 dividend paid out to our shareholders.

In 2007, we continued along the path of value growth. Amid pressures related to the massive organisational change, PGNiG SA reported a net profit of PLN 2.2bn, which represented a 96.4% improvement year on year. The sales and gas production volume were not appreciably different from the levels seen in 2006, whereas revenue on sales of gas went up by 26.5%. The Company's improved financial standing is reflected in its key profitability ratios – return on equity rose from 6.6% to 12.1%, return

on assets improved from 4.8% to 9.1%, while net sales margin widened from 9.1% to 14.3%.

Our Group posted a 31% year-on-year decline in consolidated net profit, which in 2007 dropped to PLN 916m. This change was largely attributable to the Distribution segment's operating loss of PLN 1.3bn, incurred due to the necessity to revalue the non-current assets of the Distribution System Operators while, on the other hand, it was due to the separation of gas distribution from trading activities. Net of the revaluation effect, our profit for 2007 would have roughly doubled year on year.

The financial markets perceive PGNiG SA as a stable company, striving to improve its business efficiency across the board. Our financial credibility has been confirmed by the credit rating from Standards&Poor's, which was upgraded to BBB+ (stable outlook) on February 5th 2007.

In 2007, we continued to implement a series of projects aimed at enhancing the Company value. Our activities in the area of exploration, as well as geophysical and geological work are particularly worth noting. One of the cornerstones of our Group's strategy focused on expanding its oil and gas reserves outside of Poland has been PGNiG's involvement in the project on the Norwegian Continental Shelf. In 2007, PGNiG SA concluded an agreement with Mobil Development Norway A/S and ExxonMobil Production Norway Inc., providing for the purchase of a 12% interest in the combined reserves of the Skarv, Snadd and Idun fields. PGNiG Norway A/S of Norway was established specifically for that purpose.

On April 19th 2007, PGNiG SA and Energinet.dk signed a letter of intent concerning the Baltic Pipe construction project. On November 15th 2007,

Energinet.dk, PGNiG SA and OGP GAZ-SYSTEM SA concluded a trilateral cooperation agreement, which represented one of the project's milestones. In June 2007, we obtained access to reserves from the Egyptian Bahariya field. In the same month, we joined a consortium formed to construct the Skanled gas-transmission pipeline, which is to connect Norway's Kårstø with Sweden and Denmark and acquired, for no consideration, a 15% interest in the project.

In December 2007, we won a tender in Libya, thus acquiring the right to conduct exploration work in the Murzuq oil basin. Around the same time, we also concluded an agreement for the transfer of a 40% interest in the exploration and production licence located in Denmark and owned by Willumsen Exploration Consultants ApS, whereupon we launched a promising exploration project in Denmark. Well in keeping with our Group's projects focused on identifying and acquiring new areas and sources of gas supplies is construction of an LNG terminal. With this innovative project – and I do not hesitate to call it that – PGNiG SA has joined the group of top-tier European players.

The projects I have described above are far from easy. Due to their long-term nature, they require substantial capital investment and an in-depth, comprehensive assessment of all potential opportunities and threats, which more often than not relate to a relatively distant future. The level of risk is monitored on an ongoing basis by the Company's Management and Supervisory Boards. It must be remembered though that PGNiG SA needs to look for new business opportunities that will build its value and help our Group gain a firmer foothold on the global gas market.

2007 was a breakthrough year for our core business. The spin-off of the Distribution System Operators and integration of the wholesale and retail

business made it easier for the Company to put its business philosophy into practice. The key premise on which that philosophy rests is a customer-oriented approach, which finds its particular expression in the focus on service standardisation, continuous improvement of the service quality and provision of tailor-made solutions. We never cease to look for new business opportunities, pinning great hopes on the power industry development, as well as the projects launched by PGNiG SA's strategic customers operating in the petrochemical, construction and metallurgical industries. In 2007, we also commenced talks with certain electricity suppliers concerning joint electricity and gas sales.

There is, however, an obstacle to unlocking the full business potential of the PGNiG Group, namely the policy, which has not changed in years, whereby gas prices are regulated by administrative decisions. What it means in practical terms is that the binding gas tariffs imposed by the President of Energy Regulatory Authority are determined without taking into account the actual costs of gas imports or the capital expenditure required to expand gas storage capacity and execute upstream projects. The Management Board of PGNiG SA has repeatedly pointed to the need to shape the tariff policy so that the tariffs reflect the real, economically justified, price drivers, which is a prerequisite from the point of view of Poland's energy security.

Investments in the gas storage facilities are a strategic priority for our Group. In addition to the obligations imposed by law, such investments are another necessary condition for being able to succeed in the competitive European gas market, as they serve to optimise gas supplies to customers. 2007 saw the completion of the project aimed at upgrading the surface infrastructure of the Underground Gas Storage Facility in Swarzędów. Work was also underway

to expand the working capacity of the gas storage facilities in Wierzychowice, Mogilno and Strachocina, and preparations were started to build an underground gas storage facility in Kosakowo.

Throughout 2007, the PGNiG Group's drilling and geophysical subsidiaries were conducting exploration and prospecting work in three regions of Poland: the Carpathian Mountains, the Carpathian Foreland and the Polish Lowlands. Our efforts aimed at acquiring access to new exploration and licence areas abroad, including projects on the Norwegian Continental Shelf and in Denmark, stem from a carefully planned strategy designed to enhance the Group's value. We will also remain awake to emerging opportunities – in Libya, Algeria, Egypt and Kazakhstan. 2007 witnessed intensive development of our Group's exploration business and its geophysical and geological segment. The Group companies acquired a number of new contracts, located in Denmark, Oman, India, Syria, Uganda, Kazakhstan, Hungary and in other countries. It is worth noting that the contracts were concluded on the fully competitive global markets, which amply demonstrates our high capabilities.

Ladies and Gentlemen,
Thanks to the Company's sound financial standing we are able to implement our investment goals. The favourable assessment of PGNiG's credit risk, as confirmed by the rating agencies, and its creditworthiness make it possible to obtain project financing on attractive terms. All projects we undertake are intended to steadily enhance the Company value and strengthen its brand presence on international markets, while ensuring the satisfaction of both shareholders and customers.

Although fraught with challenges, last year was ultimately successful for our Group. A good deal of credit must be given to our employees, without whose

dedication and competencies our success would not have been possible. It cannot be denied that changes in the PGNiG Group have required and will require a shake-up of the employment structure, as well as organisational streamlining needed to better exploit the existing synergies. This is always an immense effort which puts an organisation and its personnel to a test. However, the changes are designed to help the Group achieve a financial and market success, which in turn will enable its employees to lead more comfortable and settled lives. On behalf of PGNiG SA's Management Board and on my own behalf, I wish to thank all our employees for the commitment they have demonstrated so far, hoping for our further fruitful cooperation. I am absolutely certain that together we can achieve our objective of maintaining the PGNiG Group's strong market position and financial standing, but also of further strengthening of our presence in Central and Eastern Europe.



Michał Szubski
President of the Management Board
PGNiG SA

Warszawa, April 2008

PGNiG on the Warsaw Stock Exchange

Position on the Warsaw Stock Exchange

PGNiG whose debut on the Warsaw Stock Exchange ("WSE") took place on September 23rd 2005, is one of the largest Polish companies listed on the WSE. We enjoy the status of the Golden Company and our stock, apart from being included in the WIG20 index (since December 15th 2005), is also a constituent of the prestigious index of emerging market stocks selected by Morgan Stanley Capital International Inc. ("MSCI"). PGNiG is one of the six fuel companies which comprise the WIG-Paliwa index.

PGNiG stock's weight in the WSE indices

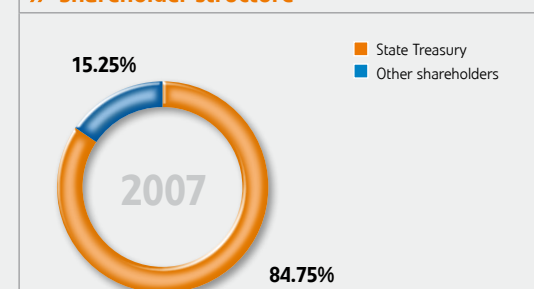
WIG	2.24%
WIG20	3.88%
WIG-Paliwa	19.41%

As at December 28th 2007.

Shareholder Structure

The State Treasury is the majority shareholder in PGNiG, holding 84.75% of shares and the same percentage of votes at the General Shareholders Meeting. The remaining shares are traded on the WSE. Our shareholder structure has not changed since the Company's debut on the WSE.

» Shareholder structure



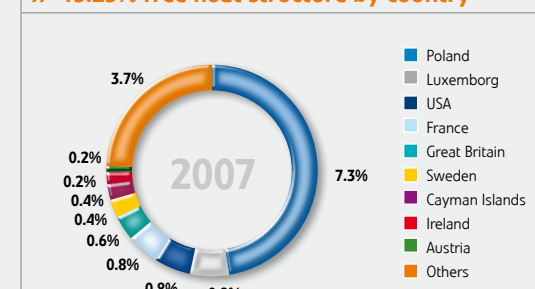
As at June 19th 2008.

Investor Relations

Our investor relations activities are centred around mandatory activities prescribed by law. We are required to make regular disclosures and to publish material information which must be accessible to all investors on equal footing.

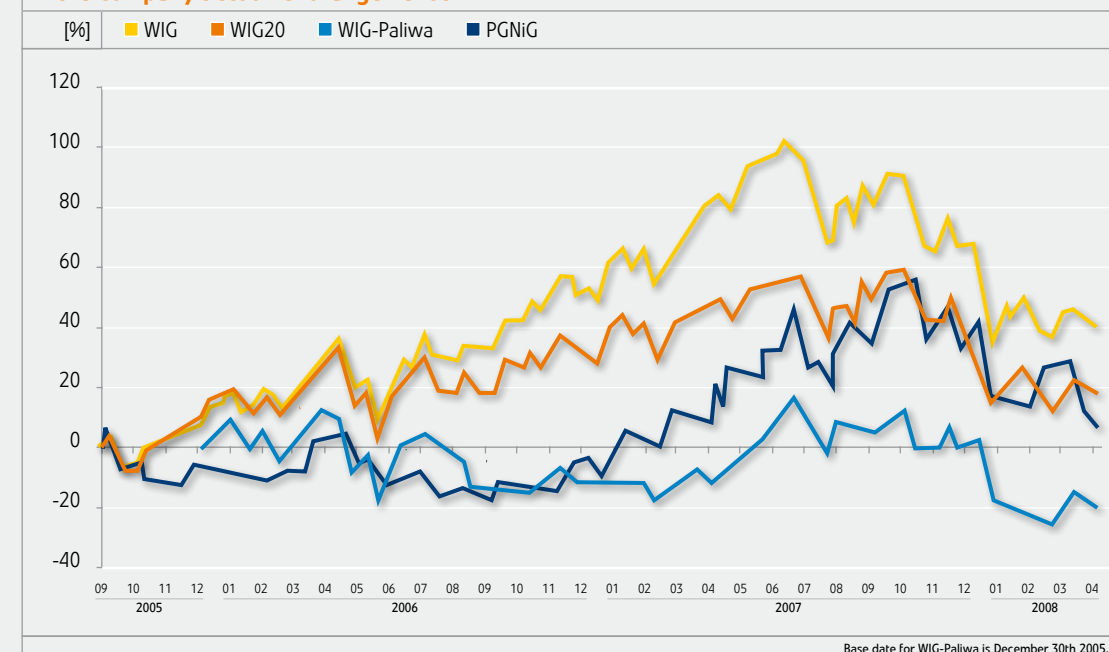
The investor relations efforts also include measures taken to cultivate good relationship with existing and prospective shareholders, such as organisation of road shows and participation in international investor conferences, meetings with portfolio managers, and continuous communication with analysts. Furthermore, the IR team is responsible for creation and maintenance of our corporate website, where current information and data on Company's performance, plans and the project pipeline are to be found. In April 2008, the Polish Association of Retail Investors (Stowarzyszenie Inwestorów Indywidualnych) recognised the efforts of our Investor Relations staff by awarding the team the first prize in the IR excellence ranking of the Polish listed fuel companies.

» 15.25% free float structure by country



Figures as at September 2007.

» Percentage changes in PGNiG Stock Price, the WIG Index, WIG20 Index and WIG-Paliwa Index from the Company's stock-exchange debut



Stock Price

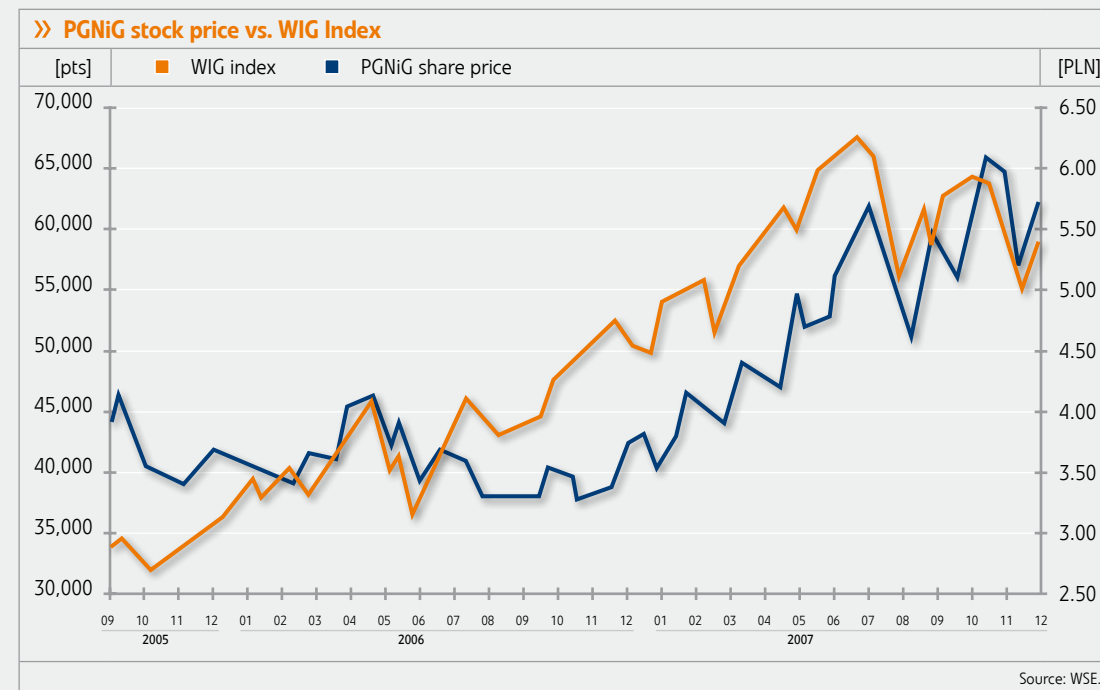
Over 2007, the price of the PGNiG stock increased by 37.1%. With the dividend paid out at PLN 0.17 per share, the rate of return was 41.7%. The highest price at which our stock traded in 2007 was PLN 6.10 (at close on October 23rd 2007). The stock's strong performance confirms our stable financial standing. To compare, in 2007, the WIG and WIG20 indices gained 8.7% and 3.2%, respectively, while WIG-Paliwa, the index reflecting the economic situation in the fuel sector, recorded an increase to the order of 9.2%.

In 2007, the fluctuations in the value of indices on the global markets were driven mainly by the news on the U.S. economy. The slowdown in the United States and the threat of a recession triggered a sharp fall in the indices also on the Warsaw Stock Exchange in the second half of 2007. The behaviour of macroeconomic indicators, which reflect the condition of the U.S. economy, affected the price of the PGNiG shares to a considerably greater extent than the news from the Company.

Dividend

The decision-making process concerning the dividend payment and dividend amount is determined by various factors, such as performance, capital requirements under the investment programme, and the market conditions. The decision on profit distribution and payment of dividend for a given financial year is made by our General Shareholders Meeting. In June 2007, the 2006 profit was distributed. The dividend per share was PLN 0.17, i.e. 13% more than in the previous year (PLN 0.15). Pursuant to our Articles of Association, PGNiG may also distribute non-cash dividend, which was the case in 2006 and 2007 (the non-cash dividend was received by the majority shareholder, i.e. the State Treasury).

Changes of PGNiG stock price



February 2nd 2007

Standard&Poor's (S&P), a rating agency, upgraded PGNiG's long-term credit rating from BBB to BBB+, with stable outlook. The news was well received by the shareholders; over the following days, the share price climbed by 1.5%, to PLN 4.09.

March 1st 2007

The Q4 2006 consolidated quarterly report was published. The disclosed results were in line with analysts' expectations. On the same day, PGNiG also reported that it had concluded a conditional agreement for purchase of interests in the licences in the Norwegian Continental Shelf. The stock price over two consecutive trading days increased by 3.9%, from PLN 3.83 to PLN 3.98.

March 14th 2007

The President of Energy Regulatory Office resolved to extend the effective period for the gaseous fuels tariff until September 30th 2007. The decision was consistent with the market expectations (since January 1st 2007, the gaseous fuels tariff had risen by 9.9%). The stock price grew by 1.0%.

April 16th 2007

Information was disclosed on the conclusion of an agreement between PGNiG and Rafineria Trzebinia SA for the sale of approximately 15 thousand tonnes of crude oil a month, which accounts for ca. 30% of the domestic production, from the reserves located near Zielona Góra. The news had no impact on the stock price.

May 2nd 2007

PGNiG and Energinet.dk worked out an agreement on a direct gas pipeline project between Poland and Denmark. The Baltic Pipe project is a step towards achieving one of our strategic goals, i.e. diversification of gas supplies to Poland. The arrangement with Energinet.dk was well received by investors, which was reflected in the stock price – the next trading session saw a 1.1% rise in the share price, to PLN 4.69.

May 9th 2007

The Management Board of PGNiG resolved to reduce the Company's debt by repayment of a term loan facility with own funds, thus lowering debt

servicing costs. The decision was well received by the capital market; over the next few days, the share price gained 1.5%, rising to PLN 4.91.

May 15th 2007

The Q1 2007 consolidated quarterly report was published. Investors expected very good results, which was reflected in the stock price. In the period between May 10th and May 15th, the price increased by 13.6%, from PLN 4.33 to PLN 4.92.

June 20th 2007

PGNiG joined the Skanled consortium after a free-of-charge acquisition of a 15% interest in the project consisting in construction of a pipeline connecting Norway (in the town of Kårstø), Sweden and Denmark. Our participation in the project was well received by investors; the stock price advanced by 4.5% over the next few trading days.

June 28th 2007

The General Shareholders Meeting of PGNiG resolved to pay out dividend for 2006 of PLN 1bn (PLN 0.17 per share). The dividend payout ratio was 63.39%. The news did not affect the stock price on the day of the announcement; however, over the next two weeks the price went up by 12.0%, from PLN 5.07 to PLN 5.68.

July 24th 2007

The Company published a new forecast assuming reduction in the natural gas production volume to 4.6 billion cu. m in 2008 and approximately 5.0 billion cu. m in 2009. Investors' reaction to the news was negative; on the next trading day the stock opened down 2.7%.

August 13th 2007

The Q2 2007 consolidated quarterly report was published. We posted results slightly below the market consensus. However, on the report publication date, the stock price gained 2.2%, rising from PLN 4.64 to PLN 4.74 as a result of a correction after a 4.3% decline on August 10th 2007.

August 16th 2007

The President of Energy Regulatory Office resolved to extend the effective period for the gaseous fuels

tariff until December 31st 2007. Despite earlier indication of the Management Board that this might be the case, investors' reaction was negative; the stock lost 5.8%, falling from PLN 4.79 to PLN 4.51.

September 17th 2007

PGNiG was pre-qualified and qualified by the Norwegian Ministry of Petroleum and Energy, and on September 19th the Norwegian Ministry of Hydrocarbons and Energy approved the purchase a 12% interest in exploration and production licences on the Norwegian Continental Shelf. Both decisions were well received by investors; in the period from September 17th to September 19th, the stock price climbed by 3.0%, to PLN 5.42.

October 17th 2007

PGNiG and PGNiG Norway concluded a loan agreement to finalise the purchase of interests in the licences in the Norwegian Continental Shelf. Two days later, both companies concluded a guarantee agreement. The news was met with a positive reaction of the market. In the period from October 19th to October 23rd, the stock price grew by 7.6%, from PLN 5.67 to PLN 6.10, and reached its all-time high.

October 31st 2007

PGNiG Norway purchased interests in the PL212, PL212B and PL262 exploration and production licences in the Norwegian Continental Shelf. This was our first such significant international transaction in the E&P sector. The transaction is a key element in our strategy of securing more crude and natural gas reserves outside Poland. The information was met with a positive reaction from investors: over the subsequent week the stock price grew by 6.0%, to PLN 6.00 (on November 8th 2007).

November 14th 2007

The Q3 2007 consolidated quarterly report was published. The Company's performance fell short of the analysts' expectations, which resulted in a 4.2% decline of the stock price, to PLN 5.54. On the same day, the WIG index and WIG20 index lost 2.3% and 2.5%, respectively.

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 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.



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. His entire professional career has been connected 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 a 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 also holds Executive MBA from the University of Illinois Urbana Champaign. He has been with PGNiG since 1998, moving up the ranks in the operations division, and later holding the positions of Director of the Strategy Office and Director of the Strategy and Restructuring Department.



Mr Sławomir Hinc

Vice-President of the Management Board for Finance

Graduate of the University of Gdańsk, with an MA in economics. He also studied at Wirtschaftsuniversität, Austria, and at Technische Fachhochschule, Germany. Mr Hinc received a PhD degree in Technical Sciences in a field of gas engineering from 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 Gaz-System SA.



Mr Mirosław Szkaluba

Vice-President of the Management Board for HR and Restructuring

Graduate from the Oil and Drilling Faculty 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 Szkaluba has worked for PGNiG since 1994. Until 2005, he worked at the Exploration Department as specialist responsible for planning, supervision and settlement of exploration activities. In 2005-2008, he was a PGNiG Supervisory Board member appointed by the employees.



As at June 19th 2008.

Letter from the Chairman of the Supervisory Board

Dear Ladies and Gentlemen,

In the previous year, the Supervisory Board was closely monitoring all aspects of PGNiG SA's operations, while getting actively involved – in communication with the Management Board – in seeking solutions that would best serve the Company's interests.

There can be no doubt that the year 2007 brought with it some breakthrough developments for PGNiG SA and its Group, as well as a broader Polish power sector. July 1st 2007 saw full deregulation of the Polish electricity and gas markets, which forced the PGNiG Group to undertake a profound organisational change – a demanding exercise, which was nevertheless successfully accomplished.

At the same time, the Company continued to implement projects focused on diversifying gas supplies and ensuring Poland's energy security, while enhancing the Company value and reinforcing its foothold on the global markets. Aware of their importance for the Company and the risk they entail, the Supervisory Board is watching those efforts with close attention.

The activity of the Group's exploration and production subsidiaries offers great promise for the future. Throughout 2007, they managed to secure a number of new contracts, thereby solidifying their position in the fully competitive global markets.

PGNiG SA's impressive financial performance and the uptrend in its key profitability ratios is another source of satisfaction. In 2007, the Company stayed firmly on the value growth path, which fills us with optimism as regards its development prospects and the feasibility of continued execution of the ongoing modernisation and investment projects.

The Supervisory Board take an optimistic view on the employee relations going forward. It was largely due to the staff's commitment that the challenging transformations undertaken in 2007 within the

PGNiG Group were a success. I strongly believe that the dialogue with the employees will continue. I also believe that this year will be at least as successful for the Company as the previous one, allowing it to deliver profits satisfactory to the shareholders, while giving grounds for contentment to all employees of the PGNiG Group.



Stanisław Rychlicki
Chairman of the Supervisory Board
PGNiG SA

Warszawa, April 2008



Supervisory Boards

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 career path with the Faculty of Drilling, Oil and Gas, where he currently serves as the 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 an acting director of the Department for 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 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 for many years. Currently, she works at the Trade Department of the Bydgoszcz Gas Plant.

Mr Mieczysław Kawecki

Member of the Supervisory Board

Graduated 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 Hubert Konarski

Member of the Supervisory Board

Graduate of Faculty of Law at the University of Warsaw. In 1999–2001, he worked for PGNiG as a lawyer and negotiator responsible for domestic and international contracts. Since 2002, he has served as managing director at a gas and oil consultancy. He has authored a number of trade publications, chiefly on international contracts in the oil and gas sector.

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 Naf-towe Diament (2001–2002) – both PGNiG's subsidiaries. Ms Siergiej is Grade III Mining Director. In 1995, she was appointed Chief Accountant of the PGNiG Branch in Zielona Góra.

Ms Joanna Stuglik

Member of the Supervisory Board

Graduate of the Faculty of Economics at the Cracow University of Economics. She earned a doctoral degree in economic sciences, specialising in strategic management and finance. Ms Stuglik has authored a number of publications on finance, particularly devoted to correlation between corporate budgets and strategic goals.

As at June 19th 2008.

Calendar of Corporate Events



January 2007

PNiG NAFTA of Piła continued the drilling of the AL-BORQ-1X well in the north-western part of Egypt, which was commissioned by Vegas Oil and Gas SA. The work commenced in late 2006. At the end of January, the company started drillings for Apache West Kanayes Corporation Ltd.

February 2007

A new natural gas mine in Jasionka near Rzeszów, Poland, was placed in operation by PGNiG. Producible reserves at Jasionka amount to 1.75 billion cu. m. The mine is estimated to yield 150 million cu. m of high-methane gas per annum. The capital expenditure on this project was approx. PLN 24m.

PGNiG, Mobil Development Norway A/S and ExxonMobil Production Norway Inc. entered into a conditional sale agreement related to the PL212, PL212B and PL262 licenses for production from the Skarv and Snadd deposits on the Norwegian Continental Shelf. Under to the agreement, PGNiG acquired a 15% interest in the licenses (which, after unitization, fell to 12%).

March 2007

PGNiG is the first Polish energy company to have officially opened a permanent representative office in Brussels. Consequently, we became an active participant of the European gas market forum. Our presence in Brussels enables us to continuously monitor the effects of the European legislation on the Polish gas market. This will also facilitate our efforts aimed at securing EU's support for specific projects, crucial for ensuring Poland's energy security.

PGNiG's General Shareholders Meeting approved establishment of Polskie LNG (PLNG) whose task will be to construct an LNG terminal in Świnoujście, Poland. After completion of the project, PLNG will operate the terminal (regasification). PGNiG acquired 100% shares in PLNG.

April 2007

PGNiG made it to the Global 2000 list compiled by Forbes. The ranking lists companies with the greatest importance for the global economy. PGNiG made its first appearance on position 1,170, which gives it the third place among Polish companies ranked on the list.

May 2007

PGNiG and Energinet.dk made an arrangement with a view to constructing a direct gas pipeline between Poland and Denmark (the Baltic Pipe). The co-operation with Energinet.dk on projects related to gas supply and transmission in the liberalized European market is another example of PGNiG developing its international presence.

PGNiG signed an arrangement with GB Petroleum Plc concerning joint exploration and production from hydrocarbons deposits under the licenses held by both companies. The venture will enable PGNiG to use GB Petroleum Plc's Tunisian and Moroccan licenses. Both companies expressed their intentions of long-lasting cooperation based on sharing expertise and experience.

June 2007

PGNiG won a tender for the exploration license in the Bahariya block in Egypt, with an area of 4,414.4 km². The block is located approx. 200 km south-west of Cairo, in the Western Desert. Over the last decade, many significant crude oil reserves were discovered in that area.

PGNiG joined the Skanled consortium, responsible for construction of a gas pipe running from Kårstø (Norway) to Sweden and Denmark, and acquired a 15% interest in the project, free of charge. By acquiring the interest, PGNiG gained the right to participate in decision-making processes within the consortium, the right to make decisions concerning transmission capacity booking, as well as the right to access the entire project documentation.

The Company completed legal separation of six Distribution System Operators (DSO), which was the key stage in the process of legal separation of gas trading from distribution assets. Such obligation was imposed on all companies operating in the EU members states. The solution adopted by PGNiG is similar to the model functioning in the UK.

July 2007

In accordance with the laws of Norway, PGNiG established a subsidiary undertaking – PGNiG Norway – with its registered office in Stavanger. The entire PGNiG Norway's share capital was acquired by PGNiG. The main responsibility of the newly-established company is development of the Skarv, Snadd and Idun reserves in the Norwegian Sea and production of natural gas and crude oil from these reserves.

Geofizyka Toruń was awarded a contract by Shell for the performance of seismic surveys in Syria. Shell had never before commissioned a company from Central Europe to perform such services. With the new assignment, the Toruń company joins the group of world's leading geophysical service providers.

August 2007

PNiG Kraków signed an agreement with EmbajugNefit, a Polish and Kazakh company, for the performance of drilling and maintenance work. The relevant services are performed in the Atyrau region in Kazakhstan, under the Zhubantam-Zhusalysay license. The area lies in close Tengiz, the world's sixth largest deposit. The agreement was concluded for one year, with an extension option. The scope of work includes performance of two to four boreholes, with a depth of five to six kilometres.

September 2007

Geofizyka Kraków won a tender for seismic surveys to be performed for DONG Energy, a Danish energy consortium. This is the company's first contract with a Danish operator. The project commenced at the end of September/beginning of October, and it consists in exploration for geothermal water for local heating purposes.

October 2007

Completion of the project consisting in adjustment of the PGNiG Group's operations to the requirements of EU Directive 2003/55/EC and the amended Polish energy law, which obligated companies in the energy sector to separate gas trading from distribution. PGNiG assumed all the activities related to retail sale of gas and customer service across Poland. Concentration of trading activities in one entity will yield major benefits to the Company due to streamlining of customer service processes and, in the future, optimising costs of the trading activity.

Geofizyka Toruń won a tender for seismic surveys to be performed for GeoEnergy. 2D and 3D seismic surveys commenced in south-west Germany in November 2007. The company is not new to the German market – it has conducted geophysical research there for years and its brand name has already won recognition on the local market.

PGNiG Norway purchased from Mobil Development Norway A/S and ExxonMobil Production Norway Inc. interests in the PL212, PL212B and PL262 licenses which provide access to the reserves located on the Norwegian Continental Shelf. The company also assumed the rights and obligations resulting from a number of agreements pertaining to these reserves. USD 390m was paid for the licenses and as part of related settlements.

November 2007

PGNiG, Energinet.dk and OGP GAZ-SYSTEM SA signed a cooperation agreement concerning implementation of the Baltic Pipe project. The agreement was a consequence of the letter of intent for construction of the Baltic Pipe signed by Energinet.dk and PGNiG in May 2007.

December 2007

PGNiG signed an agreement for assignment of a 40% interest in the exploration and production license in Denmark owned by Willumsen Exploration Consultants ApS. Consequently, the company started exploration work in the area which offers good prospects for development of the production market. The remaining interests are owned by Odin Energi A/S (40%) and Nordsofonden (20%). The license can potentially lead to the discovery of crude oil reserves in the deposits of the Main Dolomite.

Corporate Governance

The premeditated strategy or effective management are not the only factors in success of a large company like PGNiG. In order to draw investors' attention, a company must demonstrate that it abides by principles of good supervision and management, namely corporate governance. The Management Board of PGNiG makes every effort to properly abide by these principles and to make our operations transparent to investors. As a result, this makes our company more attractive.

Governing Bodies of PGNiG

General Shareholders Meetings

The General Shareholders Meeting is the Company's highest governing body which operates pursuant to the rules stipulated in the Commercial Companies Code and the Rules of Procedure for the General Shareholders Meeting. Shareholders exercise their corporate rights through a general shareholders meeting. The General Shareholders Meeting reviews and approves director's reports as well as makes decisions on dividend amounts, form and record dates. The State Treasury, as the majority shareholder of PGNiG retains 84.75% of votes at the General Shareholders Meeting.

Supervisory Board

This governing body performs continuous supervision over the functioning of PGNiG in all areas of its operations, in accordance in the Rules of Procedure for the Supervisory Board. The Supervisory Board is composed of five to nine members, including one independent member, appointed by the General Shareholders Meeting of PGNiG for a common term of three years. The State Treasury is entitled to appoint or remove one member of the Supervisory Board.

Management Board

The Management Board is the executive governing body which manages the Company's operations and represents it in court and out of court. The Management Board is composed of two to seven persons, whereas the number of members is determined by the Supervisory Board. Members of the Management Board are appointed for a common term of three years. All issues relating to PGNiG's operations which had not been

reserved for other governing bodies under relevant legal regulations or provisions of the Company's Articles of Association fall within the scope of responsibilities of the Management Board. The Management Board operates pursuant to legal regulations in force, and in particular pursuant to provisions of the Commercial Companies Code, the Company's Articles of Association and Rules of Procedure for the Management Board.

Compliance with the corporate governance requirements is of great importance to the Management Board of PGNiG. From its initial public offering in 2005 to the end of 2007 the Company complied with the rules presented in "Best Practices in Public Companies 2005" recommended by the Warsaw Stock Exchange. In 2007, PGNiG observed 49 out of 53 rules described therein. The Company's non-compliance with four rules (No. 2, 20, 28 and 43) was primarily due to the nature of the Company's legal situation.

» **Rule No. 2** (best practices of general shareholders meetings) recommends the need to justify a request for convening a general shareholders meeting and for including specific items in the meeting's agenda.

Pursuant to the internal regulations, namely Par. 57 of the Company's Articles of Association, requests concerning the subject or the convening of the General Shareholders Meeting must be justified by the Management Board whereas the Supervisory Board must render a written opinion on such requests.

» **Rule No. 20** (best practices of supervisory boards) provides that at least half of the supervisory board members should be independent members. The Company's Supervisory Board is composed of five to nine members and pursuant to Art. 12 of the Polish Commercialisation and Privatisation Act of August 30th 1996, representatives of the Company's employees sit on the Supervisory Board of PGNiG. At the same time, the State Treasury as the majority shareholder is entitled to appoint a majority of the Supervisory Board's members. In such a situation, PGNiG is unable to provide a larger number of independent members to sit on the Supervisory

Board as it would be impossible for the State Treasury to exercise its rights in this respect.

» **Rule No. 28** (best practices of supervisory boards) obliges supervisory boards to operate in accordance with their publicly available rules of procedure. Pursuant to the rules of procedure, at least two committees may be established: the audit committee and the remuneration committee. The audit committee should be composed of at least two independent members.

As provided for in PGNiG's Articles of Association, there is only one independent member on the Supervisory Board, therefore the Company does not abide by this rule.

» **Rule No. 43** (best practices in the area of external relations) defines the procedure for selection of an auditor. According to the Rule, a recommendation of the audit committee is one of the requirements to make a decision on selection of the auditor.

Given the fact that the Company has not adopted Rule No. 28, Rule No. 43 was also repealed. The auditor is selected by the Supervisory Board of PGNiG.

Since 2008, PGNiG has observed the corporate governance rules laid down in "Best Practices of WSE Listed Companies" with an exception of three rules relating to independent members of the Supervisory Board and the audit committee within the Supervisory Board. Due to the importance of these rules, the Company is considering introduction of appropriate solutions so that the rules could be complied with in the future.

In order to minimise the risk related to the financial reporting process, PGNiG constantly upgrades individual modules of the integrated management system and works on improvement of practical skills of the employees using the system. We also use an expert system of general financial security management covering such areas as liquidity, exchange rate risk and budget-related processes.

PGNiG complies with the disclosure requirements by publishing current reports and interim

financial reports and by holding press conferences. To secure wide coverage, our conferences on the PGNiG Group's financial performance are broadcast via the Internet. Additionally, our corporate information portal has been extended to offer quick and easy access to important operating and financial information on the Group. Our employees regularly participate in conferences devoted to best business practices. This contributes to the higher quality of our communication with the capital market.

The functionality and intuitiveness of our corporate portal (at www.pgnig.pl) was recognised in March 2008. Our web site ranked fifth place in the corporate web site ranking for Poland's 16 largest companies. The survey was conducted by Hallvarsson & Halvarsson, a Swedish consultancy.



Strategy



The PGNiG Group strives to become an increasingly more modern organisation operating as a logically streamlined and optimised capital group, managed by objectives and project-oriented.

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The PGNiG Group strives to become an increasingly more modern organisation operating as a logically streamlined and optimised capital group, managed by objectives and project-oriented. The Group seeks opportunities for better use of the synergies and economies of scale, and aspires to become an organisation ensuring both increase in shareholder value and minimisation of the operating risk. Our product offering will be, to an increasingly greater extent, based on modern gas-related energy solutions and complementary services. Retail and business customers' satisfaction is of the greatest importance to us, therefore we place a special emphasis on the reliability and continuity of our operations.

Long-term and sustainable value growth is our key strategic objective, which requires us to ensure continuous business development on the Polish and international markets. Our sound financial standing means a more secure energy environment for Poland. Therefore, our strategic priorities include:

- » To increase the scale of operations by extending the value chain, to include all; activities from exploration and production to sales and customer service;
- » To secure uninterrupted supplies of natural gas to our customers;
- » To create a diversified and stable portfolio of natural gas sources;
- » To develop our trading activity;
- » To develop our R&D activity.

Trading strategy on international markets

The PGNiG Group launched projects designed to diversify supply sources in order to become independent from natural gas supplies originating from a particular direction or a particular supplier. Our strategy is focused primarily on balancing natural gas supplies from the eastern direction with an increased volume of natural gas imports from the north and concurrent increase in domestic gas production. To create a balanced portfolio of supplies, we plan to:

- » Develop new infrastructure enabling natural gas supplies to Poland (LNG terminal in Świnoujście, new connections providing access to the Norwegian reserves: participation in the Skanled consortium and construction of the Baltic Pipe);
- » Ensure proper structure of the import contracts (new contracts to be diversified and reflect market conditions; variable shares of long- and short-term contracts in the portfolio; securing stable supplies of natural gas to Poland at reasonable prices).

An equally important element of our international trading strategy is to start using derivative instruments in trading in hydrocarbons on commodity markets. Such international trading activities will not only offer attractive margins but will also be conducive to diversification of natural gas supply sources and risk management, thus making product offering price- competitive.

Strategy implementation

In 2007, we embarked upon a number of initiatives designed to diversify sources, directions and routes of natural gas supplies. The PGNiG Group assigned over PLN 1bn for this purpose.

In April 2007, PGNiG established Polskie LNG (PLNG), a special purpose vehicle responsible for construction and operation of an LNG terminal in Świnoujście. On January 10th 2008, PLNG executed an agreement with SNC Lavalin Services Ltd. for design of the LNG terminal.

As part of our plan to purchase reserves on the Norwegian Continental Shelf, we acquired a 12% interest in the licence covering Skarv, Snadd and Idun fields. In May 2007, we formed PGNiG Norway, our subsidiary responsible execution of this project. The Skanled gas pipeline project moved into the design stage last year, and the project's financial model was prepared. On June 20th 2007, we joined the Skanled gas pipeline construction and acquired 15% of shares in the consortium for no consideration. As part of the Baltic Pipe project, we executed a cooperation agreement with Energinet.dk, a Danish operator of transmission, energy and gas systems, and with OGP GAZ-SYSTEM SA, a Polish operator of gas transmission pipelines.



Exploration and production strategy

In order to increase the domestic natural gas and oil production capacity and to develop business internationally (i.e. to gain access to foreign reserves of natural resources), PGNiG runs a large-scale investment program which contributes to the growth of the Company value.

Domestic natural gas production is crucial not only in creating competitive pricing edge, but also in reinforcing the security of the Polish natural gas supplies. The increase in our oil production volumes mitigates the regulatory risk, and hence stabilises our financial performance. Maintenance and development of these operational areas, as well as our efficiency improvement, requires the following measures:

- » Maintaining the domestic licence areas within the range of 45–50 thousand km² (submitting licence applications for new areas and extending the expired licences);
- » Maintaining the environmental sustainability index within the range of 1.0–1.1 (performing domestic seismic surveys which enable better geological structure prospecting).

The strategy for development of our own resources involves not only increase in the domestic production volumes but also gaining access to foreign reserves and entering international markets. Accordingly, the PGNiG Group will apply for exploration and production licences in tender rounds, and form alliances with other companies, which will significantly reduce the risks of the Group's projects and facilitate our access to markets. Currently talks on acquisition of new oil assets are planned with several national oil companies. We also plan to obtain interests in licences or in other exploration and production projects directly from the companies willing to dispose of them.

Strategy implementation

In order to gain access to foreign reserves, PGNiG acquired a 12% interest in the exploration and production licence covering Skarv, Snadd and Idun fields in the North Sea. Moreover, we will continue similar activities in countries such as Libya, Algeria, Egypt, Pakistan or Denmark. It is thanks to these projects that the PGNiG Group is viewed as an active and strong partner.

The service companies within the PGNiG Group operate successfully on international markets, and the good reputation, which they have acquired, facilitates their development in both the prospected and in new areas. Apart from the acquisition of licences on the Norwegian Continental Shelf, in 2007 we also operated in Libya (where we won a tender for an exploration licence covering the Murzuq oil basin) and in Egypt (where won a tender for a Bahariya licence). As part of our strategy for increasing domestic natural gas production volumes, last year we developed Jasionka I (stage I) natural gas reservoir and connected OZG Jasionka I Stobiernia-Terliczka by transmission pipeline. Moreover, a total of 52 thousand metres of drillings was performed on 31 boreholes across Poland. In 2007, the expenditure on domestic and foreign exploration work totalled PLN 477m.

» Crude oil production in 2000–2007

[‘000 t]		
2000	<div></div>	343
2001	<div></div>	470
2002	<div></div>	454
2003	<div></div>	497
2004	<div></div>	624
2005	<div></div>	602
2006	<div></div>	529
2007	<div></div>	518

» Natural gas production in 2000–2007

[bcm]		
2000	<div></div>	3.8
2001	<div></div>	4.0
2002	<div></div>	4.0
2003	<div></div>	4.1
2004	<div></div>	4.3
2005	<div></div>	4.3
2006	<div></div>	4.3
2007	<div></div>	4.3

Storage strategy

The PGNiG Group is the leading company on the natural gas market in Poland and owns all domestic storage facilities connected to the gas distribution system. The current storage capacities allow the Group to store only natural gas reserves that can be used in case of short disruptions of supplies or to balance seasonal demand peaks. In order to fully meet the needs connected with abnormal peak growth, the storage capacity needs to be extended.

Extension of underground storage facilities will increase safety and ensure continuity of supplies to customers, which plays an important role in building our reliability as a supplier, and is one of the key drivers of our competitive advantage on the natural gas market. Extended facilities will also enable us to observe the regulatory requirements related to the mandatory reserves of natural gas held in storage.

The aggregate working storage capacity of the facilities in Poland amounts to approx. 1.66 billion cu. m. The storage facilities for high-methane gas are estimated to be extended to

hold additional 0.9 billion cu. m (up to approx. 2.6 billion cu. m) by 2012. This project will allow us to comply with 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. The aggregate storage capacity (including the nitrogen-rich gas facilities) will be 2.8 billion cu. m.

The extension projects are aligned with the strategy of ensuring Poland's energy security, as well as with other programmes carried out at the national and the Community levels. They also fit in the operational programme Infrastructure and Environment for 2007–2013, and National Strategic Reference Framework for 2007–2013 (National Coherence Strategy), Poland's energy policy by 2025, and the Lisbon Strategy. Therefore, the PGNiG Group has taken steps designed to source EU funds to finance these projects.

The estimated cost of extending the storage capacities by 2012 will amount to approx. PLN 2bn.

Strategy implementation

In 2007, implementation of the strategy of increasing storage capacities included modernisation of the surface infrastructure at the Swarzędów facility as well as work aimed at increasing the working capacity of the facilities in Wierzychowice, Mogilno and Strachocina. In Kosakowo we commenced preparation for construction of underground storage facilities, and the work included cavern leaching, systems assembly and connection of the facility to the grid. In 2007, the total capital expenditure related to underground storage facilities was PLN 61.2m.



Distribution strategy

The Distribution System Operators' priority related to capital expenditure will include optimised development of the distribution network through connection of new clients. By rolling out the gas distribution systems to municipalities adjacent to the transmission and distribution networks, we will increase the network's density thus enhancing our ability to supply gas to new locations. Market research into investment attractiveness of several geographical regions will be conducted prior to these activities.

We are able to source EU funds for extension of the distribution infrastructure as part of the Operational Programme Infrastructure and Environment. In order to use the funds effectively, the Distribution System Operators will actively participate in preparation of projects conducted by local governments,

which involve system rollout or extension of the existing distribution network in areas with significant potential for gas consumption.

Another strategic objective in the area of distribution is to secure continuity and growth of service-generated revenue streams. This activity is regulated and includes long-term investments; therefore appropriate mechanisms must be created to guarantee stable revenue growth.

Distribution plays an important role in building the value of the PGNiG Group. Therefore, the Distribution System Operators cannot concentrate on growing sales alone as they also need to optimise costs while maintaining the quality standard of gas supplies. To this effect, the network assets must be managed effectively, and the following systems

must be implemented: an integrated ISO-compliant system for managing quality, environment, and health and safety at workplace, an integrated billing system (both at DSOs and the Trading Division), and a system for weather risk management.

Strategy implementation

The year 2007 was a break-through year for the Distribution segment. The legal separation of gas trading from distribution resulted in the spin-off of Distribution System Operators. As a consequence, the segment became an independent business division. Each of the six distribution companies was assigned responsibilities and operational tasks. This is fundamental for implementation of the strategy.



Operating risks

Sales strategy

Future selling activities are an important part of our strategy. To be able to maintain its dominating position on the market, the Company must increase the number of its customers, divide the customer group into segments, and build lasting relations with its clients.

Alliances with companies operating in the electrical power engineering sector will help increase the number of customers, both individual and institutional. This objective will also be fulfilled by supplying gas to new regions of Poland, where we have not operated before, and by using new ways and methods of gas transmission, such as virtual gas pipelines. They offer possibilities of supplying gas to customers who are not connected to the distribution network with liquefied natural gas (LNG) by rail or road transport.

The customer segmentation based on modern principles will help us identify the most valuable groups of customers offering best business prospects. This will also facilitate development of an appropriate product and service offering tailored to the needs of particular customer groups. Customers are assigned to segments based on advanced assessment criteria, such as volume of gas supplies, balanced demand, seasonality, profitability, attractiveness of the sector, development prospects and sensitivity to competitors' offerings.

Our selling activities will also profit from continuous improvement of relations with clients. The most important tasks of our sales staff include identification of clients' individual needs and flexible structuring of tailored-made offerings. Within this framework, we are currently working of customer service standardisation, the most important objective being to build lasting relationship with the clients in the most attractive sectors.

The product offering is to be upgraded to meet the growing needs of our customers. This will additionally reduce our operating risks. The PGNiG Group derives a large portion of its revenue from sales of gas and related services regulated by the Energy Laboratory Office. Expansion into new non-regulated segments will generate additional value for PGNiG help reduce the risks involved. An enhanced requires calls for a new sales policy, reflecting the contemporary approach to customers, products and services.

Strategy implementation

As part of the strategy implementation, our organisation was restructured in 2007. The Gas Companies were transformed into Distribution System Operators, which resulted in concentration of retail sales in a single entity. This positively affected the customer service quality and standardisation.

The most important identified types of risks the PGNiG Group faces are regulatory risk, market and currency risk, risk of delayed exploratory work, risk of delayed projects, and risk related to estimation of capital expenditure.

Regulatory risk

The key tariff risk relates to the inadequacy of secondary legislation to the current primary acts concerning the Polish gas market. Such a situation occurred at the turn of 2007, when the lack of a tariff regulation adjusted to the amended Polish Energy Law delayed the proceedings related to the approval of Gaseous Fuel Tariff No.1/2008.

In 2008, further amendments may be made to the legal acts regulating operation of the gas sector. These amendments will be made, first and foremost, to the Polish Energy Law in terms of specific conditions under which the gas system operates. Once the amended Law enters into force, the tariff regulation will need to be amended again.

Market and currency risk

Prices of imported gas are determined in the U.S. 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 recently been to a large extent unpredictable, given the continual price changes. Material changes in fuel prices on the international markets affect the prices of imported gas. Therefore, accurate forecast of gas prices is encumbered with a substantial risk of error.

Risk of delayed exploratory work

Under the currently binding legal regulations, obtaining licences for exploration and prospecting of crude oil and natural gas deposits takes from one to one and a half years. Moreover, prior to the commencement of field work, it is necessary to obtain formal and legal permits and approvals for entering the area, to meet environmental protection-related requirements and to abide by the regulations governing tenders for a work contractor. Another several months pass before an agreement with the work contractor is signed. These factors create the risk of delayed exploratory work.

Risk of growing cost of exploration

Exploratory work is capital consuming, given the prices of energy carriers and materials. Cost of exploratory work is especially sensitive to fluctuation of steel prices, which are passed on prices of casing pipes and lifting casing used in drilling. An increase in prices of energy and materials also translates into an increase in the cost of exploratory work.

Risk of delayed investment projects

Investment work is substantially delayed by formal and legal issues beyond control of PGNiG which relate to the lack of land development plans approved by local administrative authorities. It is also delayed by problems of incorporating such investments into such plans and by difficulties with receiving administrative and other decisions. Moreover, the obligation to comply with the Public Procurement Act frequently protracts the tender procedure. Appeals and complaints filed by bidders lead to long-lasting court proceedings and, consequently, to delays in executing investment projects.

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 price fluctuations of raw and production materials (notably steel), necessity to comply with the requirements regarding safety of individuals and property as well as environmental protection (Natura 2000), unforeseeable circumstances and market competition, may cause the estimated capital expenditure amounts to materially deviate from the original assumptions contained in the investment plan. Furthermore, major price hikes necessitate amendments to the agreements executed with contractors, which is yet another source of delay.

Risk of loss of highly qualified personnel

The presence of foreign companies on the Polish market intensified the companies' takeover 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 PGNiG Group's activities are regulated by the following laws:

- » Polish Energy Law of April 10th 1997 (Dz. U. of 2003, No. 153, item 1504, 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);
- » 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.

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 from the Ministry of Natural Environment.

As at December 31st 2007, PGNiG held:

- » 67 licences for exploration and prospecting for crude oil and natural gas reserves;
- » 213 licences for production of crude oil and natural gas from reserves;
- » 8 licences for underground gas storage (UGS);
- » 4 licences for waste matter storage.

Tariff policy

The natural gas market in Poland is regulated by the Energy Regulatory Office. The regulation principally consists in determination of tariffs, and the tariff prices are crucial for our ability to generate revenue that can cover the incurred justified costs plus return on capital employed. For this reason, a key objective of the PGNiG Group's pricing policy is to make our revenue independent of these regulations. 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 in the Tariff Regulation.

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. Given that the current prices of imported gas are higher than those of domestically produced gas, the inclusion of production cost for gas from domestic sources in the cost basket, taken into account in pricing, resulted in a situation where the tariff prices (applicable in settlements with customers) were determined below the level that would have been set based on the cost of acquisition of imported gas.

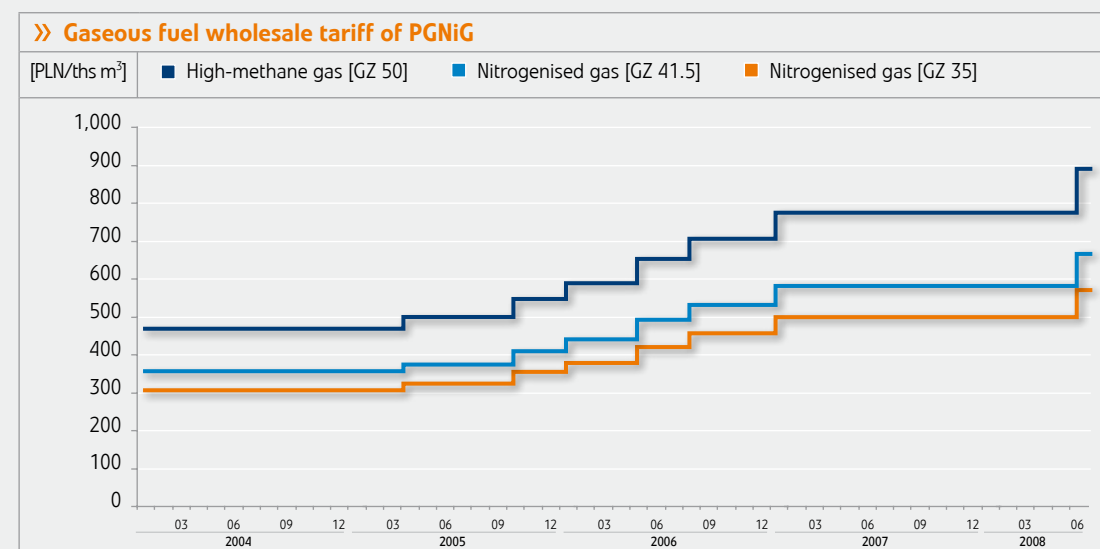
In 2007, settlements with customers were made according to Tariff No. 4 for Gaseous Fuels approved by the President of Energy Regulatory Office on March 17th 2006. By virtue of a decision of December 15th 2006, the Tariff was extended until March 31st 2007, and new prices of gaseous fuels were approved. Following the tariff changes effected as at January 1st 2007, the prices of gaseous fuels increased by 9.9%. By virtue of another decision issued in March 2007, the Tariff was extended until September 30th 2007. As it was reasonable to set new tariffs upon completion of the process of integration of trading business and enactment of secondary legislation to the current Polish Energy Law, PGNiG applied for another extension of the Tariff until the end of 2007. By virtue of a decision of August 17th 2007, the Company's application was approved.

On November 14th 2007, PGNiG applied to the President of Energy Regulatory Office for approval of the Gaseous Fuel Tariff No. 1/2008 for the period from January 1st 2008 to March 31st 2008. The tariff

approval process commenced as late as February 20th 2008, only after the new Regulation of the Minister of Economy on detailed rules of tariff structuring and calculation and on settlements in gaseous fuels trade, dated February 6th 2008, took effect. On the same date, that is February 20th 2008, we amended the application in order to bring it to compliance with the new Tariff regulation. The amendment included a request for change of the term of the Tariff. On April 10th 2008, the President of Energy Regulatory Office approved the Gaseous Fuel Tariff No. 1/2008. Accordingly, the wholesale price of gaseous fuel increased by 15.34% as of April 25th 2008. With the transmission charge for gas transmission over the SGT EuRoPol GAZ networks included (currently, these charges are included in the wholesale price of gaseous fuel), the tariff price of high-methane gas increased on average by 14.3%.

Gaseous Fuel Tariff No. 1/2008 of Polskie Górnictwo Naftowe i Gazownictwo SA, which, since October 1st 2007, has been supplying gaseous fuels under comprehensive agreements for supply of gaseous fuel to customers, from both transmission and distribution systems, includes:

- » price of gaseous fuel (including cost of gas transmission over SGT EuRoPol GAZ networks);
- » subscription charge for customer service;
- » network charge for fuel transport;
- » charge for storage of high-methane gas.



Exploration and Production



In the Exploration and Production segment, we conduct geophysical and geological research, exploration of and production from reserves, and preparation of products for sale.

Exploration and Production

Production of natural gas and crude oil

Our presence in the gas and oil production segment makes us a competitive player on the liberalised gas market. A portion of the gas we sell is produced at costs lower than the prices of imported gas. Thus, we may to a certain degree stave off the effects of rises in imported gas prices, driven by growing prices of oil derivatives to which underlie gas prices are index.

Two of our branches, the Zielona Góra Branch and Sanok Branch, carry out production of natural gas and crude oil in Poland.

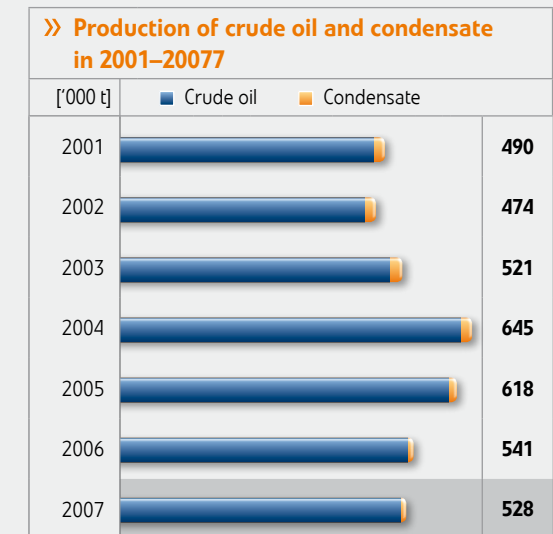
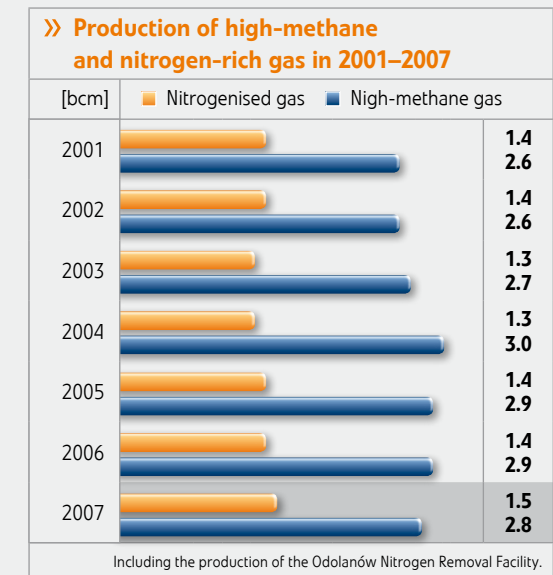
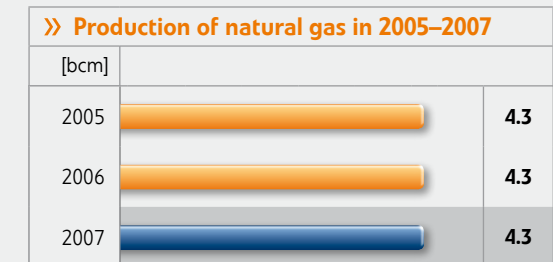
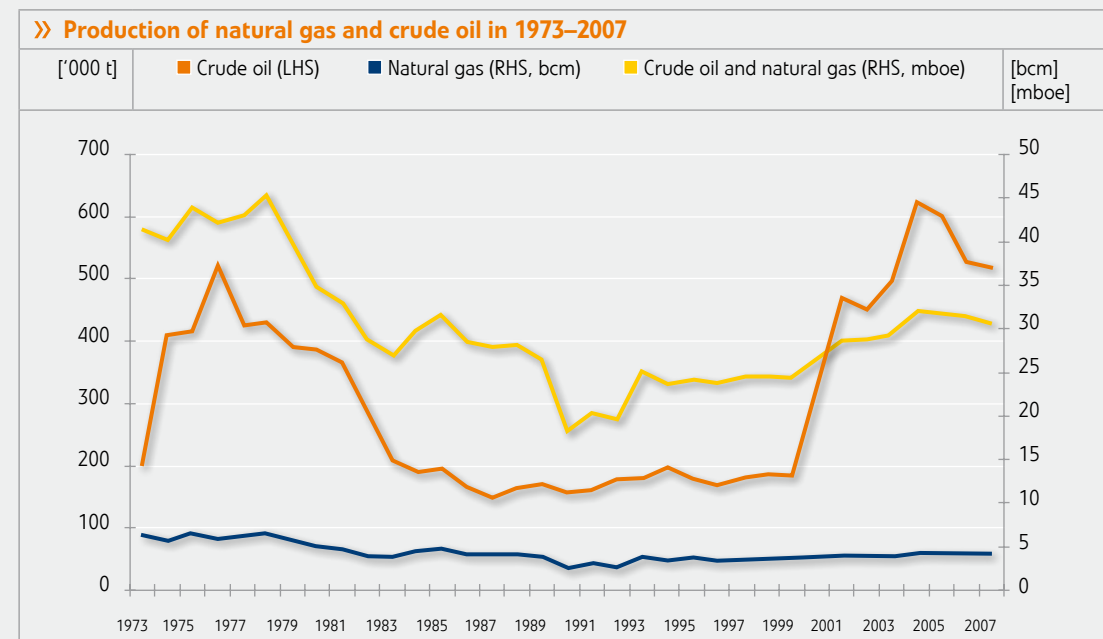
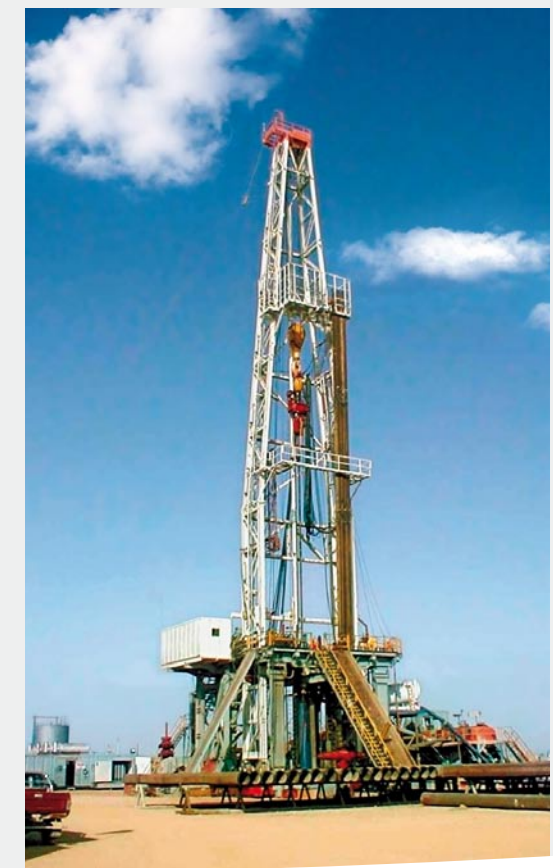
In 2007 (like in 2006), the PGNiG Group produced a total of 4.3 billion cu. m of natural gas (high-methane equivalent) – 2.4 billion cu. m was produced by the Zielona Góra Branch, and 1.9 billion cu. m by the Sanok Branch. The total volume of the gas produced split into 2.8 billion cu. m high-methane gas and 1.5 billion cu. m nitrogen-rich gas (compared with 2.9 billion cu. m and 1.4 billion cu. m in 2006, respectively).

The Zielona Góra Branch produces nitrogen-rich natural gas at 26 mines (including 16 gas mines and 10 oil and gas mines), while the Sanok Branch produces high-methane natural gas at 47 mines (including 25 gas mines, and 22 oil and gas mines). Nitrogen-rich gas produced from the mines in the Poznań, Zielona Góra or Wrocław regions is then processed in the Odolanów nitrogen removal facility. This is where we treat low-methane natural gas using a technology based on cryogenic processes. By removing nitrogen, we produce high-methane gas, LNG, LPG, gaseous and liquid helium, and liquid nitrogen.

Natural gas is produced mainly by the Zielona Góra Branch at five mines (in Góra, Grodzisk Wielkopolski, Gorzów Wielkopolski, Karlino and Ostrów Wielkopolski) located in five different provinces. This branch produces from 25 oil reserves, of which the largest is the Barnówko-Mostno-Buszewo reserve (BMB), near Gorzów, and the smaller ones include Kosarzyn, Zielin or Buk. The total oil

output in 2007 was 518 thousand tonnes, of which 472 thousand tonnes were attributable to the Zielona Góra Branch, and 46 thousand tonnes to the Sanok Branch. Compared with 2006, oil production dropped by 2%, from 529 thousand tonnes (in 2005, it was 602 thousand tonnes). The decline was an effect of natural decrease in production dynamics caused by development of new and depletion of the existing reserves. PGNiG plans to increase its oil output by developing and starting production from the Lubiatów-Międzychód-Grotów reserves (LMG), which should help raise the annual production volume to 1.1m tonnes.

Twelve boreholes were placed in operation in 2007. The ones located on the deposits in Żołyńa, Kańczuga, Jasionka (stage 1–7 boreholes), Przemyśl and Radlin increased the natural gas production capacity by c.a. 600 cu. m per minute, and the borehole on the Buszewo deposit increased the oil production capacity by 70 tonnes per day.



Non-regulated sales of gas and oil

Our activities within the Exploration and Production segment include non-regulated sales of crude oil and natural gas. The oil is sold via two main channels:

- » to foreign customers, where it is delivered via pipelines under annually renewable contracts – 53% of total sales;
- » to customers in Poland, where it is delivered by road tankers and railway tank cars – 47% of total sales.

We export oil (the “Druzhba” pipeline) to our major customers, namely Shell International Trading and Shipping Company Limited and BP Oil International Ltd. Most of the oil sold domestically is delivered to the ORLEN Group (the refineries in Płock, Jedlicze and Trzebinia). The rest is sold to local and direct customers of the production branches.

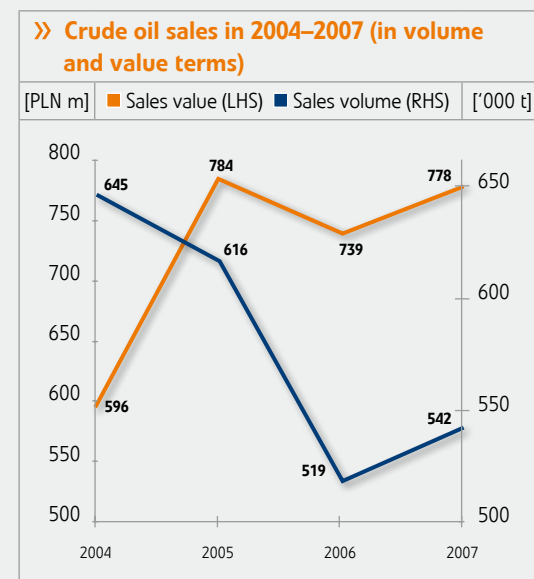
In 2007, our revenues on sales of crude oil and condensate went up by 4.6% year on year, to PLN 780m. The increase is an effect of higher sales volumes and rising oil prices on the international market. At the same time, the strengthening of the złoty against the U.S. dollar eroded the revenues

(the selling price is computed in the U.S. dollar). In 2007, we sold a total of 542 thousand tonnes of crude oil and condensate, which represents a 4.4% increase on 2006 (519 thousand tonnes).

Non-regulated sales of gas are made by way of direct deliveries from our deposits (rather than via the transmission system). The 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. Direct sales of gas are not covered by the tariffs approved by the Energy Regulatory Authority.

In 2007, we sold directly from our deposits 630 million cu. m of gas (high-methane equivalent), i.e. 11.3% more than in 2006. Direct sales represented 5.0% of total natural gas sales. The main type of gas sold in this way was nitrogen-rich gas bought by large customers, such as the Zielona Góra or Gorzów Wielkopolski CHP plants, Zakłady Azotowe in Tarnów-Mościce, or Arctic Paper Kostrzyń. Sales of high-methane gas outside the transmission system concentrate in south-eastern Poland. They are made mainly to small and medium-sized customers who are located close to the mines and do not have access to the transmission or distribution system.

Direct sales enable us 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.

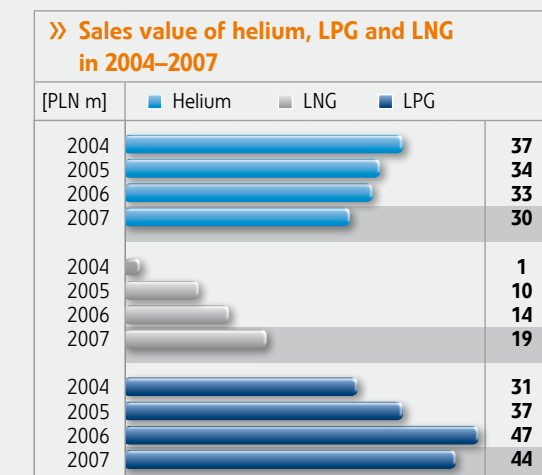
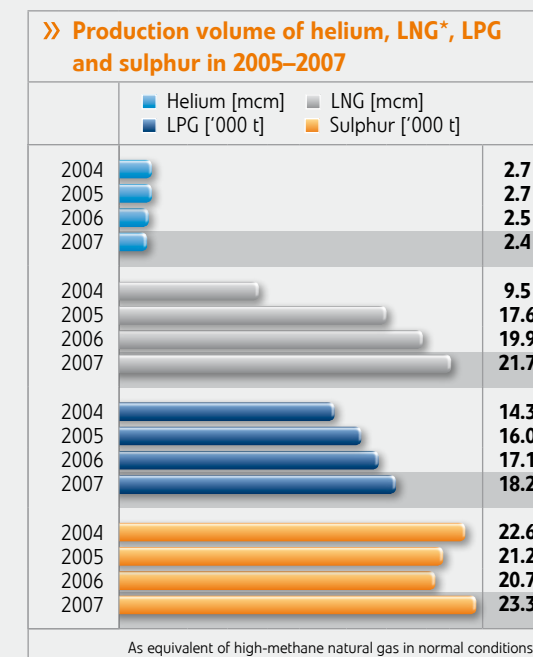


Production of helium, LNG and LPG

By-products of the gas production and nitrogen removal process include sulphur, propane-butane (LPG), (gaseous and liquid) helium, and LNG. The last one is a relative novelty on the Polish market – we launched it in 2002. Since then, the LNG production volume has risen by 505% – from 3.6 million cu. m to 21.7 million cu. m (high-methane equivalent). The production volumes of sulphur and LPG go up every year.

Sales of other products

Besides the non-regulated sales of natural gas and crude oil, we sell other products, namely helium, LNG and LPG. In 2007, revenues derived from such transactions went up by 14% year on year. However, this did not materially affect revenues of the entire PGNiG Group because these products represent only a marginal portion of total sales.

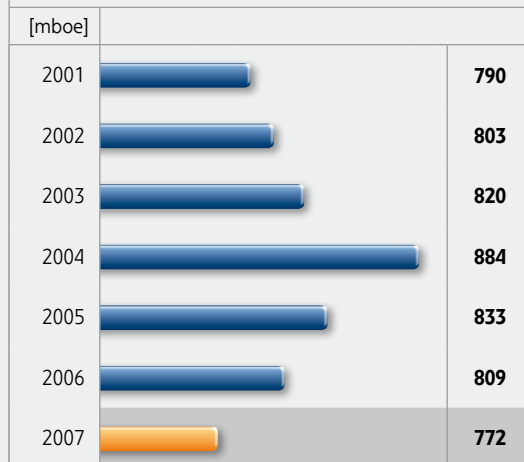


Reserves

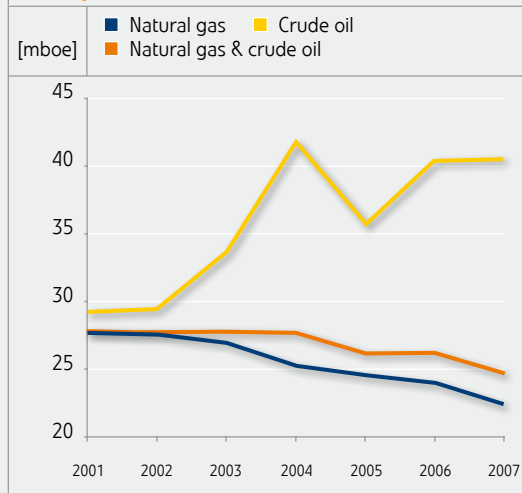
As at the end of 2007, the documented reserves of natural gas amounted to 98 billion cu. m (high-methane equivalent), while the reserves of crude oil were estimated at 21.2 million tonnes. The size of the reserves was favourably assessed by the Mineral Reserves Commission and approved by the Minister of Environment. Our total reserves, expressed as barrel of oil equivalent, were 772 million at the end of 2007.

In 2007, the reserves decreased by 3% year on year, driving down the reserve/production ratio from 25.8 in 2006 to 25.1. 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. Over the same period, the crude oil reserves/production ratio rose by 9.3%, to 40.1.

» Reserves of gas and crude oil as barrel of oil equivalent in 2001–2007



» Ratios of gas, oil and gas & oil reserves to production volumes in 2001–2007

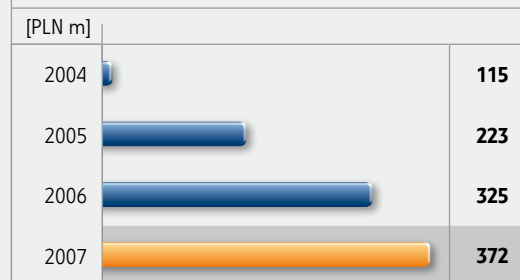


Exploration work and geophysical prospecting in Poland and abroad

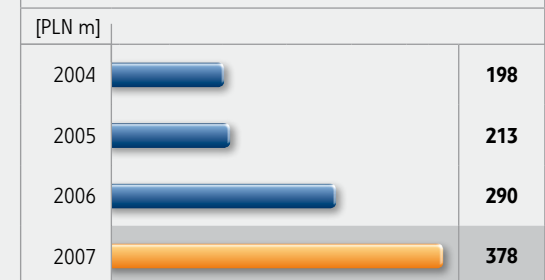
The PGNiG Group conducts exploration and prospecting work domestically and abroad. Its work in that area involves mainly exploration of geological structures for hydrocarbon reserves in the form of natural gas and crude oil. The exploration and prospecting of reserves comprise a study of historical data, geological analyses, as well as geophysical and drilling research. The work is conducted by PGNiG and the PGNiG Group's exploration and geophysical and geological service subsidiaries.

Carpathian Foreland and the Polish Lowlands. In total, 52 081 metres of drilling was done in 31 wells, of which 25 were exploration wells and six were appraisal wells. In four of the wells, drilling commenced in 2006 was continued. By the end of 2007, 24 wells had been drilled and tested. Sixteen wells were drilled with positive results (13 wells flowed gas and three wells flowed oil at commercial rates). Additionally, 1.6 thousand km of 2D seismic and 600 km² of 3D seismic were acquired in the area.

» PGNiG Group's revenue from geophysical and geological services in 2004–2007



» PGNiG Group's revenue from exploration services in 2004–2007



In 2007, the exploration and prospecting work (including geophysical surveying) carried out by the PGNiG Group companies was focused in three areas of Poland: the Carpathian Mountains, the

As a result of the exploration and prospecting work, PGNiG's producing reserves increased as follows:

- » natural gas reserves – by 2.8 billion cu. m (high-methane gas equivalent);
- » crude oil reserves – by 360 thousand tonnes.

Currently, we are also involved in various exploration and geophysical projects outside of Poland. In the Kirthar Block in Pakistan, we conducted exploration work jointly with Pakistan Petroleum Ltd. (we hold a 70% working interest in the block, while the Pakistani company holds the remaining 30%). In 2007, seismic data acquisition was completed in the area – with 161.7 km of 2D seismic shot. Based on the findings of the geological and geophysical surveys, it was decided that an exploration well in the southern part of the block will be drilled. The project is scheduled to commence in 2008.



In 2007, the exploration companies were also actively trying to acquire new exploration and licence areas. As a consequence, in January 2007 a memorandum of understanding concerning potential cooperation in the exploration and production of hydrocarbons in India, Egypt and Yemen was concluded with India's Gujarat State Petroleum Company. Following a tender process, in mid-2007 we were awarded operatorship of new licence areas located in Libya and obtained the right to execute an Exploration and Production Sparing Agreement (EPSA) which defines the manner of conducting exploration and production work covered by the licence for Block 113. In February 2008, PGNiG Finance BV was transformed – for the purposes of the Libyan project – into POGC Libya BV, a company with an entirely different business profile.

December 2007 saw the conclusion of an agreement concerning transfer to PGNiG of a 40% interest in licence 1/05 located in mainland Denmark from the Danish company Willumsen Exploration Consultants Aps. The remaining interest in the licence is held by Odin Energi A/S (40%) and the Danish government-controlled company Nordsofonden (20%). The project is scheduled to commence in 2008.

The year 2007 witnessed the finalisation of purchase of a 15% working interest in three licence areas, covering the Skarv and Snadd fields on the Norwegian Continental Shelf, from Mobil Development Norway A/S and ExxonMobil Production Norway Inc. Following unitisation of the two fields with the Idun field, our interest in the expanded exploration and production area approximates 12%.

The PGNiG Group's involvement in the project on the Norwegian Continental Shelf is in line with our 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, to increase the security of gas supplies to Poland.

In December 2007, upon approval of the field development plan by the Norwegian parliament, the implementation phase of the project 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 reserves of all the fields, corresponding to the interest in the licence acquired from ExxonMobil Production Norway Inc, are estimated at some 392 mboe, including:

- » 239 mboe of natural gas (37.9 billion cu. m);
- » 110 mboe of crude oil and condensate (15 million tonnes);
- » 43 mboe of NGL (5.3 million tonnes).

The fields have significant exploration potential, estimated at 360 mboe (especially in the northern areas of the Snadd and Idun fields).

The fields are operated directly by BP Norge and indirectly by its partners – E.ON Ruhrgas Norge (purchase of an interest from Shell in August 2007) and StatoilHydro.

Investment projects – development of reserves

Our natural gas and crude oil production capacity can be expanded in two ways – by developing new reserves or by stepping up the productivity of its existing mines. In 2007, we were carrying out the following investment projects:

Project: Stobierna, Terliczka, Jasionka, Trzebowisko

The gas fields are being developed with a view to supplying high-methane gas to the national gas distribution system. Two tasks undertaken as part of the project were completed in 2006: development of the Stobierna-Terliczka fields and development of the Trzebowisko 3 field. 2007 saw the development of the Jasionka I gas field (stage I), as well as construction of a gas transmission pipeline connecting OZG Jasionka I with the Stobierna-Terliczka fields. The production rate of high-methane gas from the field has reached 150 million cu. m. The project is expected to be completed in 2009, together with development of the Jasionka I gas field (stage II). Total expenditure incurred on the project by the end of 2007 amounted to PLN 73m.

Project: Barnówko-Mostno-Buszewo (BMB)

The aim of the project is to maintain oil production rates from the reserves exploited since 2000 at current levels, while allowing the Company to achieve incremental production rates from new reserves which are just beginning to produce. Additional work, which proved necessary due to changes of the geological conditions of the fields, led to an increase in total expenditure on the project, which has reached approx. PLN 120m, of which PLN 82m was spent in 2007.

Project: Lubiatów-Międzychód-Grotów (LMG)

The objective of the project is to develop the Lubiatów-Międzychód-Grotów reserves of crude oil and natural gas and to facilitate transport, storage and sale of crude oil, natural gas, sulphur and liquefied petroleum gas (LPG) from the LMG petroleum mine. The project comprises construction of the LMG Central Facility (a hub for collection, distribution and treatment of reservoir fluids), construction of a dispatch terminal (to support collection, shipment in rail tank cars and sale

of crude oil in the daily amount of 1.5 thousand tonnes, and to handle the pumping of crude oil to the PERN Druzhba Pipeline at the hourly rate of 800–1,100 cu. m), as well as construction of a gas pipeline to the nitrogen removal facility in Grodzisk. The total value of the project is approx. PLN 743m. The LMG field reserves are estimated at 8.1 million tonnes of crude oil (60 mboe) and 7.4 million cu. m of natural gas (47 mboe). The LMG project implementation is key to achieving the target crude production rate of 1.1 million tonnes.

In 2006, the Regional Court of Warsaw issued an order cancelling the tender process for development of the LMG reserves – which caused a delay in the project execution. In March 2008, two contractors submitted their bids, which are currently being evaluated by the tender panel.

Project: Grodzisk Wielkopolski

The aim of the project is to enable the sale of gas from nitrogen-rich reserves after it has been processed to be of uniform composition – consistent with the properties of high-methane gas. The nitrogen removal facility to be constructed near Grodzisk Wielkopolski is aimed to intensify production of nitrogen-rich gas at the existing mines and from deposits intended for development, while ensuring that the scale of nitrogen-rich gas production is well-balanced between winter and summer months.

The project comprises development of the Wielichowo, Ruchocice, Jabłonna and Paproć gas fields, modernisation of KGZ Paproć (a natural gas mine), construction of the Przylęk-KGZ Paproć gas pipeline, extension of the gas mixing plant and construction of the nitrogen removal facility in Grodzisk. The project is scheduled to be completed in 2010. The capital expenditure incurred on the project in 2007 was PLN 79m, while its total value is estimated to be in the region of PLN 380m.

In September 2006, PGNiG concluded a contract with PBG SA, providing for construction of the nitrogen removal facility in Grodzisk – an industrial unit used to remove nitrogen from nitrogen-rich natural gas. Its hourly processing capacity will be around 35 thousand cu. m.



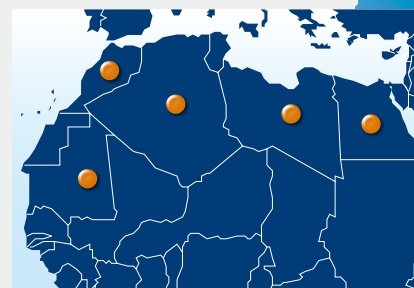
Activity of the PGNiG Group companies



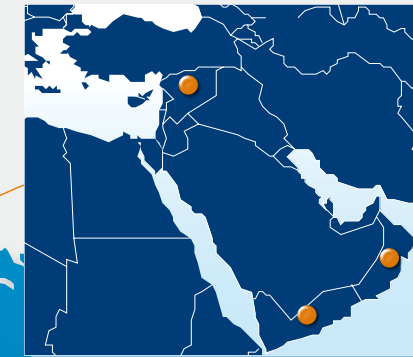
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» Columbia » Cuba » Venezuela



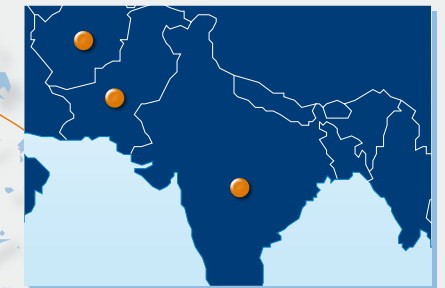
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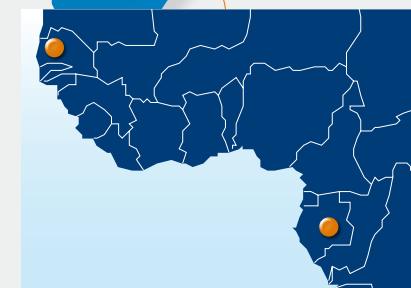
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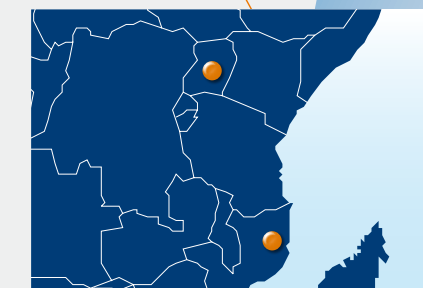
» Japan



» India » Kazakhstan » Pakistan



» Gabon » Senegal



» Mozambique » Uganda

Trade and Storage



Our 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.

Trade and Storage

PGNiG is the largest Polish importer of gas under long-term contracts from Russia, from the countries of Central Asia (Turkmenistan and Uzbekistan) as well as from Germany, Ukraine and the Czech Republic. In 2007, imports totalled 9.3 billion cu. m (10.0 billion cu. m in 2006) and accounted for 68% of PGNiG's supplies of natural gas.

In 2007, our portfolio of gas import contracts included:

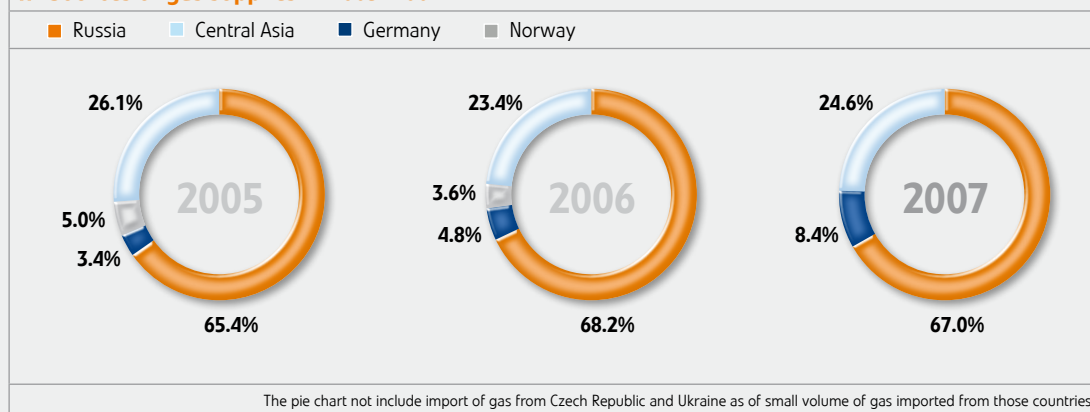
- » Long-term contract (in force until 2022) for supplies of gas from Russia, with OOO Gazexport (which on November 1st 2006 changed its name into OOO Gazprom Export), dated September 25th 1996, referred to as the Yamal contract;
- » Contract for imports of gas executed with VNG-Verbundnetz GAS AG, dated 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 for two years.

» Operating profit of the Trade and Storage segment in 2005–2007

[PLN m]		
2005		531
2006		259
2007		1,196

In Q1 2007, PGNiG and DONG Energy A/S signed a Protocol, in which they expressed intention to continue their cooperation. In their future cooperation, the parties will take into account the European gas markets environment, and will carry out infrastructural projects in the Baltic Sea basin to ensure security of supplies. Moreover, PGNiG and Total E&P Norge A/S signed the General Terms of Natural Gas Sales, which act as a framework agreement and provide basis for execution of natural gas supply contracts. Under the General Terms of Natural Gas Sales, PGNiG is granted access to Norwegian gas terminals in Europe, thus being able to purchase natural gas in the periods of greater demand for the product and resell the surplus, if any.

» Sources of gas supplies in 2005–2007



Gas transmission

In Poland, two types of gas with different composition and parameters are transmitted via the gas transmission network:

- » high-methane gas – with a nominal calorific value of 34.0 MJ/m³;
- » nitrogen-rich gas – with a nominal calorific value 26.0 MJ/m³.

The high-methane natural gas transmission networks 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 Poland, gas transmission services are provided by OGP GAZ-SYSTEM SA. In 2005, PGNiG and OGP GAZ-SYSTEM SA executed a long-term operating lease agreement, whereby we are obliged to gradually sell certain components of the transmission network to OGP GAZ-SYSTEM SA. The agreement remains in force until 2022 (interest rates based on 3M WIBOR plus margin).

In July 2007, we executed an annex to the agreement whereby the distribution assets, whose total value amounts to PLN 852m, were excluded from the lease (in accordance with the Natural Gas Industry Policy of March 20th 2007 adopted by the Council of Ministers, aimed to enhance efficiency of the transmission and distribution networks). In line with the policy, the currently leased gas system had to be divided into transmission and distribution components, and subsequently, following the exclusion of distribution assets from lease, the gas system was transferred for use by the distribution system operators.

On October 1st 2007, PGNiG and OGP GAZ-SYSTEM SA entered into further two transmission agreements, one of which contemplates provision of high-methane gas transmission services and stipulates the terms of supply of gaseous fuel to and its collection

from the transmission system. The other one relates to provision of nitrogen-rich gas transmission services and stipulates the terms of supply of gaseous fuel to and its collection from the transmission system. The agreements are effective until December 31st 2010, and their value is c.a. PLN 5.6bn, VAT inclusive.

The territory of Poland is an important section in an over-four-thousand-kilometre 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, in which PGNiG holds 48% of shares. Natural gas is collected in two interconnector terminal points in Włocławek and Lwówek Wielkopolski. In 2007, SGT EuRoPol GAZ transmitted nearly 30.8 bcm of natural gas.

» Interest and principal instalment under lease agreement in 2005–2007

[PLN m]	Interest payment	Principal payment	
Q3 05	73	60	133
Q4 05	72	59	131
Q1 06	77	59	136
Q2 06	69	59	129
Q3 06	66	57	124
Q4 06	56	49	105
Q1 07	56	50	106
Q2 07	57	50	107
Q3 07	59	50	110
Q4 07	47	38	85



Natural gas sales

The core business of the Trade and Storage segment comprises sales of 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 Energy Laboratory Office.

In 2007, the aggregate gas sales volume, measured as high-methane gas equivalent, was 13.7 billion cu. m, slightly above the 2006 figure. As two different types of gas are distributed, we operate two transmission networks interconnected with an installation for cryogenic separation of methane and nitrogen, located in Odolanów. In 2007, 1.4 billion cu. m of nitrogen-rich gas was processed in Odolanów, with 0.9 billion cu. m of high-methane gas fed into the network subsequent to nitrogen elimination, which corresponds to the 2006 production levels.

In 2007, sales of gas to gas companies, end customers and Distribution System Operators accounted for 58% of total gas sales. As a result of the legal separation of distribution and trade functions in the mid 2007, the Gas Companies were transformed into Distribution System Operators and the trading activities were taken over by PGNiG. Therefore, in H2 2007 we sold gas to end-customers, while the Distribution System Operators purchased gas for their own needs. Our main customers receiving

» Natural gas sales volume measured as high-methane gas equivalent in 2005–2007

	■ Natural gas sales revenue [PLN bn]		
	■ Natural gas sales volume [bcm]		
2005		10.9	13.6
2006		13.3	13.7
2007		14.4	13.7

gas from the distribution and transmission network primarily included companies from chemicals sector, the metallurgic industry and the power sector, as well as households. The latter were identified as the largest customer group, accounting for 99.6% of the entire PGNiG's customer base, with a 28.1% share in the sales volume. The most prominent share in the natural gas sales was claimed by industrial customers (60.5%), with the dominating position of nitrogen plants and companies from the refining and petrochemical sectors.

A future increase in natural gas volumes sold will be driven by development-oriented projects undertaken by our strategic customers, i.e. companies operating in the petrochemical, construction and metallurgical industries. In 2007, we started

cooperation with several large potential customers. Some of them are companies operating in the power sector, with plans to partially replace hard-coal fired generating units with gas fired ones. The start of natural gas supplies to modernised power plants and CHP plants is planned for 2011–2012. Moreover, in 2007, we commenced negotiations with electricity suppliers concerning combined sales of electricity and natural gas. The preparation of a co-operation model and first joint implementations are expected 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.

Storage

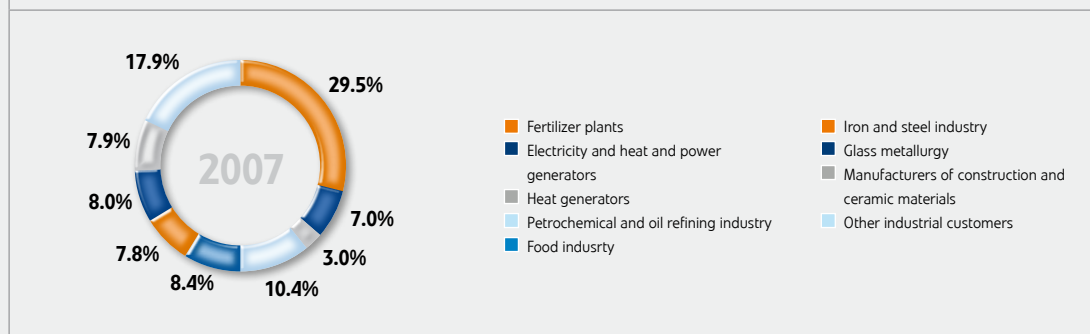
We currently own and operate six underground gas storage facilities (UGS) with a working capacity of 1.66 billion cu. m, which represents 13.5% of the annual gas consumption by our customers. The facilities are located in various geological structures (in salt caverns in Mogilno, and in worked out natural gas deposits at the other UGS facilities), and have different gas injection and reception capacity.

The table below sets forth the basic profiles of individual UGS facilities.

Currently, the storage facilities are suitable for storage of high-methane gas only. The two new storage facilities planned to be launched in Daszewo and Bonikowo in 2009 will be used for storage of nitrogen-rich gas. This will enable the supplies of natural gas in the natural gas sub-system to be optimised and the demand for nitrogen-rich gas to be met in the vicinity of these facilities.

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 also help us meet our obligations to create and maintain mandatory reserves, and they reduce our susceptibility to seasonal fluctuations sudden short-term changes in demand for gas (as they support optimisation of the natural gas supply chain). 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.

» PGNiG's industrial customers in 2007



Facility	Type of project	Working capacity [bcm]	Target capacity [bcm]	Year completed
Wierzchowice	extension	0.58	1.20	2012
Husów		0.40	0.40	
Mogilno	extension	0.37	0.44	2012
Strachocina	extension	0.15	0.33	2012
Swarzów		0.09	0.09	
Brzeźnica		0.07	0.07	
Bonikowo	construction		0.20	2009
Kosakowo	construction		0.05	2012
Daszewo	construction		0.03	2009
Total		1.66	2.81	

The capacity of the currently used UGS facilities represents the average consumption of natural gas over 49 days. The facilities provide as with means to duly perform our gas sales contracts.

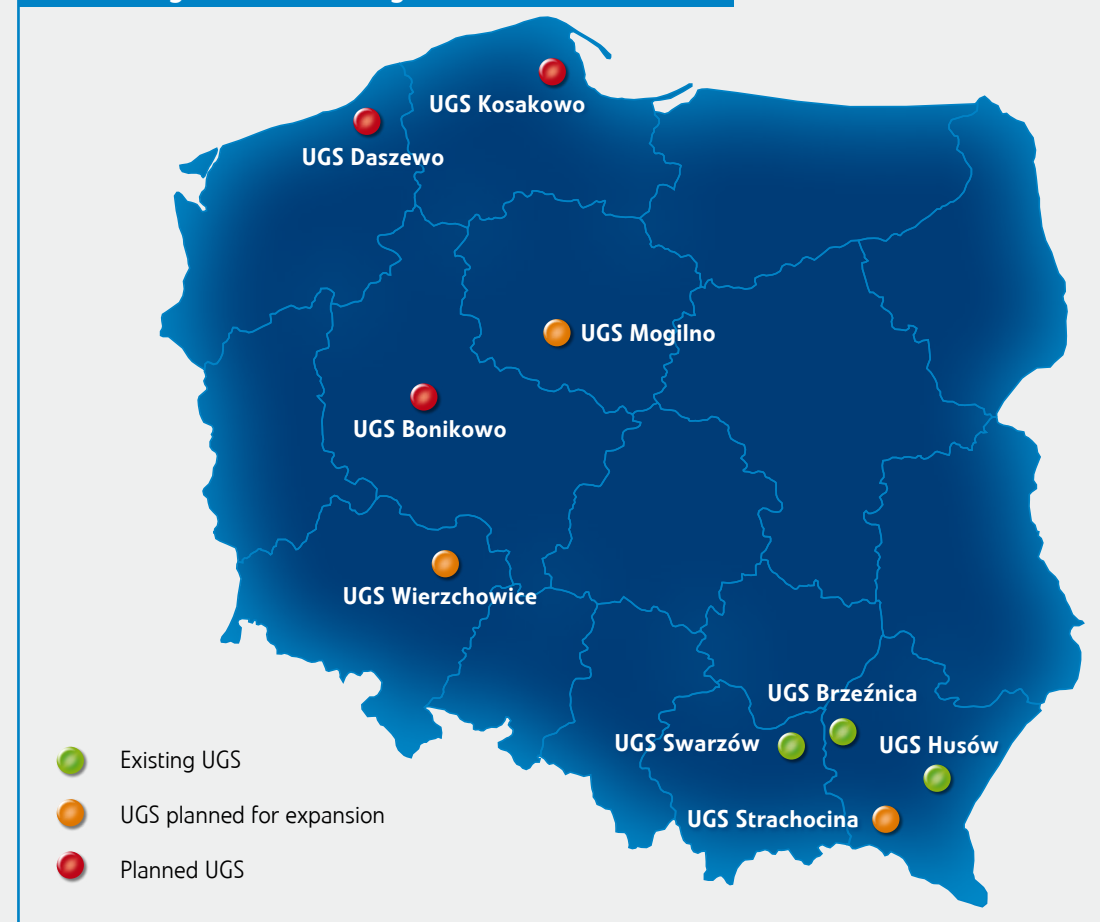
We follow an active policy of expanding the storage volumes of the facilities. In 2007, the related capital expenditure was PLN 61m. The most important tasks in this area in 2007 included:

- » Underground Gas Storage facility in Wierzchowice – opening of the tender for construction of the facility's surface infrastructure;
- » Underground Gas Storage facility in Kosakowo – execution of the contract for preparation of construction design for surface infrastructure

(and obtaining relevant building permits); and preparation of construction and building design for the leaching unit and pipeline for brine discharge into the Puck Bay (and obtaining relevant building permits). Execution of the contract for delivery of leaching pumps, and the contract with INVESTGAS SA for construction of the leaching unit and the brine pipeline;

- » Underground Gas Storage facility in Strachocina – execution of the contract for preparation of construction design (and obtaining relevant building permits) for the facility's surface infrastructure. Conclusion of the tender for drilling of wells.

Underground Gas Storage facilities in Poland



LNG

Given the continuous increase in crude oil prices, 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 in December 2006 and containing an analysis of the project's technological and economic objectives, was used by the Management Board of PGNiG as a basis for the decision to build an LNG terminal in Świnoujście. It is assumed that the initial annual volumes of gas supplies from the LNG terminal to the network will be ca. 2.5 billion cu. m. Depending on demand for gas, the annual throughput may increase to 5.0 billion cu. m, with the target throughput of 7.5 billion cu. m annually. The first supplies of liquefied natural gas are planned for 2012.

In 2007, the implementation stage of the project of regasification terminal construction was executed, and included the following tasks:

- » OGP GAZ-SYSTEM SA defined the conditions for connecting the terminal to the transmission system; negotiations of the relevant connection agreement commenced;
- » Polskie LNG Sp. z o.o. was established; the company's main objective is to conduct regasification operations, and in particular unloading, reloading and regasification of LNG at the LNG terminal;
- » An agreement was executed with the Nature Conservation Office in Szczecin for preparation of an environmental impact study for the project;
- » A lease agreement was executed with Zarząd Morskich Portów Szczecin i Świnoujście SA (Port Authority) concerning real estate to be used for the purpose of the LNG Project, and the local zoning plan for Świnoujście was amended.

Concurrently with design and implementation work, development actions were carried out with view to concluding a long-term contract for LNG supplies.

Another major step was the execution of a contract between Polskie LNG and SNC Lavalin Services Ltd. in the early 2008. Under the contract, the Canadian company will prepare the design of and obtain a building permit for the project. The contract, with a value of PLN 26m, is expected to be completed within nine months.

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 7.3 million 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 2007 is estimated at 1.3 thousand, mostly owned by public transport companies and private road carriers.

As at the end of 2007, we owned 28 CNG filling stations. Funds for construction of further new stations are earmarked in the 2008 budget. On March 28th 2008, the President of Energy Regulatory Office issued a decision whereby PGNiG is released from the obligation to submit CNG tariffs for approval. Thus development of the CNG market will become significantly easier.

» Number of CNG service stations in Poland in 2006–2008

2006	<div style="width: 23%;"></div>	23
2007	<div style="width: 28%;"></div>	28
2008	<div style="width: 33%;"></div>	33



Distribution



Activities of the Distribution segment are conducted by six Distribution System Operators, which are responsible for supplying natural gas to households, industrial customers and wholesale customers, as well as operation, maintenance and expansion of gas pipelines.

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In 2007, the segment posted an operating loss minus PLN 1.311bn. The loss followed from the asset revaluation, which brought on a PLN 1.317bn decrease in the segment's operating result, however with no impact on the cash flow. The principal causes for the asset revaluation at distribution companies comprised:

- » Insufficient revenues under the distribution tariff approved by the Energy Regulatory Authority;
- » Costs of distribution activities growing at a rate higher than projected in the previous years;
- » Capital expenditure on replacement of distribution assets being higher than projected.

Distribution activities are conducted under licences and consist in transmission of natural gas via distribution networks to end customers. The activities are performed by the following six companies:

- » Górnośląski Operator Systemu Dystrybucyjnego (GOSD), with its head office in Zabrze and operating branches in Opole and Zabrze;
- » Karpacki Operator Systemu Dystrybucyjnego (KOSD), with its head office in Tarnów and operating branches in Jarosław, Jasło, Kielce, Kraków, Lublin, Rzeszów, Sandomierz and Tarnów;
- » Mazowiecki Operator Systemu Dystrybucyjnego (MOSD), with its head office in Warszawa and operating branches in Białystok, Łódź and Warszawa;
- » Pomorski Operator Systemu Dystrybucyjnego (POSĐ), with its head office in Gdańsk and operating branches in Bydgoszcz, Gdańsk and Olsztyn;
- » Wielkopolski Operator Systemu Dystrybucyjnego (WOSD), with its head office in Poznań and operating branches in Kalisz, Koszalin, Poznań and Szczecin;
- » Dolnośląski Operator Systemu Dystrybucyjnego (DOSD), with its head office in Wrocław and operating branches in Wrocław, Wałbrzych and Zgorzelec.

In 2006 and H1 2007, natural gas trade and distribution were handled by the gas companies operating within the PGNiG Group. To comply with the requirements of the Polish Energy Law implementing EU Directive 2003/55/EC, in 2007 we carried out a legal separation of gas trade and distribution. As a consequence, in mid-2007 Distribution System Operators, which replaced gas companies, were spun-off by way of taking over all of the assets of gas companies (their sole owner being PGNiG). Since Q4 2007, wholesale and retail sales were consolidated in PGNiG.

The restructuring process was divided into three stages:

- » Stage I – organisational separation of trade and distribution by way of spinning off six Trading Branches from the existing gas companies (one Trading Branch per each gas company), whose structure comprised 23 gas distribution companies conducting trading activities;
- » Stage II – division of gas companies and transfer of the six Trading Branches from each gas company to a separate temporary company;
- » Stage III – integration of temporary companies with PGNiG.

The restructuring model was selected with a view to improving operating efficiency and strengthening the market position of the PGNiG Group. The organisational change within the PGNiG Group and at our Head Office leads to a greater transparency, concentration of competences and expertise, and optimisation of processes in individual business segments.

» Operating results posted by the Distribution segment in 2005–2007

[PLN m]		
2005		133
2006		231
2007		(1,311)

	MOSD	WOSD	DOSD	GOSD	KOSD	POSĐ
No. of end customers [m]	1.5	0.9	0.8	1.2	1.4	0.7
Volume of distributed gas [bcm]	1.7	1.4	0.9	1.2	1.9	0.8
Pipeline length, excluding connections ['000 km]	6.9	19.8	42.5	16.2	7.9	13.4

Data for 2007.

The Distribution System Operators are strategic companies of the PGNiG Group. The profile of each individual Operator depends on the location, historical factors, advancement of urban development, industrialisation level, or even economic standing of local populations.

The Distribution System Operators (DSO) provide their services across Poland. The aggregate length of their network approximates 107 thousand km. The Operators deliver gas to 6.5 million individual and industrial customers (where the former account for 97% of the total number of customers).

The Distribution System Operators 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 Distribution System Operators use the tariff effective as of April 25th 2008.



Public Relations



PGNiG in its actions comply with public concerns and protection of natural environment. As one of the biggest employers in the country, the Company takes special care of development and security of its workers.

Employees

Public Relations – Employees

Persons in the PGNiG Group





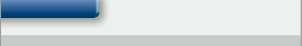

The PGNiG Group is one of the largest employers in Poland. As at the end of 2007, we employed 30,325 people, i.e. 528 more year on year. The increase results from the Group's development, especially the growth of the companies in the Exploration and Production segment.

In 2007, some of the employees were transferred from the Distribution segment to the Trade and Storage segment.

In 2007, we continued the second stage of the "Programme of employment restructuring and employee protection measures for PGNiG branches and subsidiaries". In the period from January 1st 2004 to December 31st 2007, the restructuring process involved 5,785 people, including 1,489 in 2007 alone.

The employees covered by the restructuring process obtain severance pays guaranteed under the relevant provisions of the labour law and arising under PGNiG's internal regulations, including collective labour agreements for PGNiG and its subsidiaries, as well as the Group's internal work and remuneration rules. Within the programme, each

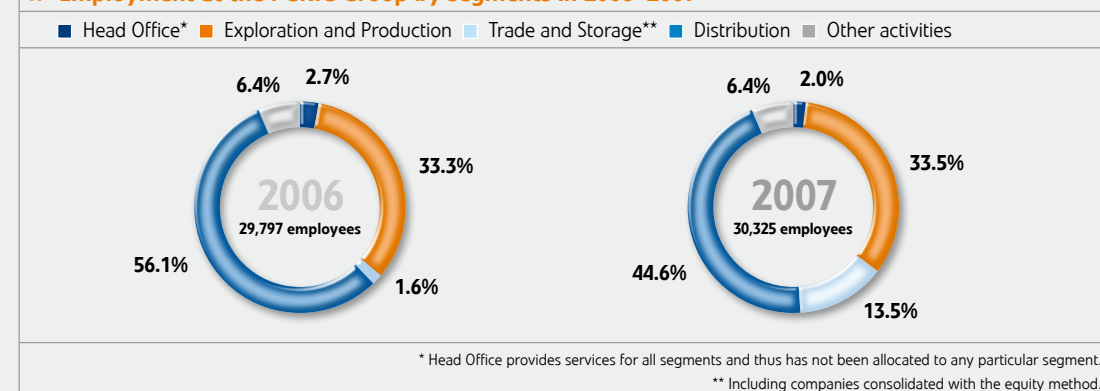
» Employment at the PGNiG Group, year end in 2002–2007

[persons]		
2002		32,252
2003		31,555
2004		30,550
2005		30,176
2006		29,797
2007		30,325

employee with at least five years of service at the PGNiG Group, and included in the programme after January 1st 2005 is granted additional protection benefits at amounts individually calculated in accordance with the programme's terms.

Implementation of the restructuring programme yielded savings on remuneration and employee benefits to the order of PLN 573m in 2004–2007, including PLN 277m in 2007 alone. The programme has been extended until the end of 2008.

» Employment at the PGNiG Group by segments in 2006–2007



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:

- » organization 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 organized prophylactic holidays at occupational health and recreation centres.

Internships

PGNiG organizes 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 organized 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 employment restructuring programme, we prefer internal recruitment for posts at the Head Office. Not only does it allow 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.

Employees' professional development

The employees, their experience, knowledge, creativity and commitment, are our greatest asset. Thereby, investing in human resources creates favourable conditions for implementation of our plans. This approach also allows our employees to pursue their individual goals. Due to a wide spectrum of the subsidiaries' business activity, we allow our Group's 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.

In 2007, our employees participated 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. Most of these 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 our Group's value, which is

viewed positively primarily by investors and clients, and also by prospective employees.

Safety at work

Acting as a responsible employer, in 2007 we continued efforts aimed at improving working conditions, thus increasing our employees' safety. Every year, more new equipment is used in everyday work. Specialist training on operation of the new equipment, as well as occupational health and safety trainings, contribute to the improvement of work conditions.

The number of industry-specific occupational accidents in the PGNiG Group (drilling work, as well as crude oil and natural gas production) is relatively small; in 2007, it was below 13% of the total number of accidents.

We are a team

An important element affecting the productivity and quality of work is integration and cooperation of the Group employees. Hence, various employees' activities are encouraged. Their main objective is to enhance team work, which translates into employees' higher productivity and improved relations at work. Work on the strengthening of internal communication began already in 2006. Due to the nature of our business and the broad range of operations, both traditional as well as electronic means of communication are used.

In 2007, an important element of the separation of trading function from gas distribution was the communication support of the changes. A lot of time and attention was devoted to it, and apart from internal publications, the management of the Project Committee took part in a series of meetings all over Poland, during which employees could express their concerns and receive explanations. These meetings – the so-called cascades communication based on direct contacts with the employees – are an important element of our internal communication system. We also attach great importance to feedback from the employees. For example, a series of meetings on the integration of PGNiG trading activities concluded with an electronic survey,

where respondents could assess the meeting and present more of their questions or concerns. From 2008 onward, we will hold ongoing surveys of employee satisfaction.

As part of our activities conducted to-date, the employees receive daily electronic newsletter highlighting the most important events in the PGNiG Group. We have also implemented a system based "communicators" – persons responsible for disseminating information among our employees across the Group. Work on launching of an SMS-based information system for the employees will be completed shortly. The system will support several thousand of the Company cellular phone numbers. We have also launched an IT platform enabling direct information exchange among the employees.

In 2006, PGNiG took steps in order to integrate all professional groups at the Company. Regular meetings improved relations among co-workers, and thus the quality and productivity of work.

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



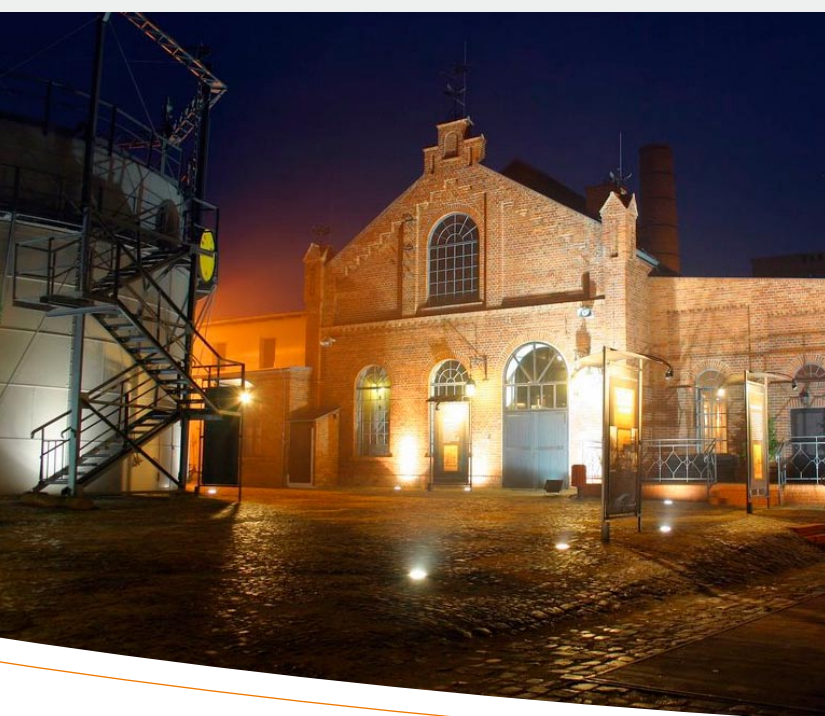
Public Relations – PGNiG as corporate citizen

The PGNiG Group companies demonstrate high level of social commitment, which is understood as responsibility towards both its employees and the society. We support initiatives which are aimed primarily at serving the Polish science and culture and protect and preserve the national heritage for the future generations. The PGNiG Group fulfils its social responsibility duties through sponsorship activities, but also through the PGNiG Foundation, in the context of employee relations and public relations of the PGNiG Group companies.

PGNiG for the Polish culture

In 2007, we were involved in projects of significant importance, both nationally and locally, for the Polish culture and science. Our corporate bodies support local activities of the gas companies and branches as well as initiative undertaken by our subsidiaries.

As part of our efforts to support Polish culture, we financed the renovation of a historic wooden altar at the St. Bernardine of Siena Church in Kraków. The monastery complex of the Bernardine Fathers built in 1453 and situated at the foot of the Wawel Hill with its preserved complete baroque fittings is an example of Polish and European heritage.



Noteworthy is also PGNiG's involvement in the activities of the Ignacy Łukasiewicz Memorial Museum of Oil Industry (Muzeum Przemysłu Naftowego i Gazowniczego im. Ignacego Łukasiewicza) in Bóbrka. We are one of two sponsors of the museum. In 2007, we took steps which in a long term should lead to revitalisation of the museum and its popularisation as one of the main tourist attractions in southern Poland. In 2007, the Supervisory Board of PGNiG approved a long-term sponsorship agreement with the museum. This activity is aimed at preserving the Polish historical and scientific heritage as well as popularising knowledge about the oil industry.

In 2007, the PGNiG Trading Division carried out a lot of valuable initiatives. We should mention at least the Polish Puppeteers Festival (Ogólnopolskie Spotkania Lalkarzy) in Kraków, cooperation with the Kraków Historical Museum and the Karol Szymanowski Philharmonic in Kraków or the annual great dragon parades which are organised by the Groteska Theatre (Teatr Lalki, Maski i Aktora "Groteska") in Kraków. In Lublin, we are involved in such projects as the International Festival Theatre Confrontations 2007 (Międzynarodowy Festiwal "Konfrontacje Teatralne" 2007) or the Paderewski International Musical Competition for the Blind (Międzynarodowy Konkurs Muzyczny dla Niewidomych im. I.J. Paderewskiego). In Koszalin, we were involved in the organisation of the concert celebrating the naming of Polish Radio Koszalin's recording studio after Czesław Niemien. In Jarosław, we supported a local initiative as part of the nationwide social campaign "Polish Parents Read to Their Children" (Tydzień Ogólnopolskiej Kampanii Społecznej "Cała Polska Czyta Dzieciom").

The support given to local initiatives can also be seen in projects undertaken by the Zielona Góra and Sanok Branches.

The Zielona Góra Branch supports all major artistic events in its region. It cooperates with such institutions as the L. Kruczkowski Theatre in Zielona Góra, the Cantor Old Music Foundation, the Lubuska Land Museum in Zielona Góra, the Zielona Góra Jazz Association, the Zielona Góra Philharmonic, or the University of Zielona Góra.

Also the Sanok Branch of PGNiG in its sponsorship activities focuses mainly on local initiatives in the Kraków, Rzeszów, Lublin and Warszawa Provinces, the most important of which are international events, including:

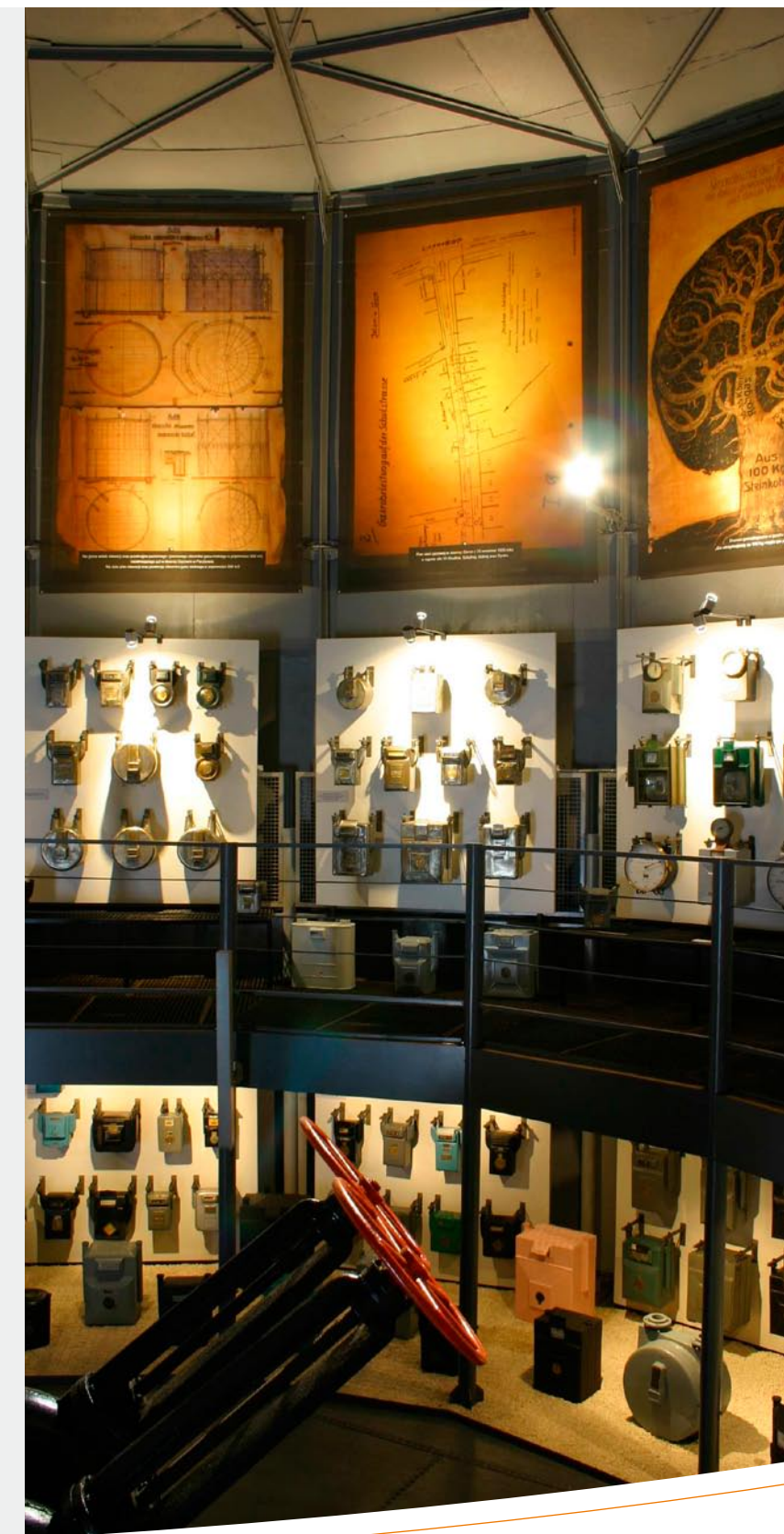
- » Adam Didur Festival – attracting the greatest stars of opera, chamber and symphonic music and ballet, combined with a composers competition;
- » International Pianists' Forum – Bieszczady without Borders (Międzynarodowe Forum Pianistyczne – Bieszczady bez granic) – gathering the winners of the most prestigious piano competitions, with concerts, master classes and lectures given by the greatest piano virtuosos;
- » International pleinair painting workshops;
- » International Accordion Festival (Międzynarodowe Spotkania Akordeonowe) – under the auspices of the Ministry of Culture (Grand Prix funded by Lech Kaczyński, President of the Republic of Poland).

Supporting culture and art and protecting the historical material heritage are the main and most important forms of activity in the area of public relations of the Distribution System Operators, our largest subsidiaries.

In 2007, Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. continued its cooperation with the National Museum in Warszawa, supporting day-to-day activities of the institution important for the national culture. In May 2007, in cooperation with the National Museum we organised an interesting exhibition at the Gas Industry Museum in Warszawa entitled "150 Years of Our Presence in the City".

Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. contributed to the 11th Shakespeare Festival, a show of European productions, which for several years has attracted a number of theatre lovers. The festival was accompanied by multiple artistic events and extensive educational programme, comprising meetings with artists, as well as drama, art, photography and journalist workshops. POSD also supported the Nova Opera House of Bydgoszcz as part of the organisation of the 14th Bydgoszcz Opera Festival.

In October 2007, following a two-year renovation work, Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. opened the Gas Industry Museum





in Paczków. Both the renovation and current operations of the Museum are entirely financed by Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. The Museum was established on the premises of the former gas company in 1991, and it is now the only venue in Poland featuring the whole gas production equipment preserved intact. Interestingly enough, the Museum houses Europe's largest collection of nearly 600 gas meters. The visitors may also see a Chemnitz fireless steam locomotive from 1927, closing cast-iron trap with a 1.2 cm diameter, and a clock dial for a 110 thousand cu. m tank. Most of the exhibits are in good working condition. The Museum's another attraction is its well-preserved beautiful industrial architecture.

In 2007, the gas company in Tarnów celebrated its 130th anniversary. The efforts of Tarnów historians and cultural community and the support of Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. yielded an unusual presentation of the history of gas industry in the region during the 10th Jubilee Polish Comedy Festival Talia in Tarnów. The festival's opening was accompanied by the gala of KOSD.

Karpacki Operator Systemu Dystrybucyjnego commissioned the Tarnów branch of the Polish Association of Sanitary Engineers and Technicians to

produce a publication that will be a first recording of the rich history of the gas industry in Tarnów. The publication of the monograph is planned for September 2008. Undoubtedly, it will be a very interesting book needed by the industry.

Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. has long supported the Poznań Boys' Choir – one of the most well-known Polish choirs in the world – conducted by Jacek Sykulski. Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. co-finances the organisation of concerts and releases of the choir's recordings. In 2007, WOSD contributed to the construction of the statues of renowned Poles, including Kazimierz Odnowiciel (a Polish king) in Pobiedziska and Hipolit Cegielski (advocate of organic work and pioneer of heavy industry) in Poznań. In particular, the latter was of great significance to WOSD given the importance of Hipolit Cegielski and his businesses for the growth of the Poznań gas company.

Also smaller companies of the PGNiG Group are involved in projects promoting the Polish culture.

Poszukiwanie Nafty i Gazu Kraków for several years has been engaged in promoting young artists by sponsoring the International Master Courses of Musical Interpretation in Zakopane organised by the Zakopane Academy of Arts. The company also co-organises exhibitions of young painters, actors and photographers, financially supports operetta concerts, and sponsors vernisages of Polish artists abroad. PNiG Kraków is also a patron of the Kraków Photography Association and the Władysław Bogacki Museum of History of Photography. In the Nafta gallery in Kraków, which is owned by PNiG Kraków, interesting exhibitions of documentary, historical and artistic photography are held. The exhibitions, which are devoted to the most important events in 20th-century Poland, are created by Władysław Klimczak, the icon of the Polish photography. They are well known in Poland and in the world. Additionally, PNiG Kraków sponsors operetta music concerts, and especially the Obligato Strauss Orchestra conducted by Jerzy Sobeńko, as well as the performances of famous singer – Krystyna Tyburowska.

In 2007, Gazoprojekt of Wrocław sponsored a number of musical events, including the Polish Festival of Academic Choirs Barbórka 2007. For several years, the company has cooperated with the PAX ET BONUM foundation, which organises the International Pax Et Bonum Per Musicam Festival in Wrocław.

The companies of the PGNiG Group not only support local communities but – by conduction international operations – they also promote the Polish culture and science abroad.

In 2007, Nafta Piła was listed among the patrons of Polish archaeology by the Nile. The 70 Years of Polish Archaeology in Egypt exhibition, housed at the Egyptian Museum, the world's most famous archaeological museum, presented impressive achievements of Polish archaeological missions in Egypt.

PGNiG for development of the gas industry

PGNiG and members of our group participate in all major industry events, including conferences, seminars, congresses and workshops, during which key issues related to the industry are discussed. In 2007, we participated in a seminar entitled "The Operator's Role on the Domestic and EU Gas Markets"; conference held in Stróże and organised by a branch of the Polish Association of Engineers and Sanitary Technicians; the GAZTERM conference in Świnoujście; the 5th International Scientific and Technical Conference entitled "The Role of Poland on the European and Global Oil and Gas Markets", organised by the Scientific and Technical Association of Engineers and Technicians of the Oil and Gas Industry; and the 5th Oil and Gas International Conference.

We maintain close cooperation with the Stanisław Staszic University of Science and Technology in Kraków, supporting the implementation of its initiatives. In 2007, these included the "CNG and Other Alternative Fuels – Building Market Position" workshops; International Scientific and Technical Conference organised to mark the 40th anniversary of the Faculty of Drilling, Oil and Gas; international conference on underground storage; and the 2nd Kraków Conference of Young Scientists. For a number of years now, our partner in this area has been the Institute of Molecular Physics of the Polish Academy



of Sciences in Poznań, well-known as the organiser of the annual scientific workshops called “Summer with Helium” in Odolanów.

Furthermore, cooperation is maintained between PNiG Kraków and post-secondary schools in Kraków offering technology degree courses. In April 2007, the company and the University of Science and Technology co-organised the Nauryz Spring Festival (Święto Wiosny Nauryz), celebrated by youths from Central Asia. The awareness of a unique character of the Asian countries, achieved through PNiG’s long-lasting presence in Asia, surely helps build bridges between our vastly different cultures.

Outside the industry, PGNiG also supports ambitious projects, such as a series of exhibitions under the label of “Architectural Touchstones – Honorary Prize of the Union of Polish Architects 1966–2006” (Architektoniczne punkty odniesienia – honorowa nagroda SARP 1966–2006), and the Competition of Knowledge on Poland and Contemporary World (Olimpiada Wiedzy o Polsce i Świecie Współczesnym). In 2007, we were a partner for the 2007 Economic Forum of Young Leaders (Forum Ekonomiczne Młodych Liderów 2007) in Krynica.

PGNiG for the Polish sports

The PGNiG Group is engaged in supporting sports initiatives, especially those aimed at promoting physical activity among Poles in local communities. In 2007, we were a partner of the annual Oil Race in Gorlice and the autumn round of football games in Świnoujście, and offered our regular support to events organised by the Polish Special Olympics Association (Stowarzyszenie Olimpiady Specjalne Polska). We were involved in the organisation of the

15th National and International Solidarity Race Lubelski Lipiec 80 in Lublin.

Our branches in Zielona Góra and Sanok also lend a hand of support to local sports organisations. The Zielona Góra Branch, for instance, acts as a sponsor of the local men’s basketball team, the bobsleigh section of the Nowiny Wielkie Student Sports Club (UKS Nowiny Wielkie), other student and municipal sports clubs and the Nafta Tennis Club (Klub Tenisowy Nafta). The Sanok Branch, on the other hand, was engaged in supporting the activities of the Naftowiec sailing club, the Górnik ski club, and the Górnik speedskating club. The Branch co-sponsors ski jumping tournaments and a number of other smaller scale sporting events organised at schools and at the regional level.

Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. maintains a cooperation with the Polonia Warsaw Basketball Club, which stands out as unique and exceptionally important for the capital city of Warszawa and whose matches are played in a friendly and welcoming atmosphere. Supporting a sports discipline which releases positive emotions is fully consistent with the communications strategy pursued by our Group.

For some years now, Gazoprojekt has provided support to athletes from Wrocław. One of the major events scheduled for 2007 was the CAPOWROCEK 2007 Capoeira and Brazilian Culture Festival (Festiwal Capoeira i Kultury Brazylijskiej CAPOWROCEK 2007), held in Wrocław for the first time in history. Also, the company co-sponsors the ODRA Wrocław Football Club’s youth section. The sponsorship is based on a continued cooperation with the club,

whose members have benefited from Gazoprojekt’s support for a few years now.

It is worth noting that the PGNiG Group puts much effort in promoting physical activity also among its staff. Each year, a number of sporting events in various disciplines are held to integrate workers employed in the industry.

PGNiG and Corporate Social Responsibility

PGNiG supports charitable causes mainly through its Ignacy Łukasiewicz Foundation, set up in November 2004. We are the only donator to the Foundation, whose activity comprises broad-based support of culture and national heritage, including protection of historical monuments and promotion of science and education. The programmes currently under way focus on children and youths, and embrace such areas as health protection, promotion of sports, support and promotion of learning. The Foundation’s key statutory objectives are pursued through its cooperation with two prominent external partners, including Caritas. As part of the strategic partnership programme designated as “Wings Every Day”, the PGNiG Foundation has pledged long-term help to over 300 most needy children from all over Poland. The Foundation lends support to Caritas by covering the cost of meals for poor children at school canteens, as well as the cost of school supplies and books, and by providing for other day-to-day needs of the children; for instance it contributes to the cost of school travel, buys clothes and learning aids.

The PGNiG Foundation is a strategic partner of the “Student Volunteers” Programme, an initiative authored by the Polish-American Freedom Foundation and implemented by the Polish Association of

Pedagogues and Youth Animators Klanza – an NGO whose members include active people, eager to seek new solutions to transform the educational reality. The Programme is designed to promote equal educational opportunities for children and young people living in rural areas and small towns. Groups of student volunteers design and run their own educational projects aimed to develop knowledge, skills and interests of children and youths over the school year and during summer and winter holidays. Each project is focused on a single field of knowledge, subject or activity. It may take the form of manual and artistic workshops, sports activities, computer classes, theatre workshops or language classes. The “Student Volunteers” Programme, run in association with the PGNiG Foundation, encourages proactive attitudes among pupils and students alike, by developing their sense of social responsibility and solidarity, while providing them with an attractive formula through which to pursue their passions and interests.

As a matter of fact, practically all branches and companies of the PGNiG Group are involved in charitable projects. In Kraków, the beneficiaries of those projects include: Anna Dymna’s “Against the Odds” Foundation, the Polish Committee for Children, and the Society of the Friends of Children. The PGNiG Branch in Sanok offers support to the Association for Employment, the “Health-Hospital” Foundation, the Bieszczady Section of the Mountain Voluntary Rescue Service, the Committee for the Protection of Children’s Rights as well as other organisations. The Branch provides on-going support to schools named after Ignacy Łukasiewicz – a founder of the Polish petroleum industry. Additionally, in 2007 the Company was involved in the EU project





called "The Way it Works", which was connected with the implementation of the CSR concept in the Carpathian Region.

In Upper Silesia, the Distribution System Operator has been supporting the Silesian Scholarship Fund, sponsoring scholarships for university students. It also helps health-care centres – the Burn Injury Treatment Centre in Siemianowice Śląskie, the Silesian Cardiology Centre and the Upper Silesian Oncological Foundation for the benefit of the Oncological Centre Unit of the Marie Skłodowska-Curie Institute in Gliwice.

The concept of corporate social responsibility perfectly matches the growth strategy followed by Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. (POSD), and the year 2007 was a breakthrough period for the company as far as a conscious

involvement in the affairs of local communities is concerned. As part of the involvement, POSD decided to send their business partners charity seasonal cards, with proceeds from the sale going to charity, instead of typical cards sold for commercial purposes. Moreover, the company became the chief partner of the "Christmas Gift" campaign, whose organisers, including the Municipality of Gdańsk, the Gdańsk Charity Foundation, and the Municipal Social Services Centre in Gdańsk, donate all proceeds from the sale of Christmas cards to fund gifts meant for children from the poorest families living in Gdańsk. It is noteworthy that the cards had been designed by children participating in artistic workshops held at the Youth Centre in Gdańsk. All branches of Pomorski Operator Systemu Dystrybucyjnego were vitally engaged in the charity cards initiative, each of them having selected a reputable charity organisation operating locally. Thus the range of support was not limited to the company's primary location (Gdańsk) but also embraced the towns of Bydgoszcz and Olsztyn.

The proceeds from the sale of cards selected for distribution in Bydgoszcz were donated to the Regional Centre of Palliative Care – The Sue Ryder Home. In Olsztyn, on the other hand, the charity cards were prepared by women staying at the Social Welfare Centre in Bisztynek. Funds raised from the sale of cards were allocated to the purchase of materials used during art therapy sessions.

In addition, Pomorski Operator Systemu Dystrybucyjnego donated money to purchase specialist equipment for blind and visually impaired children attending the Public Kindergarten No. 35 in Gdańsk on the day of Saint Barbara's Day celebrations held

in Gdańsk (a holiday traditionally celebrated by miners). The equipment is indispensable in preparing the children to continue their education in primary school.

Another initiative undertaken by POSD is the Eko-style project, whereunder all employees were presented with environmentally friendly reusable shopping bags. The pro-environmental measures started at home, however the eco-friendly bags will be offered to all customers who sign a gas network connection agreement. In this way, both company employees and customers are offered a chance to actively participate in and endorse environmental protection.

A singular type of the social responsibility activity is the long-lasting involvement of the PGNiG Group members in undertakings aimed at enhancing safety of local populations. Having public safety at heart, Pomorski Operator Systemu Dystrybucyjnego purchased a modern training manikin and donated it to the Provincial Fire Department in Gdańsk to facilitate professional training in circulatory and respiratory resuscitation.

Projects serving the enhancement of public safety include the "I'm Safe" knowledge competition on precautionary measures held in Lublin and the "Safe Resident" project implemented for years now by Górnośląski Operator Systemu Dystrybucyjnego in cooperation with Vattenfall. In 2007, further efforts were put to promote initiatives involving the participation of grade 1 to 3 primary school children from Bytom and Ruda Śląska. The principles of safe use of the mass media are expounded during classes taught by competent educators. The culmination

of the "Safe Resident" campaign was a knowledge competition on the safe use of the mass media and a contest for the best poster made by children.

One of the most remarkable initiatives, reaching beyond the Polish borders and constituting a testimony to a great corporate social responsibility, is PNiG Kraków's involvement in developing a firmer relationship between Kazakhstan and Poland. One of the contributing factors is the company's long-standing presence on the Kazakh market. In 2007, PNiG Kraków invited the representatives of the Kazakh embassy and journalists working for the Kazakh media to a meeting held in Kraków with surgeons working for the Department of Cardiovascular Surgery and Transplantology at the Institute of Cardiology of Collegium Medicum of the Jagiellonian University. Participants were afforded an opportunity to learn about potential trainings to be organised for cardiovascular surgeons from Kazakhstan in Kraków, and cooperation prospects. Also, a concept of establishing a sister city relationship between Kraków and Almaty was then born. For a considerable period of time, PNiG Kraków has offered its support to Poles living in Kazakhstan, the support being directed mainly to primary school children in Almaty and Kyzylorda. The company sends to Kazakhstan copies of masterpieces of the Polish literature as well as other educational aids. Owing to PNiG's help, the children are offered a chance to discover and embrace Polish culture, history and tradition. Additionally, trips are organised for grandchildren of Polish expatriates from Kazakhstan to Polish towns and cities, such as Kraków, Kołobrzeg, Częstochowa, Warszawa and Poznań.



Public Relations – Environmental protection

Carbon Credit Trade System

Since 2005, PGNiG has been participating in the carbon credit trade system (CCTS). In the first settlement period, 2005–2007, we were granted carbon credits for the incineration unit in Odolanów, in an amount of 13,400 MgCO₂ annually, and in Zielona Góra (KRNiGZ Dębno), in an amount of 35,900 MgCO₂ annually. In mid 2007, as part of the existing carbon credit trade system, PGNiG reviewed the annual reports on carbon dioxide emissions for 2006 and brought the volumes of carbon dioxide emission in line with the amounts stipulated by the permit held. Following the cancellation of the carbon credits used in 2006, 6,454.7 MgCO₂ credit units were retained.

Under the CCTS, PGNiG collected data necessary to develop the National Plan for Distribution of Carbon Credits for 2008–2012 (KPRU II). In that settlement period, the system will be joined by the facilities of the Odolanów Branch, Zielona Góra Branch and the Gas Storage Facility in Mogilno.

Environmental Management Systems

Implementation and certification of the environmental management systems are among our priorities and they come as the key factor in implementing the sustainable development concept. We intentionally strive to reduce the adverse environmental impact of our operations in the area of exploration and production of crude oil and natural gas.

Certain companies of the PGNiG Group have already implemented an environmental management system based on the PN-EN ISO 14001 standard, thus meeting the legal requirements relating to environmental protection. Other effects of the implementation include improved efficiency of raw material and energy use, as well as reduced emissions of pollutants. All actions comply with the most stringent

environmental protection standards. Obtaining a PN-EN ISO 14001 compliance certificate for the implemented management system will enable the Company to increase its environmental credibility in contacts with customers.

REACH (Registration, Evaluation, Authorisation of Chemicals) – chemical substances and preparations

In order to ensure compliance with the new regulations concerning mandatory registration of chemical substances, assessment of technical documentation, evaluation of substances and authorisations for use of substances in production and trading, which came into effect in H1 2007, we initiated work aimed at identifying the relevant substances produced in its operations or purchased and used by the PGNiG Group. Completion of the work is scheduled for 2008.

Natura 200 (Nature 2000)

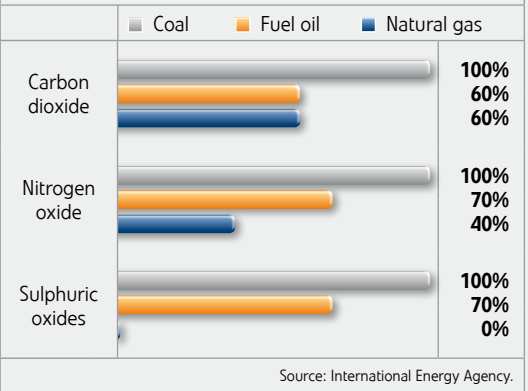
As part of the national consultations regarding the Natura 2000 network, in 2007 the Ministry of Environment began identifying new special areas of habitat protection and new areas of special bird protection. We reported existence of the Natura 2000 areas within the operating areas of the PGNiG Group and/or potential conflicts between the planned investment, exploration and production projects and the Natura 2000 areas.

Natural gas as environment-friendly fuel

Natural gas is the most environment-friendly fuel – its use by businesses does not affect the natural environment. The sustainable development concept provides for the civilisation, technology and economy progress must involve the harmonisation of environmental-protection-related requirements with the rational use of natural resources. The currently developed environmental protection law obliges each business entity to prevent environmental

hazards and creates an incentive system encouraging the application of technologies and raw materials supporting the environmental protection. Natural gas fired installations are currently on a large scale used by the power sector, industry and municipal services sector. Air polluting emissions from gas combustion are lower than those recorded for other fuels. The use of natural gas as feedstock and fuel in technological furnaces enables the energy consumption in numerous industrial processes to be reduced. The implementation of state-of-the-art technological processes in newly launched or modernised production installations leads to higher output and much lower pollutant emissions.

» Pollutant emissions from the combustion of natural gas and fuel oil in comparison with coal



Certificates, awards and distinctions

Our corporate communication policy, covering both relations with our employees and with the public, does not go unnoticed, as evidenced by the awards earned by companies of the PGNiG Group. The companies are steadily improving their business credibility by submitting to formal certification and audit processes.

The PGNiG Group was ranked fifth among the top hundred most valuable companies in Poland, according to a survey by A.T. Kearney and Newsweek in April 2008. The survey covered companies which were singled out on the basis of their revenues, profitability or important and renowned brands. Each company was valued based on financial and strategic information publicly available. This year, PGNiG climbed up the ranking by four positions in comparison with 2007. In April 2008, the Company was also named "Business Superbrand", which is an indication that PGNiG enjoys best reputation in the industry and offers the expected and recognisable benefits.

A separate group of the numerous awards won by our branches and subsidiaries are awards for environmental protection activities. For detailed information, see the Environmental Report attached to this Annual Report. In 2007, Górnśląski Operator Systemu Dystrybucyjnego (then operating under its previous name) took the fourth position among other companies from the Katowice Province in the 2007 edition of the "Pillars of Polish Economy" ranking prepared by Puls Biznesu, a business and financial management newspaper, and business

intelligence agency Coface Intercredit Poland. This initiative seeks to promote companies which play important roles in their regions not only because of the scale of their business but also their importance to the local communities. By creating new work places and supporting the initiatives undertaken by the local authorities, these companies become driving forces of the regional economies. "Pillar of Polish Economy" is the title given to enterprises which, operating in fair and transparent way, are a pride of their communities.

In the same year, GOSD received the "European Crown 2007" award. What makes this award special is the fact that it is given by the media. Journalists cooperating with the Press, Radio and Television Studio and Programme Centre in Katowice honoured the company for its professionalism in gaseous fuel trading, which is highly praised and ensures customer satisfaction, and for good relations with the media.

In early February 2008, Pomorski Operator Systemu Dystrybucyjnego was named "Laureate of the Decade" in the 11th edition of the Pomeranian Quality Price Competition held by the Pomeranian Council of the Polish Federation of Engineering Associations NOT in Gdańsk. The award is all the more valuable because it is presented only once in ten years. Thus it confirms the high operating standards, quality systems and TQM (Total Quality Management) philosophy of the company. The Bydgoszcz Gas Distribution Division of POSD was for the third time named "Patron of the Garden of Arts in Bydgoszcz".

This honourable title was awarded in recognition of the support for arts, sports and cultural projects carried out in the region in 2007. POSD was also honoured for the support to the 14th Bydgoszcz Opera Festival, 45th Bydgoszcz Music Festival devoted to Karol Szymanowski and music masters of the 20th century, 5th Bydgoszcz Jazz Festival, 7th European Athletics Festival, 2nd Bydgoszcz Festival of Street Running, the Give Heart To Children (Podaruj dzieciom serce) concert, and long-standing support to the Bydgoszcz Society of Palliative Care.

In 2007, Poszukiwania Naftowe Diament, a company of the PGNiG Group, recognised as one of the most dynamically developing companies in Poland, was among the finalists of the prestigious "Gazelles of Business" competition organised by Puls Biznesu. This confirms that Poszukiwania Naftowe Diament enjoys high reputation for fairness to the employees and guarantees timely provision of top quality services.

Another company of the PGNiG Group which in 2007 again was named one of the "Gazelles of Business" is Geofizyka Kraków. This time it improved its performance in the ranking by impressive 1,500 positions and was located at the 488th place in Poland and among top 50 in the Kraków region.



The year 2007 was a special year for Poszukiwania Nafty i Gazu Kraków. The company won a number of prestigious awards given by Polish business experts, including:

- » "Leader of Export" award in Efficiency, from the Kraków Province Marshal;
- » "Outstanding Polish Exporter", a medal from the Polish Exporters Association for best export services;
- » "Pearl of the Polish Economy" certificate from the Polish Market magazine and the Institute of Economic Sciences of the Polish Academy of Sciences for "consistently pursuing the corporate policy and strategy and taking the lead among the most dynamic and most effective businesses in Poland";
- » "Leader of Export" accolade for the amount of capital invested abroad;
- » "Leader of Export" award in Profitability, from the Ministry of Economy.

The year 2007 saw successful completion of the certification audit of the quality management system at Mazowiecki Operator Systemu Dystrybucyjnego by KEMA Quality Polska.

In the same year, Górnośląski Operator Systemu Dystrybucyjnego renewed its external audit and received a certificate confirming that the company meets the requirements underlying the integrated quality management system, integrated environment management system and health and safety at work system. The audit was performed by the Polish Centre for Testing and Certification (Polskie Centrum Badań i Certyfikacji).

Having conducted recertification audit, in 2007 Det Norske Veritas awarded the Sanok Branch the Quality, Environmental and Safety Management System Certificate confirming compliance with ISO 9001:2000, ISO 14001:2004 and PN-N 18001:2004.

Besides the awards earned for exceptional achievements and professionalism, the PGNiG Group companies attach special importance to awards for their social commitment, both to the employees and the public.

Karpacki Operator Systemu Dystrybucyjnego is one of the 15 Polish companies awarded with the prestigious certificate "Friendly Employer". The contest was held by the National Commission of the Solidarity Trade Unions as part of the campaign "Employee Friendly Poland" held among Polish employers under the honourable patronage of President Lech Kaczyński. The certificates were awarded to employers which take particular care in work safety, observance of law and work standards, and allow employees to freely join trade unions. The certificate is a confirmation of the social responsibility towards employees. The Sanok Branch also received a distinction in the contest.

Pomorski Operator Systemu Dystrybucyjnego was the only gas company to be named "Company Exceptionally Friendly to Mothers" in the contest held in 2007 by Fundacja Świętego Mikołaja, Millward Brown SMG/KRC, and the "Rzeczpospolita" daily.

The "Reliable Employer" title, awarded by the Economic Review section of the Gazeta Prawna daily

in the Bydgoszcz Province, went to another company of the PGNiG Group – Geofizyka Toruń. This is a countrywide contest, but the awards are presented separately for each region. The main criteria for candidate selection include employment dynamics in recent years, company growth and corporate image.

In 2007, the Group companies were also awarded for their commitment to social work. Karpacki Operator Systemu Dystrybucyjnego was honoured in the "Words of Wisdom" contest held by the Foundation "Education and Health" in the category "person or company financing Polish science and culture". This prestigious accolade is awarded by a panel whose members include Jerzy Stuhr, Jacek Majchrowski, Jerzy Sadowski, Franciszek Ziejka, Grażyna Brodzińska or Krzesimir Dębski. Another award of special significance to the company is the Santa's Friend medal given by the Foundation for the Disabled in Stróże for the support in activities aimed at helping the disabled and poor.

Górnośląski Operator Systemu Dystrybucyjnego holds the honorary title of "Friend of the Silesia Grant Fund". The Foundation of the Silesia Grant Fund presents this title to companies which have been supporting it for years and thanks to which students may continue their education and make their dreams a reality.

A clear indication of the Group companies' serious commitment to the ideas of social responsibility and sustainable development is the fact that in February 2008 Pomorski Operator Systemu Dystrybucyjnego became participant in Global Compact, an initiative of the UN Secretary-General, Kofi Annan. It calls on companies to embrace ten universal principles in the areas of human rights, labour standards, environment and the anticorruption. In Poland this global programme promoting Corporate Social Responsibility is coordinated by the United Nations Development Programme. POSD is the first power company in Poland to become a full member of Global Compact. By drawing on the considerable experience gained under this initiative, POSD will certainly set an example for other companies of the PGNiG Group to follow.



PGNiG Group



Diversity of companies from the PGNiG Group allow to benefit from the effects of synergy in every part of our business. As a result, year by year PGNiG straightens its position on gas and oil market, both in Poland and abroad.

Structure of the PGNiG Group

Organisational structure

The PGNiG Group consists of production, trading and service companies incorporated under the commercial law. As at December 31st 2007, PGNiG held shares in 57 commercial-law companies, including:

- » 27 companies in which PGNiG held over 50% of shares or votes;
- » 16 companies in which PGNiG held between 20% and 50% of shares or votes;
- » 14 companies with the Company's equity interest below 20% of shares or votes.
- » The total nominal value of PGNiG's equity interests in the companies was PLN 6.3bn.

Equity changes

In 2007, the PGNiG Group added two new special purpose vehicles, namely Polskie LNG Sp. z o.o. and PGNiG Norway A/S, in which PGNiG holds 100% of shares. On the other hand, one of the non-material companies, Przedsiębiorstwo Wielobranżowe MED-FROZ SA w likwidacji (in liquidation), was deleted from the National Court Register (PGNiG had a 23.07% interest in the company's share capital).

The main objective of Polskie LNG Sp. z o.o. is the construction of the LNG regasification terminal and its subsequent operation. PGNiG Norway A/S was created to perform the agreement concluded by PGNiG concerning the purchase of interests in the deposit licence areas of the fields in the Norwegian Continental Shelf. The company's core business consists in the production of crude oil and natural gas.

In 2007, PGNiG increased its equity commitment in the following subsidiaries: GEOFIZYKA Toruń Sp. z o.o., PNiG Kraków Sp. z o.o., Zakład Robót Górniczych Krosno Sp. z o.o., Polskie LNG Sp. z o.o. and PGNiG Norway A/S. The changes did not affect the percentage equity interests held by PGNiG in the subsidiaries, as the Company is their sole shareholder.

Strategic Companies	Core Companies	Special Purpose Companies	Other Companies
<div>Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. 100%</div> <div>Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. 100%</div> <div>Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. 100%</div> <div>Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. 100%</div> <div>Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. 100%</div> <div>Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. 100%</div>	<div>PNiG Jasło Sp. z o.o. 100%</div> <div>PNiG Kraków Sp. z o.o. 100%</div> <div>PNiG NAFTA Sp. z o.o. 100%</div> <div>GEOFIZYKA Kraków Sp. z o.o. 100%</div> <div>GEOFIZYKA Toruń Sp. z o.o. 100%</div> <div>Poszukiwania Naftowe „Diament” Sp. z o.o. 100%</div> <div>Zakład Robót Górniczych Krosno Sp. z o.o. 100%</div> <div>SGT EUROPOL GAZ SA 48%</div> <div>GAS-TRADING SA 43.41%</div> <div>BSiPG Gazoprojekt SA 75%</div>	<div>PGNiG Finance BV * 100%</div> <div>Górnictwo Naftowe Sp. z o.o. 100%</div> <div>InterTransGas GmbH 50%</div> <div>Dewon ZSA 36.38%</div> <div>INVESTGAS SA 100%</div> <div>NYSAGAZ Sp. z o.o. 51%</div> <div>Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji 48.48%</div> <div>Polskie LNG Sp. z o.o. 100%</div> <div>PGNiG Norway A/S 100%</div> <div>Polski Serwis Płynów Wiertniczych Sp. z o.o. 14%</div> <div>Polskie Konsorcjum Energetyczne Sp. z o.o. 9.50%</div> <div>Agencja Rynku Energii SA 7.27%</div> <div>JURLAN SA w upadłości 4.24%</div> <div>Agencja Rozwoju Regionalnego „Karpaty” SA 1.96%</div> <div>HSW – Zakład Kuźnia Matrycowa Sp. z o.o. 1.49%</div>	<div>MATERIAL</div> <div>BUD-GAZ Sp. z o.o. 100%</div> <div>BUG Gazobudowa Sp. z o.o. 100%</div> <div>ZRUG Sp. z o.o. w Pogórskiej Woli 100%</div> <div>ZUN Naftomet Sp. z o.o. 100%</div> <div>Geovita Sp. z o.o. 100%</div> <div>PP-UiH TURGAZ Sp. z o.o. 51.14%</div> <div>ZRUG Warszawa SA w likwidacji 49%</div> <div>GAZOMONTAŻ SA 45.18%</div> <div>ZWUG INTERGAZ Sp. z o.o. 38.30%</div> <div>ZRUG TORUŃ SA 31.33%</div> <div>AUTOSAN SA 0.06%</div> <div>NON-MATERIAL</div> <div>PI GAZOTECH Sp. z o.o. 69.44%</div> <div>Sahara Petroleum Technology LLC 49%</div> <div>PF-K GASKON SA 45.94%</div> <div>ZRUG Sp. z o.o. w Poznaniu 40.06%</div> <div>HS Szczakowa SA w upadłości 33.30%</div> <div>ZRUG Zabrze Sp. z o.o. 21.82%</div> <div>ZRUG Wrocław Sp. z o.o. w upadłości 15.88%</div> <div>TeNET 7 Sp. z o.o. w likwidacji 10%</div> <div>Walcownia Rur „JEDNOŚĆ” Sp. z o.o. 8.30%</div> <div>IZOSTAL SA 4.61%</div> <div>Zakłady Metalowe Dezamet SA 2.49%</div> <div>Huta Stalowa Wola SA 0.85%</div> <div>Agencja Rozwoju Pomorza SA 0.64%</div> <div>WOC „TE-MA” Sp. z o.o. w likwidacji 20.97%</div> <div>BN Naftomontaż Sp. z o.o. 88.83%</div>

*The Articles of Association of PGNiG Finance BV were amended on February 4th 2008. The company's new Articles of Association provide for, among other things, a change in its name from PGNiG Finance BV to POGC – Libya BV and change in its business profile.

Exploration and Production

GEOFIZYKA Kraków Sp. z o.o.

Geofizyka Kraków provides geophysical services in the area of 2D and 3D seismics and services related to the processing and interpretation of seismic data from geophysical surveys. The company also performs measurements, operations and special work in boreholes, interpretations and perforations, as well as offers drilling seismometry services.

In 2007, Geofizyka Kraków's sales revenue was PLN 226.5m, of which 64% came from exports. The PGNiG Group remained its key customer in the domestic market. The company provided field seismics services in Austria, Hungary, Denmark and Turkey. In the Czech Republic, Geofizyka Kraków performed an agreement for the acquisition and interpretation of the 2D and 3D seismics. The company signed contracts with MOL of Hungary and BRGM, a French scientific institution, for the processing of seismic data, and long-term framework agreements for the provision of services to customers in Latvia and Hungary. At the turn of 2007, Geofizyka Kraków acquired, among others, significant contracts in Pakistan and Libya and geophysical drilling contracts in Slovakia and Hungary.

In 2007, the unstable political situation in Pakistan caused a temporary suspension of work. However, the company

– due to its long-term presence in the market – is able to minimise the risk related to the unstable situation and already in the first quarter of 2008 launched work under the contract for OGDCL, a Pakistani company.

On January 29th 2008, Geofizyka Kraków Libya JSC, a joint-stock company, was established to provide geophysical services in Libya. The shareholders of the newly established company comprise: Geofizyka Kraków (60%) and BARARI Co. For Oil Services (40%).

In 2008, the company plans to strengthen its position in Libya, Pakistan, Czech Republic, Slovakia, Hungary, Denmark and Austria and in the domestic market.

		2007	2006
Sales revenue	PLN '000	226,515	196,741
Net profit (loss)	PLN '000	2,073	6,111
Equity	PLN '000	64,013	61,688
Total assets	PLN '000	201,975	214,219
Headcount as at December 31st	persons	874	1,046

PGNiG is the sole shareholder of Geofizyka Kraków.
Financial data according to the IFRS (2006 data restated to ensure comparability).

Poszukiwania Nafty i Gazu Jasło Sp. z o.o.

Poszukiwania Nafty i Gazu Jasło performs comprehensive drilling work and offers specialist drilling services. The company has drilled the deepest research boreholes in Poland (with the depth of 7.5 km and 7.2 km) in the complex geological formations of the Carpathian Mountains.

In 2007, the company's revenue from sales of services was PLN 236.3m, with revenue from drilling work and servicing provided to the PGNiG Group accounting for 65% of the total. Drilling work and specialist servicing was commissioned by PGNiG under 12 drilling contracts. With regard to foreign markets, the company performed drilling work in Libya (it has a branch in Tripoli), reconstruction and drilling work in Ukraine, and specialist servicing in Lithuania, Latvia and Bulgaria.

In 2008 and over the next few years, PNiG Jasło's nearest strategic market will be Poland, with auxiliary markets being Libya, Germany, Russia and Ukraine for oil and geothermal services. Over the next five years the company plans to commit from 35% to 50% of its resources to foreign operations.

		2007	2006
Sales revenue	PLN '000	236,259	200,266
Net profit (loss)	PLN '000	12,092	1,259
Equity	PLN '000	114,592	102,830
Total assets	PLN '000	181,328	161,918
Headcount as at December 31st	persons	861	832

PGNiG is the sole shareholder of Poszukiwania Nafty i Gazu Jasło.
Financial data in accordance with the PAS.

GEOFIZYKA Toruń Sp. z o.o.

Geofizyka Toruń is a geophysical company offering seismic services, such as 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, geology and hydrogeology, drilling, shallow geophysical tests and interpretations of the data.

In 2007, Geofizyka Toruń's revenue was PLN 314.6m. Sales to customers from outside the PGNiG Group accounted for 62% of total sales, while sales from exports of services represented 55% of total sales. Geofizyka Toruń's main markets included India and Syria. The services offered included a comprehensive range of seismic tests. The PGNiG Group was the company's most important domestic customer. Geofizyka Toruń also worked for FX Energy, a U.S. company, as well as for the open-cast mines of the Geological Institute, local government authorities and the construction sector.

In 2007, the company won 92 tenders, the most important of which included contracts for the acquisition of 2D seismics for Shell (Syria) and Reliance Industries (India) and 3D data for Oil India (India) and GeoEnergy (Germany).

In 2008, Geofizyka Toruń intends to continue strengthening its position on the domestic market and selected foreign markets (India, Syria) through the expansion of its service portfolio and optimal utilisation of its resources. The company also plans to enter into new foreign markets (Yemen, Egypt and Saudi Arabia) and invest in new technologies and projects with high growth potential and high rates of return.

		2007	2006
Sales revenue	PLN '000	314,550	301,758
Net profit (loss)	PLN '000	10,109	5,181
Equity	PLN '000	76,853	34,747
Total assets	PLN '000	144,452	131,570
Headcount as at December 31st	persons	1,213	1,187

PGNiG is the sole shareholder of Geofizyka Toruń.
Financial data in accordance with the PAS.



PGNiG Norway A/S

For the purposes of the Norwegian Continental Shelf project, PGNiG established PGNiG Norway A/S – a subsidiary based in Stavanger, Norway. PGNiG Norway A/S was registered in the Register of Business Enterprises on June 9th 2007. Its share capital was NOK 10,000,000; PGNiG acquired 100% shares in the company. In January 2008, the share capital of PGNiG Norway A/S was increased to NOK 497,000,000. The company's business comprises exploration and production of crude oil and natural gas and participation in infrastructural projects related to crude oil and natural gas transmission activities at sea.

In 2007, the Company fulfilled a number of conditions arising under the Polish and Norwegian laws which determined the execution of the agreement for the purchase of interests in licences covering the areas in the Norwegian Continental Shelf. The relevant decisions and authorisations were issued by the Minister of State Treasury, the General Shareholders Meeting of PGNiG, the Norwegian Ministry of Petroleum and Energy, and the Norwegian Ministry of Finance.

PGNiG Norway A/S is currently focused on the Skarv field development project. In December 2007, following approval of the Reserve Development Plan by the Norwegian Parliament, the implementation of the Skarv project formally commenced.

The project comprises execution of 16 boreholes, including 12 production boreholes and 4 injection wells. In the course of their development, the injection wells will be transformed into gas production boreholes with a view to using up the reserve. It is expected that the drilling will start operating at full capacity in June 2009.

		2007
Sales revenue	PLN '000	0
Net profit (loss)	PLN '000	(7,230)
Equity	PLN '000	217,521
Total assets	PLN '000	1,075,353
Headcount as at December 31st	persons	10

PGNiG is the sole shareholder of PGNiG Norway.
Financial data in accordance with the IFRS.

Poszukiwania Nafty i Gazu Kraków Sp. z o.o.

The core business of Poszukiwania Nafty i Gazu Kraków consists in geological, exploratory and production drilling, re-construction 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.

In 2007, PNiG Kraków's sales revenue reached PLN 301.0m, with revenue from services provided to foreign customers from outside the PGNiG Group accounting for 68%, and revenue from services provided to PGNiG accounting for 28% of the total.

The major markets in which the company provided drilling services to foreign operators included Kazakhstan, Pakistan, Mozambique and Ukraine. The PGNiG Group, for which the company performed a lot of drilling and servicing work, remained its strategic customer in the domestic market. The company also signed new drilling contracts with operators in Pakistan and Kazakhstan and won a tender for drilling work in Uganda.

The main objective of PNiG Kraków is to continue to expand its operations in the countries where crude oil and natural gas deposits are explored and developed. The most promising export markets are Kazakhstan, Pakistan, Libya and India due to their rich reserves of crude oil and natural gas and relatively low production volumes. In 2008, the company intends to continue its operations in Kazakhstan, Pakistan, Mozambique and Ukraine under the existing contracts.

		2007	2006
Sales revenue	PLN '000	300,957	252,691
Net profit (loss)	PLN '000	22,725	9,867
Equity	PLN '000	113,866	97,927
Total assets	PLN '000	307,245	263,464
Headcount as at December 31st	persons	1,353	1,319

PGNiG is the sole shareholder of Poszukiwania Nafty i Gazu Kraków.
Financial data in accordance with the PAS.



Poszukiwania Naftowe "Diamant" Sp. z o.o.

Poszukiwania Naftowe Diamant Sp. z o.o. provides specialist drilling services. In addition, it conducts business activity comprising general construction engineering, road construction and construction of environmental protection on-ground structures. Moreover, the company provides vehicle repair, transport and equipment services.

In 2007, PN Diamant's sales revenue amounted to PLN 161.3m, 67% of which accounted for sales to the PGNiG Group. The sales to the PGNiG Group comprised numerous specialist services, including repairs of production boreholes, cementing boreholes and work related to drilling fluids. The remaining 33% of sales revenue was derived from the provision of services related to general construction engineering, road construction, and general environmental protection projects as well as construction services for third-party, mainly domestic customers.

In 2008, the PGNiG Group will continue to be the company's key customer. Other customers are third-party companies with whom PN Diamant in 2007 entered into new agreements for execution of research boreholes, maintenance work, execution of waste deposition cells in the waste matter storage facility along with the infrastructure, as well as digging, road work and site grading.

		2007	2006
Sales revenue	PLN '000	161,330	121,238
Net profit (loss)	PLN '000	13,253	9,103
Equity	PLN '000	82,004	72,398
Total assets	PLN '000	122,983	101,188
Headcount as at December 31st	persons	613	568

PGNiG is the sole shareholder of Poszukiwania Naftowe Diamant.
Financial data in accordance with the PAS.

Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.

The company's core business comprises exploration of crude oil and natural gas reserves, provision of specialist drilling servicing, drilling of boreholes for underground storage of hydrocarbons, liquidation of boreholes in used-up reserves and reconstruction of developed boreholes.

In 2007, PNiG NAFTA posted total sales revenue of PLN 256.9m, 61% of which accounted for revenue from services provided for the PGNiG Group. Moreover, last year the company commenced drilling of boreholes for the underground gas storage facility in Mogilno – the project sponsored by INVESTGAS. PNiG NAFTA continued borehole drilling under the contracts on foreign markets concluded in the previous years and also under new contracts in India, Egypt and Hungary. Exports to customers outside the PGNiG Group represented approximately 30% of the revenue.

In 2008, the company will continue to drill boreholes in India, Egypt and Hungary. PNiG NAFTA conducts advanced marketing and trading activities aimed at diversifying drilling services on the Danish and German markets, where numerous projects on geothermal drilling are being prepared. Given the planned expansion of services outside Poland, the company intends to purchase new drilling equipment.

		2007	2006
Sales revenue	PLN '000	256,904	188,380
Net profit (loss)	PLN '000	32,315	11,083
Equity	PLN '000	100,933	69,903
Total assets	PLN '000	189,234	146,437
Headcount as at December 31st	persons	713	679

PGNiG is the sole shareholder of Poszukiwania Nafty i Gazu NAFTA.
Financial data in accordance with the PAS.

Zakład Robót Górniczych Krosno Sp. z o.o.

Zakład Robót Górniczych Krosno is a specialist service company providing services related to borehole mining. The services comprise in particular work in producing boreholes, including repair and reconstruction of oil and gas production boreholes, shallow drilling (up to approx. 1 km), 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 drilling, measurement and laboratory services.

In 2007, ZRG Krosno posted total sales revenue of PLN 88.6m. The company's key domestic customer was the PGNiG Group (78% of total sales). Other customers include domestic borehole mining companies engaged in exploration of mineral reserves and geothermal water. ZRG Krosno also provided services on the international markets in Kazakhstan, Mozambique (for PNiG Kraków), Ukraine and Latvia.

In 2008, the company plans to purchase the drill for core drilling up to 1.5 km in depth, thanks to which ZRG Krosno will become one of the few European companies capable of providing professional and efficient core drilling services. The PGNiG Group will remain the company's key customer in the coming years; however, ZGR Krosno plans to diversify into other markets in Central and Eastern Europe.

		2007	2006
Sales revenue	PLN '000	88,560	60,104
Net profit (loss)	PLN '000	3,863	427
Equity	PLN '000	35,873	31,909
Total assets	PLN '000	57,900	47,417
Headcount as at December 31st	persons	427	411

PGNiG is the sole shareholder of Zakład Robót Górniczych Krosno.
Financial data in accordance with the PAS.



Trade and Storage

Polskie LNG Sp. z o.o.

Polskie LNG (PLNG) was established on March 29th 2007. PLNG's initial capital amounted to PLN 28m. The company's main objective is to conduct regasification operations, and in particular unloading, reloading and regasification of LNG at the LNG terminal.

Currently, in the first stage of the implementation of the project, the company is responsible for a number of tasks, including the obtainment of administrative permits and approvals upon which the construction of the terminal and preparation of the front end engineering design (FEED) are conditional. Subsequently, the company will select the general contractor for the construction phase of the project.

On October 9th 2007, PLNG's share capital was increased to PLN 39m, and on January 8th 2008 – by another PLN 11m, to PLN 50m. The shares in the increased capital were covered by PGNiG with cash.

On October 17th 2007, PGNiG assigned to PLNG the lease agreement concerning real estate to be used for the

purpose of the for the LNG terminal in Świnoujście (concluded between PGNiG and Zarząd Morskich Portów Szczecin i Świnoujście SA (Port Authority). The local zoning plan for Świnoujście was also amended.

On January 10th 2008, PLNG and SNC Lavalin Services Ltd. concluded an agreement for preparation of the front end engineering design of the LNG terminal together with the obtainment of required permits and approvals.

		2007
Sales revenue	PLN '000	0
Net profit (loss)	PLN '000	(689)
Equity	PLN '000	49,311
Total assets	PLN '000	50,760
Headcount as at December 31st	persons	19

PGNiG is the sole shareholder of Polskie LNG.
Financial data in accordance with the PAS.

INVESTGAS SA

INVESTGAS 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 2007, the company's sales revenue totalled PLN 33.9m. Revenue from sales of services to PGNiG represented 86% of total sales revenue. The services performed for PGNiG included:

- » operation, maintenance and extension of the Underground Gas Storage Cavern in Mogilno;
- » preparation for the construction of the Underground Gas Storage facility in Kosakowo and the gas pipeline KGZ Kościan-KGHM Polkowice/Zukowice.

The company also conducted preparatory work preceding the construction of the fuel pipeline Ostrów Wielkopolski-Wrocław for PKN ORLEN SA.

INVESTGAS's objective is to maintain the dominating position on the market of construction and operation of gas and fuel gas storage facilities in Poland. The 2008 plans include continuation of the projects conducted in previous years, as well as preparatory work for commencement of the construction of the undersea Baltic Pipe. INVESTGAS's scope of business will be extended to include the provision of comprehensive solutions for execution of PGNiG's strategic projects. The company also plans to increase the value of its sales by acquiring new large fuel contracts.

		2007	2006
Sales revenue	PLN '000	33,941	22,358
Net profit (loss)	PLN '000	2,617	560
Equity	PLN '000	6,305	3,689
Total assets	PLN '000	20,483	15,589
Headcount as at December 31st	persons	86	75

PGNiG is the sole shareholder of INVESTGAS.
Financial data in accordance with the PAS.

System Gazociągów Tranzytowych EuRoPol GAZ SA

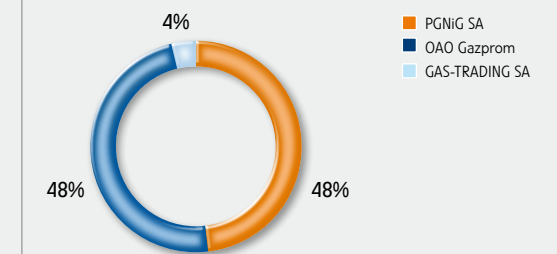
The core business of SGT EuRoPol GAZ includes transmission of natural gas. The company transmits gas and sells through-put capacities along the Polish section of the transit gas pipeline system (from the border between Belarus and Poland to the interconnector terminal points on the border between Poland and Germany). In 2007, the company transported 30.8 billion cu. m of gas.

PGNiG holds 48% of shares in SGT EuRoPol GAZ. 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.

		2007	2006
Sales revenue	PLN m	1,508	1,326
Net profit (loss)	PLN m	418	288
Equity	PLN m	3,576	3,157
Total assets	PLN m	6,055	6,409
Headcount as at December 31st	persons	286	285

Financial data in accordance with the PAS.

» Shareholder structure



Distribution

Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.

Dolnośląski Operator Systemu Dystrybucyjnego (DOSD) is the operating successor of Dolnośląska Spółka Gazownictwa. DOSD supplies gas to customers in the Provinces of Wrocław and Zielona Góra, as well as the Wolsztyn County of the Province of Poznań, within a total area of 12.9 thousand km². The company's core business is distribution of gas and management of gas networks.

In 2007, DOSD pumped 910.2 million cu. m of gas into the distribution system, with high-methane gas representing 72% of the volume. Moreover, the company connected new customers to the network. The target annual consumption of gas by the new customers is 29.0 million cu. m.

In 2007, DOSD upgraded the medium and low pressure networks. Approximately 33.6 km of the most failure-prone cast-iron pipelines were replaced. This, together with regular technical inspections, helped reduce the share of losses in gas sales.

In the coming years, the company intends to focus on maintaining its current market position and increasing the volumes of transported gas through:

- » Extension of gas pipeline infrastructure to enable connection of new customers;
- » Replacement of cast-iron gas pipelines and modernisation of low- and medium-pressure networks;
- » Replacement of gas meters manufactured prior to 1992;
- » Transport of liquefied gas and its gasification at the LNG unit.

		2007	2006
Sales revenue	PLN m	711	968
Net profit (loss)	PLN m	(166)	1288
Equity	PLN m	795	1,007
Total assets	PLN m	1,056	1,334
Headcount as at December 31st	persons	1,319	1,705
Network length (excluding connections)	km	6,920	6,813

PGNiG is the sole shareholder of Dolnośląski Operator Systemu Dystrybucyjnego.
Financial data according to the IFRS.

Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.

Górnośląski Operator Systemu Dystrybucyjnego (GOSD) was established as a result of the spin-off of the trade functions from Górnośląska Spółka Gazownictwa. GOSD supplies gas to 1.3 million customers in the Province of Kraków, five municipalities/communes in the Province of Łódź and three municipalities/communes in the Province of Kielce, within a total area of 25.2 thousand km². The company's core business is distribution of gas and management of gas networks.

The economic recovery in the region and the planned construction of new roads in the Provinces of Katowice and Opole contribute to the increased demand for gas from both business and retail customers. At the same time, the growing use of energy-saving technologies and higher temperatures recorded during the heating season prevent the occurrence of a direct linear relation between these up-trends and the volumes of gas distributed.

Following completion of the the Lubliniec-Częstochowa transmission gas pipeline in 2007, GOSD started connecting new clients located west of Częstochowa to its network. The towns of Herby and Blachownia are currently being connected, while the connection of towns of Wręczyca Wielka and Kłobuck is scheduled to start in 2008.

		2007	2006
Sales revenue	PLN m	1,127	1,543
Net profit (loss)	PLN m	19	12
Equity	PLN m	1,395	1,480
Total assets	PLN m	1,636	1,752
Headcount as at December 31st	persons	2,515	3,100
Network length (excluding connections)	km	19,827	19,676

PGNiG is the sole shareholder of Górnośląski Operator Systemu Dystrybucyjnego.
Financial data according to the IFRS.

Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o.

Karpacki Operator Systemu Dystrybucyjnego (KOSD) has been the operating successor of Karpacka Spółka Gazownictwa since June 29th 2007. The company's business includes distribution of gas and management of gas networks.

The company's operating area covers four provinces of south-eastern Poland (with a total area of 60.6 thousand km²): the Provinces of Kraków, Rzeszów, Kielce and Lublin. One of the main gas pipelines of the domestic transmission system runs through the region, fed with both imported and domestically-produced natural gas. The company also owns well-developed infrastructure in the form of transmission and distribution gas pipelines, compressor stations and gas storage facilities, as well as first- and second-degree reduction and metering stations.

KOSD plans to extend its distribution network through both the construction of traditional pipelines and development of the LNG market where KOSD will deal with liquefying and distributing the fuel. Liquefied gas distribution will support the initial extension of the company's geographical reach onto areas where the construction of traditional pipelines would not meet the necessary economic conditions. Once the local natural gas market is developed, the distribution of LNG in

such areas will enable the economically viable construction of traditional pipelines, which will optimise investment processes and improve the operating efficiency of the assets.

Another business area where the company might find favourable conditions for growth is the CNG market. KOSD's activity would consist in the construction of connections to CNG stations, regular inspections of the stations' equipment and maintenance.

In addition to its core business, KOSD also plans to continue to provide additional services to its customers, including installation and maintenance of equipment, tightness tests and energy audits.

		2007	2006
Sales revenue	PLN m	1,562	2,188
Net profit (loss)	PLN m	(17)	99
Equity	PLN m	1,948	2,336
Total assets	PLN m	2,406	2,851
Headcount as at December 31st	persons	3,265	4,003
Network length (excluding connections)	km	42,546	42,228

PGNiG is the sole shareholder of Karpacki Operator Systemu Dystrybucyjnego.
Financial data according to the IFRS.



Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.

Following the separation of the distribution and trade businesses in 2007, Mazowiecka Spółka Gazownictwa was replaced by Mazowiecki Operator Sytemu Dystrybucyjnego (MOSD). MOSD supplies gas to customers in the Provinces of Warszawa, Łódź and Białystok, as well as in certain parts of the Provinces of Lublin, Olsztyn and Kielce. The company supplies gas to 1.5 million customers within an area of 87 thousand km².

In 2007, the company conducted projects consisting mainly in extension and upgrading of the gas network. The company signed four material connection agreements, under which the target gas consumption will be ca. 3.0 million cu. m. For 2008, MOSD plans construction of connections and pipelines for customers operating in the ceramic, metallurgy, and food

processing, as well as cosmetics and chemical industries. These projects will support the target gas consumption of approximately 70.0 million cu. m.

		2007	2006
Sales revenue	PLN m	1,414	1,965
Net profit (loss)	PLN m	(508)	39
Equity	PLN m	1,380	2,015
Total assets	PLN m	1,801	2,728
Headcount as at December 31st	persons	2,920	3,527
Network length (excluding connections)	km	16,202	15,957
PGNiG is the sole shareholder of Mazowiecki Operator Systemu Dystrybucyjnego. Financial data according to the IFRS.			



Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o.

Pomorski Operator Systemu Dystrybucyjnego (POSD) has been the operating successor of Pomorska Spółka Gazownictwa since June 29th 2007. POSD is a gas network operator, responsible for gas distribution. The company's geographical reach (with a total area of 53 thousand km²) covers the Provinces of Gdańsk and Bydgoszcz, a part of the Province of Olsztyn, as well as two municipalities/communes of the Province of Szczecin (Sławno and Postomino).

POSD's customer service mainly includes customer connections. The company also offers transport of LNG and CNG. The liquefied gas distribution to new areas will enable POSD to generate additional revenues from gas transport and sales.

In 2007, the company commenced the construction of the Bytów-Słupsk pipeline. 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: the POSD and the WOSD networks.

For 2008, POSD plans starting the construction of the Szczytno-Rybno pipeline. Construction of the gas network is necessary to secure uninterrupted gas supplies in the area. It will also enable

large customers, as well as municipalities and communes to be connected to the gas network, including in particular towns located at the distant end of the network (Giżycko, Mikołajki, Węgorzewo and Ryn). The project will also support further development of the gas market.

Another planned project is the preparation of design documentation for the construction of the Brodnica-Nowe Miasto Lubawskie pipeline. The project's objective is to connect two separately operated systems within the area covered by POSD into a single streamlined system, which would guarantee secured and diversified gas supplies and the connection of municipalities and communes still remaining out of the reach of the gas network.

		2007	2006
Sales revenue	PLN m	737	971
Net profit (loss)	PLN m	(161)	7
Equity	PLN m	673	926
Total assets	PLN m	1,018	1,230
Headcount as at December 31st	persons	1,741	2,184
Network length (excluding connections)	km	7,936	7,626
PGNiG is the sole shareholder of Pomorski Operator Systemu Dystrybucyjnego. Financial data according to the IFRS.			

Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.

Wielkopolski Operator Systemu Dystrybucyjnego (WOSD) took over the operations of Wielkopolska Spółka Gazownictwa. WOSD currently manages a network of distribution pipelines covering an area of 59 thousand km², 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 WOSD's operations is 44.4% (it is high in urban areas and towns, medium in mixed urban and rural areas, and low in typical rural areas).

The volume of gas transmitted in 2007 was affected by changes in the customer mix structure. In 2007, the company executed projects providing for the construction of gas pipelines together with gas stations for companies operating in the automotive, chemical, construction, wood, paper, hospitality, agricultural and food industries. The annual

volume of gas distributed under these projects is planned at ca. 30.0 million cu. m. In 2008, the company plans to continue network extension and construction of connections for new customers operating in the construction, power, agricultural and food industries.

		2007	2006
Sales revenue	PLN m	1,117	1,501
Net profit (loss)	PLN m	(299)	(32)
Equity	PLN m	1,184	1,539
Total assets	PLN m	1,521	2,046
Headcount as at December 31st	persons	1,778	2,186
Network length (excluding connections)	km	13,432	12,963
PGNiG is the sole shareholder of Wielkopolski Operator Systemu Dystrybucyjnego. Financial data according to the IFRS.			