Letter from the President of the Management Board

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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 revaluate 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 Swarzów. Work was also underway to expand the working capacity of the gas storage facilities in Wierzchowice, 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