

The Strength of governance



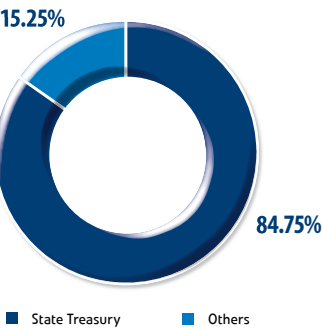
With our joint efforts we will make sure that the PGNiG Group not only is perceived as a reliable business partner in the Polish market but also as an increasingly well managed company capable of facing the challenges of a liberalised European market.

PGNiG on the Warsaw Stock Exchange

In 2006, the PGNiG share price increased by 3.7%. However, taking into account the payout of dividend in the amount of PLN 0.15 per share, the rate of return reached 8.1%. The investors holding PGNiG shares from the company's debut to the end of 2006 achieved the rate of return of 21.0%.



PGNiG shareholders structure



Shareholders of PGNiG

The State Treasury is the majority shareholder in PGNiG with 84.75% of votes in the General Meeting. The shareholding structure has remained unchanged since the company's debut on the WSE, i.e. since 23rd September 2005. The market capitalization reached PLN 21.2 billion (with the value of free-float shares exceeding PLN 3.3 bn).

PGNiG share price in 2006

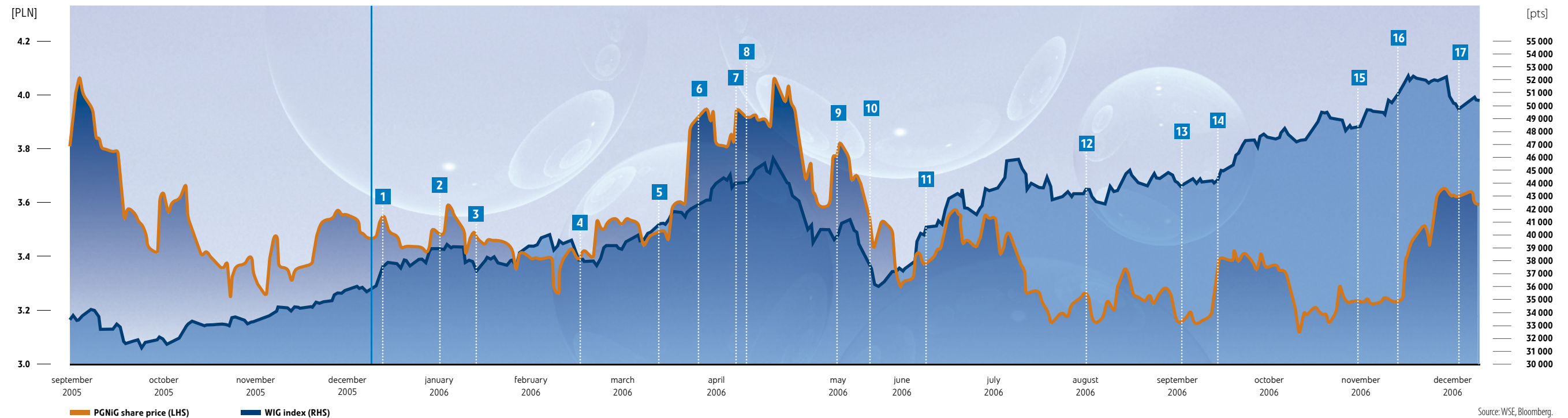
The highest price at which PGNiG shares were traded in 2006 reached PLN 4.13, influenced by very good results of the company in the first quarter of the year, as well as high investor expectations as regards the annual financial results. During the same period, the value of the WIG and WIG20 indices increased by 39.9% and 21.9%, respectively.

The value of the main index reflecting economic situation in the fuel sector, WIG-Paliwa, decreased by 12.5% during the same period, which confirms a remarkable stability of PGNiG in addition to its excellent financial standing and predictable business performance. In 2006, PGNiG also distinguished itself with the lowest risk exposure among

the fuel sector companies, measured by the standard deviation of daily return rates. An investment in PGNiG shares in 2006 represented an opportunity for the investor to participate in the profits generated by the fuel sector companies at low risk levels.



PGNiG WIG index and share price from 23rd September 2005 to 31st December 2006

**1 1st January 2006**

Gazprom cuts the gas supply to Ukraine. For Poland, this means a reduction of the supply volume corresponding to 14% of annual consumption. This information failed to undermine the shareholders' confidence in the company and PGNiG's credibility as the main supplier of natural gas to Poland. The share price proved totally immune to these political developments.

2 26th January 2006

The share price closes at PLN 3.58 (during the day it even reaches the level of PLN 3.68). The price change resulted mainly from exceptionally low temperatures noted in January (-30 °C) which, in turn resulted in increased investor expectations in respect of the financial results for the first quarter of 2006.

3 7th February 2006

Resumption of gas deliveries to industrial customers. Following the conflict between Russia and Ukraine and the reduction of gas supply to Poland, the situation stabilised in accordance with the market expectations, hence a minor change in price.

4 1st March 2006

Publication of the consolidated quarterly report for the fourth quarter of 2005. Following a one-day share price decrease in anticipation of poor results for the fourth quarter of 2005, the market changed its forecasts in respect of the company's financial results for 2006 and in the course of the two subsequent weeks the share price increased by 9% (up to PLN 3.55).

5 12th April 2006

Information on the appointment of advisors for the LNG terminal construction. The market responded positively to this information and the PGNiG share price increased from PLN 3.58 at opening, to PLN 3.75 at closing (+4.7%).

6 20th April 2006

Change to the oil production volume (decrease from the planned 1.4 billion tons in 2008 to 1.1 billion tons). Due to this information, the share price dropped by 3.5% on the following day.

7 25th April 2006

Appointment of Bogusław Marzec as the President of the Management Board of PGNiG. The Appointment of the new President of the Board received a positive response from the market. The share price kept increasing over the following days.

8 10th May 2006

Publication of the revised consolidated quarterly report for the fourth quarter of 2005. Following revision of the results for the fourth quarter of 2005, the company increased its net profit for the period, as well as in all quarters of 2005. This information had a positive influence on the share price which, on 11th May reached the record breaking PLN 4.08 (+4.6%).

9 15th May 2006

Publication of the consolidated quarterly report for the first quarter of 2006. The company's results were consistent with market expectations, hence the share price experienced only a slight change.

10 20th May 2006

Decision on the distribution of the profit generated by the company in 2005 (PLN 0.15 per share), including PLN 750 million in the form of a dividend in kind for the main shareholder – the State Treasury. The Decision on the dividend payment received a positive response from the market, however, due to a correction in the emerging markets, the share price dropped from PLN 3.9 to PLN 3.67 (-5.9%) on 22nd May 2006.

11 20th June 2006

Decision of the President of the Energy Regulatory Office (ERO) rejecting the application for a change of the gas tariff. The information received a negative market response, as a result of which the share price dropped by 5.4% within two days.

12 11th August 2006

Publication of the consolidated quarterly report for the second quarter of 2006. The company's results were slightly below the market consensus causing a minor drop of the share price.

13 11th September 2006

The Supervisory Board appointed Krzysztof Głogowski as the President of the Management Board of PGNiG. The market re-

sponse was positive and the share price kept increasing over the following few days.

14 20th September 2006

Decision of the President of the Energy Regulatory Authority (ERA) rejecting the application for a change of the gas tariff. Although the decision was to a large extent expected by the market, the share price dropped by 3.2% in two days.

15 14th November 2006

Publication of the consolidated quarterly report for the third quarter of 2006. The figures published by PGNiG were generally in line with the market expectations. The share price, following speculations as to the results on the previous day, remained unchanged.

16 18th November 2006

Signing the Yamal contract amendment. Despite a 10% increase in the price of imported gas, the share price was not affected by this information.

17 16th December 2006

Decision of the President of the Energy Regulatory Authority (ERA) on the tariff change for gaseous fuels. The investors expected a favourable decision of the President of ERA two weeks earlier. These expectations caused the share price to increase by 13%, up to the level of PLN 3.66 as at 18 December 2006.

Corporate governance

The legal environment and the regulations in force on the capital market are of special interest to all the market participants. Public companies listed on the stock market are expected to ensure fair, equal and reliable treatment for all their shareholders and exercise their best efforts to build sound relations between the investors and the company's authorities.



Corporate bodies of PGNiG

The General Meeting of PGNiG is the supreme corporate body, which exercises the shareholders' rights by guiding the business activity of the company. The General Meeting considers and approves the Management reports on the company's activity and its financial statements, decides on the distribution of profit and the dividend payout date. This body has also, among other things, the power to acknowledge the fulfilment of duties by members of the corporate authorities, appoint the Supervisory Board members, as well as make decisions concerning the company's assets.

The Supervisory Board maintains control over all the areas of PGNiG's activity. It is composed of five to nine members, appointed by the General Shareholders Meeting for a joint term of three years. The State Treasury, represented by the minister competent for matters pertaining to the State Treas-

ury, acting in consultation with the minister competent for economic affairs, has the right to appoint and remove one member of the Supervisory Board.

The Management Board manages the company's business and represents the company in matters in and outside the court. It is a competent body to deal with all the matters pertaining to PGNiG's activity, which are not reserved by the provisions of the law or the articles of association for the competence of other company's authorities. The Management Boards acts in accordance with the provisions of the law, and especially the provisions of the Commercial Companies Code and the provisions of the Articles of Association and Management Regulations. The Management Regulations are passed by the Management Board and approved by the Supervisory Board.

Best Practices

The Management of the company attaches particular attention to the transparency of broadly understood corporate supervision. Upon its debut on the Warsaw Stock Exchange the company's Management adopted the document titled The Code of Best Practises in Public Companies in 2005, recommended by the WSE.

PGNiG's Value Growth

It is the company's goal to effectively fulfil its objectives and ensure good management of the company's value. The Management is accountable for its actions both to the Supervisory Board and the shareholders. All possible efforts are made in order to contribute to the growth of the company's value through application of best practices and effective management approaches.

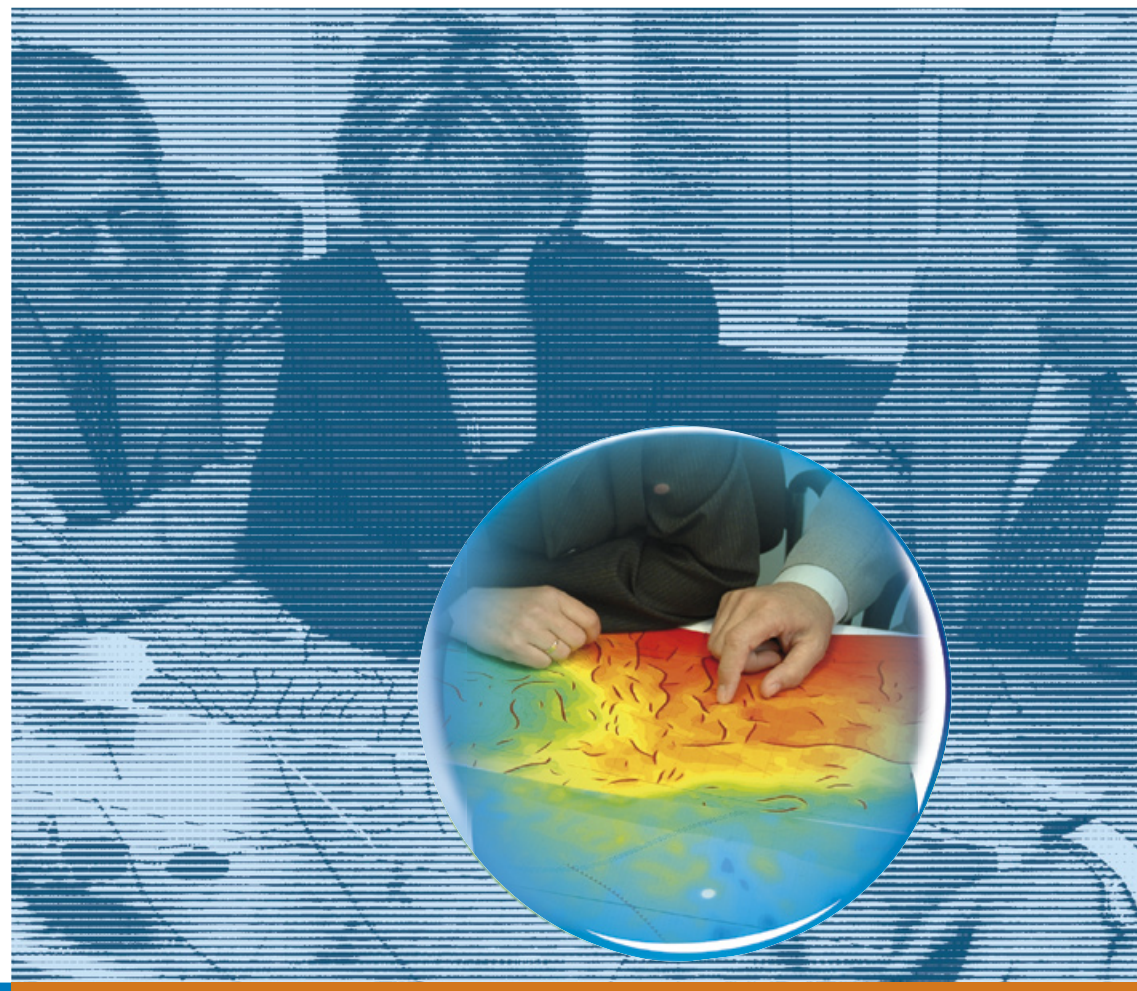
Dialog Culture

PGNiG is open to dialog with the shareholders and the market environment. The company fulfils its information obligations towards the shareholders and other stakeholders in the capital market through publication of current reports, financial reports and by holding press conferences to discuss its key projects and strategic goals.

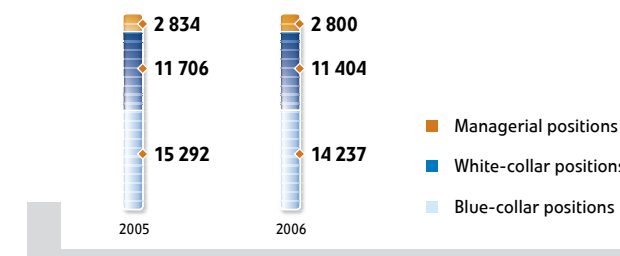


Social responsibility of business

The social responsibility of business is a concept, which assumes that which companies voluntarily include community and environmental interests in their strategies and activities. As opposed to mere fulfilment of formal and legal requirements, their focus is also on investing in human resources, environmental protection and maintaining good relations with their stakeholders.



Employment structure in the PGNiG Group. Breakdown by type of position [persons]



* Does not include employment in companies consolidated under the ownership rights method.

The matters concerning the impact of the business activity carried out by the PGNiG Group on the natural environment, science, culture and education of future generations fall within the supervision of the President of PGNiG. The pursuit to maintain the highest standards in these areas shows the company's commitment in that respect. Not only does this approach serve the society and environment, but it is also the source of the employees' pride in their company.

The activities of PGNiG in respect of social responsibility in 2006 covered the following areas:

- business and employees
- business for the society
- business for the environment

Business and Employees

Employment in the PGNiG Group

In 2006, the average employment in the PGNiG Group was 28,734 employees. In comparison to 2005, this figure dropped by 4.8%.

In 2006, PGNiG continued the implementation of the second phase of the Programme of employment restructuring and protective measures for employees of PGNiG branches and subsidiaries. In the period running from 1 January until 31 December 2006, 4,296 employees were effectively covered by the restructuring measures.

The employees, whose job positions have been covered by employment restructuring measures, receive severance pay guaranteed by general provisions of the labour law and internal regulations, including collective labour agreements for PGNiG and its subsidiaries, as well as the internal work and remuneration regulations binding in the PGNiG Group. Within the framework of the second phase of the programme, each employee with at least 5 years' tenure in the PGNiG Group and covered by the programme after

1 January 2005, is eligible for additional, individual protective benefits, in accordance with the applicable programme criteria.

As a result of the programme implementation, cost savings related to payroll and employee benefits amounted to PLN 296 million in the years 2004-2006.

Our Concern for Occupational Safety

Being a responsible employer, PGNiG is committed to improving the workplace conditions and occupational safety for the benefit of its employees.

Similarly to previous years, the company put new modern equipment into operation in 2006. New, safer technologies were also implemented in the production processes. As a result, workplace conditions improved, leading to significant reduction in accident risk rates.

Major Employer

Being one of the largest employers in Poland, the PGNiG Group exercises greatest care in order to fulfil its duties towards its employees and their families. The tasks in this respect cover, among others, welfare activity aimed at providing the eligible persons with:

- organisation and co-financing holiday rest for the employees and their children,
- financial and material support for families being in difficult financial situation,
- repayable financial support for housing purposes,
- organisation and co-financing of various forms of leisure activities (sports and recreation).
- health recuperation in the form of organised prophylactic holidays in industry-owned sanatoria.

In 2006, on the initiative of PGNiG, the subsidiary companies signed a document that regulates the principles of joint social activity to be conducted based on a joint benefit fund. The parties agreed to comply with uniform principles for providing support to employees and other eligible persons.

Recruiting Best Talent

In line with the accepted rules and in accordance with the provisions of the programme of employment restructuring in PGNiG, the head office gives preference to internal recruitment. This is a means of exploring in full the potential of the current employees of the company while motivating them to more efficient work and talent development.

PGNiG is involved in organisation of student internships program, which is accessible to the participants of the annual "Grasz o staż" competition – the most popular and prestigious initiative of this kind addressed to Polish students and graduates. The competition has been organised jointly by PricewaterhouseCoopers and "Gazeta Wyborcza" since 1996, and the company sponsors one paid internship in the summer holiday period. In addition, PGNiG offers unpaid internships to students from the Faculty of Gas Engineering at the Warsaw University of Technology, as well as temporary internships to students from other universities in Poland.

We Are a Team

Efficiency of an organisation depends to a large extent on the degree of integration and effective cooperation of the team of people it employs. Being aware of the above, the PGNiG Group initiates various activities for its employees aimed at team integration. With the focus on promoting active behaviour, which contributes to improved teamwork, these activities not only have brought about increased efficiency but also improved relations among the employees.

In 2006, the company launched implementation of activities with a view to integrating all the professional groups in the company. Thanks to regular meetings, the co-worker relations have improved, which in turn led to higher quality and

efficiency of work. PGNiG also launched a program aimed at enhancing internal communication within the Group. A corporate communication strategy was accepted by the Management including key communication principles which also cover communication with employees.

The human resources management function is the key counterpart in all internal communication improvements. All the initiatives are in line with the corporate HR policy which supports pro-activity, job satisfaction and identification of the employees with the company.

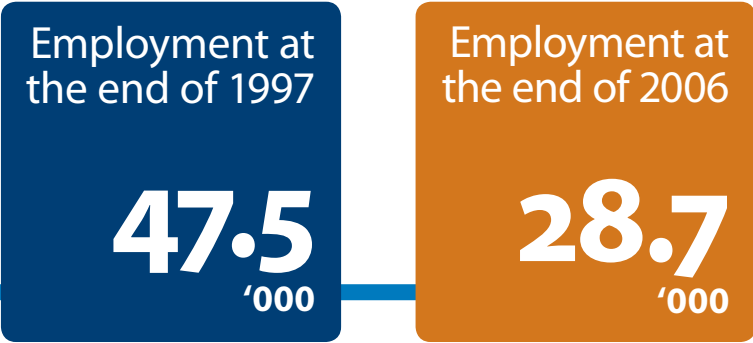
Human Resources Management through Development

Employee development in the PGNiG Group is a precondition to ensuring continued existence and growth of the company. Investments in human resources are conducive to the fulfilment of the company's plans and, at the same time, help the employees realize their individual aspirations.

Due to a wide range of operations carried out by the company's subsidiaries, PGNiG adopted a concept whereby the companies of the PGNiG Group enjoy considerable discretion in the selection of the scope and type of training programmes.

A key role in building the ties between the company and its employees is fulfilled by a training management system implemented in the company headquarters. The system regulates all the activities aimed at raising the employee's professional qualifications and provides for various forms of professional training including post-graduate studies, courses, domestic conferences, seminars, symposiums, placements, self-education (e.g. e-learning).

The training programmes carried out in 2006 focused on a wide range of topics related to the operations of a contemporary business, such as: project management, legal environment analysis, risk management in business, customer service techniques, internal communication and teamwork. A large part of them was co-financed by EU funding, including the European Social Fund.



Business for the Society

Sponsorship Strategy

In 2006, PGNiG adopted a sponsorship strategy including, among other things, the following areas of activity:

- sports,
- culture,
- social programmes, carried out primarily by the Ignacy Łukasiewicz Foundation, due to their significance for the internal and external environment of the company,
- industry-specific sponsorship.

In the first area, PGNiG sponsored the PTPS Nafta-Gaz Piła women's volleyball team, which came second in the Polish championship. The cooperation between PGNiG and PTPS Nafta-Gaz Piła is a time-honoured tradition. In 2005, the team supported by PGNiG became the second vice-champion of Poland.

In September 2006, the company obtained the title of the Advertising Partner of "Forum Ekonomiczne Młodych Liderów" (Young Leaders' Business Forum). The meeting was held as a partnership programme accompanying the 16th Business Forum in Krynica and served as an opportunity for exchange of experience among young social, business and political leaders from EU, Eastern Europe and the Caucasus.

In October 2006, PGNiG sponsored the "Jesienna Giełda Humoru" a Warsaw-based charity concert for the benefit of the "Gotowi-Start" Foundation whose goal is to support dis-

advantaged provincial children and youth. PGNiG's support of the event shows the company's commitment to helping the youngest and most needy members of the society.

PGNiG is also a patron of the Oil Industry Museum in Bóbrka near Sanok, which is run by the company-initiated Ignacy Łukasiewicz Oil Industry Museum Foundation in Bóbrka. It is a special place, not only for the Podkarpacie region and Poland, but also for the history of the oil industry worldwide. It was here that the oil extraction technology was developed, and Ignacy Łukasiewicz was the first to take advantage of the knowledge of oil processing and application. Such projects as the oil industry museum show that PGNiG is not only committed to the on-going development and access to new technologies, but also to saving important elements of the Polish heritage from falling into oblivion.

As a socially responsible entity, the PGNiG Group also supports local communities in the places of its operations abroad. One of such initiatives consisted in providing aid to 600 earthquake victims in Pakistan, in September 2006. PGNiG's support came during the most difficult time for the victims.

In 2006, PGNiG's Management made a decision to make a donation of PLN 460 thousand for the miners who died in the Halemba Coal Mine accident and their families.

Support for families
of miners from
'Halemba' coal mine

460
PLN '000

Prizes in 'Golden
Lanterns' contest

300
PLN '000

Ignacy Łukasiewicz Foundation

The Ignacy Łukasiewicz Foundation, established by PGNiG, is focused mainly on the local communities trying to enhance PGNiG's image as a socially responsible company among its employees and millions of customers.

The Foundation indicated three principal directions of its activity: welfare and charity activity, scientific and educational activity and pro-environmental activity, all aimed at

supporting education of children by financing both learning opportunities and participation in extracurricular activities. The Foundation co-operates with experienced partners, who have been involved in such activity for many years, as well as with voluntary workers and the PGNiG Group employees.

Science

Support for Polish science is especially important for the company, which is why a contest called "Złote Lampy" (Golden Lanterns) was announced with a view to selecting the most interesting and ingenious scientific achievements in the fields of science and engineering. Prizes were awarded to Polish scientists whose discoveries contributed to the development of Polish science. The leading Polish scientific institutions such as Scientific Committees of the Polish Academy of Sciences, universities represented at Konferencja Rektorów Akademickich Szkół Polskich (Conference of Rectors of Academic Schools in Poland), Rada Główna Jednostek Badawczo-Rozwojowych (Chief Council for Research and Development Institutes) and Naczelna Organizacja Techniczna (Polish Federation Of Engineering Associations - NOT) were invited to submit proposals for awards.

The "Golden Lanterns" Contest prize-winners were:

- In the field of science; Maciej Konacki, PhD, nominated by the Astronomy Committee of the Polish Academy of Sciences, for the discovery of an extrasolar planet in a triple star system, using a proprietary method of planet detection.
- In the field of engineering; Professor Jan Awrejcewicz, nominated by the Mechanics Committee of the Polish Academy of Sciences, for original achievements in non-linear mechanics in the field of continuous systems dynamics and nonclassical thermoelastic problems, bifurcation and chaos in engineering structures, as well as in the field of asymptotical methods.

Monetary prizes of PLN 150 thousand were awarded to both winners.

In 2006, PGNiG sponsored an international science and engineering conference co-organized by Stanisław Staszic AGH University of Science and Technology. The meeting served as an opportunity to present scientific and technological research achievements of Polish and foreign companies and institutes, as well as exchange opinions and experience in the area of new research trends in the gas industry, oil geology, drilling and many others.



Business for the Environment

Responsible Investor

PGNiG carries out investments projects and produces oil and natural gas in an environmentally friendly way. Prior to launching investment projects, consultations are conducted with a wide group of experts and stakeholders. A good example of this approach is PGNiG's participation in the Community Consultation Board for Development of the LNG Terminal in Świnoujście, set up by the West Pomeranian Voivode. As one of the biggest investment projects in the area, it plays a vital role in ensuring secure gas supply to all the customers in Poland. The Management of the company attaches particular attention to on-going consultations with all the parties concerned by this project, so as to ensure that the LNG Terminal in Świnoujście is built with due respect for the interests of all stakeholders and without harm to the tourist and natural qualities of Świnoujście and its vicinities.

Environmental Management

Implementation and certification of environmental management systems is one of the priorities of the PGNiG Group and a key factor in the policy of sustained development. The company is consistent in its pursuit for oil and gas exploration and production without adverse effects on the environment.

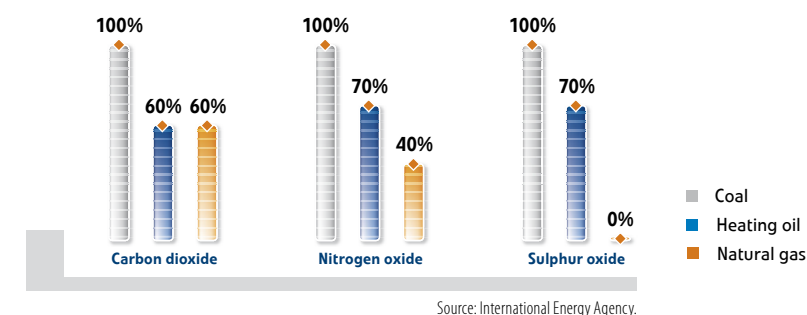
Some of the PGNiG Group companies implemented an environmental management system based on the PN-EN ISO 14001 standard, thanks to which they conformed with their legal obligations in respect of the environment, improved the efficiency of resources and energy use and reduced harmful emissions into the environment. All activities of the Group's are carried out in conformity with the strictest environmental protection standards.

Emission Trading

Since 2005, PGNiG has participated in the carbon dioxide emission allowance trading scheme. In the first settlement period covering the years 2005–2007, the company was granted an allowance for the combustion unit in the Odolanów Branch of up to 13,400 MgCO₂/year, and for the Debno production facility, Zielona Góra Branch – 35,900 MgCO₂/year.

In 2006, as part of the implementation of the carbon dioxide emission allowance management system, PGNiG developed monitoring and reporting instructions for greenhouse gases, revised annual emission reports and balanced the CO₂ emissions with the allowance held.

Comparison of pollutant emissions from combustion of natural gas, heating oil, coal (emissions for coal – 100%)



Natural Gas as Environmentally Friendly Fuel

Natural gas is an ideal solution for companies willing to operate in an environmentally friendly way.

The sustainable development concept assumes that development of civilisation, technology and economy must proceed in a manner which makes it possible to reconcile the requirements of environmental protection with sensible use of natural resources. The current environmental law lays environmental protection obligations on all business entities while also providing for a system of incentives to use environmentally friendly technologies and resources.

Gas-fired units are commonly used by the energy sector, industry and municipal utilities. The gas combustion processes take place at a relatively low level of emissions in comparison with other fuels. Use of natural gas as an input material and fuel in process furnaces ensures higher energy efficiency of a range of industry processes. Thanks to application of modern technologies in greenfield or upgraded production facilities, companies are able to increase their production output while reducing the emission levels.

The advantages of natural gas also make it a suitable fuel for vehicles. The use of compressed natural gas (CNG) is justified both from environmental and economic point of view. Currently there are about 4.3 million of CNG-fuelled vehicles in the world, and the segment is growing rapidly. In certain countries various mechanisms were established to support the use of natural gas as a motor fuel. At the end of 2006 in Poland, there were around 1,000 vehicles fuelled with CNG and 23 PGNiG-owned stations offered CNG for vehicle use. The current investment plan includes a budget for construction of additional, new stations.