



PGNiG

**Polskie Górnictwo Naftowe
i Gazownictwo SA**

**DIRECTORS' REPORT ON THE OPERATIONS
OF THE PGNiG GROUP IN 2010**

Warsaw, March 3rd 2011

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Appendix:

Statement on Compliance with Corporate Governance Principles at Polskie Górnictwo Naftowe i Gazownictwo S.A. in 2010.

Chapter I: The 2010 Milestones

January	PGNiG Norway AS acquires a 15% interest in licence PL558 on the Norwegian Continental Shelf.
April	The Annual General Shareholders Meeting of PGNiG S.A. approves the financial statements and the Director's Report on the operations of PGNiG S.A., as well as the consolidated financial statements and the Director's Report on the operations of the PGNiG Group, and grants discharge to members of the Management and Supervisory Boards of PGNiG S.A. in respect of their performance of duties in the financial year 2009.
May	<p>PGNiG S.A., PGNiG Energia S.A., TAURON Polska Energia S.A. and Elektrownia Stalowa Wola S.A. sign a project execution agreement concerning "Construction of a CCGT Unit in Stalowa Wola." The agreement concerns definition of the terms and conditions for and the carrying out of an investment project involving construction of a combined cycle gas turbine unit with a capacity of 400MW electrical power and 229MW thermal power.</p> <p>The gaseous fuel tariff for PGNiG S.A. and the gaseous fuel distribution services tariff for the Gas Distribution Companies are approved. The average charges for supply to customers of the E high-methane gas, Lw nitrogen-rich gas and Ls nitrogen-rich gas increase respectively by 3.3%, 5.9% and 3.6%.</p>
June	<p>Jointly with its partners, PGNiG Norway AS discovers a new oil and gas field (Snadd North) in the PL 212 licence area on the Norwegian Continental Shelf.</p> <p>PGNiG S.A. signs a comprehensive gaseous fuel supply agreement with Grupa LOTOS S.A.</p> <p>PGNiG Norway AS purchases a 10% interest in licence PL 326 on the Norwegian Continental Shelf from Statoil Petroleum AS.</p>
July	<p>PGNiG S.A. launches a PLN 3 billion domestic note issue programme.</p> <p>With a view to consolidating the Group's construction and assembly business, Górnictwo Naftowe Sp. z o.o. is transformed into PGNiG Technologie Sp. z o.o.</p>
August	PGNiG Norway AS enters into a seven-year USD 400 million revolving credit facility agreement with seven banks, to finance expenditure on the Skarv field development project.

September	<p>The gaseous fuel tariff for PGNiG S.A. is given approval with respect to prices of gaseous fuel. The average charges for supply to customers of the E high-methane gas, Lw nitrogen-rich gas and Ls nitrogen-rich gas increase respectively by 4.4%, 4.5% and 4%.</p> <p>PGNiG S.A. executes mandate agreements with three banks: Societe Generale SA, BNP Paribas S.A. and Unicredit Bank AG, concerning arrangement of a Eurobond issue programme.</p>
October	<p>PGNiG S.A. and SGT EUROPOL GAZ S.A. sign an annex to the agreement of July 1st 2004 concerning a service consisting in transmission of natural gas through the Yamal-Western Europe gas pipeline.</p> <p>PGNiG S.A. signs an annex to the contract with Gazprom Export of September 25th 1996 providing for sale of Russian natural gas to the Republic of Poland.</p>
November	<p>Operator Systemu Magazynowania Sp. z o.o. is established.</p>
December	<p>The gaseous fuel tariff for PGNiG S.A. is given approval with respect to prices of gaseous fuel. The average charges for supply to customers of the E high-methane gas, Lw nitrogen-rich gas and Ls nitrogen-rich gas decrease respectively by 2.3%, 2.3% and 2.05%.</p> <p>The Bonikowo Lw nitrogen-rich gas underground storage facility is placed in service.</p>

Chapter II: Information on the PGNiG Group

The PGNiG Group is the only vertically integrated gas company in Poland, holding the leading position in most segments of the domestic gas sector. Polskie Górnictwo Naftowe i Gazownictwo S.A. is the parent undertaking of the PGNiG Group.

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (PGNiG S.A.), with registered office in Warsaw, ul. Marcina Kasprzaka 25, was established as a result of transformation of the state-owned enterprise under the name Polskie Górnictwo Naftowe i Gazownictwo into a state-owned stock company. On October 30th 1996, the Company was entered in the commercial register under the name Polskie Górnictwo Naftowe i Gazownictwo S.A. of Warsaw under entry No. RHB 48382. On November 14th 2001, the Company was entered into the Register of Entrepreneurs of the National Court Register under entry No. 0000059492.

On May 24th 2005, PGNiG S.A. shares were admitted to public trading by virtue of a decision issued by the Polish Securities and Exchange Commission. The Company's debut on the Warsaw Stock Exchange took place on September 23rd 2005. PGNiG S.A. shares have been listed on the WSE since October 20th 2005. Currently, the share capital of PGNiG S.A. amounts to PLN 5.9bn and is divided into 5,900,000,000 shares.

The scope of the PGNiG Group's business comprises oil and gas exploration and production, storage of gaseous fuels, as well as trade in and distribution of natural gas. The upstream operations are one of the key factors securing the Group's competitive position on the liberalised gas market. Gas trading and distribution is an integral area of the Group's business. The trading activities are handled by PGNiG S.A. and distribution is carried out by six Gas Distribution Companies – members of the Group.

1. Development Areas

The key strategic objective pursued by the PGNiG Group is to secure shareholder value growth. The growth in the PGNiG Group's value is to be achieved through the development of the domestic gas market and expansion into selected foreign markets.

One of the strategic objectives provided for in the PGNiG Group's policy is to develop its trading operations and ensure security and continuity of natural gas supplies to Poland by building international interconnections and entering into gas purchase contracts. An appropriate diversification structure will allow the Company to supply gas to Poland from different countries and from different suppliers, which will significantly enhance the bargaining power of PGNiG S.A. and will guarantee balanced gas supplies to the PGNiG Group's customers.

High commodity prices in the global markets and growing competition for access to natural gas reserves encourage the PGNiG Group to step up its efforts aimed at enhancing the growth potential of its exploration and production business in Poland and abroad by expanding its own natural gas and crude oil reserves and acquiring new licences in selected foreign markets. The Group is pursuing a goal of gaining a stable position on the three key foreign markets, including the North Sea, North Africa and the Middle East.

Another important growth area for the Group relates to extension and construction of underground gas storage facilities. The PGNiG Group wishes to provide sufficient storage capacity in order to enhance its ability to flexibly respond to customer needs, to secure the continuity and stability of gas supplies, and to minimise the risks related to situations when supplies from foreign sources are threatened.

The distribution business has an important role to play in the building of the PGNiG Group's value. One of the Group's strategic objectives is to improve margins in the distribution business by maximising revenue from regulated operations, cost rationalisation and development of the distribution network.

The PGNiG Group has been intensifying efforts aimed at expanding the scale and scope of its operations, by becoming involved in power generation projects where natural gas is used as fuel and entering the power trading market. The Group's power generation projects will stimulate growth of the gas market by generating additional demand for gas, while the Group's product mix broadens.

Implementation of these objectives will ensure gradual transformation of the PGNiG Group from a vertically integrated gas and oil organisation into a strong multi-energy operator, grouping businesses from the power, fuel and heat sectors. The expansion into sale of electricity and heat combined with increased business scale will strengthen the PGNiG Group's position on the energy market in Poland and Central Europe.

2. Structure of the PGNiG Group

As at December 31st 2010, the PGNiG Group comprised PGNiG S.A. (the parent undertaking) and 37 production and service companies, including:

- 25 subsidiaries of PGNiG S.A.
- 12 indirect subsidiaries of PGNiG S.A.

The following table presents a list of the PGNiG Group members as at December 31st 2010:

Companies of the PGNiG Group

	Name	Share capital (PLN)	Value of shares held by PGNiG S.A. (PLN)	% of share capital held by PGNiG S.A.	% of total vote held by PGNiG S.A.
	PGNiG S.A.'s subsidiaries				
1	Poszukiwania Nafty i Gazu Jasło Sp. z o.o.	100,000,000.00	100,000,000.00	100.00%	100.00%
2	Poszukiwania Nafty i Gazu Kraków Sp. z o.o.	105,231,000.00	105,231,000.00	100.00%	100.00%
3	Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.	60,000,000.00	60,000,000.00	100.00%	100.00%
4	GEOFIZYKA Kraków Sp. z o.o.	64,400,000.00	64,400,000.00	100.00%	100.00%
5	GEOFIZYKA Toruń Sp. z o.o.	66,000,000.00	66,000,000.00	100.00%	100.00%
6	Poszukiwania Naftowe Diament Sp. z o.o.	62,000,000.00	62,000,000.00	100.00%	100.00%
7	Zakład Robót Górniczych Krosno Sp. z o.o.	26,903,000.00	26,903,000.00	100.00%	100.00%
8	PGNiG Norway AS (NOK) ¹⁾	951,327,000.00	951,327,000.00	100.00%	100.00%
9	Polish Oil and Gas Company - Libya B.V. (EUR) ¹⁾	20,000.00	20,000.00	100.00%	100.00%
10	POGC Trading GmbH (EUR) ¹⁾	10,000,000.00	10,000,000.00	100.00%	100.00%
11	Operator Systemu Magazynowania Sp. z o.o.	1,000,000.00	1,000,000.00	100.00%	100.00%
12	INVESTGAS S.A.	502,250.00	502,250.00	100.00%	100.00%
13	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000.00	658,384,000.00	100.00%	100.00%
14	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000.00	1,300,338,000.00	100.00%	100.00%
15	Karpacka Spółka Gazownictwa Sp. z o.o.	1,484,953,000.00	1,484,953,000.00	100.00%	100.00%
16	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000.00	1,255,800,000.00	100.00%	100.00%
17	Pomorska Spółka Gazownictwa Sp. z o.o.	614,696,000.00	614,696,000.00	100.00%	100.00%
18	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000.00	1,033,186,000.00	100.00%	100.00%

Companies of the PGNiG Group - contd.

	Name	Share capital (PLN)	Value of shares held by PGNiG S.A. (PLN)	% of share capital held by PGNiG S.A.	% of total vote held by PGNiG S.A.
	PGNiG S.A.'s subsidiaries				
19	Geovita Sp. z o.o.	86,139,000.00	86,139,000.00	100.00%	100.00%
20	PGNiG Energia S.A.	6,000,000.00	6,000,000.00	100.00%	100.00%
21	PGNiG Technologie Sp. z o.o.	120,398,000.00	120,398,000.00	100.00%	100.00%
22	BUD-GAZ PPUH Sp. z o.o.	51,760.00	51,760.00	100.00%	100.00%
23	Polskie Elektrownie Gazowe Sp. z o.o.	1,212,000.00	1,212,000.00	100.00%	100.00%
24	B.S. i P.G. Gazoprojekt S.A.	4,000,000.00	3,000,000.00	75.00%	75.00%
25	NYSAGAZ Sp. z o.o.	6,800,000.00	3,468,000.00	51.00%	51.00%
	Subsidiaries of subsidiaries of PGNiG S.A.	Share capital (PLN)	Value of shares held by PGNiG S.A.'s subsidiaries (PLN)	% of share capital held by PGNiG S.A.'s subsidiaries	% of total vote held by PGNiG S.A.'s subsidiaries
26	BUG Gazobudowa Sp. z o.o.	39,220,000.00	39,220,000.00	100.00%	100.00%
27	Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	23,500,000.00	23,500,000.00	100.00%	100.00%
28	Budownictwo Naftowe Naftomontaż Sp. z o.o.	44,751,000.00	39,751,000.00	88.83%	88.83%
29	ZRUG Sp. z o.o. (Pogórska Wola)	9,244,000.00	9,244,000.00	100.00%	100.00%
30	Geofizyka Torun Kish Ltd (IRR) ^{1), 2)}	10,000,000.00	10,000,000.00	100.00%	100.00%
31	Oil Tech International F.Z.E. (USD) ¹⁾	20,000.00	20,000.00	100.00%	100.00%
32	Powiśle Park Sp. z o.o.	81,131,000.00	81,131,000.00	100.00%	100.00%
33	Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła)	1,806,500.00	1,806,500.00	100.00%	100.00%
34	Biogazownia Ostrowiec Sp. z o.o.	105,000.00	105,000.00	100.00%	100.00%
35	Ośrodek Badawczo - Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o.	3,000,000.00	2,550,000.00	85.00%	85.00%
36	GAZ Sp. z o.o. (Błonie)	300,000.00	153,000.00	51.00%	51.00%
37	GAZ MEDIA Sp. z o.o. (Wołomin)	300,000.00	153,000.00	51.00%	51.00%

¹⁾ Figures in foreign currencies.²⁾ Share capital not paid up.

The following changes in the Group's structure took place in 2010:

- On January 11th 2010, PGNiG Energia S.A. was registered with the National Court Register.
- On January 19th 2010, GEOFIZYKA Kraków Libya JSC w likwidacji (in liquidation) was deleted from the Libyan commercial register.
- On May 12th 2010, Biogazownia Ostrowiec Sp. z o.o. was established. Its entire share capital of PLN 5,000 was acquired for cash by PGNiG Energia Sp. z o.o. The new company was entered into the National Court Register on May 13th 2010.
- On June 29th 2010, the District Court of Krosno issued a decision declaring bankruptcy by liquidation of NAFT-STAL Sp. z o.o. w upadłości (in bankruptcy). As a result of the bankruptcy declaration, PGNiG S.A. lost control of the company.
- On June 14th 2010, PGNiG Energia S.A. purchased 1,288 shares in Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji (in liquidation), representing 51.52% of the company's share capital, from PGE Energia Odnawialna S.A. On June 30th 2010, the Annual General Shareholders Meeting of Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji (in liquidation) resolved that the company would continue as a going concern and repealed the previous decision to put it into liquidation.
- On July 14th 2010, PPUiH TURGAZ Sp. z o.o. w likwidacji (in liquidation) was deleted from the National Court Register.

- On July 30th 2010, Górnictwo Naftowe Sp. z o.o. was transformed into PGNiG Technologie Sp. z o.o. The new company was established with a view to consolidating the Group's construction and assembly companies in a single entity, benefiting from greater competitive advantage and enhanced ability to win new orders on the domestic and international markets.
- On August 11th 2010, INVESTGAS S.A. purchased 51,000 shares in Ośrodek Badawczo – Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o. of Kraków, with a total par value of PLN 2,550,000, representing 85% of the company's share capital.
- On November 16th 2010, Operator Systemu Magazynowania Sp. z o.o. was established. The new company has a share capital of PLN 1,000,000, divided into 20,000 shares with a par value of PLN 50 per share. All the shares were acquired for cash by PGNiG S.A., which is the company's sole shareholder. The company was registered with the National Court Register on December 29th 2010. Operator Systemu Magazynowania Sp. z o.o. was established to ensure compliance with the requirements of Directive 2009/73/EC with respect to legal separation of the gaseous fuel storage from other types of business conducted by a vertically integrated gas undertaking.
- On December 21st 2010, POGC Trading GmbH was established, with a share capital of EUR 10,000,000. The company's business profile comprises purchase and sale of, and trading in, gas, fuels, other forms of energy, and their derivatives in physical form, as well as trading in financial derivatives and other financial products on the European and other gas, fuels and energy markets.

The following changes in the companies' share capitals took place in 2010:

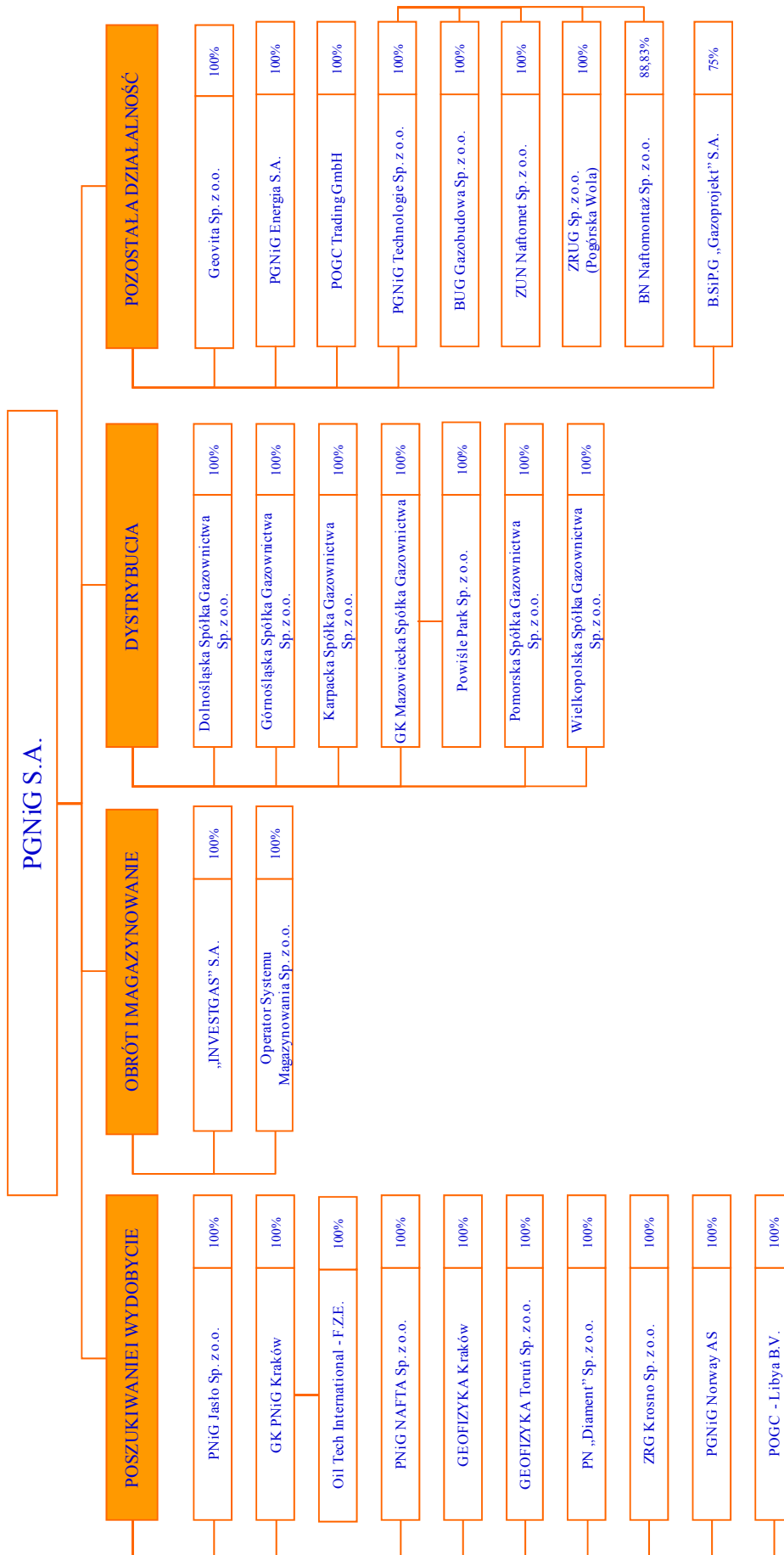
- The share capital increase at Górnośląska Spółka Gazownictwa Sp. z o.o. by PLN 850,000, to PLN 1,300,338,000, was registered on January 4th 2010.
- The share capital increase at Powiśle Park Sp. z o.o. by PLN 3,000,000, to PLN 81,131,000, was registered on February 5th 2010.
- The share capital of ZRUG Sp. z o.o. of Pogórska Wola was increased by PLN 4,944,000 to PLN 9,244,000. The new shares were covered with a non-cash contribution in the form of a perpetual usufruct right to land located in Pogórska Wola. The share capital increase was registered with the National Court Register on October 26th 2010.
- The share capital of PGNiG Energia S.A. was increased by PLN 1,000,000, to PLN 6,000,000. The increase was registered on December 14th 2010.
- The share capital of Biogazownia Ostrowiec Sp. z o.o. was increased by PLN 100,000, to PLN 105,000. All the shares were acquired by PGNiG Energia S.A., which is the company's sole shareholder. The share capital increase was registered on December 22nd 2010.
- The share capital of Polskie Elektrownie Gazowe Sp. z o.o. was reduced from PLN 2,500,000 to PLN 1,212,000, by way of retirement of the shares held by PGNiG Energia S.A. As a result, PGNiG S.A. remained the sole shareholder in the company. The share capital reduction was registered on December 28th 2010.
- The share capital of PGNiG Technologie Sp. z o.o. was increased by PLN 2,000,000, to PLN 2,050,000 (registered on August 26th 2010). Another share capital increase, by PLN 118,348,000, to PLN 120,398,000, was registered on December 30th 2010. The new shares were acquired partly for a cash contribution of PLN 500,000 and partly for a non-cash contribution in the form of shares previously held by PGNiG S.A. in the following companies: BUG Gazobudowa Sp. z o.o., Zakład Urządzeń Naftowych Naftomet Sp. z o.o., ZRUG Sp. z o.o. of Pogórska Wola, and Budownictwo Naftowe Naftomontaż Sp. z o.o.

Due to the fact that PGNiG Technologie Sp. z o.o. received a contribution in the form of shares held by PGNiG S.A. in construction and assembly companies of NAFT-STAL Sp. z o.o. w upadłości (in bankruptcy), NAFTEK Sp. z o.o. w likwidacji (in liquidation) and Gazobudowa Kraków Sp. z o.o. became third level related undertakings of PGNiG S.A.

On February 10th 2011, POGC Trading GmbH was entered in the Court Register maintained by the District Court of Munich.

As of July 1st 2010, NAFT-STAL Sp. z o.o. ceased to be consolidated following declaration of bankruptcy by liquidation of company's assets. The chart below presents the consolidated companies of the PGNiG Group as at December 31st 2010 (by operating segments).

KONSOLIDOWANE SPÓŁKI GRUPY KAPITAŁOWEJ PGNiG



Changes in Management Policies

In 2010, there were no material changes in the management policies of PGNiG S.A.

In 2010, the process of consolidation of construction and assembly companies in the Other Activities segment commenced. PGNiG Technologie Sp. z o.o. was established, to which shares in four subsidiaries of PGNiG S.A. (BUG Gazobudowa Sp. z o.o., ZRUG Sp. z o.o. of Pogórska Wola, BN Naftomontaż Sp. z o.o. and ZUN Naftomet Sp. z o.o.) were contributed. The merger of PGNiG Technologie Sp. z o.o. and the four companies subject to consolidation will be the last stage of the consolidation process. By consolidating its construction and assembly companies, the PGNiG Group will form a single strong entity capable of more effectively competing on the domestic and foreign markets. The consolidation will also facilitate effective management and improve PGNiG S.A.'s ownership supervision over this operating area.

3. Equity Links

The table below presents other related undertakings of the PGNiG Group as at December 31st 2010.

Related undertakings of the PGNiG Group

	Name	Share capital (PLN)	Value of shares held by PGNiG S.A. (PLN)	% of share capital held by PGNiG S.A.	% of total vote held by PGNiG S.A.
	Related undertakings of PGNiG S.A.				
1	System Gazociągów Tranzytowych EUROPOL GAZ S.A.	80,000,000.00	38,400,000.00	48.00%	48.00%
2	GAS-TRADING S.A.	2,975,000.00	1,291,350.00	43.41%	43.41%
3	InterTransGas GmbH (EUR) ¹⁾	200,000.00	100,000.00	50.00%	50.00%
4	Dewon Z.S.A. (UAH) ¹⁾	11,146,800.00	4,055,205.84	36.38%	36.38%
5	Przedsiębiorstwo Inwestycyjne GAZOTECH Sp. z o.o.	1,203,800.00	65,000.00	69.44%	46.30%
6	Sahara Petroleum Technology Ilc w likwidacji (in liquidation) (OMR) ¹⁾	150,000.00	73,500.00	49.00%	49.00%
7	PFK GASKON S.A.	13,061,325.00	6,000,000.00	45.94%	45.94%
8	GAZOMONTAŻ S.A.	1,498,850.00	677,200.00	45.18%	45.18%
9	ZRUG Sp. z o.o. (Poznań)	3,781,800.00	1,515,000.00	40.06%	41.71%
10	ZWUG INTERGAZ Sp. z o.o.	4,700,000.00	1,800,000.00	38.30%	38.30%
11	ZRUG TORUŃ S.A.	5,150,000.00	1,300,000.00	25.24%	25.24%
12	TE-MA WOC Małaszewicze Terespol Sp. z o.o. w likwidacji (in liquidation)	262,300.00	55,000.00	20.97%	21.32%
13	H.S. Szczakowa S.A. w upadłości (in bankruptcy)	16,334,989.44	5,439,494.72	33.30%	33.30%

Related undertakings of the PGNiG Group - contd.

	Related undertakings of PGNiG S.A.'s subsidiaries	Share capital (PLN)	Value of shares held by PGNiG S.A.'s subsidiaries (PLN)	% of share capital held by PGNiG S.A.'s subsidiaries	% of total vote held by PGNiG S.A.'s subsidiaries
14	NAFT-STAL Sp. z o.o. w upadłości (in bankruptcy)	667,500.00	450,000.00	67.40%	67.40%
15	Elektrociepłownia Stalowa Wola S.A.	2,000,000.00	1,000,000.00	50.00%	50.00%
16	Al Mashariq - Geofizyka Torun Limited Company (SAR) ¹⁾	500,000.00	250,000.00	50.00%	50.00%
17	Gazobudowa Kraków Sp. z o.o.	79,500.00	37,500.00	47.20%	47.20%
18	NAFTEK Sp. z o.o. in liquidation	5,000.00	2,200.00	44.00%	44.00%
19	Przedsiębiorstwo Badawczo - Usługowe Petromin Sp. z o.o.	200,000.00	80,000.00	40.00%	40.00%
20	Geotermia Sp. z o.o.	4,000.00	1,000.00	25.00%	25.00%

¹⁾ Figures in foreign currencies

The following changes in the Group's equity links occurred in 2010:

- On July 16th 2010, BUG Gazobudowa Sp. z o.o. sold all its shares in Gazobudowa Poznań Sp. z o.o. with a total par value of PLN 163 thousand.
- On August 12th 2010, the Extraordinary General Shareholders Meeting of TE-MA WOC Małaszewicze Terespol Sp. z o.o. w likwidacji (in liquidation) approved the liquidation report prepared as at the balance-sheet date of July 10th 2010. The company's liquidation process was completed.
- The share capital of ZRUG TORUŃ S.A. was increased by PLN 1,000,000. PGNiG S.A. did not participate in the share capital increase, so its shareholding in ZRUG TORUŃ S.A. fell to 25.24%. The share capital increase was registered on June 23rd 2010.
- The share capital of Elektrociepłownia Stalowa Wola S.A. was increased by PLN 1,000,000 to PLN 2,000,000. In the increased share capital, shares with a total par value of PLN 1,000,000 (50% of the share capital) were acquired by PGNiG Energia S.A. The share capital increase was registered on November 5th 2010.

Changes in PGNiG Group's equity links following the end of the financial year

- On February 9th 2011, TE-MA WOC Małaszewicze Terespol Sp. z o.o. w likwidacji (in liquidation) was deleted from the National Court Register.
- On February 11th 2011, the District Court for Katowice Wschód in Katowice issued a decision declaring completion of the bankruptcy proceedings relating to Huta Szkła Szczakowa S.A. of Jaworzno.

Investments outside the group of related undertakings

As at the end of 2010, the total nominal value of the PGNiG Group's equity commitment outside the group of related undertakings was PLN 56.7m. In 2010, the Group did not make any equity investments outside the group of related undertakings.

4. Employment

The table below presents employment at the PGNiG Group as at December 31st 2010, by segments. As the PGNiG S.A. Head Office provides services to all the segments, it is disclosed separately.

Employment by segments (no. of staff)

	2010	2009
PGNiG S.A. Head Office	840	833
Exploration and Production	11,592	10,800
Trade and Storage	3,809	3,836
Distribution	13,881	13,851
Other Activities	2,296	2,073
Total	32,418	31,393

Since January 2009, the Group has had in place the Programme for Employment Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3). Unlike previous employment restructuring programmes, this scheme is based on the “stand-by” principle. It may be implemented in extraordinary circumstances and requires all the companies to follow a procedure which is uniform across the Group. Any decision to implement the programme may only be made where it is justified by the scope of planned restructuring involving workforce downsizing and/or job shedding.

In April 2010, the Extraordinary General Shareholders Meeting of PGNiG S.A. adopted a resolution to apply PLN 1,070,002 from the capital reserve designated as Central Restructuring Fund to provide one-off benefits to 23 employees of PNiG Kraków Sp. z o.o. who were made redundant.

On February 24th 2011, the Extraordinary General Shareholders Meeting of PGNiG S.A. decided to apply PLN 1,774,099 from the capital reserve to provide one-off benefits to 35 employees of ZUN Naftomet Sp. z o.o. who were made redundant.

5. Sale and Acquisition of Natural Gas

The PGNiG Group recorded sales revenue of PLN 21.3bn, with 90% of that figure derived from sales of natural gas.

Sales revenue (PLNm)

	2010	2009
Natural gas, including:	19,105.1	17,510.7
- high-methane gas	17,917.8	16,229.6
- nitrogen-rich gas	1,187.3	1,281.1
Crude oil	838.6	661.6
Crude condensate	3.2	2.7
Helium	44.1	37.1
Propane-butane	49.9	36.8
Gas storage services	31.7	23.5
Geophysical and geological services	278.7	225.5
Exploration services	408.4	376.9
Other sales	521.5	456.7
Total	21,281.2	19,331.5

In 2010, the PGNiG Group sold 14.2 billion cubic metres of natural gas, with 95% of that figure represented by sales from the transmission and distribution systems and the balance – by direct sales of natural gas from the fields.

Natural gas sales volume (million cubic meters)

	2010	2009
Trade and Storage	13,562.2	12,514.5
Exploration and Production	673.8	640.0
Total	14,236.0	13,154.5

In 2010, the volume of natural gas acquired by the PGNiG Group reached 14.4 billion cubic meters, with 70% of that amount sourced from imports, mostly from Russia. Natural gas production from fields in Poland represented 29.3% of the total volume acquired. The table below sets forth the structure of natural gas supplies measured as high-methane gas equivalent.

Acquisition of natural gas (million cubic meters)

	2010	2009
Imports	10,066.4	9,135.9
Domestic production	4,220.4	4,105.2
Domestic suppliers	96.1	58.1
Total	14,382.9	13,299.2

Chapter III: Company's Governing Bodies

1. Management Board

Pursuant to the Articles of Association of PGNiG S.A., the Company's Management Board is composed of two to seven members. The number of Management Board members is determined by the Supervisory Board. The Management Board members are appointed for a joint term of office lasting three years. Individual members or the entire Management Board are appointed by the Supervisory Board. A member of the Management Board is appointed following a qualification procedure carried out under Regulation of the Polish Council of Ministers of March 18th 2003 concerning qualification procedures for members of management boards of certain commercial-law companies (Dz. U. No. 55, item 476). The Regulation does not apply in the case of the Management Board members elected by employees. Each member of the Management Board may be removed from office or suspended from their duties by the Supervisory Board or the General Shareholders Meeting. As long as the State Treasury remains a shareholder of the Company and the Company's average annual headcount exceeds 500, the Supervisory Board appoints one person elected by the Company's employees to serve on the Management Board during its term.

As at January 1st 2010, the composition of the Management Board of PGNiG S.A. was as follows:

- Michał Szubski – President
- Mirosław Dobrut – Vice-President, Gas and Trade
- Radosław Dudziński – Vice-President, Strategy
- Sławomir Hinc – Vice-President, Finance
- Mirosław Szałuba – Vice-President, Social Dialogue and Assets
- Waldemar Wójcik – Vice-President, Petroleum Mining.

On April 26th 2010, Mirosław Dobrut resigned from his position as Vice-President of the Management Board for Gas and Trade, with effect from April 30th 2010. The reason for Mirosław Dobrut's resignation was his appointment as President of the Management Board of SGT EUROPOL GAZ S.A.

On May 12th 2010, Marek Karabula, member of the Supervisory Board, was delegated to temporarily stand in as Vice-President of the Management Board for Gas and Trade in the period from June 1st to August 31st 2010. On July 19th 2010, the Supervisory Board of PGNiG S.A. appointed Marek Karabula as member of the Management Board of PGNiG S.A., following his resignation from membership of the Supervisory Board.

On August 15th 2010, Waldemar Wójcik resigned from his position as Vice-President of the Management Board for Petroleum Mining.

Following a division of powers and responsibilities between the Management Board members approved by the Supervisory Board on September 15th 2010, as at December 31st 2010, the composition and powers of the Management Board of PGNiG S.A. were as follows:

- Michał Szubski – President
- Radosław Dudziński – Vice-President, Strategy
- Sławomir Hinc – Vice-President, Finance
- Marek Karabula – Vice-President, Petroleum Mining.
- Mirosław Szałuba – Vice-President, Trade

On January 12th 2011, the Supervisory Board of PGNiG S.A. appointed the President and the members of PGNiG S.A.'s Management Board for a joint term of office starting from March 13th 2011. The following persons were appointed for the three-year term:

- Michał Szubski – President
- Radosław Dudziński – Member of the Management Board
- Sławomir Hinc – Member of the Management Board
- Marek Karabula – Member of the Management Board.

In the period January-February 2011, elections were carried out to choose the Management Board nominee representing the employees. Mirosław Szkałuba was elected as the employees' representative.

Agreements with Management Board members

The employment contracts concluded with all the Management Board members contain a clause in Par. 8, which reads: "In the event of removal from office or termination of this employment contract for reasons other than breach of basic duties under the employment contract, the employee is entitled to a severance pay equal to three times the employee's monthly salary."

As at December 31st 2010, the non-competition agreements concluded with President of the Management Board Michał Szubski and Vice-Presidents Radosław Dudziński, Sławomir Hinc, Mirosław Szkałuba and Waldemar Wójcik were in force. The non-competition agreements continue in force for 12 months following termination of the legal relationship. In return for observing the competition ban during the term of the non-competition agreement, a Management Board member is entitled to a monthly compensation of 100% of such member's average gross remuneration for the last three months received in connection with the legal relationships between the member and the Company.

2. Supervisory Board

Pursuant to the Articles of Association of PGNiG S.A., the Supervisory Board is composed of five to nine members, appointed by the General Shareholders Meeting for a common term of three years. As long as the State Treasury holds an interest in the Company, the State Treasury, represented by the minister competent for matters pertaining to the State Treasury, acting in consultation with the minister competent for economic affairs, has the right to appoint and remove one member of the Supervisory Board. In accordance with the Articles of Association, the General Shareholders Meeting appoints one independent member of the Supervisory Board. Pursuant to Par. 36.3 of PGNiG S.A.'s Articles of Association, the independent Supervisory Board member is elected in a separate vote. Written proposals of candidates for the position of an independent Supervisory Board member may be submitted to the Chairman of the General Shareholders Meeting by the shareholders present at the General Shareholders Meeting whose agenda includes the election of such a Supervisory Board member. Any such written proposal should be submitted along with a written representation by a given candidate to the effect that the candidate agrees to stand for the election and meets the criteria for an independent member of the Supervisory Board. If no candidates for the position are proposed by the shareholders, such candidates are nominated by the Supervisory Board. If the Supervisory Board is composed of up to six members, two members are appointed from among the candidates elected by the Company's employees. If the Supervisory Board is composed of seven to nine members, three members are appointed from among the candidates elected by the Company's employees.

As at January 1st 2010, the Supervisory Board of PGNiG S.A. was composed of:

- Stanisław Rychlicki – Chairman
- Marcin Moryń – Deputy Chairman
- Mieczysław Kawecki – Secretary
- Grzegorz Banaszek – Member
- Agnieszka Chmielarz – Member
- Marek Karabula – Member
- Mieczysław Puławski – Member
- Jolanta Siergiej – Member

On July 19th 2010, Marek Karabula resigned from his position as member of the Supervisory Board of PGNiG S.A. As at December 31st 2010, the Supervisory Board was composed of seven members:

- Stanisław Rychlicki – Chairman
- Marcin Moryń – Deputy Chairman
- Mieczysław Kawecki – Secretary
- Grzegorz Banaszek – Member
- Agnieszka Chmielarz – Member
- Mieczysław Puławski – Member
- Jolanta Siergiej – Member

Following the elections held at the end of January and beginning of February 2011 to elect candidates for Supervisory Board members representing PGNiG S.A.'s employees, Agnieszka Chmielarz, Mieczysław Kawecki and Jolanta Siergiej were appointed as the employee representatives.

Remuneration of management and supervisory personnel

For information on the remuneration paid to management and supervisory personnel, see the annual consolidated financial statements for the year ended December 31st 2010 (Note 37.5).

Chapter IV: Shareholder Structure

As at December 31st 2010, the share capital of PGNiG S.A. amounted to PLN 5,900,000,000 and was divided into 5,900,000,000 shares with a par value of PLN 1 per share. The State Treasury was the only shareholder directly holding a large block of PGNiG shares. The shares of all series, that is Series A, A1 and B, were ordinary bearer shares and each of them conferred the right to one vote at the General Shareholders Meeting. The shareholder structure as at December 31st 2010 is shown in the table below:

Shareholder structure

Shareholder	Number of shares as at Dec 31 2010	% of share capital held as at Dec 31 2010	Number of votes conferred by shares held	% of total vote at GM as at Dec 31 2010
State Treasury	4,273,650,532	72.43%	4,273,650,532	72.43%
Others	1,626,349,468	27.57%	1,626,349,468	27.57%
Total	5,900,000,000	100.00%	5,900,000,000	100.00%

PGNiG shares and shares in the related undertakings of PGNiG S.A. held by management and supervisory personnel

The table below shows PGNiG shares held by the management and supervisory personnel as at December 31st 2010:

PGNiG shares held by the management and supervisory personnel

Name	Title	Number of shares	Par value of shares (PLN)
Michał Szubski	President of the Management Board	6,825	6,825
Mirosław Szkałuba	Vice-President of the Management Board	9,425	9,425
Stanisław Rychlicki	Chairman of the Supervisory Board	9,897	9,897
Mieczysław Kawecki	Secretary of the Supervisory Board	19,500	19,500
Jolanta Siergiej	Member of the Supervisory Board	9,425	9,425

Agreements which may give rise to future changes in the number of shares held by the existing shareholders and bondholders

As at this report date, PGNiG S.A. was not aware of any agreements which could lead to future changes in the number of shares held by the existing shareholders.

Control of employee stock option plans

On June 25th 2008, the Ministry of State Treasury disposed of one share in PGNiG S.A. The settlement of the transaction with the National Depository of Securities, and thus transfer of the title to the shares, took place on June 30th 2008. Pursuant to the Commercialisation and Privatisation Act, dated August 30th 1996, eligible employees or their heirs gained the right to acquire the Company shares free of charge as of October 1st 2008. The right expired on October 1st 2010. After that date, the right to acquire shares free of charge may be exercised only by the heirs of eligible employees who

before the rights expiry date filed a petition with the court seeking a confirmation of the acquisition of an inheritance from an eligible employee.

The process of execution of agreements on free-of-charge disposal of PGNiG shares to eligible employees or their heirs commenced on April 6th 2009. Eligible persons had the right to acquire free of charge up to 15% of the shares acquired by the State Treasury on the Company registration date, that is up to 750,000,000 Series A1 bearer shares with a par value of PLN 1 per share. The Company shares acquired free of charge by eligible employees or their heirs can be traded since July 1st 2010, while the shares acquired free of charge by members of the Company's Management Board cannot be traded before July 1st 2011. As a result of the free-of-charge acquisition of the Company shares, the State Treasury's share of the total vote decreased from 84.75% to 72.43%. Until December 31st 2010, 59,134 eligible persons acquired 726,349,467 shares, representing approximately 96.85% of the pool of shares available to be acquired free of charge and 12.3% of the Company's share capital.

Performance of the PGNiG stock

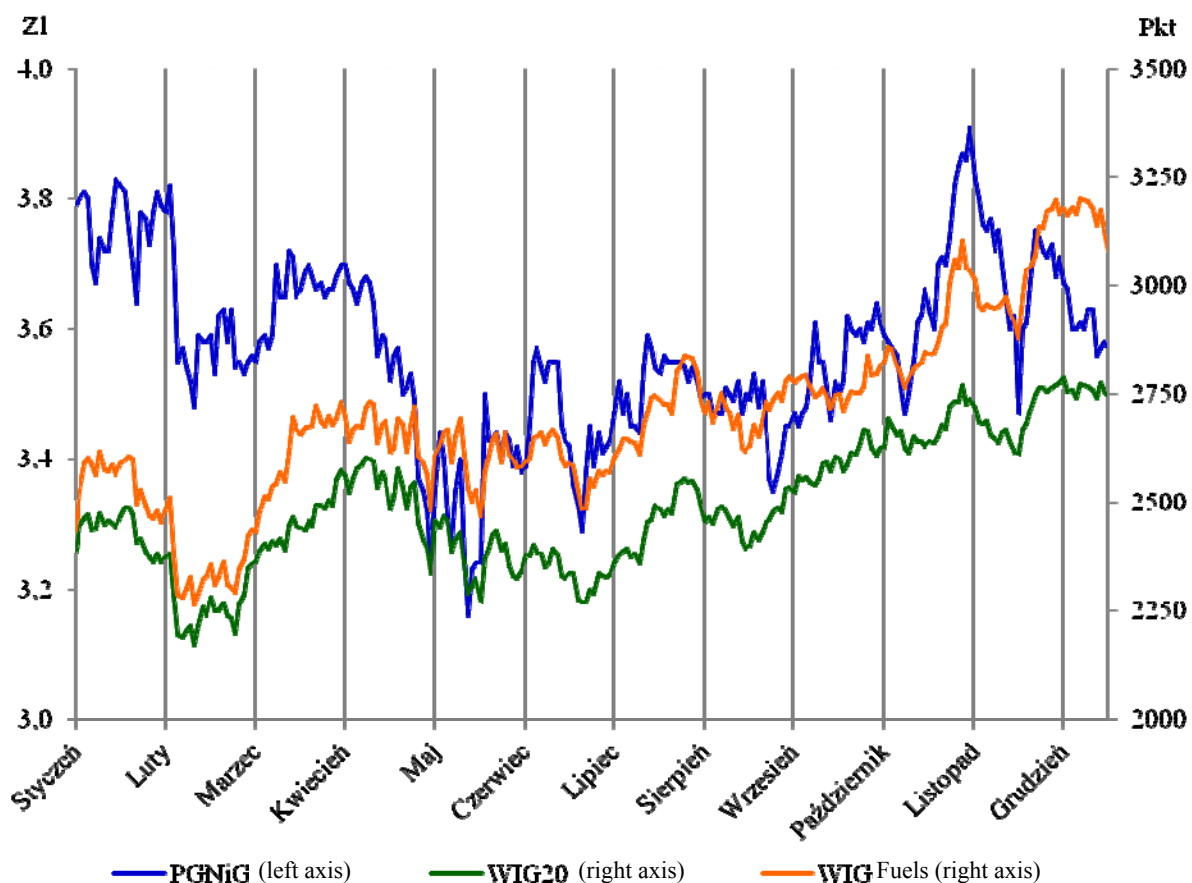
PGNiG S.A. shares have been listed at the Warsaw Stock Exchange since September 23rd 2005. As at December 31st 2010, the Company was included in the following indices:

- WIG – index of WSE companies
- WIG20 – index of the 20 biggest and most liquid companies
- WIG-Paliwa – index of the fuel sector companies
- WIG-div – total return index (published since January 3rd 2011)
- Respect Index – index of socially responsible companies.

In 2010, the rate of return on the PGNiG stock was -5.8% (or -3.7% if the dividend paid is taken into account). For the period from the first listing until December 31st 2010, the rate of return on the PGNiG stock was -6.3%. Investors who acquired the PGNiG shares on the WSE at their issue price earned a 19.8% return on their money.

The following figure compares the PGNiG stock price performance against WIG 20 and WIG Paliwa. The table shows the values of the WSE indices and the PGNiG share price in 2010.

PGNiG share price compared with the WIG 20 and WIG Paliwa indices



WSE indices and the PGNiG share price

	Value/price as at Dec 31 2009	2010 high	2010 low	Value/price as at Dec 31 2010	PGNiG's weight in the index as at Dec 31 2010
WIG	39,986	47,911	37,323	47,490	2.4%
WIG20	2,389	2,787	2,165	2,744	3.6%
WIG-Paliwa	2,435	3,200	2,265	3,079	20.7%
Respect Index	1,709	2,278	1,543	2,259	5.6%
PGNiG S.A.	PLN 3.79	PLN 3.95	PLN 3.14	PLN 3.57	-

Source: WSE.

Chapter V: Regulatory Environment

The key laws regulating the activities of the PGNiG Group are:

- Polish Energy Law of April 10th 1997 (consolidated text in Dz. U. of May 30th 2006, No. 89, item 624, as amended) along with the secondary legislation – with respect to activities in the area of gaseous fuel trading, distribution and storage.
- Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market, dated February 16th 2007 (Dz. U. of March 23rd 2007, No. 52, item 343, as amended) along with the secondary legislation – with respect to activities in the area of international trade in natural gas.
- Polish Geological and Mining Law of February 4th 1994 (Dz. U. of March 1st 1994, No. 27, item 96, as amended) – with respect to production activities and sales of gas as part of production operations.

1. Polish Energy Law

The activities of the PGNiG Group in the area of gaseous fuel trading, distribution and storage are regulated and require a licence granted and a tariff approved by the President of the Energy Regulatory Office. The tariff determines the prices of gaseous fuels.

In 2010, work was conducted on new amendments to the Polish Energy Law and on the Regulation of the Minister of Economy on detailed rules for functioning of the gas system, which came into force on August 6th 2010. On February 8th 2010, amendments to the Energy Law were published, introducing, inter alia, regulation with respect to the terms and conditions of agreements between energy utilities and customers buying gaseous fuel or electricity.

1.1. Licences

As at December 31st 2010, PGNiG S.A. held the following licences granted by the President of the Polish Energy Regulatory Office under the Energy Law:

- one licence for trade in gaseous fuels
- one licence for international trade in natural gas
- one licence for storage of gaseous fuels
- one licence for trade in liquid fuels
- one licence for electricity production

On October 7th 2010, the President of the Energy Regulatory Office issued a decision changing the scope of the licence for storage of gaseous fuels by introducing changes in the working capacities of the Mogilno Underground Gas Storage Cavern Facility due to the technical conditions determining the facility's manner of operation, while refusing to introduce similar changes as regards the working capacities of the Husów Underground Gas Storage Facility. Moreover, the President of the Energy Regulatory Office refused to exclude from the licence scope the storage facility working capacities which are used by the production segment or by the Transmission System Operator, as requested by PGNiG S.A. due to the fact that pursuant to the Polish Energy Law such capacities are not storage facilities as defined in this act. On November 2nd 2010, PGNiG S.A. filed an appeal against that decision through the agency of the President of the Energy Regulatory Office to the Regional Court of Warsaw – the Court of Competition and Consumer Protection. By the date of this report, the appeal proceedings had not been concluded.

On December 27th 2010, the President of the Energy Regulatory Office issued a decision excluding one of the electricity generation sources located in Rzeszów from the scope of the Group's electricity production licence, given the fact that the source had been taken over by PGNiG Energia S.A.

1.2. Tariff Policy

Dependence of the PGNiG Group's revenue on the tariffs approved by the President of the Energy Regulatory Office is a key factor affecting the Group's regulated business. Tariffs are crucial to the Company's ability to generate a revenue covering the incurred justified costs of operations plus return on capital employed and a reasonable margin. Gas prices and charges are directly connected with the applied tariff preparation methodology.

The tariff preparation methodology is based on the determination of prices and charges against forecast costs and gas sales targets. In accordance with the applicable regulatory policies, the cost of acquisition of natural gas from all sources, that is of both imported and domestically produced gas, is taken into account in the calculation of prices of gaseous fuels. In practice this means that both imported and domestically produced gas is subject to price regulation. Given that the current prices of imported gas are higher than those of domestically produced gas, inclusion of the cost of domestically produced gas in the cost basket, taken into account in gaseous fuel pricing calculations, resulted in a situation where the tariff prices (applicable in settlements with customers) were determined below the cost of acquisition of imported gas.

The settlements with customers with which PGNiG S.A. had sale agreements were regulated by the settlement rules and based on prices and charge rates specified in subsequent tariffs approved by the President of the Energy Regulatory Office.

1.3. Changes in PGNiG S.A.'s Tariffs

Until May 31st 2010, settlements with customers were made according to Gaseous Fuel Tariff No. 2/2009, approved by virtue of the decision issued by the President of the Energy Regulatory Office on May 7th 2009.

In 2010, the President of the Energy Regulatory Office approved changes in the PGNiG S.A.'s Tariff on three occasions:

- by virtue of a decision of May 17th 2010, the President of the Energy Regulatory Office approved the new Gaseous Fuel Tariff of PGNiG S.A. which was effective for settlements with customers since June 1st 2010, including Part A – “Gaseous Fuel Supply Tariff No. 3/2010,” which remained in effect until November 30th 2010, and Part B – “Gaseous Fuel Storage Services Tariff No. 1/2010,” which remains in effect until May 31st 2011; the average amount of charges related to the supply of high-methane gas (E) to customers increased by 3.3%, while the average amount of charges related to the supply of nitrogen-rich gas to customers rose by 5.9% and 3.6% respectively for Lw gas and Ls gas;
- by virtue of a decision of September 16th 2010, the President of the Energy Regulatory Office approved an adjustment (increase in gaseous fuel prices, excluding the following gases: propane-butane-air and propane-butane-decompressed) to the Gaseous Fuel Tariff (Part A “Gaseous Fuel Supply Tariff No. 3/2010”) which has been effective for settlements with customers since October 1st 2010; the average amount of charges related to the supply of high-methane gas(E) to customers increased by 4.4%, while the average amount of charges related to the supply of nitrogen-rich gas to customers rose by 4.5%and 4.0% for Lw gas and Ls gas, respectively;

- by virtue of a decision of December 16th 2010, the President of the Energy Regulatory Office approved an adjustment (decrease in gaseous fuel prices, excluding the following gases: propane-butane-air and propane-butane-decompressed) to the Gaseous Fuel Tariff (Part A "Gaseous Fuel Supply Tariff No. 3/2010") which is effective for settlements with customers from January 1st 2011 to March 31st 2011; the average amount of charges related to the supply of high-methane gas (E) to customers fell by 2.3%, while the average amount of charges related to the supply of nitrogen-rich gas to customers declined by 2.3% and 2.05% respectively for Lw gas and Ls gas;

The following tables show the average tariffs (PLN per cubic meter) used in settlements with customers purchasing gaseous fuels, by fuel type and place of receipt.

Area covered by Dolnośląska Spółka Gazownictwa Sp. z o.o.

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
W-1	2.3528	2.4073	2.4683	2.4355	2.3%	2.5%	-1.3%
W-2	1.7798	1.8265	1.8875	1.8547	2.6%	3.3%	-1.7%
W-3	1.6249	1.6838	1.7448	1.7120	3.6%	3.6%	-1.9%
W-4	1.5206	1.5742	1.6352	1.6024	3.5%	3.9%	-2.0%
W-5 - W-7B	1.3752	1.4273	1.4886	1.4556	3.8%	4.3%	-2.2%
W-8 - W-10	1.1207	1.1587	1.2199	1.1870	3.4%	5.3%	-2.7%

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
S-1	1.6798	1.7686	1.8167	1.7909	5.3%	2.7%	-1.4%
S-2	1.2450	1.3437	1.3918	1.3660	7.9%	3.6%	-1.9%
S-3	1.1371	1.2181	1.2662	1.2404	7.1%	3.9%	-2.0%
S-4	1.0002	1.0583	1.1065	1.0807	5.8%	4.6%	-2.3%
S-5 - S-7B	0.9612	1.0301	1.0773	1.0520	7.2%	4.6%	-2.3%
S-8 - S-10	0.8241	0.8735	0.9207	0.8954	6.0%	5.4%	-2.7%

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
Z-1	1.3124	1.3897	1.4307	1.4087	5.9%	3.0%	-1.5%
Z-2	1.1419	1.2377	1.2787	1.2567	8.4%	3.3%	-1.7%
Z-3	1.0100	1.0865	1.1275	1.1055	7.6%	3.8%	-2.0%
Z-4	0.9130	0.9715	1.0125	0.9905	6.4%	4.2%	-2.2%
Z-5 - Z-7B	0.9296	1.0055	1.0469	1.0247	8.2%	4.1%	-2.1%

Area covered by Górnośląska Spółka Gazownictwa Sp. z o.o.

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
W-1	3.142	2.3981	2.4591	2.4263	3.6%	2.5%	-1.3%
W-2	1.8665	1.9388	1.9998	1.9670	3.9%	3.1%	-1.6%
W-3	1.5846	1.6488	1.7098	1.6770	4.1%	3.7%	-1.9%
W-4	1.5129	1.5693	1.6303	1.5975	3.7%	3.9%	-2.0%
W-5 - W-7B	1.4080	1.4627	1.5240	1.4911	3.9%	4.2%	-2.2%
W-8 - W-10	1.1441	1.1881	1.2494	1.2164	3.8%	5.2%	-2.6%

Area covered by Karpacka Spółka Gazownictwa Sp. z o.o.

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
W-1	2.2241	2.3057	2.3667	2.3339	3.7%	2.6%	-1.4%
W-2	1.7483	1.8178	1.8788	1.8460	4.0%	3.4%	-1.7%
W-3	1.5245	1.5886	1.6496	1.6168	4.2%	3.8%	-2.0%
W-4	1.4697	1.5336	1.5946	1.5618	4.3%	4.0%	-2.1%
W-5 - W-7B	1.3845	1.4422	1.5035	1.4706	4.2%	4.2%	-2.2%
W-8 - W-10	1.1233	1.1664	1.2277	1.1948	3.8%	5.3%	-2.7%

Area covered by Mazowiecka Spółka Gazownictwa Sp. z o.o.

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
W-1	2.5681	2.6210	2.6820	2.6492	2.1%	2.3%	-1.2%
W-2	1.7210	1.7665	1.8275	1.7947	2.6%	3.5%	-1.8%
W-3	1.5085	1.5520	1.6130	1.5802	2.9%	3.9%	-2.0%
W-4	1.4592	1.4994	1.5604	1.5276	2.8%	4.1%	-2.1%
W-5 - W-7B	1.3728	1.4115	1.4728	1.4399	2.8%	4.3%	-2.2%
W-8 - W-10	1.0609	1.0942	1.1554	1.1225	3.1%	5.6%	-2.9%

Area covered by Pomorska Spółka Gazownictwa Sp. z o.o.

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
W-1	2.4457	2.5192	2.5802	2.5474	3.0%	2.4%	-1.3%
W-2	1.8459	1.8964	1.9574	1.9246	2.7%	3.2%	-1.7%
W-3	1.6050	1.6611	1.7221	1.6893	3.5%	3.7%	-1.9%
W-4	1.5336	1.5875	1.6485	1.6157	3.5%	3.8%	-2.0%
W-5 - W-7B	1.4252	1.4712	1.5324	1.4995	3.2%	4.2%	-2.1%
W-8 - W-10	1.1194	1.1476	1.2089	1.1759	2.5%	5.3%	-2.7%

Area covered by Wielkopolska Spółka Gazownictwa Sp. z o.o.

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
W-1	2.4259	2.5206	2.5816	2.5488	3.9%	2.4%	-1.3%
W-2	1.7731	1.8355	1.8965	1.8637	3.5%	3.3%	-1.7%
W-3	1.6151	1.6749	1.7359	1.7031	3.7%	3.6%	-1.9%
W-4	1.5159	1.5712	1.6322	1.5994	3.6%	3.9%	-2.0%
W-5 - W-7B	1.3545	1.4005	1.4618	1.4288	3.4%	4.4%	-2.3%
W-8 - W-10	1.0964	1.1324	1.1936	1.1607	3.3%	5.4%	-2.8%

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
S-1	1.6803	1.7620	1.8101	1.7843	4.9%	2.7%	-1.4%
S-2	1.2637	1.3222	1.3703	1.3445	4.6%	3.6%	-1.9%
S-3	1.1407	1.1800	1.2281	1.2023	3.4%	4.1%	-2.1%
S-4	1.0388	1.0799	1.1281	1.1023	4.0%	4.5%	-2.3%
S-5 - S-7B	1.0192	1.0371	1.0843	1.0590	1.8%	4.5%	-2.3%

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
Z-1	1.5663	1.6440	1.6850	1.6630	5.0%	2.5%	-1.3%
Z-2	1.1522	1.2071	1.2481	1.2261	4.8%	3.4%	-1.8%
Z-3	1.0067	1.0465	1.0875	1.0655	4.0%	3.9%	-2.0%
Z-4	0.9359	0.9740	1.0150	0.9930	4.1%	4.2%	-2.2%
Z-5 - Z-7B	0.9197	0.9385	0.9800	0.9578	2.1%	4.4%	-2.3%

Customers connected to the transmission grid of OGP GAZ-SYSTEM S.A.

	Tariff No. 2/2009*	Tariff No. 3/2010	Change in Tariff No. 3/2010 effective from October 1st 2010	Change in Tariff No. 3/2010 effective from January 1st 2011	Change (%)		
	1	2	3	4	2/1	3/2	4/3
E-1A - E4-B	1.0114	1.0410	1.1023	1.0694	2.9%	5.9%	-3.0%
Lw-1 - Lw-4	0.7549	0.8033	0.8505	0.8252	6.4%	5.9%	-3.0%
Ls-1 - Ls-4	0.6175	0.6652	0.7066	0.6844	7.7%	6.2%	-3.1%

* The average 2009 prices have been determined based on the structure of sales adopted for the calculation of Tariff No. 3/2010, in accordance with the tariff calculation methodology.

On July 2nd 2010, PGNiG S.A. filed a request with the President of the Energy Regulatory Office that the President's decision of May 17th 2010 approving PGNiG S.A.'s Gaseous Fuel Tariff (Part A – "Gaseous Fuel Supply Tariff No. 3/2010") be declared invalid with respect to its effective period, citing the fact that the President of the Energy Regulatory Office had unilaterally decided to extend that period by two months. Following the approval by the President of the Energy Regulatory Office of the change in the PGNiG S.A.'s Gaseous Fuel Tariff (Part A – "Gaseous Fuel Supply Tariff No. 3/2010"), PGNiG S.A. withdrew the request on September 30th 2010.

On February 11th 2011, PGNiG S.A. filed a request with the President of the Energy Regulatory Office to change gaseous fuel prices for high-methane gas (E) and nitrogen-rich gas (subgroups Ls and Lw) and to extend the effective term of the changed tariff until May 31st 2011. As at this report date, the proceedings were still under way.

1.4. Changes in Gas Distribution Companies' Tariffs

Until May 31st 2010, settlements with customers receiving services from the Gas Distribution Companies were made according to Tariffs for Gaseous Fuel Distribution Services, approved by the President of the Energy Regulatory Office on May 7th 2009.

In the decisions of May 17th 2010, the President of the Energy Regulatory Office approved the Tariffs for Gaseous Fuel Distribution Services provided by the Gas Distribution Companies which apply in settlements with customers as of June 1st 2010.

2. Act on Stocks of Crude Oil, Petroleum Products and Natural Gas

The Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market regulates the issues related to ensuring the national fuel security, setting forth the rules for building up, maintaining, and financing the stocks of natural gas by those energy companies whose business involves international trade in natural gas or which import gas for their own needs. In the area of the business activity conducted by PGNiG S.A., the Act:

- sets the timetable for building up the mandatory stock of natural gas: the volume of mandatory stock should cover 20 days' average daily imports of gas as of October 1st 2010, and 30 days' average daily imports of gas as of October 1st 2012;
- provides that the return on the capital employed in the storage business should be at least 6%;

- stipulates that the cost related to maintaining, releasing and supplementing the stocks represents justified operating expenses within the meaning of Art. 3.21 of the Polish Energy Law.

In 2010, work started on amending the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market. The proposed new act provides, inter alia, for the possibility to store mandatory stocks in the territory of another EU member state, provided that the rules applicable to stocks maintained in storage facilities in the territory of Poland are observed.

3. Polish Geological and Mining Law

The Polish Geological and Mining Law of February 4th 1994 (Dz. U. 05.228.1947) defines the terms and conditions for:

- carrying out geological work;
- extracting minerals from deposits;
- storing waste matter in rock mass, including in worked-out caverns;
- protection of mineral deposits, underground waters and other elements of the environment in connection with geological works and extraction of minerals.

The provisions of the Geological and Mining Law also govern business activities in the field of tankless storage of substances in rock mass, including in worked-out caverns.

Business activities involving exploration for and appraisal of mineral deposits, extraction of minerals from deposits, tankless storage of substances and storage of waste matter in rock mass, including in worked-out caverns, require licences.

Geological and mining activities are subject to supervision by competent geological administration bodies and mining supervision authorities. The Geological and Mining Law provides for criminal sanctions in case of failure to comply with its regulations, and specifies the upper and lower limits of royalty fees.

As at December 31st 2010, PGNiG S.A. held the following licences, granted on the basis of the Geological and Mining Law:

- 89 licences for exploration for and appraisal of crude oil and natural gas
- 1 licence for appraisal of a salt deposit
- 222 licences for production of crude oil and natural gas
- 9 licences for underground gas storage (underground gas storage facilities)
- 3 licences for storage of waste

4. Regulatory Risks

Changes in laws and regulations

Further changes in the laws governing the operation of the gas sector companies are to be expected in 2011. First of all, the Gas Law is planned to be adopted, which will supersede the Energy Law with respect to the regulation of the gas industry. The Gas Law will also implement the regulations included in the Third Energy Package adopted by the European Parliament, including the Directive of the European Parliament and of the Council concerning common rules for the internal market in natural gas, repealing Directive 2003/55/EC.

The Regulation of the Minister of Economy of July 2nd 2010 on detailed terms of operation of the gas system (the Gas System Regulation) became effective in 2010. The Regulation provides the framework for the operation of the domestic gas system, including the rules of cooperation between energy-sector companies. It defines the manner in which trade in gaseous fuels is to be conducted, as well as the quality parameters of gaseous fuels and quality standards of customer service.

Work also commenced on amending the Regulation of the Minister of Economy on detailed rules for determining and calculating tariffs for gaseous fuels and on settlements in gaseous fuels trading (the Tariff Regulation).

Legal changes, including delays in amending legal acts, create risks stemming from uncertainty as to the scope of regulatory changes and shorter time for adaptation to such changes, which might adversely affect the financial performance and growth prospects of the PGNiG Group.

Draft law on energy efficiency

Since 2009, work has been under way on a draft law on energy efficiency, which is to implement Directive 2006/32/EC of the European Parliament and of the Council of April 5th 2006 on energy end-use efficiency and energy services. Upon its enactment, the law will require PGNiG S.A., as a gas trading company, to purchase white certificates or, alternatively, to pay the non-compliance penalty. This in turn will drive up the cost of regulated activities and, consequently, inflate the price paid by customers.

Tariff calculation

PGNiG S.A.'s ability to cover the costs of its core operations depends on the prices approved by the President of the Energy Regulatory Office. When approving tariffs for a given period, the President of the Energy Regulatory Office takes into consideration external factors which are beyond PGNiG S.A.'s control. In an attempt to protect customers, while verifying the operating costs in the business, the President of the Energy Regulatory Office may consider certain costs as unjustified. Moreover, the President of the Energy Regulatory Office does not always accept the assumptions adopted by PGNiG S.A. with respect to the main drivers of cost changes and profit targets allowing for business risk. Consequently, the Energy Regulatory Office frequently refuses to accept the tariff prices and charge rates applied for by PGNiG S.A. Lower tariff prices and charges might adversely affect PGNiG S.A.'s profitability.

In 2010, the President of the Energy Regulatory Office unilaterally extended the effective period of an applicable tariff. In the Company's opinion, the provisions of the Polish Energy Law do not authorise the President of the Energy Regulatory Office to set an effective period of a tariff that was not requested by an energy company. Should such a situation occur in the future, there is a risk that a tariff will be calculated below costs as it will not account for the cost of supply of gaseous fuel to customers in the period by which the tariff effective period is extended by the President of the Energy Regulatory Office.

Demand for natural gas

The current methodology for calculation of prices and charge rates is based on forecast values; accordingly, revenue is encumbered with forecasting risk. Inaccurate estimates of demand affecting the accuracy of forecast purchase and supply volumes, as well as the value of costs on which the determinations of prices and charge rates are based may adversely affect financial results. An increase in demand above the forecast level would necessitate additional purchases under all existing contracts (in numerous cases, at prices higher than forecast).

Purchase price of imported gas

Prices of imported gas are determined in USD or EUR 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. Material changes in fuel prices on the international markets affect the prices of imported gas. Each, even accurate forecast of changes of natural gas prices, is encumbered with a high error risk. There can be no assurance that despite the legal possibility of adjusting prices approved for a tariff term an increase in the price of imported gas may not be fully passed on customers or the changes in selling prices may lag behind the changes in import prices.

Requirement to diversify supplies of imported gas

On December 16th 2010, the President of the Energy Regulatory Office imposed a PLN 2m fine on PGNiG S.A. for breaching the terms and conditions of its licence for international trade in natural gas, by failing to comply with the requirement to diversify supplies of imported gas in 2007 and 2008. The maximum share of gas imported from one country in total gas imports in a given year is determined in the Council of Ministers' Regulation of October 24th 2000 on the minimum level of diversification of foreign sources of gas supplies. If no changes are made to the aforementioned Regulation, the President of the Energy Regulatory Office may keep on imposing fines on the Company for failing to comply with the diversification requirement until gas starts to be delivered to the Company from other sources (e.g. through the LNG terminal).

Chapter VI: Exploration and Production

The segment's business focuses on extracting hydrocarbons from underground formations and preparing products for sale. The segment comprises the entire process of oil and gas exploration and production, starting from geological analyses, through geophysical surveys and drilling work, to end with field development and hydrocarbon production. The segment's gas storage needs are met by the Brzeźnica, Daszewo, Strachocina, Swarzędz and Bonikowo underground gas storage facilities.

1. Exploration

In 2010, work related to exploration for and appraisal of hydrocarbons was conducted in the PGNiG Group's licence areas, as part of which 49,543m of drillings, 2,763km of 2D seismic surveys and 873km² of 3D seismic surveys were performed. The PGNiG Group also cooperated with third parties in such parties' licence areas in Poland and on the Norwegian Continental Shelf.

Furthermore, the Group rendered services with respect to exploration for hydrocarbons, as well as for metal ores and geothermal water. For external customers, including mainly foreign ones, the Group performed 145,501m of drillings, acquired 3,588km of 2D seismic and 2,329km² of 3D seismic, as well as performed well servicing activities such as major remedial treatments, workovers, well abandonment services and services consisting in application of enhanced recovery techniques.

1.1. Exploration in Poland

In 2010, 49,543m of drillings were performed in the licence areas of the PGNiG Group (including drillings performed as part of joint ventures). In Poland, drilling work was conducted in the Carpathian Mountains, Carpathian Foothills, Polish Lowlands and the Lublin Province, both by the Group as such and in cooperation with partners. Work was under way on 25 boreholes (in the case of one borehole drilling ended in 2009, and tests were carried out in 2010). Out of 14 wells the test results of which are known, 9 were classified as positive (including 6 gas wells, 1 oil well and 2 oil and gas wells), and 5 wells were dry.

In 2010, PGNiG S.A. completed drilling of the Markowola-1 well in the Lublin Province. As an analysis of geophysical data confirmed the probability of presence of unconventional gas (tight gas), a hydraulic fracturing operation was carried out in the well. Since no commercial gas flow rates were recorded from the formation, the well was classified as dry and intended for abandonment. Drillings of new exploration and core holes, including in search for shale gas and tight gas, started in 2010 in new exploration areas where thus far there had been little appraisal (including Tymowa-1 in the Carpathian Mountains, Piaski-3 in Western Pomerania and Lubocino-1 in Eastern Pomerania).

In 2010, geophysical work was conducted in PGNiG S.A.'s licence areas in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands, as part of which 1,759km of 2D seismic data and 595 km² of 3D seismic data was acquired.

As at December 31st 2010, the Group's reserves were:

- 95.1 billion cubic meters of natural gas, measured as high-methane gas equivalent;
- 21.2 million tonnes of crude oil.

Joint ventures in Poland

In 2010, PGNiG S.A. continued cooperation with FX Energy Poland Sp. z o.o. in the "Płotki", "Płotki"- "PTZ" (in this area - jointly with Calenergy Resources Poland Sp. z o.o.), "Poznań", "Blok 255" and "Ostrowiec" areas. On September 30th 2010, an agreement was signed between FX Energy Poland Sp. z o.o. and PGNiG S.A. concerning cooperation in the licence areas of FX Energy Poland Sp. z o.o. (blocks 211, 212, 231 and 232). The parties' interests in the project are: PGNiG S.A. – 50%, FX Energy – 50%. FX Energy Poland Sp. z o.o. is the licence operator.

Also, joint operations were continued with the following companies in the following areas: with Eurogas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o. in the "Bieszczady" area, with Orlen Upstream Sp. z o.o. in the "Sieraków" area and with Energia Karpaty Zachodnie Sp. z o.o. Sp. k. and Energia Karpaty Wschodnie Sp. z o.o. Sp. k. in the "Karpaty Zachodnie" and "Karpaty Wschodnie" areas.

1.2. Exploration Abroad

In 2010, the PGNiG Group conducted work in licence areas in Pakistan, Denmark, Egypt, Libya and Norway (PGNiG S.A.'s subsidiaries were involved in the Libyan and Norwegian projects).

Pakistan

PGNiG S.A. conducts exploration work in Pakistan on the basis of an agreement on hydrocarbon exploration and production in the Kirthar licence area executed between PGNiG S.A. and the government of Pakistan on May 18th 2005,. Work in the Kirthar block is conducted jointly with Pakistan Petroleum Ltd., with production and expenses shared proportionately to the parties' interests in the licence: PGNiG S.A. (operator) - 70%, PPL - 30%. In 2010, enhanced recovery techniques were applied in the Rehman-1 exploration borehole resulting in gas flow. PGNiG S.A. engaged Chinese company BGP (owned by China National Petroleum Corporation) which in performed 242km² of 3D and 96km of 2D seismic surveys. Workover of the Hallel-1 borehole is planned for 2011.

Denmark

Since the execution of the agreement on assignment of interests in 2007, PGNiG S.A. has been engaged in exploration activity in the 1/05 licence area in Denmark. Currently, the licence interests are: PGNiG S.A. (operator) – 80%, Nordsofonden – 20%. In 2010, 2D and 3D field seismic surveys and processing of field data were completed. Advanced processing of seismic data was carried out. Drilling work is scheduled to start in 2011.

Egypt

In Egypt, PGNiG S.A. has been conducting exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement with the government of Egypt of May 17th 2009. The Company holds a 100% interest in the licence. As part of the exploration work, 2,000km of back-file 2D seismic materials were reprocessed and reinterpreted in 2010. BGP of China, engaged by PGNiG S.A., commenced gravimetric surveys. The work is scheduled for completion in 2011. In connection with the political situation in Egypt, in January 2011 PGNiG S.A. employees were temporarily withdrawn from the country, which, however, had no negative effect on the progress of the exploration activities.

2. Production

Natural gas and crude oil production in Poland is conducted by two branches of PGNiG S.A.: the Zielona Góra Branch and the Sanok Branch. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 22 sites, including 14 gas production facilities and 8 oil and gas production facilities. The Sanok Branch produces high-methane and nitrogen-rich natural gas and crude oil at 46 sites, including 26 gas production facilities and 20 oil and gas and oil production facilities. In 2010, the new Wielichowo gas production facility came onstream. The facility produces hydrocarbons from the Wielichowo and Ruchocice fields.

In 2010, PGNiG S.A. produced a total of 4.2 billion cubic meters of natural gas (measured as high-methane gas equivalent). Due to prolonged installation checks following the commissioning of the Grodzisk Denitrifying Plant, gas production was slightly lower than the forecast 4.3 billion cubic meters. Crude oil production amounted to 487.8 thousand tonnes. Lower-than-forecast oil production levels were due to the geological and formation-specific conditions as well to limited collection of gas by the Gorzów CHP Plant (which collects gas generated in the process of crude degassing at the Dębno production facility). The table below shows the PGNiG S.A.'s production volumes in 2010:

Production volumes

		Unit	2010	2009
1	Natural gas, including:	million cubic meters*	4,220.4	4,105.2
a	high-methane, including:	million cubic meters	1,605.3	1,633.9
	- Zielona Góra Branch	million cubic meters	0.0	0.0
	- Sanok Branch	million cubic meters	1,605.3	1,633.9
b	nitrogen-rich, including:	million cubic meters*	2,615.1	2,471.3
	- Zielona Góra Branch	million cubic meters*	2,530.9	2,391.9
	- Sanok Branch	million cubic meters*	84.2	79.4
2	Crude oil	thousand tonnes	487.8	491.6
	- Zielona Góra Branch	thousand tonnes	440.7	446.3
	- Sanok Branch	thousand tonnes	47.1	45.3

* Measured as high-methane gas equivalent.

In the operating area of the Sanok Branch, the following fields came onstream: Kupno, Morawsko, Sarzyna and Jasionka phase II. The fields that came onstream in the operating area of the Zielona Góra branch were: Wielichowo, Ruchocice, Środa Wielkopolska and Łęki. In total, 27 new wells were hooked up, both on new fields and on fields where production has already been under way for some time (Pruchnik-Pantałowice, Zalesie, Przemyśl, Palikówka). Total production capacity addition is estimated at 71.5 thousand cubic metres of gas per hour (measured as high-methane gas equivalent).

In 2010, PGNiG S.A. was engaged in various activities aimed at maintaining the gas and oil output from the currently producing fields, e.g. 2,499m of production drillings were performed. To prevent or limit the natural decline in production yields, 35 wells whose technical condition made further production impossible were subject to major remedial treatment. Additionally, 49 operations consisting in well stimulation or application of enhanced recovery techniques were carried out. Furthermore, in order to raise the pressure of gas supplied to the transmission network, four field compressors were installed.

Commercial products such as crude condensate, sulphur and propane-butane are obtained through processing of crude oil. A part of the nitrogen-rich gas produced by a production facility operated by the Zielona Góra Branch is processed into high-methane gas by the Odolanów Branch. Also, the cryogenic nitrogen removal process generates helium and LNG. Moreover, nitrogen-rich gas is

processed into high-methane gas and LNG at the Grodzisk Wielkopolski Denitrating Plant. Maintenance work and installation checks were carried out at the Grodzisk Wielkopolski Denitrating Plant in 2010. The installation was re-started in late August 2010.

The table below sets forth off-tariff sales of natural gas (including LNG), as well as sales of crude oil and other products to external customers by volume. The key natural gas customers were industrial customers, accounting for 84% of the total sales volume.

Sales structure of key products

		Unit	2010	2009
1	Natural gas, including:	million cubic meters	673.8	640.0
	- high-methane gas	million cubic meters	53.7	46.8
	- nitrogen-rich gas*	million cubic meters	620.1	593.2
2	Crude oil	thousand tonnes	499.0	503.7
3	Crude condensate	thousand tonnes	1.9	1.9
4	Helium	million cubic meters	3.1	2.5
5	Propane-butane	thousand tonnes	21.0	20.2
6	Nitrogen	thousand kg	783.1	1,261.2
7	Sulphur	thousand tonnes	25.2	24.6

* Measured as high-methane gas equivalent.

In 2010, PGNiG S.A. continued to sell crude oil to Rafineria Trzebinia S.A. and TOTSA TOTAL OIL TRADING S.A. under the agreements executed in 2009.

PGNiG S.A.'s foreign customers accounted for 42% of the total sales volume in the case of crude oil, and for 81% in the case of helium. Crude oil was sold to German refineries (through the Druzhba pipeline), whereas most of the helium volume was sold in liquid form to a foreign wholesale customer, who resells the product in European countries.

Underground gas storage facilities

The Exploration and Production segment uses the working capacities of the Brzeźnica, Strachocina and Swarzędów high-methane gas storage facilities, as well as of the Daszewo and Bonikowo nitrogen-rich gas storage facilities. The storage capacities used to store produced gas are not storage facilities within the meaning of the Polish Energy Law. The chief purpose of underground gas storage facilities is to provide a possibility to handle the produced gas during periods of low demand for the product. Besides, underground storage facilities enable optimum production from domestic fields during the year and rational management of natural gas reserves.

In 2010, PGNiG S.A. completed the construction of and placed in service the Bonikowo Underground Storage Facility for Lw nitrogen-rich gas, with a working capacity of 200 million cubic meters. Furthermore, the Company was involved in drillings of nine wells and construction of the surface facilities of the Strachocina Underground Storage Facility. The table below sets forth working capacities of the underground storage facilities used to store produced gas as at December 31st 2010.

Working capacities of the underground storage facilities used by the Exploration and Production segment (million cubic meters)

High-methane gas	2010	2009
Brzeźnica (E)	65.0	65.0
Strachocina (E)	150.0	150.0
Swarzów (E)	90.0	90.0
Nitrogen-rich gas		
Daszewo (Ls)	30.0	30.0
Bonikowo (Lw)	200.00	-

In 2010, PGNiG S.A. and The Oil and Gas Institute of Kraków signed an agreement for co-financing of the Strachocina Underground Gas Storage Facility project (up to PLN 53.2m) as part of the EU Infrastructure and Environment Operational Programme. The amount of the co-financing depends on the fulfilment of a number of conditions specified in the agreement.

3. Exploration and Production Companies

PNiG Jasło Sp. z o.o.

The business of Poszukiwania Nafty i Gazu Jasło Spółka z o.o. comprises drilling of core, exploration and production wells, well workovers, well abandonment services, provision of specialised well servicing services such as cementing, mud services or well completions, as well as operation of drilling rig instrumentation and control systems.

In 2010, in Poland PNiG Jasło Sp. z o.o. provided services mainly to the PGNiG Group. The company's sales revenue was PLN 241.6m, of which revenue from services provided to the PGNiG Group accounted for 63%. As far as services rendered to external customers are concerned, the company drilled a borehole for RWE Dea Polska Sp. z o.o., geothermal boreholes for a water and sewage company Przedsiębiorstwo Wodociągów i Kanalizacji Gołdap (financed from EU funds as part of the Warmia and Mazury regional programme) and another geothermal borehole for utility Zakład Komunalny Kleszczów Sp. z o.o. On the foreign markets, the company conducted drilling and workover work in Libya, workover work in Russia, geothermal drillings in Germany and drilled boreholes as part of extension of the underground gas storage facility in the Czech Republic (in consortium with PNiG Kraków Sp. z o.o.). In Ukraine and Lithuania, the company performed well servicing activities such as workovers, cementing and operation of instrumentation and control systems.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	241.6	269.4
Net profit (loss)	PLNm	8.1	6.5
Equity	PLNm	148.0	139.9
Total assets	PLNm	251.2	213.3
Headcount as at December 31	person	925	904

In 2011, PNiG Jasło Sp. z o.o. will continue drillings for the PGNiG Group in Poland and will start work under a new contract for POGC Libya B.V. For external customers in the foreign markets, in 2011 work will continue under the contract for drilling of boreholes as part of the underground gas storage facility project in the Czech Republic for RWE Gas Storage (in consortium with PNiG Kraków). Moreover, the company will complete workover work in Russia. As far as well servicing activities are concerned, the company will conduct work in Poland for Energia Zachód Sp. z o.o. and in Ukraine for JV Poltava Petroleum Company.

The PNiG Kraków Group

The PNiG Kraków Group comprises Poszukiwania Nafty i Gazu Kraków Sp. z o. o. and its subsidiary – Oil Tech International - F.Z.E. The core business of PNiG Kraków Sp. z o.o. comprises geological, exploration and production drillings, well workovers, as well as drilling, testing and well operation related well servicing activities. The company also provides hospitality, catering, rental and training services and until the end of 2010 it provided emergency rescue services. Oil Tech International – F.Z.E. provides operator teams, materials, and machinery and equipment to PNiG Kraków Sp. z o.o.

In 2010, the PNiG Kraków Group generated revenue of PLN 362.0m. Services rendered to customers outside the PGNiG Group were the main source of revenue for the PNiG Kraków Group, accounting for 70% of the total revenue (of which 96% was export revenue). As far as the foreign markets are concerned, the PNiG Kraków Group continued drilling work in Kazakhstan, Uganda, Pakistan and Ukraine. Furthermore, in 2010 the company signed new contracts for drilling work in Kazakhstan, Uganda, Mozambique and the Czech Republic. Drilling work in Mozambique and the Czech Republic started in late 2010. PGNiG S.A. was the main customer of the PNiG Kraków Group on the domestic market.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	362.0	381.9
Net profit (loss)	PLNm	16.8	16.0
Equity	PLNm	174.3	182.7
Total assets	PLNm	392.5	359.4
Headcount as at December 31	person	1,182	1,211

In 2011, the PNiG Kraków Group will continue work under its drilling services contracts in Kazakhstan, Pakistan, Uganda, the Czech Republic, Mozambique and Ukraine . The PNiG Kraków Group also plans to keep its share in the Polish market.

PNiG NAFTA Sp. z o.o.

The core business of PNiG Nafta Sp. z o.o. comprises oil and gas exploration, primarily with respect to designing, execution and documentation of core boreholes and of appraisal, exploration and production wells. The company also drills wells for underground storage of hydrocarbons, and provides well servicing, well abandonment and well workover services. In addition, the company provides auxiliary services through its workshop specialising in the repair of drilling equipment, and storage facilities.

In 2010, the PGNiG Group was the company's key customer in Poland. The company's sales revenue was PLN 296.4m, of which revenue from services provided to the PGNiG Group accounted for 73%. In Poland, the company continued drilling work at the Kosakowo, Wierchowice and Mogilno Underground Gas Storage Facilities, drilled exploration and appraisal wells for PGNiG S.A., and

performed drillings for companies involved in exploration for unconventional gas. Outside Poland, PNiG Nafta Sp. z o.o. was involved in drilling campaigns in Egypt, India and Slovakia.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	296.4	251.7
Net profit (loss)	PLNm	14.0	12.3
Equity	PLNm	192.5	182.8
Total assets	PLNm	321.1	300.2
Headcount as at December 31	person	799	763

In 2011, in Poland PNiG Nafta Sp. z o.o. will continue drilling of exploration wells for PGNiG S.A. and, as part of exploration for unconventional gas, it will start drillings for foreign investors, namely Saponis Investments Sp. z o.o., Energia Zachód Sp. z o.o. and Chevron Polska Energy Resources Sp. z o.o. Abroad, the company will be engaged in drilling work in Egypt.

GEOFIZYKA Kraków Sp. z o.o.

GEOFIZYKA Kraków Sp. z o.o. offers geophysical services (2D/3D vibroseis and dynamite data acquisition), well logging data processing and interpretation, measurements, special well interventions, interpretations, perforating and downhole seismic surveys.

In 2008, with a view to starting operations in Libya, in accordance with the local laws GEOFIZYKA Kraków Sp. z o.o. established a company with a Libyan partner, under the name GEOFIZYKA Kraków Libya JSC. However, subsequent guidelines issued by the Libyan Ministry of Economy stated that it was not necessary to conduct operations through a subsidiary. In consequence, on January 19th 2010, GEOFIZYKA Kraków Libya JSC was deleted from the Libyan commercial register.

In 2010, GEOFIZYKA Kraków Sp. z o.o.'s sales revenue reached PLN 224.3m, of which revenue from services provided to the PGNiG Group accounted for 68%. The company provided the full range of its services to PGNiG S.A. in Poland and carried out 901km of 2D field seismic surveys in POGC Libya B.V.'s licence area in Libya. GEOFIZYKA Kraków Sp. z o.o. also provided geophysical services under contracts with its external customers, including Orlen Upstream Sp. z o.o., Energia Karpaty Wschodnie Sp. z o.o., RWE Dea AG S.A. Polish Branch, Saponis Investments Sp. z o.o. and KGHM Polska Miedź S.A. in Poland, Occidental Oil & Gas BV in Libya and BP Pakistan Exploration & Production Inc. in Pakistan (work under the contract was completed in 2010). The company also performed well logging services for NAFTA a.s. in Slovakia and MND Servisni a.s. in the Czech Republic.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	224.3	289.7
Net profit (loss)	PLNm	1.9	12.7
Equity	PLNm	97.7	100.6
Total assets	PLNm	221.1	218.1
Headcount as at December 31	person	1,517	1,361

In 2011, in Poland GEOFIZYKA Kraków Sp. z o.o. will perform 2D and 3D seismic surveys for Oculis Energy Sp. z o.o. and will be engaged in work under the contracts with Orlen Upstream Sp. z

o.o. and ION GX Technology. Abroad, in 2011 the company will provide well logging services in the Czech Republic and Slovakia.

GEOFIZYKA Toruń Sp. z o.o.

GEOFIZYKA Toruń Sp. z o.o. offers geophysical services in the area of seismic services, starting from designing and data acquisition, through digital processing of data, to end with comprehensive geophysical and geological interpretations. The company also provides services in the area of well logging and well interventions, including interpretation of results. In addition, the company's offering includes a variety of near-surface geophysical services in the field of geology, hydrogeology and environmental protection, as well as designing and delivery of deep anode groundbeds for cathodic protection.

In 2010, GEOFIZYKA Toruń Sp. z o.o. generated sales revenue of PLN 302.0m, 63% of which represented revenue from services provided to third-party customers (52% of that revenue was derived from export of services, which included acquisition of seismic data in India, Thailand and Germany).

In addition, the company provided seismic data processing services to customers in India, Cameroon, Thailand and Germany. In Poland, GEOFIZYKA Toruń Sp. z o.o. provided seismic services to Lane Energy Poland Sp. z o.o., FX Energy Poland Sp. z o.o., ExxonMobil Poland Sp. z o.o., Gas Plus International Sp. z o.o., Chevron Polska Sp. z o.o., PGE Elektrownia Bełchatów S.A. and the Polish Academy of Sciences. Revenue from services provided to PGNiG S.A. in Poland accounted for 28% of the company's total sales revenue. These services included designing and acquisition of seismic data, data processing, comprehensive geophysical and geological interpretations, geophysical surveys and in-well measurements.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	302.0	268.3
Net profit (loss)	PLNm	22.0	3.1
Equity	PLNm	177.3	157.0
Total assets	PLNm	235.0	212.4
Headcount as at December 31	person	1,630	1,106

In 2011, in Poland GEOFIZYKA Toruń Sp. z o.o. will continue working on the acquisition of 2D and 3D seismic data for PGNiG S.A. as well as on the acquisition, processing and interpretation of seismic data for Lane Energy Poland Sp. z o.o., FX Energy Poland Sp. z o.o., ExxonMobil Poland Sp. z o.o. and Chevron Polska Sp. z o.o. As part of its foreign operations, the company will continue seismic data acquisition in India and will commence work under new projects in Spain and Germany.

PN Diament Sp. z o.o.

The core business of PN Diament Sp. z o.o. consists in providing well servicing services which include drillings, major remedial treatments, well abandonment services, well testing, downhole measurements, application of enhanced recovery techniques and other services with the use of coiled tubing and nitrogen equipment, as well as well completion, drillstem testing and mud services. The company also conducts activities related to general construction, road construction and construction of municipal waste dumps, and provides vehicle repair, transport and equipment services.

In 2010, the sales revenue of PN Diament Sp. z o.o. amounted to PLN 154.4m, 62% of which represented sales to the PGNiG Group. For the PGNiG Group, the company performed drilling work, workovers and well abandonment services, and carried out a range of specialised well servicing activities consisting in the application of enhanced recovery techniques, major remedial treatments,

cementing and mud services. As part of the drilling work for external customers, the company drilled six core boreholes for KGHM Polska Miedź S.A. in its copper deposits licence area. Furthermore, the company rendered general construction services (chiefly related to earthwork and road structures) to third-party customers.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	154.4	163.1
Net profit (loss)	PLNm	7.3	6.6
Equity	PLNm	99.8	95.6
Total assets	PLNm	135.3	125.4
Headcount as at December 31	person	674	675

In 2011, PN Diament Sp. z o.o. will provide drilling, major remedial treatment, workover, well abandonment and other well servicing services to the PGNiG Group. The company plans to drill 12 wells for KGHM Polska Miedź S.A. and one well for Calenergy Resources Poland Sp. z o.o. Furthermore, the company will provide general construction services to third-party customers.

ZRG Krosno Sp. z o.o.

Zakład Robót Górniczych Krosno Sp. z o.o. is a provider of well servicing services. Its business includes mainly well interventions such as major remedial treatments and workovers of active oil and gas wells, shallow drillings (up to approximately 1,000 metres), deepening of wells, well abandonment services, decommissioning of infrastructure and waste pits, as well as other reclamation work. In addition, the company performs a wide range of well servicing activities consisting in the application of enhanced recovery techniques, measurements and laboratory services.

In 2010, ZRG Krosno Sp. z o.o. generated sales revenue of PLN 91.4m, 62% of which represented sales to the PGNiG Group. The company's customers mainly included PGNiG S.A. branches, to which ZRG Krosno Sp. z o.o. provided well intervention services consisting in workovers, well reconditioning, application of enhanced recovery techniques and measurements of reservoir parameters. Revenue from services provided to third-party customers outside Poland accounted for 34% of the company's total sales revenue. In 2010, the company completed services in the Czech Republic under a PLN 29.1m contract for a workover of six wells. Furthermore, the company provided services in Ukraine, the United Kingdom and Slovakia.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	91.4	83.1
Net profit (loss)	PLNm	0.1	2.3
Equity	PLNm	41.1	41.8
Total assets	PLNm	58.7	58.7
Headcount as at December 31	person	431	435

In 2011, in Poland ZRG Krosno Sp. z o.o. will continue to provide workover and well abandonment services, as well as services consisting in the application of enhanced recovery techniques or measurement of reservoir parameters. In 2011, the company will commence the application of enhanced recovery techniques using coiled tubing in 13 wells in the Czech Republic and one well in Slovakia. The company is also seeking to win a contract for an application of enhanced recovery

techniques in Ukraine in cooperation with Euro-Drill Ltd. Furthermore, ZRG Krosno Sp. z o.o. has entered into preliminary negotiations with a view to obtaining a contract for well abandonment and acidizing services in the Czech Republic.

PGNiG Norway AS

PGNiG Norway AS has been established for the purposes of the Norwegian Continental Shelf project, the aim of which is to provide access to new recoverable reserves of oil and gas outside Poland. The principal business objective of PGNiG Norway AS is exploration for and production of crude oil and natural gas on the Norwegian Continental Shelf.

On February 4th 2010, PGNiG Norway AS was granted the status of a Norwegian Continental Shelf operator, thanks to which the company may now apply for the operator status in current and future licences. The award of the operator status followed a pre-qualification process, comprising assessment of PGNiG Norway AS's E&P competence.

On the Norwegian Continental Shelf, PGNiG Norway AS and its partners are implementing the Skarv/Snadd/Idun development project. PGNiG Norway AS holds a 12% interest in the fields; other interest holders are British Petroleum (operator, 24%), Statoil (36%) and E.ON Ruhrgas (28%).

Production from the Skarv field will be carried out using a floating production, storage and offloading (FPSO) unit with a flare tower. The produced hydrocarbons will be transported by shuttle tankers and via the Gassled Area B System gas pipeline to the mainland terminal in Kårsto. The Skarv project is one of the largest investment projects under way in Norway. 16 wells are expected to be drilled as part of the project, including seven oil producers, five gas producers and four injectors. At a later stage of the project's life, the injectors will be transformed into gas producers in order to fully exploit the existing reserves.

In 2010, construction of the FPSO platform was completed in South Korea and the process of towing the unit to the North Sea commenced. The first production wells were drilled in the Skarv field during the year.

PGNiG Norway AS and its licence partners discovered in 2010 a new oil and gas field, called Snadd North, in the PL 212 licence area, near the Skarv field. The recoverable reserves of the Snadd North field are initially estimated at 9 to 16 billion cubic meters of natural gas.

Production from the Skarv field is expected to be launched and development of the Snadd North field to commence in 2011.

In 2010, PGNiG Norway AS conducted the following operations regarding the Norwegian Continental Shelf:

- acquired a 15% interest in the PL 558 licence following completion of a licence round; E.ON Ruhrgas is the licence operator
- purchased a 10% interest in the PL 326 licence from Statoil Petroleum AS. The licence covers an area where presence of a gas field was confirmed (the Gro field). Other interest holders are: Shell (50%), Statoil (30%), and Gaz de France SUEZ (10%).

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	0.0	0.0
Net profit (loss)	PLNm	-76.8	-32.4
Equity	PLNm	314.2	382.4

Total assets	PLNm	3,424.1	2,551.0
Headcount as at December 31	person	22	20

POGC-Libya B.V.

The core business of Polish Oil and Gas Company – Libya B.V. consists in exploration for and production of hydrocarbons in Libya. The company conducts exploration work in the 113 licence area located in the Murzuq petroleum basin, under an Exploration and Production Sharing Agreement of February 25th 2008 concluded with the Libyan government.

In 2010, phases I and II of 2D seismic surveys were completed, with a total of 3,027km of seismic data acquired in the process. In cooperation with CGGVeritas, the company carried out processing of 2D and 3D data. Furthermore, in cooperation with PGNiG S.A., the company completed interpretation of the 3D data. The obtained results were used to identify the locations of four exploration wells which are to be drilled. Preparatory work at the planned drilling site of the first well started in 2010.

In connection with the political situation in Libya, in February 2011 all Polish employees of POGC-Libya B.V. were withdrawn from the country. Any decision to continue the work depends on the political developments in Libya.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	0.0	0.0
Net profit (loss)	PLNm	-55.3	-157.8
Equity	PLNm	54.8	39.6
Total assets	PLNm	64.8	61.7
Headcount as at December 31	person	37	25

4. Investment Projects in the Exploration and Production Segment

The expenditure incurred by the PGNiG Group in 2010 on investments in property, plant and equipment and intangible assets in the Exploration and Production segment amounted to PLN 2,193.2m. The key projects are described below.

Exploration

In the area of exploration, capital expenditure was chiefly incurred on nine wells drilled with positive results, wells the drilling of which is still under way, and five wells which proved to be dry, where the related expenditure was charged to expenses in the current reporting period.

Skarv Project

The project involves development of the fields on the Norwegian Continental Shelf using a floating production, storage and offloading (FPSO) unit. In 2010, a South Korean shipyard completed construction of the FPSO and the process of its towing to Stavanger commenced. Also, the first production wells were drilled in 2010. Production is expected to commence in 2011.

Lubiatów-Międzychód-Grotów Project

The objective of the project is to develop the Lubiatów-Międzychód-Grotów ("LMG") oil and gas field and to facilitate the transport, storage and sale of crude oil, natural gas, liquid sulphur and propane-butane from the LMG Oil and Gas Production Facility. The LMG project involves:

- construction of the LMG Central Facility to serve as a hub for collection, distribution and treatment of reservoir fluids;
- construction of the Dispatch Terminal in Wierzbno (sub-project completed in previous years);
- construction of a gas pipeline to the Grodzisk Denitrating Plant to provide for transmission of surplus gas from the LMG Oil and Gas Production Facility to the Grodzisk Denitrating Plant.

In 2010, work was conducted on construction of the Central Facility under an investment sub-project "LMG Project – Central Facility, well areas and other infrastructure". The total value of the project is estimated at approximately PLN 1.6bn.

Grodzisk Project

The objective of this project is to support the sale of gas produced from nitrogen-rich gas fields after it has been processed to achieve the parameters of high-methane gas (cryogenic nitrogen removal). The Grodzisk project comprised, among other things, development of the Paproć W field, development of the Nowy Tomyśl 2k well, modernisation of the Paproć Gas Production Facility, construction of the gas pipeline from Przylęk to the Paproć Gas Production Facility, and construction of the Grodzisk Denitrating Plant.

In 2010, development of the Wielichowo and Ruchocice fields was completed and work continued on extension of the Paproć-Cicha Góra Gas Production Facility and development of the Elżbieciny and Jabłonna wells. The Grodzisk project is scheduled for completion at the end of 2011. The total value of the project is estimated at PLN 463m.

Gas Pipeline to KGHM

The project involves construction of a high-pressure gas pipeline and optic-fibre cable along with infrastructure, from the Kościan Gas Production Facility to KGHM Polkowice/Żukowice, owing to which natural gas could be sold directly to KGHM Polkowice/Żukowice. Construction of the pipeline continued in 2010. The total cost of the project is estimated at approximately PLN 220m.

Other investment projects in the production segment

Other projects involved development of gas reserves, including those already in production, projects executed in order to maintain or replace hydrocarbon production capacity, and projects related to the functioning of the hydrocarbon production segment. The key investment projects included:

- modernisation and extension of the existing gas production facilities;
- development of the Rylowa-Rajsko, Góra Ropczycka and Zalesie gas fields;
- commencement of development of the Rudka field;
- development of the Sarzyna and Pilzno wells;
- completion of upgrade of production installations at the Odolanów Denitrating Plant;
- commencement of construction of a high-pressure gas pipeline from Mieszalnia Kłodawa to the LMG Oil and Gas Production Facility;
- purchases of ready-to-use investment goods as well as backup facilities and infrastructure.

Underground gas storage facilities

Construction of the Bonikowo underground storage facility for Lw nitrogen-rich gas was completed in 2010. Total capital expenditure incurred on the Bonikowo storage facility were approximately PLN 165m. Furthermore, the final ninth well was drilled and work continued on construction of the surface part of the Strachocina Underground Gas Storage Facility.

4. Planned Activities

Exploration in Poland

In 2011, PGNiG S.A. plans to carry out geophysical work and drillings as part of exploration work in Poland on a few dozen of prospects in the Carpathian Mountains, Carpathian Foothills and the Polish Lowlands. These operations will be carried out by PGNiG S.A. independently as well as in cooperation with foreign partners. As part of the above activities, PGNiG S.A. plans to implement projects focused on exploring new potential (including in the area of unconventional shale gas and tight gas): completion of drilling of Lubocino-1, Tymowa-1 and Piaski-3 wells and drilling of further wells.

Exploration abroad

In 2010, PGNiG S.A. took a number of steps with a view to acquiring new sites for exploration and new licence areas in Algeria, Iraq, Tunisia and East Africa. All these initiatives will be continued throughout 2011. Furthermore, the Company plans to carry on exploration work in Pakistan, Egypt and Denmark.

Underground gas storage facilities

The extension of the Strachocina Underground Gas Storage Facility is planned to be completed in 2011. The extension of the facility is designed to increase its working capacity to 330 million cubic meters.

Natural gas production

The PGNiG Group is implementing an investment programme aimed at increasing, in a long-term perspective, its natural gas production capacity. As part of the programme, the PGNiG Group plans, among other things, to develop new deposits and wells, modernise and expand the existing gas production facilities, as well as build new underground gas storage facilities and expand the existing ones.

The plans for 2011 assume an annual natural gas production volume of 4.4 billion cubic meters of high-methane gas equivalent with a calorific value of 39.5MJ per cubic meter, of which approximately 4.3 billion cubic meters will be produced from fields in Poland and about 0.1 billion cubic meters - in the Norwegian Continental Shelf. Production from the Skarv field is planned to be launched in the second half of 2011. To maintain domestic production at the existing level, in 2011 the Group intends to start production from the Elżbieciny, Jabłonna and Paproć fields, as well as from the Kromolice and Kromolice S fields (in cooperation with FX Energy Poland Sp. z o.o.).

Crude oil production

Production of crude oil in 2011 is estimated at about 570.0 thousand tonnes, of which approximately 480.0 thousand tonnes will be produced in Poland and about 90 thousand tonnes will come from the

Norwegian Continental Shelf. Production from the Skarv field is planned to be launched in the second half of 2011. With two new wells in the Barnówko-Mostno-Buszewo (BMB) field having started production in 2010 and another three to be hooked up in 2011, the PGNiG Group will be able to keep its production at current levels.

5. Risks Related to Exploration and Production

Resource discoveries and estimates

The main risk inherent in exploration activity is the risk of failure to discover reserves, i.e. the exploration risk. This means that not all the identified potential deposit sites have deposits of hydrocarbons which can qualify as an accumulation. Whether or not a sufficient accumulation exists depends on a number of geological factors. Furthermore, the actual quantity and quality of the accumulated hydrocarbons may differ from estimates. When the results of successful exploration activity, in the form of new reserves, do not counterbalance the depletion of the currently producing reserves, PGNiG S.A.'s recoverable reserves will decrease pro rata to the current production volumes.

The reserves estimates and production projections may be erroneous due to imperfections inherent in the equipment and technology, which affect the quality of the acquired information concerning the geological factors and the characteristics of the deposit site. Irrespective of the methods applied, data on commercial reserves of crude oil and natural gas is always an estimate. Actual production, income and expenses relating to a given deposit may significantly differ from the estimates. The weight of this risk is further increased by the fact that the full business cycle from the commencement of exploration to the launch of production from a developed field takes six to eight years, while the hydrocarbon production cycle lasts from 10 to 40 years. Formation characteristics defined at the stage of preparing the relevant documentation are reviewed after production starts. Each downgrade of the size of the reserves or production volume may lead to a lower revenue and adversely impact PGNiG S.A.'s financial performance.

Exploration for unconventional gas

The risk associated with exploration for unconventional gas in Poland relates to the lack of confirmed presence of shale gas and tight gas. Furthermore, even if existence of in-place petroleum is confirmed, its production may prove uneconomic due to insufficient gas recovery and high investment expenditure necessary on drillings and construction of production infrastructure. Another material factor is connected with difficult access to unconventional gas plays given the environmental regulations and the necessity to obtain the landowners' consent for access to the area.

Competition

Both on the Polish market and abroad there is a risk of competition from other companies with respect to acquisition of licences for exploration for and appraisal of hydrocarbon deposits, impeding implementation of a strategy providing for gaining access to own hydrocarbon resources. Certain competitors of PGNiG S.A., especially those active globally, enjoy strong market positions and have financial resources larger than those of PGNiG S.A. Thus it is probable that such companies would submit their bids in tender procedures and be able to acquire promising licences. Competitors are also able to identify, value, offer and purchase a larger number of fields (including operator status and licences) than it is possible in the case of PGNiG S.A., given its financial and human resources. This competitive advantage enjoyed by other market players is particularly important on the international market.

Delayed work

Under the currently binding Polish legal regulations, obtaining a licence for exploration for and appraisal of crude oil and natural gas deposits lasts from one to one and a half year. As regards business activity on foreign markets, it may take even two years from the time that the tender for licence is awarded until the relevant contract is ratified. Moreover, prior to the commencement of field work, the Company is obliged to make numerous arrangements, including obtaining formal and legal permits and approvals for entering the area, meeting environmental protection-related requirements and in some cases requirements related to protection of archaeological sites, and abiding by the regulations governing tenders held to select a contractor. Under the currently binding regulations, another several months pass before an agreement with the contractor is signed. In addition, companies must frequently wait for a very long time before their imported equipment receives customs clearance. These factors create the risk of delayed exploration work.

Formal and legal issues beyond PGNiG S.A.'s control include:

- local governments' failure to adopt local land development plans;
- obstacles in incorporating investment projects into the local land development plans;
- need to obtain and comply with administrative or other formal and legal decisions, including environmental decisions;
- amendments to the current planning and development concept;
- obstacles in obtaining permission from land owners to enter the site.

These factors significantly delay implementation of investment projects and commencement of on-site construction work. Concurrently, PGNiG S.A.'s obligation to comply with the Public Procurement Law frequently prolongs the tender procedure. Notices of appeal and complaints submitted by bidders lead to lengthy court proceedings and, consequently, to delays in implementing an entire investment project. A protracted investment process exacerbates the risk related to estimation of capital expenditure.

Cost of exploration

Exploration work is capital consuming, given the prices of energy carriers and materials. Cost of exploration work is especially sensitive to steel prices, which are passed on to prices of casing pipes and lifting casing that is used in drilling. Any increase in prices of energy and materials translates into an increase in the cost of exploration work. Moreover, profitability of foreign exploration projects will to a significant extent depend on the movements in prices of oil derivative products and in exchange rates.

Legal regulations concerning safety, environmental protection and health

Ensuring compliance with environmental law in Poland and abroad might significantly increase the PGNiG S.A.'s costs of operations. Currently, PGNiG S.A. incurs significant capital expenditure and costs on harmonising its operations with ever more complex and stringent regulations concerning safety and health at work, as well as environmental protection. The act of May 18th 2005 amending the Natural Environment Protection Law and certain other acts (Dz.U. No. 113, item 954 of June 27th 2005) rendered the regulations governing the execution of projects which might affect the Natura 2000 sites more stringent and enhanced the environmental protection-related requirements in the scope of entering the areas of the occurrence of protected plant species and habitats of protected animals. The tendency to tighten up the environmental protection regulations is present also in other countries where PGNiG S.A. conducts exploration activity.

Qualified personnel

The presence of foreign companies on the Polish market has intensified the phenomenon whereby highly qualified employees with extensive professional experience are taken over. This risk is

especially high with respect to professionals specialised in oil and gas exploration. In countries where PGNiG S.A. operates, highly qualified staff is difficult to recruit.

Unpredictable events

Hydrocarbon deposits developed by PGNiG S.A. are usually located at great depth, which is accompanied by extremely high pressures, and many of them include hydrogen sulphide in its chemical composition. Consequently, there exists a high risk of an explosion, eruption or hydrocarbon leakage, which in turn may pose a threat to people (workers and local inhabitants), natural environment and also production equipment.

Changes in laws and regulations

The laws and regulations in some countries change frequently and unexpectedly, causing problems to entities involved in exploration activity. This may be a particular threat in countries where the law changes depend on decisions made by authoritarian governments.

Political and economic situation

In some countries where PGNiG S.A. conducts exploration activity there is the risk of armed conflicts or terrorist attacks, which may lead to a limitation, suspension or discontinuation of the exploration and production business there.

In some areas where PGNiG S.A. is present there is a risk of social and political destabilisation. Changes of governments may bring to a halt the processes of state administration issuing permits to conduct business in the petroleum sector. Additionally, these countries are at risk of internal conflicts and social unrest caused by poor social and demographic conditions in which their inhabitants live. The risks specified above may lead to a limitation, suspension or discontinuation of PGNiG S.A.'s activities.

In certain countries, the exploration business is hindered by lack of adequate infrastructure, which may be an obstacle in transporting equipment, staff and materials to the sites. Providing supplies and ensuring appropriate health care may also be a problem. These risks may lead to a limitation or suspension of the Company's exploration activities.

Chapter VII: Trade and Storage

The segment sells both imported and domestically-produced natural gas. Imported natural gas is purchased chiefly from the eastern markets. Sale of natural gas through the distribution and transmission network is regulated by the Polish Energy Law, and gas prices are determined based on the tariffs approved by the President of the Energy Regulatory Office. For the segment's purposes, three underground gas storage facilities are used, located in Mogilno, Wierzychowice and Husów.

1. Purchases

In 2010, PGNiG S.A. derived natural gas from imports and, to a limited extent, from domestic suppliers. PGNiG S.A. imported natural gas mainly under the agreements and contracts specified below, i.e. the long-term contract with Gazprom Export as well as the medium-term agreements for gas supplies from VNG-Verbundnetz GAS AG:

- contract for sales of Russian natural gas to the Republic of Poland, executed with Gazprom Export, dated September 25th 1996, which will remain in force until 2022;
- agreement on sale of the Lasów natural gas executed with VNG-Verbundnetz GAS AG, dated August 17th 2006, which will remain in force until October 1st 2016;
- agreement on sale of the Lasów 2008 natural gas executed with VNG-Verbundnetz GAS AG, dated September 29th 2008, in force until October 1st 2011.

The table below presents the natural gas supply structure measured as high-methane gas equivalent.

Structure of natural gas supplies by supply sources (million cubic meters)

	2010	%	2009	%
Imports, including:	10,066.4	99.1%	9,135.9	99.4%
- Gazprom Export	9,028.4	89.7%	8,137.2	89.1%
- VNG AG	890.8	8.8%	938.0	10.3%
- Other foreign suppliers	147.2	1.5%	60.7	0.6%
Domestic suppliers	96.1	0.9%	58.1	0.6%
Total	10,162.5	100.0%	9,194.0	100.0%

In the period from September 1st to September 28th 2010, and subsequently from January 1st 2011, NAK Naftogaz Ukrainy suspended gas deliveries via the Zosin near Hrubieszów cross-border point on the Polish-Ukrainian border, where gas is supplied to Poland under a gas supply agreement of October 26th 2004. NAK Naftogaz Ukrainy stopped its deliveries due to a change in internal regulations applicable in Ukraine, which require that Ukrainian production of natural gas may be allocated to meet the domestic demand only. PGNiG S.A. will demand that the gas supplies agreement, valid until December 31st 2020, be performed. Despite the suspension of gas supplies from Ukraine, the Hrubieszów area has been receiving sufficient gas supplies to meet the local demand.

New agreements

On March 18th 2010, PGNiG S.A. executed a regasification services contract with Polskie LNG S.A. of Świnoujście. Under the contract, Polskie LNG will provide LNG regasification services to PGNiG S.A. at the LNG terminal in Świnoujście for a period of 20 years starting from July 1st 2014. In order

to ensure proper performance of the contract, Polskie LNG S.A. agreed to construct a terminal which is to reach full operational capacity by July 1st 2014. Execution of the regasification services contract will enable PGNiG to fulfil the conditions under the LNG purchase agreement concluded between PGNiG S.A. and Qatargas Operating Company Ltd. in June 2009.

On October 22nd 2010, PGNiG S.A. and SGT EURPOL GAZ S.A. executed an annex to the agreement of July 1st 2004 on gas transmission from the Kondratki cross-border point on the Polish-Belarusian border to gas terminals in Włocławek and Lwówek Wielkopolski through the Yamal-Western Europe gas pipeline. The agreement term was extended to expire on December 31st 2022 instead of the original December 31st 2012.

On October 29th 2010, PGNiG S.A. and Gazprom Export signed an annex to the contract of September 25th 1996 providing for sale of Russian natural gas to the Republic of Poland. The execution of the annex was connected with the adoption in 2009 of a package of arrangements and the approval on October 29th 2010 of relevant amendments to the Agreement between the Governments of the Republic of Poland and the Russian Federation concerning construction of a gas pipeline system for transmission of the Russian gas across the territory of Poland, dated August 25th 1993, as amended. The annex provides for increased volume of natural gas supplies to Poland in 2010–2022 and lifts the ban on re-export of natural gas to third countries without Gazprom Export's consent. The annex also introduces a preference price in the period 2010–2014 for the quantities of gas collected during a year above the contracted minimum annual quantity. Other terms and conditions of the contract, including the pricing formula for gaseous fuel, remained unchanged.

2. Sale

In 2010, PGNiG S.A. signed comprehensive agreements for the supply of gaseous fuel, both from the transmission system and from the distribution system, to 83.3 thousand new customers.

On June 16th 2010, PGNiG S.A. and Grupa LOTOS S.A. executed a comprehensive agreement on supply of gaseous fuel. The agreement provides for the supply of gaseous fuel starting from December 16th 2011. The annual supplies of natural gas will be 403 million cubic meters in 2012, while the target annual volume is 447 million cubic meters. The estimated value of the agreement in the period of five years amounts to approximately PLN 2.2bn.

On July 30th 2010, PGNiG S.A. and KGHM Polska Miedź S.A. executed a comprehensive agreement on sale of gaseous fuel. The agreement provides for the sale of Lw natural gas to be used as a power source to the Głogów and Polkowice collection points in the target amount of 266 million cubic meters per annum. The gaseous fuel will be delivered through the distribution network of Wielkopolska Spółka Gazownictwa Sp. z o.o. The agreement is effective from its date until June 30th 2033, and contains a clause whereunder the start of gas deliveries may be scheduled to a date falling between July 1st and December 31st 2012, to be agreed by the parties. The estimated value of the agreement is approximately PLN 4.0bn.

On August 3rd 2010, PGNiG S.A. executed arrangements to terminate the natural gas sale agreements of December 1st 2003 with Energetyka Sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A.), providing for the supply of gas to be used for power generation purposes. The agreements were terminated due to the parties' inability to meet the contractual terms of natural gas deliveries as well as in connection with the approval of a new agreement on the supply of natural gas to KGHM Polska Miedź S.A.

The key products sold by the Trade and Storage segment are high-methane gas and nitrogen-rich gas. In 2010, sales of natural gas rose by approx. 8% (or 1,047.7 million cubic meters) year on year. This sales volume increase was mostly due to low temperatures during the winter, which boosted demand

for gaseous fuel from households by approx. 10% (or 371.4 million cubic meters). Moreover, demand for natural gas also rose from wholesale customers, the trade and services sector, as well as from industrial customers, mostly in those industries which benefited from the economic recovery, i.e. the refining, petrochemical and metallurgical industries. PGNiG S.A. sold gas chiefly on the domestic market. The sales structure of the Trade and Storage segment in 2010 sales is presented in the table below.

Sales structure of key products

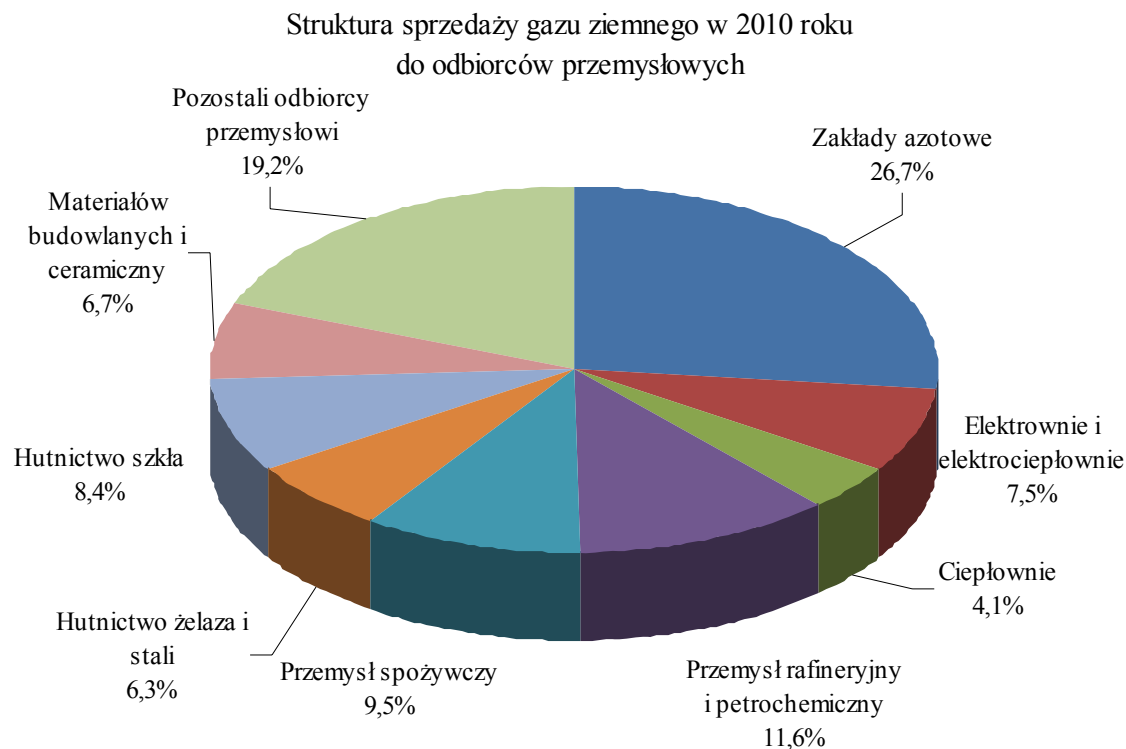
		Unit	2010	2009
1	Natural gas, including:	million cubic meters	13,562.2	12,514.5
	- high-methane gas	million cubic meters	13,044.9	11,874.0
	- nitrogen-rich gas*	million cubic meters	517.3	640.5
2	Propane-butane	thousand tonnes	1.9	2.0

* Measured as high-methane gas equivalent.

The Group's main customers purchasing natural gas included companies from the chemical, metallurgical and power sectors, as well as households. Households made up the largest group of customers purchasing natural gas, accounting for 97% of the entire customer base (approximately 6.4m). Their share in the total sales volume was 30%. The most prominent share in the natural gas sales volume was claimed by industrial customers (56%). The table below presents the structure of natural gas sales (measured as high-methane gas equivalent) broken down by major customers.

Sales of mains natural gas (million cubic meters)

	2010	%	2009	%
Industrial customers	7,631.5	56.3%	7,184.6	57.4%
Trade and services	1,573.3	11.6%	1,424.2	11.4%
Households	4,095.8	30.2%	3,724.4	29.8%
Wholesale customers	217.7	1.6%	142.4	1.1%
Exports	43.9	0.3%	38.9	0.3%
Total	13,562.2	100.0%	12,514.5	100.0%



In 2010, PGNiG S.A. and Mazowiecka Spółka Gazownictwa Sp. z o.o. continued an investment project to switch the customers in Pisz (Olsztyn Province) who receive propane-butane-air to high-methane gas (E) produced from LNG. Due to the contractor's default on contract terms, the project completion date has been postponed to July 2011.

On September 8th 2010, PGNiG S.A. and ZRUG Sp. z o.o. of Poznań entered into an agreement on the construction of a gas network in the Rakoniewice municipality. The project covers the construction of 75km of a medium-pressure gas pipeline. Implementation of this project will contribute to an increase in the number of new connection agreements as well as to higher volumes of gas sold.

3. Storage

The Trade and Storage segment uses for its own needs parts of the working capacities of the Wierzchowice Underground Gas Storage Facility, the Husów Underground Gas Storage Facility and the Mogilno Underground Gas Storage Cavern Facility. The Wierzchowice and Husów underground gas storage facilities are also used by the production segment of PGNiG S.A., whereas a part of the working capacity of the Mogilno facility has been made available to OGP GAZ-SYSTEM S.A. To the extent of the working capacity used for production needs and used by OGP GAZ-SYSTEM S.A., underground storage facilities are not storage facilities within the meaning of the Polish Energy Law.

Short-term fluctuations in customer demand for natural gas are balanced out with the supplies from the Mogilno Underground Gas Storage Cavern Facility, where gas is stored in worked-out salt caverns to be withheld at periods of peak demand. The capacities of the Wierzchowice and Husów Underground Gas Storage Facilities are used to minimise the effect of changes in demand for natural gas in the summer and winter seasons, to meet the obligations under the take-or-pay contracts for imports, to safeguard the continuity and security of natural gas supplies and to meet the obligations under sales agreements providing for the delivery of natural gas to customers' premises.

In addition, the capacities of the Wierchowice Underground Gas Storage Facility, the Husów Underground Gas Storage Facility and the Mogilno Underground Gas Storage Cavern Facility are used by the Group to meet its obligation to maintain mandatory stocks, imposed by the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market, dated February 16th 2007.

On January 1st 2009, PGNiG S.A. was appointed as the Storage System Operator. Detailed terms of providing gaseous fuel storage services (working capacity, injection capacity, withdrawal capacity) and sale of storage services are compiled in the "Rules of Provision of Storage Services", which took effect on July 1st 2009. After public consultations, on May 17th 2010, the revised "Rules of Provision of Storage Services" came into force.

In compliance with the Rules, in 2009 PGNiG S.A. made available a total of 627 million cubic meters of working storage capacity as part of bundled services provided on a continuous or interrupted basis. On July 1st 2010, under a short-term agreement, PGNiG S.A. made available an additional 8 million cubic meters of working storage capacity on a continuous basis for the needs of third-party access (TPA) as part of a bundled services arrangement.

In 2010, PGNiG S.A. continued works related to the construction of four caverns in the Mogilno Underground Gas Storage Cavern Facility and the surface part of the Wierchowice Underground Gas Storage Facility. Moreover, the Company continued to conduct work related to the construction of a new high-methane gas storage facility, namely the Kosakowo Underground Gas Storage Cavern Facility. The Company has completed the construction of a leaching installation along with pipeline for brine discharge, as well as drillings for the needs of the storage facility. The Company has commenced leaching work in two caverns. The table below presents the working capacities of the underground gas storage facilities.

Working capacities of the storage facilities in the Trade and Storage segment (million cubic meters)

	2010	2009
Husów	350.0	350.0
Mogilno	377.9	370.0
Wierchowice	575.0	575.0

In 2010, under the EU's Infrastructure and Environment Operational Programme PGNiG S.A. the Oil and Gas Institute of Kraków executed an agreement on co-financing of the following projects: "The Wierchowice Underground Gas Storage Facility" (for up to PLN 503.6m), "The Kosakowo Underground Gas Storage Cavern Facility" (for up to PLN 93.5m) and "The Mogilno Underground Gas Storage Cavern Facility" (for up to PLN 23.1m). The amount of the co-financing depends on the fulfilment of a number of conditions specified in individual agreements.

4. INVESTGAS S.A.

INVESTGAS S.A. specialises in hydrocarbon storage and transport projects. It also executes specialised and general construction projects. The company provides services covering the entire investment process, starting from preparation, through designing, construction and commissioning, to end with operation of gas storage facilities in salt caverns and other types of facilities.

In 2010, INVESTGAS S.A.'s sales revenue totalled PLN 242.7m. Revenue from services provided to PGNiG S.A. represented 99.5% of the total sales revenue. The services provided to PGNiG S.A. in 2010 included:

- continued operation of, and construction of new caverns in, the Mogilno Underground Gas Storage Cavern Facility;
- continued construction of the Kosakowo Underground Gas Storage Facility;
- continued extension of the Strachocina Underground Gas Storage Facility;
- continued construction of the Kościan Gas Production Facility - KGHM Polkowice/Żukowice gas pipeline.

In addition, in December 2010 the company completed works related to the construction of the Ostrów Wielkopolski - Wrocław fuel pipeline for PKN ORLEN S.A.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	242.7	112.4
Net profit (loss)	PLNm	16.9	6.4
Equity	PLNm	33.5	19.5
Total assets	PLNm	111.8	81.8
Headcount as at December 31	person	108	106

In 2011, the company will continue work related to the operation, construction and extension of underground gas storage facilities as well as the construction of the Kościan Gas Production Facility - KGHM Polkowice/Żukowice gas pipeline. The company also plans to acquire new orders for construction and extension of underground gas storage facilities, as well as for construction of gas and fuel pipelines along with auxiliary infrastructure.

5. Investment Projects in the Trade and Storage Segment

The amount of capital expenditure incurred in the Trade and Storage segment on property, plant and equipment and intangible assets was PLN 505.6m. The most important investment projects were related to construction and extension of underground gas storage facilities and included:

- construction of the surface part of the Wierchowice Underground Gas Storage Facility;
- completion of construction of the leaching installation along with pipeline for brine discharge, as well as of the drillings for the needs of the storage facility, and commencement of the leaching work in two caverns of the Kosakowo Underground Gas Storage Facility;
- construction of four caverns in the Mogilno Underground Gas Storage Cavern Facility.

In addition, the investment projects carried out in the Trade and Storage segment included information and communication technology projects, purchase and clarification of the legal status of real property and construction work related to gas pipelines.

6. Planned Activities

Underground gas storage facilities

In 2011, PGNiG S.A. will continue the extension of the Wierchowice Underground Gas Storage Facility and of the Mogilno Underground Gas Storage Cavern Facility, to target working capacities of 1.2 billion cubic meters and 800 million cubic meters, respectively. The first stage of the

Wierchowice Underground Gas Storage Facility extension project is planned to be completed at the end of 2011. In addition, the Company will continue the construction of a new high-methane gas storage facility, namely the Kosakowo Underground Gas Storage Cavern Facility, which is ultimately to consist of ten underground caverns with a total working capacity of 250 million cubic meters. The contractor for the construction of the surface part of the facility will be selected in the first half of 2011.

7. Risks Related to Trade and Storage

Competition

At present, PGNiG S.A. is the largest supplier of natural gas in Poland. PGNiG S.A.'s share in the gas market is estimated at approximately 98%. The remaining 2% is represented by suppliers from outside the PGNiG Group which to a large extent purchase gas from PGNiG S.A. Suppliers from outside the PGNiG Group which trade in natural gas operate mostly in those areas where there are no gas networks. These include local gas distributors that own transmission infrastructure and offer – in addition to traditional network gas supply – innovative gas supply solutions involving the use of LNG. An intensified commercial activity of competitors with the aim of attracting current and potential customers of PGNiG S.A. may in the future pose a tangible threat of customer churn.

Higher receivables

In connection with the economic crisis, which resulted a downturn on the markets of PGNiG S.A.'s customers and, by the same token, a deterioration in the financial standing of customers purchasing gas, there may still be some difficulties with timely settlement of payments for the supplied gaseous fuel.

Storage

A delay in the implementation of investment projects may prevent PGNiG from building up sufficient mandatory stocks of natural gas in compliance with the Act on Mandatory Stocks, pursuant to which as of October 1st 2012 the volume of mandatory stocks must be increased from 20 to 30 days of average annual imports.

Chapter VIII: Distribution

The segment's core business consists in the transmission of high-methane and nitrogen-rich gas, as well as of small amounts of propane-butane and coke-oven gas via the distribution network. Natural gas distribution is the business of six Gas Distribution Companies, which supply gas to households, as well as to industrial and wholesale customers. In addition, they are responsible for operating, repairing and expanding the distribution network. On the basis of a decision issued by the President of the Energy Regulatory Office, since mid-2007 the Gas Distribution Companies have enjoyed the status of Distribution System Operators.

The geographic footprint of the Gas Distribution Companies is shown on the map below.



1. Dolnośląska Spółka Gazownictwa Sp. z o.o.

Dolnośląska Spółka Gazownictwa Sp. z o.o. (Lower Silesian Gas Distribution Company, “DSG”) supplies gas to customers in the Wrocław Province and the Zielona Góra / Gorzów Wielkopolski Province, as well as in the Wolsztyn and Nowy Tomyśl counties of the Poznań Province. The percentage of households and businesses connected to the gas grid varies between communes, depending on geographical conditions. Areas without access to the gas supply system are usually those located at a considerable distance from the pipelines, where the relevant studies have shown that their connection to the gas grid would not be economically viable. In such areas, for instance in the area around the village of Świętoszów, the company supplies gas to customers in liquefied form (LNG).

The total volume of natural gas transmitted by DSG via the distribution network in 2010 was 1,021.6 million cubic meters (measured as high-methane gas equivalent), of which high-methane gas and nitrogen-rich gas accounted respectively for approx. 742.3 and 279.3 million cubic meters. The

company has some 748.4 thousand customers. In 2010, DSG connected 6.6 thousand new customers to the gas network.

In 2010, the company continued the replacement of cast-iron piping whose further operation would have posed a safety hazard and resulted in large gas losses. Implementation of the cast-iron piping replacement programme, as well as regular technical inspections of the network, have been reducing the share of gas losses in relation to sales. Completed projects include replacement of low-pressure gas pipelines at ul. Grota Roweckiego in Wrocław, at ul. W. Łukasińskiego in Świdnica, and at ul. Kolejowa, ul. Rynek, ul. Konstytucji 3-go Maja, ul. Wąska and ul. Kościelna in Radków.

Other work carried out by DSG related to extension and modernisation of the gas network. Major projects completed in 2010 included:

- continued work to connect the Magnice section in the Kobierzyce commune to the gas supply system; the project comprised construction of a medium-pressure gas pipeline and the connections; the project has been completed;
- construction of a medium-pressure gas pipeline from Komorów to Słotwina, along with the connections and a pressure reduction and metering station; the project has been completed;
- construction of a medium-pressure gas pipeline and the connections at the section covering ul. Sportowa, ul. Wesola, ul. Polna, ul. Kwiatowa and ul. Świerkowa in Czarny Bór; the project has been completed;
- construction of a medium-pressure gas pipeline at ul. Objazdowa in Kłodzko, covering the section from ul. Orkana to the Owcza Góra residential estate; the project has been completed;
- connection of Mokronos Górny and Mokronos Dolny in the Kąty Wrocławskie commune to the gas supply network; the project comprises construction of medium-pressure gas pipelines and the connections; the project commissioning took place in January 2011;
- purchase of the pipeline network in the town of Miroszowice near Lubin and in the town of Gubin.

In December 2010, the company executed agreements on co-financing of the following two projects from EU funds: "Construction of a Distribution Network and Medium-Pressure Connections in Mokronos Górny and Mokronos Dolny in the Kąty Wrocławskie Commune" and "Construction of a Medium-Pressure Gas Network in Kępice, Wróblowice, Błonie and Źródła in the Miękinia Commune".

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	374.9	333.0
Net profit	PLNm	216.1	57.0
Equity	PLNm	1,172.7	984.4
Total assets	PLNm	1,376.5	1,162.4
Length of network, excl. connections	km	7,741.2	7,764.4
Headcount as at December 31	person	1,420	1,410

In 2011, DSG will carry out work to connect to the gas supply system Kępice, Wróblowice, Błonie and Źródła in the Miękinia commune, as well as Strzelin, Kurów, Witowice and Wiązów in the Strzelin commune. Moreover, in 2010 the company began to prepare design documentation as part of the project providing for connection to the gas supply system of Długołęka, Domaszczyn, Kamień and Szczodre in the Długołęka commune, as well as Gołędzinów, Paniowice, Pęgów, Szewce and Zajęczków in the Oborniki Śląskie commune. The construction work is scheduled for 2011.

In the area where DSG operates, a number of other gas sellers and distributors are intensifying their activities. In future, they may take over the company's existing or prospective customers (both industrial customers and households). In the area covered by DSG's operations, the company has four key competitors: G.EN. Gaz Energia S.A., Media Odra Warta Sp. z o.o. (MOW), KRI S.A. and CP ENERGIA S.A.

2. Górnośląska Spółka Gazownictwa Sp. z o.o.

Górnośląska Spółka Gazownictwa Sp. z o.o. (Upper Silesian Gas Distribution Company, "GSG") supplies gas to customers in the Province of Katowice and Province of Opole, in 44 communes of the Province of Kraków, in 5 communes of the Province of Łódź and in 3 communes of the Province of Kielce. It serves some 1.3 million customers. The total volume of gas transmitted by GSG via the distribution network in 2010 was 1,744.4 million cubic meters.

In 2010, GSG connected 5.8 thousand new customers to the gas network. In addition, the company conducted work to upgrade the network, while continuing its extension to areas west of Częstochowa. Major projects carried out in 2010 included:

- continued revitalisation of an approx. 20 km long section of the high-pressure gas pipeline from Zdziechowice to Płużniczka in the town of Olszowa (an economic zone in the Ujazd commune);
- completion of design work on the project providing for the connection of Komprachcice and Dąbrowa to the gas grid; in January 2011, a building permit was issued for the project; the project comprises construction of approx. 62 km of medium-pressure gas pipelines; the pipelines are scheduled for launch in 2011–2012; implementation of further phases of the investment project depends to a large extent on securing EU funds;
- continued design work on the project providing for the connection of the towns of Herby and Blachownia to the gas grid; this multi-year project comprises construction of high- and medium-pressure gas pipelines and two pressure reduction and metering stations; the project will be implemented in stages, and is scheduled for completion in 2015;
- continued design work on the project to construct approx. 18 km of a high-pressure gas pipeline from Blachownia to Kłobuck and a pressure reduction and metering station;
- continued design work on the project to construct approx. 52 km of a medium-pressure gas pipeline for Wręczyca Wielka and Kłobuck;
- commencement of upgrade of a medium-pressure gas pipeline from Szobiszowice to Ząbkowice, covering the section from Ostroźnica to the zinc mill in Miasteczko Śląskie;
- commencement of upgrade of a low-pressure gas pipeline at ul. 1-go Maja in Katowice, covering the section from ul. Graniczna to the pressure reduction and metering station.

In addition, GSG continued work to reconstruct a decommissioned coke-oven gas high-pressure pipeline from Czarnocin to Ujazd, which will allow the company to supply gas to a new economic zone in Ujazd in the Province of Opole. Reconstruction of this pipeline will enable the distribution networks in Silesia and the Province of Opole to be connected in the future.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	633.3	542.4
Net profit	PLNm	117.7	53.5
Equity	PLNm	1,630.2	1,530.6
Total assets	PLNm	1,898.1	1,766.0

Length of network, excl. connections	km	20,875.2	20,674.5
Headcount as at December 31	person	2,619	2,622

In 2011, the company will continue the installation of gas supply lines in the following communes: Komprachcice, Dąbrowa, Herby, Blachownia, Wręczyca Wielka, Kłobuck, Opatów and Krzepice. GSG has taken steps to obtain EU funding for the projects.

In 2010, the financial crisis adversely affected the operations of GSG's competitors (namely CP ENERGIA S.A. and KRI S.A.). Only EWE Energia Sp. z o.o. and its subsidiaries continue to be active in the northern part of the company's operating area.

3. Karpacka Spółka Gazownictwa Sp. z o.o.

The operations of Karpacka Spółka Gazownictwa Sp. z o.o. (Carpathian Gas Distribution Company, "KSG") cover the area of four provinces in south-eastern Poland, namely the Provinces of Kraków, Rzeszów, Kielce and Lublin. The company's operating area is crossed by one of the main gas pipelines of the Polish transmission system, fed with both imported and domestically-produced natural gas. The company serves some 1.4 million customers. The total volume of gas transmitted by KSG via the distribution network in 2010 was 2,017.1 million cubic meters.

In 2010, KSG connected some 9 thousand new customers to the gas network. In addition, the company implemented network extension and upgrade projects. Major projects carried out in 2010 included:

- completion of alteration of the pressure reduction station at ul. Zawila in Kraków, including land development and telemetry infrastructure;
- completion of construction of an approx. 35 km long high-pressure gas pipeline from Kowala to Jędrzejów, including a pressure reduction station;
- completion of construction of a high-pressure gas transmission pipeline from Werbkowice to Zamość; the project is designed to increase the volume of transmitted natural gas and connect the Ukrainian high pressure pipeline with the Polish gas grid;
- upgrade of an approx. 17 km long high-pressure gas pipeline from Warzyce to Gorlice; the project is designed to improve the safety of network operation; project implementation is scheduled for completion in 2013;
- continued design work on the project to install gas supply lines in the Włoszczowa and Małogoszcz communes; the project comprises construction of an approx. 43 km long high-pressure gas pipeline with a pressure reduction station, as well as an approx. 51 km long medium-pressure gas pipeline with eight governor stations; project implementation is scheduled for completion in 2015;
- commencement of design work related to the upgrade of an approx. 61 km long high-pressure gas pipeline from Sandomierz to Ostrowiec Świętokrzyski; the project is designed to improve the safety of network operation; project implementation is scheduled for completion in 2015;

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	767.0	662.3
Net profit	PLNm	136.8	104.9
Equity	PLNm	2,353.5	2,262.1
Total assets	PLNm	2,802.6	2,669.9

Length of network, excl. connections	km	44,762.0	44,356.4
Headcount as at December 31	person	3,319	3,313

In 2011, the company will focus on connecting new customers to the gas grid, extending the gas network to cover the area of Włodawa, and upgrading the Sworzyce station and the high-pressure gas pipelines from Tuszyna to Mielec and from Warzyce to Gorlice. Moreover, KSG intends to complete the design work related to installation of gas supply lines in the communes of Szczawnica, Włoszczowa, Małogoszcz, Chęciny and Sitkówka-Nowiny, as well as the construction of a high-pressure gas pipeline from Mójca to Masłów and upgrade of high-pressure gas pipelines from Parszów to Kielce and from Sandomierz to Ostrowiec Świętokrzyski.

The company has also taken steps designed to secure EU financing under the Infrastructure and Environment Operational Programme for five of its projects, including connection of the Włoszczowa and Małogoszcz communes to the gas grid and upgrade of the gas pipeline from Sandomierz to Ostrowiec Świętokrzyski.

Given its network infrastructure, KSG enjoys a considerable competitive advantage over its potential competitors in the area of traditional distribution of natural gas. KSG's competitors provide gas to customers with use of the LNG technology in areas not yet connected to the gas supply system. The market entry barriers are definitely lower here, as entry into the LNG segment requires significantly lower capital expenditure. Moreover, LNG suppliers do not need to incur high expenditure when transferring operations to another geographical area. Global trends suggest that the share of LNG in the natural gas market will be growing, with the resulting intensification of competition.

4. Mazowiecka Spółka Gazownictwa Group

Mazowiecka Spółka Gazownictwa Sp. z o.o. (Mazovian Gas Distribution Company, "MSG") supplies gas to customers in the Provinces of Warsaw, Łódź and Białystok, as well as in certain parts of the Provinces of Lublin, Olsztyn and Kielce. The total volume of gas transmitted by MSG via the distribution network in 2010 was 2,142.9 million cubic meters. Gas is supplied to some 1.5 million customers via a network of gas pipelines and stations operated by the company.

In 2010, the company conducted projects related to the operation, extension and upgrade of its gas network. MSG connected to the gas network some 23.1 thousand new customers. Major projects carried out in 2010 included:

- construction of the Błonie commune section of the medium-pressure gas pipeline from Kopytów to Pass; the project is designed to guarantee security of gaseous fuel supply to customers supplied from the gas grid in the commune of Błonie and to increase the volume of gaseous fuel collected by the largest industrial customer in the area, namely the CHP plant Zakład Kogeneracji Błonie-Pass Strefa Przemysłowa;
- construction of a pressure reduction station in Kłęk/Kielmina in the Stryków commune;
- upgrade of an approx. 20 km long high-pressure gas pipeline from Piotrków Trybunalski to the Warta river (Phase IV: section from Gomunice to Radomsko); the project has been completed;
- upgrade of an approx. 27 km long high-pressure gas pipeline from Piotrków Trybunalski to the Warta river (Phase II: section from Piotrków to Kamieńsk); the project has been completed.

In addition, in cooperation with PGNiG S.A., the company continued the investment project to switch the customers in Pisz (Olsztyn Province) who receive propane-butane-air gas to high-methane (E) gas produced from LNG. This represented the first, pilot phase of a larger project to switch Pisz, Elk, Suwałki and Olecko (the PESO project) to high-methane gas. The company plans to complete the project in Pisz in July 2011. For other phases of the PESO project, the documentation preparation

process is under way and steps have been taken to secure EU co-financing. In 2010, the company received a promise for a liquefaction and regasification licence for an installation located in Pisz. The licence would be valid until April 20th 2015.

In its financial statements, MSG consolidates Powiśle Park Sp. z o.o., a company established to construct a building that will accommodate MSG's offices as well as residential units and office and commercial space intended for sale.

Group's highlights

	Unit	2010	2009
Sales revenue	PLNm	711.9	639.9
Net profit	PLNm	479.5	82.9
Equity	PLNm	2,262.6	1,823.3
Total assets	PLNm	2,892.0	2,302.8
Length of network, excl. connections	km	18,900.0	18,555.0
Headcount as at December 31	person	2,925	2,921

Projects planned by MSG for implementation in 2011 include construction of a high-pressure gas pipeline and a gas station for Przedsiębiorstwo Energetyki Ciepłej w Siedlcach, construction of a national grid gas pipeline from Sulejów to Mniszków, connection to the gas supply system of the towns of Janówka, Justynów, Bedoń, Kraszew and Bukowiec, all located near Łódź, continued construction of a gas station in Klęk/Kielmina in the Stryków commune, construction of a gas station at ul. Wschodnia in Kutno and a gas station in Wolbórz, and construction of a connection for the SULIMAR brewery in Piotrków Trybunalski. Moreover, the company plans to expand its operations in the LNG segment by implementing projects in Mińsk Mazowiecki, Ostrołęka and Białystok.

In January 2010, MSG applied for EU co-financing under the Infrastructure and Environment Operational Programme for a project consisting in installation of gas supply lines in the communes of Prażmów, Tarczyn, Góra Kalwaria and Żabia Wola. The project would consist in construction of an approx. 100 km long medium-pressure gas pipeline and approx. 1,400 connections in 2011-2014. Total capital expenditure needed to implement the project is approx. PLN 30m. Implementation of the full scope of the project depends on whether co-financing is obtained. The company also took steps to obtain EU co-financing under the Infrastructure and Environment Operational Programme for four other projects planned for implementation in 2011-2014.

5. Pomorska Spółka Gazownictwa Sp. z o.o.

The geographical reach of Pomorska Spółka Gazownictwa (Pomeranian Gas Distribution Company, "PSG") covers the Provinces of Gdańsk and Bydgoszcz, a part of the Province of Olsztyn, and two communes (Sławno and Postomino) in the Province of Szczecin. The area covered by the company's operations is difficult from the point of view of installation of gas supply lines, due to the geographical conditions (a large number of lakes and woods). The percentage of households and businesses connected to PSG's gas network is approx. 40%. The total volume of gas transmitted by PSG via the distribution network in 2010 was 1,012 million cubic meters. The company provides its services to some 742.8 thousand customers.

In 2010, the company connected approximately 6.6 thousand new customers to the network. On June 16th 2010, PSG signed a high-pressure gas network connection agreement with Grupa LOTOS S.A. Under the agreement, PSG will construct 31 km of a high-pressure gas pipeline

from Kolnik near Pszczółki to Gdańsk together with the required buildings and structures. Grupa LOTOS S.A. has undertaken to ultimately purchase 447 million cubic meters of natural gas per annum, which will make it PSG's largest industrial customer. Implementation of this project will result in a 35% increase in the volume of transmitted gas. Moreover, the company conducted work related to extension and upgrading of its gas network. Major projects in that area included:

- continued construction (Phase II) of the high-pressure gas pipeline as part of the investment project "Duplex Supply for the City of Toruń"; the project comprised preparation of documentation for the construction of a high-pressure gas pipeline from Ostaszewo to Różankowo and a pressure reduction station, as well as preliminaries connected with the buyout of plots of land for the station; the project implementation has not been completed, given the formal and legal problems in the preparation of the design documentation; the project is aimed at improving security of gas supplies to the city of Toruń, industrial customers, the communes of Łysomice and Wielka Nieszawka, and the Pomeranian Special Economic Zone;
- completion of construction of a medium-pressure gas pipeline and the connections as part of extending the gas grid to cover Koleczkowo in the commune of Szemud;
- launch of the project "Construction of a High-Pressure Gas Network Connecting Szczytno, Młynowo and Muławki near Kętrzyn and Connection of the Communes to the Gas Grid"; the project comprises, among other things, construction of an approx. 27 km long high-pressure gas pipeline from Szczytno to Rybno, construction of an approx. 33 km long high-pressure gas pipeline from Rybno to Młynowo, and construction of an approx. 23 km long high-pressure gas pipeline from Młynowo to Muławki near Kętrzyn; project implementation is scheduled for completion in 2015; the project is needed given the rise in demand for gas in the area;
- launch of the project "South-Eastern Supply for the City of Gdańsk and Connection of Wiślinka and Wyspa Sobieszewska to the Gas Grid"; the project comprises construction of a high-pressure gas pipeline from Kolnik to Gdańsk with auxiliary buildings and a pressure reduction and metering station, construction of a high-pressure metering station and the connection for Grupa LOTOS S.A., construction of a medium-pressure gas network in the village of Wiślinka and on the Wyspa Sobieszewska island; project implementation is scheduled for completion at the end of 2015;
- commencement of construction of a medium-pressure gas pipeline and the connection for heat utility MPEC Rypin; the project comprises construction of a connection for the CHP plant and extension of the gas grid to cover the communes of Osiek and Rypin;
- commencement of construction of medium-pressure gas pipelines and the connections as part of the project to connect the villages of Orle, Jonkowo, Warkały and Giedajty to the gas supply system;
- launch of projects providing for the connection to the gas supply system of Ciele in the Białe Błota commune, the commune of Zławieś Wielka and the Wrocław Economic Development Zone - Industrial and Technological Park; the projects comprise construction of medium-pressure gas pipelines and the connections; the company has executed relevant agreements on project co-financing from the EU funds under the Province of Bydgoszcz Regional Operational Programme for 2007-2013.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	439.5	373.1
Net profit	PLNm	91.4	182.7
Equity	PLNm	1,038.7	987.2
Total assets	PLNm	1,428.3	1,363.4
Length of network, excl. connections	km	9,588.1	9,338.8

Headcount as at December 31	person	1,772	1,769
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In 2011, PSG will carry on work started in 2010 to connect to the gas grid the villages of Orle, Jonkowo, Warkaty, Giedajty and Ciele in the Białe Błota commune as well as the Zławieś Wielka commune. Moreover, the company will continue the projects “Duplex Supply for the City of Toruń”, “Construction of a High-Pressure Gas Network Connecting Szczytno, Młynowo and Muławki near Kętrzyn and Connection of the Communes to the Gas Grid” and “South-Eastern Supply for the City of Gdańsk and Connection of Wiślinka and Wyspa Sobieszewska to the Gas Grid”.

The company's business – both in the areas which are covered by the gas supply system and those which have not yet been connected to the gas grid – is distinguished by a considerable growth potential, due to the establishment of new and expansion of the existing special economic zones and industrial parks. PSG has taken steps to secure EU funds to finance the following projects: “Construction of a High-Pressure Gas Network Connecting Szczytno, Młynowo and Muławki near Kętrzyn and Connection of the Communes to the Gas Grid”, “South-Eastern Supply for the City of Gdańsk and Connection of Wiślinka and Wyspa Sobieszewska to the Gas Grid” and construction of a medium-pressure gas pipeline and the connection for MPEC Rypin.

In the area of PSG's operations, a number of companies operate on the gaseous fuels distribution and trading market, including G.EN. GAZ ENERGIA S.A., US.EN.EKO, KRI S.A., ENERGO-EKO-INWEST Sp. z o.o., and P.L. Energia S.A.

6. Wielkopolska Spółka Gazownictwa Sp. z o.o.

Wielkopolska Spółka Gazownictwa Sp. z o.o. (Greater Poland Gas Distribution Company, “WSG”) manages a gas distribution network covering the Provinces of Poznań and Szczecin, several communes in the Provinces of Zielona Góra / Gorzów Wielkopolski, Łódź and Wrocław, as well as one commune in the Province of Gdańsk. The percentage of households and businesses connected to WSG's gas network in the area covered by the company's operations is approx. 45% (approx. 78% in cities with county rights, approx. 55% in urban areas, approx. 29% in mixed urban and rural areas, and approx. 18% in typical rural areas).

The total volume of gas transmitted by WSG via the distribution network in 2010 was 1,681.4 million cubic meters (measured as high-methane gas equivalent), including approx. 1,472.0 million cubic meters of high-methane gas, 110.5 million cubic meters of nitrogen-rich (Lw) gas and approx. 98.9 million cubic meters of nitrogen-rich (Ls) gas. At the end of 2010, the total number of customers served by the company was 911.7 thousand.

In 2010, the company conducted projects related to the operation, extension and upgrade of its gas network. Furthermore, WSG connected to the gas network approx. 7.7 thousand new customers. Major projects carried out in 2010 included:

- alteration of the manner of gas supply to the Kościan-Śmigiel distribution area, including supply to the ETEX economic zone;
- purchase of a medium-pressure gas network in Ińsko; the project has been completed;
- continued construction of a pipeline supplying gas to the town of Skoki;
- construction of a medium-pressure gas pipeline from Witkowo to Wólka as part of the project to connect the Witkowo and Strzałkowo communes to the gas supply system;
- extension of the medium-pressure gas network in Kąkolewo in the Osieczna commune;
- commencement of construction of a medium-pressure gas pipeline in Krzycko Wielkie in the Włoszakowice commune;

- upgrade of the medium-pressure gas network at ul. Jana Pawła II in Poznań, covering the section from Rondo Śródka to ul. Kórnicka;
- upgrade of the medium-pressure gas network in Poznań, covering ul. Dożynkowa, ul. Owsiana, ul. Gromadzka and ul. Winogrody;
- upgrade of the high-pressure gas station in Łobez.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	612.0	531.0
Net profit	PLNm	130.4	355.2
Equity	PLNm	1,787.3	1,750.3
Total assets	PLNm	2,225.8	2,137.7
Length of network, excl. connections	km	15,488.0	15,148.8
Headcount as at December 31	person	1,826	1,816

In 2011, WSG will continue work on extension of the gas supply system in the communes of Witkowo, Strzałkowo and Powidz, connection to the gas grid of the communes of Włoszakowice, Lipno and Przemęt (providing for possible gas feeding from the high-pressure gas pipeline running from the Kościan Gas Production Facility to Szczyglice), as well as connection to the gas grid of the communes of Węgorzyno and Ińsko (taking into account future extension of the high-pressure gas network between Nowogard and Łobez).

In the company's operating area, other companies involved in gaseous fuel distribution and trading, such as G.EN. Gaz Energia S.A., EWE energia Sp. z o.o., E.ON edis energia Sp. z o.o., KRI S.A., CP ENERGIA S.A., P.L. Energia S.A. and Avrio Media Sp. z o.o., have been intensifying their activities. These companies operate on a local scale and therefore they are not obliged to separate their distribution and trading activities, which enables them to provide comprehensive customer service within a single business structure.

7. Investment Projects in the Distribution Segment

Capital expenditure incurred in the Distribution segment amounted to PLN 957.9m. As part of their investment activities, the Gas Distribution Companies connected new customers to their grids and upgraded and expanded the gas networks. The major investment projects of the Distribution segment have been described above.

8. Risks Related to Distribution

Direct competition

The liberalisation of the gas market boosts the activity of gas suppliers who are competitors of the PGNiG Group's Gas Distribution Companies. Over the last few years, those suppliers showed regular and steady activity, gradually developing their gas networks and acquiring new customers, both among households and businesses. Another issue which affects the Gas Distribution Companies' competitive position is the tariff policy pursued by the Energy Regulatory Office, which prevents the Gas Distribution Companies from operating a flexible pricing policy for their key customers. With the

lack of flexible pricing, the competitors' offerings may prove to be an attractive alternative for the Gas Distribution Companies' customers.

Legislation

The long time required to prepare an investment project is an important factor affecting the Gas Distribution Companies' operations. Complex provisions of the Construction Law and the regulations governing the implementation of investment projects impose the obligation to prepare extensive project and legal documentation. The process is time-consuming, but indispensable for any investment project.

Lower volumes of transmitted gaseous fuel

In Poland, the global economic crisis entailed an economic slowdown, lower scale or suspension of key investment projects and higher unemployment. There is a risk that demand for natural gas and distribution services will decline in connection with a deteriorating economic standing of companies, which have scaled down or suspended their production.

Substitution

The easy and quick access to alternative energy sources (i.e. fuel oil, LPG, hard coal, electricity or heat generated by central CHPs, or local or community heat plants) may weaken the position of the Gas Distribution Companies on the local energy markets.

Chapter IX: Other Activities

This segment groups the following areas of activity: designing and construction of structures, machinery and equipment for the mining and energy industries, as well as catering and hospitality industry services. These operations are conducted mainly by the Group members other than PGNiG S.A. The segment's business scope also includes power generation projects (natural-gas fired generation) and power trading.

PGNiG Energia S.A.

The business of PGNiG Energia S.A. involves execution of power generation unit construction projects, investments in gas-fired cogeneration and pilot biogas projects. Furthermore, the company engages in trading on the wholesale electricity market as well as trading in carbon dioxide and other gas emission credits. It is also responsible for optimising the electricity procurement by PGNiG S.A. and, ultimately, by other members of the PGNiG Group.

On May 7th 2010, PGNiG S.A., PGNiG Energia S.A, TAURON Polska Energia S.A. and Elektrownia Stalowa Wola S.A. signed a project execution agreement concerning "Construction of a CCGT Unit in Stalowa Wola" which concerned the definition of the terms and conditions and the carrying out of an investment project involving the construction of a combined cycle gas turbine unit with capacity of 400MW electrical power and 229MW thermal power. For the purpose of construction and subsequent operation of the CCGT CHP plant, a special-purpose vehicle (SPV) was established under the name Elektrociepłownia Stalowa Wola S.A. The SPV is wholly owned by Elektrownia Stalowa Wola S.A.

On October 12th 2010, the President of the Office of Competition and Consumer Protection approved the business concentration in the project involving construction of the CCGT Unit in Stalowa Wola. Thanks to the approval, PGNiG Energia S.A. was able to acquire a 50% stake in EC Stalowa Wola S.A. The remaining 50% of the shares in the company are held by Elektrownia Stalowa Wola S.A., a TAURON Group member.

On June 1st 2010, the President of the Energy Regulatory Office granted PGNiG Energia S.A. a licence for electricity trading. In the President's decision of November 10th 2010, the company obtained a licence for electricity generation.

In 2010, PGNiG Energia S.A. executed relevant agreements for transmission and distribution of electricity and provision of Trade Operator services, thus becoming qualified to engage in wholesale and retail power trading. Furthermore, the company gained access to the Warsaw Stock Exchange Energy Market through brokerage house Dom Maklerski Banku Ochrony Środowiska S.A., executed EFET general agreements with seven active trading companies (permitting it to engage in over-the-counter market trading), and commenced wholesale power trading. Moreover, the company won its first major retail client, to whom it has been supplying electricity since 2011, and providing commercial balancing services.

In 2010, PGNiG Energia S.A. carried out a project optimising the cost of electricity in the gas distribution companies of the PGNiG Group and the Head Office of PGNiG S.A., which generated approx. PLN 1.7m in savings.

PGNiG Energia S.A. also became a member of the European Energy Exchange and commenced trading in carbon dioxide emission allowances and wholesale power trading on the European power market. It also engaged in emission allowances trading on the OTC market.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	4.7	0.0
Net profit (loss)	PLNm	-0.5	0.0
Equity	PLNm	5.5	5.0
Total assets	PLNm	7.5	5.0
Headcount as at December 31	person	20	6

PGNiG Energia S.A.'s plans for 2011 include a share capital increase in Elektrociepłownia Stalowa Wola S.A., subject to execution the SPV operating agreement and selection of the main contractor to perform works related to construction of the CCGT Unit in Stalowa Wola. Furthermore, the company intends to become a member of the Polish Power Exchange and commence trading in proprietary rights - certificates of origin of electricity.

B.S. i P.G. Gazoprojekt S.A.

Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A. specializes in comprehensive designing of installations for gas production, storage, transmission and distribution, as well as of gas system stations and switching stations. With a 75% stake, PGNiG S.A. is the majority shareholder in the company. 25% of the B.S. i P.G. Gazoprojekt S.A. shares are held by natural persons - the company's employees.

In 2010, B.S. i P.G. Gazoprojekt S.A. generated sales revenue of PLN 95.8m, of which 91% was generated from services to non-PGNiG Group customers. The company's major non-PGNiG Group customers included OGP GAZ-SYSTEM S.A. and PBG S.A. Projects for which the company prepared designs, studies and as-built documentation in 2010 included construction of a high-pressure gas pipeline from Gustorzyn to Odolanów and construction of the surface part of the Wierchowice Underground Gas Storage Facility. Furthermore, acting in the capacity of a general contractor, the company managed the construction of the high-pressure gas pipeline in the Podbeskidzie region for OGP GAZ-SYSTEM S.A.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	95.8	59.2
Net profit (loss)	PLNm	4.3	4.0
Equity	PLNm	33.6	31.3
Total assets	PLNm	55.0	55.7
Headcount as at December 31	person	246	241

The most important contracts B.S. i P.G. Gazoprojekt S.A. intends to execute in 2010 provide for preparation of the design documentation for high-pressure gas pipelines from Gustorzyn to Odolanów (continued from 2010) and from Świnoujście to Szczecin for OGP GAZ-SYSTEM S.A., as well as of preliminary design documentation and design documentation for a gas transmission pipeline from the LMG Oil and Gas Production Facility to the Paproć Gas Production Facility for PGNiG S.A.

BUG Gazobudowa Sp. z o.o.

The business of Budownictwo Urządzeń Gazowniczych Gazobudowa Sp. z o.o. comprises construction and repair of high- and medium-pressure gas pipelines, water pipelines, oil pipelines, as well as gas compressor stations and pressure reduction and metering stations. The company provides services to customers in Poland and abroad.

In 2010, BUG Gazobudowa Sp. o.o. generated total sales revenue of PLN 147.0m. Revenue from services performed for the PGNiG Group companies represented 60% of the company's total sales revenue. The company's other large customers included OGP GAZ-SYSTEM S.A., Alkat Sp. z o.o. of Kraków, the Dąbrowa Górnicza Municipality and CONTROL PROCESS S.A. of Tarnów, as well as foreign business partners such as Slovenia-based IMP PROMONT d.d. and BONATTI S.p.A. of Germany.

In 2010, the company built 76.7 km of pipelines, including 72.7 km of gas transmission pipelines. As part of these projects, the company constructed and commissioned a 12-kilometre section of an oxygen transmission pipeline. BUG Gazobudowa Sp. z o.o. was also engaged in construction and assembly work, including modernisation of a process node and measuring node pressure reduction and metering station, as well as construction of a water and sewage system in the Dąbrowa Górnicza municipality.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	147.0	169.9
Net profit (loss)	PLNm	-9.3	2.6
Equity	PLNm	19.6	28.9
Total assets	PLNm	99.1	102.1
Headcount as at December 31	person	613	633

The most important projects to be executed by BUG Gazobudowa Sp. z o.o. in 2011 include:

- construction of a gas transmission pipeline along with laying an optic-fibre cable from the Kościan Gas Production Facility to KGHM Polkowice-Żukowice for PGNiG S.A.
- construction of a water compressor station along with the pipeline and sewage infrastructure for the Dąbrowa Górnicza municipality
- construction of gas transmission pipelines from Rogalska Slatina to Trojane and from Rogalska Slatina to Cersak Kidricevo for Geoplin Plinowodi D.O.O. of Slovenia
- alteration of the Tuszyna-Mielec section of a gas transmission pipeline for KSG Sp. z o.o. (member of the PGNiG Group)
- modernisation of the Jarosław gas compressor station for STALBUD TARNÓW Sp. z o.o.

ZUN Naftomet Sp. z o.o.

Zakład Urządzeń Naftowych Naftomet Sp. z o.o. specialises in manufacturing and repair of equipment for the oil and gas industry. The company operates in Poland and abroad.

In 2010, ZUN Naftomet Sp. z o.o. was engaged in production of pressure equipment for well surface facilities, equipment and spare parts for oil platforms and drill ships, flame-proof transformer housings for coal mining, as well as modules and spare parts for construction machines. The company also repaired and manufactured modules and parts for drilling machinery.

In 2010, the company generated total sales revenue of PLN 36.2m, selling its products mainly to the PGNiG Group members. Revenue from services performed for the Group companies accounted for 59% of ZUN Naftomet's total sales revenue.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	36.2	38.1
Net profit (loss)	PLNm	2.1	1.1
Equity	PLNm	26.0	23.9
Total assets	PLNm	38.9	38.7
Headcount as at December 31	person	441	465

In 2011, ZUN Naftomet Sp. z o.o. intends to broaden the range of products offered to its customers within the PGNiG Group, including parts of well surface facilities, as well as pressure apparatus and tanks used at oil and gas production facilities. The company also plans to continue production of flame-proof housings for coal mining. ZUN Naftomet Sp. z o.o. will also provide spare parts for oil platforms to its Norwegian business partner as well as heads and casing heads used in development of wells to the Czech market.

Geovita Sp. z o.o.

Geovita Sp. z o.o. provides hospitality and catering services through 11 centres across the country, which form a network of recreation, training, conference and SPA facilities. They are located either at the sea coast, in mountain areas or in the central part of Poland. The company offers its services to Polish and foreign customers.

In order to optimise costs and increase sales, the company broadened the scope of its business activities to include management of the Orient Hotel Complex in Kraków, owned by PNiG Kraków Sp. z o.o. The management agreement remains in force from January 2010 to December 2011. Having taken over hotel management, the Company boosted its 2010 revenue by approx. PLN 6m.

In 2010, Geovita Sp. z o.o.'s sales revenue totalled PLN 32.8m. The company's key customers came from outside the PGNiG Group. Revenue from services performed for non-Group members accounted for 75% of the company's total sales revenue.

Since 2007, Geovita Sp. z o.o. has been implementing its Remedial Plan for 2007–2010, the principal objective of which was a return to positive profitability starting from 2010.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	32.8	29.0
Net profit (loss)	PLNm	0.2	-3.6
Equity	PLNm	79.1	79.1
Total assets	PLNm	100.8	101.0
Headcount as at December 31	person	303	289

The Remedial Plan was extended to 2011. During its implementation, Geovita Sp. z o.o. intends to generate a net profit of PLN 1.9m. Furthermore, over the next years the company plans to broaden its customer base and roll out uniform service standards across its entire network.

BN Naftomontaż Sp. z o.o.

Budownictwo Naftowe Naftomontaż Sp. z o.o. offers the full range of services related to construction of complete oil and gas production facilities along with the related infrastructure. PGNiG Technologie Sp. z o.o. (a subsidiary of PGNiG S.A.) holds an 88.83% stake in BN Naftomontaż. Other shareholders are PBG S.A. of Wysogotowo (7.82%) and CONTROL PROCESS S.A. of Tarnów (3.35%).

In 2010, BN Naftomontaż Sp. z o.o. generated sales revenue totalling PLN 152.0m. Revenue from services performed for the PGNiG Group accounted for 97% of the total. In 2010, the company conducted work related to development of natural gas and crude oil reserves across Poland, including in particular construction and repair of oil and gas production facility process machinery, as well as construction of underground gas storage facility process installations. Key projects implemented in 2010 were ones performed under contracts with PGNiG S.A. The scope of work included:

- development of the Wielichowo, Ruchocice and Łęki fields;
- extension of the surface part of the Strachocina Underground Gas Storage Facility;
- construction of the surface part of the Bonikowo Underground Gas Storage Facility;
- hooking up of the Elżbieciny and Jabłonna wells.

Since 2005, BN Naftomontaż Sp. z o.o. has been performing the terms and conditions of its arrangement with creditors, following a decision by the District Court of Krosno, Commercial Division V, on declaration of the company's bankruptcy with an option to enter into an arrangement. In 2010, the company was ahead of schedule with the payments agreed under the arrangement. In 2010, its instalment payments under the arrangement totalled PLN 2.2m.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	152.0	165.9
Net profit (loss)	PLNm	25.4	7.2
Equity	PLNm	45.1	19.7
Total assets	PLNm	75.0	101.6
Headcount as at December 31	person	298	293

In 2011, the company will carry on work under contracts which among other things provide for extension of the surface part of the Strachocina Underground Gas Storage Facility, hooking up of the Elżbieciny and Jabłonna wells and development of the Ryłowa-Rajsko field and of three wells in the BMB field.

ZRUG Sp. z o.o.

Zakład Remontowy Urządzeń Gazowniczych Sp. z o.o. of Pogórska Wola provides construction and assembly services at the sites of drilling of and production from wells. The company provides the full range of services with respect to construction of gas pipelines, hot water/steam pipelines as well as water supply and sewage systems using steel, polyethylene, cast iron and vitrified clay pipes. In addition, the company is engaged in construction of gas-fired boiler houses, gas stations and gas

compressor stations. It also offers comprehensive services involving isolation operations on pipelines at operating pressure (using TD Williamson's technology).

In 2010, the company's sales revenue totalled PLN 184.5m, with 91% of that amount representing revenue from services provided to the PGNiG Group members. The company's largest external customer was OGP GAZ-SYSTEM S.A. Key services provided in 2010 involved work under contracts performed for PGNiG S.A., including:

- construction of the surface part of the Bonikowo Underground Gas Storage Facility;
- extension of the surface part of the Strachocina Underground Gas Storage Facility;
- extension of the Paproć-Cicha Góra Gas Production Facility.

Company's highlights

	Unit	2010	2009
Sales revenue	PLNm	184.5	127.7
Net profit (loss)	PLNm	11.2	4.1
Equity	PLNm	29.1	14.9
Total assets	PLNm	81.1	63.6
Headcount as at December 31	person	321	300

In 2011, the company plans to perform contracts providing for construction of gas transmission and distribution pipelines, development of production facilities and wells, and construction of underground gas storage facilities and of pressure reduction, compressor and distribution stations. Key projects planned for implementation in 2011 include construction of a gas transmission pipeline from Mieszalnia Kłodawa to the LMG Oil and Gas Production Facility, as well as development of the Rylowa-Rajsko gas field.

Consolidation of gas construction companies

With a view to consolidating gas construction companies, in 2010 Górnictwo Naftowe Sp. z o.o. was transformed into PGNiG Technologie Sp. z o.o. In December 2010, PGNiG S.A. made a contribution to the company in the form of shares it previously held in the following undertakings: BUG Gazobudowa Sp. z o.o., ZUN Naftomet Sp. z o.o., ZRUG Sp. z o.o. of Pogórska Wola, and BN Naftomontaż Sp. z o.o. Consolidation of the gas construction companies within a single strong entity will allow the Group's gas construction business to more effectively compete on the Polish and foreign markets.

Capital expenditure on property, plant and equipment and intangible assets

In 2010, the Other Activities segment incurred capital expenditure on property, plant and equipment and intangible assets of PLN 13.2m. Major investments included purchase of production plant and equipment, purchase of vehicles and computer hardware, and extension and modernisation of real property.

Chapter X: Environmental Protection

Well abandonment

Pursuant to the Polish Geological and Mining Law, PGNiG S.A. is required to properly abandon worked-out mining caverns, eliminate the danger, repair any damage caused by mining activities, and restore the land to its original condition. Plugging wells and mining pits prevents leakage of crude oil and natural gas to the surface and to water courses. Furthermore, if gas wells remained unplugged, there would be a risk that escaping gas could accumulate inside, posing a fire hazard. In 2010, well abandonment operations were carried out on 22 wells and 5 waste pits.

Carbon credit trading system

In the National Allowance Plan for 2008–2012, the total credits granted to PGNiG S.A.'s installations were 99,982 Mg CO₂ per annum. In the 2008–2012 trading period, installations participating in the scheme were those of the Odolanów Branch, the Zielona Góra Branch and the Mogilno Underground Gas Storage Cavern Facility.

Under the existing carbon dioxide emission trading scheme (ETS), in 2010 PGNiG S.A. reviewed the annual reports on carbon dioxide emissions for 2010 and reconciled its emission volume with the permit held. Following cancellation of the carbon credits used in 2009, 18,278 Mg CO₂ credit units were retained.

Methane emissions

In 2010, the Company continued work on defining standardised methane emission indicators and unifying the methods for calculating the volume of methane emissions. Standardised and reliable methane emission indicators will help reduce the cost of environmental fees and charges.

Land reclamation and non-productive asset surveying

Pursuant to the Environmental Protection Law, PGNiG S.A. conducts diagnosis tests and surveys and land reclamation work in the areas which became polluted due to past activities (including traditional activities related to gas) with a view to restoring them to the condition required under the environmental quality standards. In 2010, the Company completed supplementary tests and surveys concerning properties located in Toruń, Koźmin Wielkopolski, Gorzów Wielkopolski, Szczecin, Katowice–Mysłowice, Reszel, Gryfice, Czersk, Zabrze (ul. Pyskowska), Radków, Szprotawa and Wałbrzych, and initiated procedures for supplementary tests and surveys concerning properties located in Kargowa, Zabrze, Łabiszyn and Międzylesie. In 2010, the Company also completed reclamation work on properties located in Wrocław, Świdnica, Jugowice, Łądek Zdrój and Ziębice with the total area of approx. 60,000 square meters and commenced reclamation work on properties located in Bartoszyce, Radków, Pyrzyce and Koźmin Wielkopolski with the total area of approx. 24,000 square meters.

REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals)

In order to ensure compliance with the new regulations concerning mandatory registration of chemicals, their evaluation and authorisation for use in production and trading that came into effect in 2008, in November 2008 the Company pre-registered sulphur in the REACH-IT system. The full registration of sulphur on the ECHA (European Chemicals Agency) platform was made in November 2010 (No. TK948791-11).

Chapter XI: Other Information

Distribution of the 2009 profit

On April 29th 2010, the Annual General Shareholders Meeting of PGNiG S.A. adopted a resolution to distribute the 2009 net profit, of PLN 665.9m, in the following manner:

- PLN 117.4m was allocated to the Company's statutory reserve funds;
- PLN 472.0m was allocated to dividend payments (PLN 0.08 per share), of which PLN 340.0m was transferred to the State Treasury in the form of non-cash dividend (sub-elements of the transmission system and rights to capital expenditure on tangible assets under construction connected with these sub-elements), subject to a reservation that additional cash would be transferred to the State Treasury if the value of the non-cash assets is below PLN 340.0m;
- PLN 8.9m was allocated to increase the Company's social benefits fund;
- PLN 54.6m was allocated to awards (bonuses) for the Company's employees;
- PLN 13.0m was allocated to increase the Central Restructuring Fund capital reserve.

In addition, retained profit of PLN 53.6m was allocated to increase the Company's statutory reserve funds.

The Annual General Shareholders Meeting of PGNiG S.A. set July 27th 2010 as the dividend record date and October 4th 2010 as the dividend payment date.

Discharge granted to Management Board and Supervisory Board members in respect of their duties

On April 29th 2010, the Annual General Shareholders Meeting of PGNiG S.A. approved the financial statements and the Director's Report on the operations of PGNiG S.A., as well as the consolidated financial statements and the Director's Report on the operations of the PGNiG Group, and granted discharge to members of the Management and Supervisory Boards of PGNiG S.A. in respect of their performance of duties in the financial year 2009.

Transmission services agreements

On December 29th 2010, PGNiG S.A. and OGP GAZ-SYSTEM S.A. executed two transmission services agreements. The agreements cover the provision of high-methane gas and nitrogen-rich gas transmission services and stipulate the terms and conditions of supply of the gaseous fuel to and its collection from the transmission system. The agreements are effective from January 1st 2011 until December 31st 2014. The estimated aggregate value of the two agreements over their entire term is approximately PLN 6.0bn.

Legal actions against PI GAZOTECH Sp. z o.o.

Proceedings based on PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of resolutions by the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated April 23rd 2004, including the resolution obliging PGNiG S.A. to pay additional contributions in the amount of PLN 52m, were held in turn before the Regional Court of Warsaw, the Warsaw Court of Appeals and the Supreme Court. On June 25th 2010, the Regional Court granted PGNiG S.A.'s claims and declared invalidity of the resolution concerning redemption of shares and the resolution concerning additional contributions. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, along with a petition to be exempt from court fees.

Proceedings based on PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated

January 19th 2005, whereunder PGNiG S.A. was obliged to pay additional contributions in the amount of PLN 25,999,998, were held before the Regional Court of Warsaw and the Warsaw Court of Appeals. By virtue of its ruling of October 18th 2010, the Regional Court of Warsaw rescinded the resolution on additional contributions. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, along with a petition to be exempt from court fees. By virtue of its decision of November 24th 2010, the Regional Court dismissed the petition. On December 30th 2010, PI GAZOTECH Sp. z o.o. lodged an appeal against the decision of the Regional Court.

Proceedings based upon PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated October 6th 2005, whereunder PGNiG S.A. was obliged to pay additional contributions in the amount of PLN 6,552,000, were brought before the Regional Court of Warsaw. On May 30th 2008, the Regional Court dismissed the Company's claim and reversed the decision concerning implementation of measures to safeguard the claim (the temporary injunction order). The proceedings to rescind or declare invalidity of the resolution on additional contributions and to maintain the safeguarding measures have been held before the Court of Appeals and the Regional Court of Warsaw since 2008. On December 21st 2009, the Court of Appeals reversed the Regional Court's ruling of May 30th 2008 (by virtue of which the Company's claim to rescind or declare invalidity of the resolution on additional contributions to equity had been dismissed) and remanded the case for re-examination by the Regional Court. A hearing at the Regional Court is scheduled for April 11th 2011. By virtue of its decision of May 25th 2010, the Court of Appeals changed the Regional Court's decision concerning maintenance of the safeguarding measures dated May 30th 2008 and dismissed the request for reversing the final decision on implementation of the safeguarding measures.

Dispute with Bartimpex S.A.

On August 9th 2005, in connection with a motion filed by PHZ Bartimpex S.A., the President of the Office of Competition and Consumer Protection ruled that the Company pursued anti-competitive practices through abusing its dominant position on the domestic natural gas transmission market, this being manifested in the refusal to provide the services of transmitting natural gas extracted outside Poland, and imposed a fine on PGNiG S.A. in the amount of PLN 2m along with an order to repay the costs of proceedings for the benefit of PHZ Bartimpex S.A. The President of the Office of Competition and Consumer Protection also stated that the abovementioned practices had ceased on June 2nd 2003.

On August 31st 2005, PGNiG S.A. appealed against the decision. The case was heard successively by the following courts: the Regional Court of Warsaw, the Warsaw Court of Appeals, and the Supreme Court. In connection with the cassation complaint filed by PGNiG S.A., on July 15th 2009 the Supreme Court revoked the Court of Appeals' decision and remanded the case for re-examination by the Court of Appeals.

By virtue of its ruling of January 5th 2010, the Court of Appeals reversed the decision issued by the President of the Office of Competition and Consumer Protection on August 9th 2005, dismissed PHZ Bartimpex S.A.'s appeal, and ordered the President of the Office of Competition and Consumer Protection to reimburse PGNiG S.A. for the costs of the appeal and cassation proceedings.

Proceedings before the President of the Polish Office of Competition and Consumer Protection (UOKiK)

On December 28th 2010, the President of the Polish Office of Competition and Consumer Protection (UOKiK) instigated, ex officio, anti-trust proceedings concerning abuse of dominant position on the domestic natural gas wholesale market by PGNiG S.A., consisting in:

- inhibiting sale of gas against the interest of other business players or consumers,
- impeding the development of market conditions necessary for the emergence or growth of competition,

refusing to sell gaseous fuel under a framework agreement to an entrepreneur that intended to further resell the gas, i.e. Nowy Gaz Sp. z o.o. of Warsaw.

The President of UOKiK may impose on PGNiG SA a fine of not more than 10% of the revenue generated in the financial year preceding the date of the decision imposing the fine.

Chapter XII: Financial Performance

1. Financial Performance in 2010

The financial statements of PGNiG S.A. and the consolidated financial statements of the PGNiG Group are audited by Deloitte Audyt Sp. z o.o. The agreement with the audit firm was executed on June 28th 2010 for a period of three years (2010–2012). The agreement provides for:

- audit of financial statements for 2010, 2011 and 2012 (PGNiG S.A. and subsidiaries);
- review of financial statements for Q1 2011, Q1 2012 and Q1 2013 (PGNiG S.A.);
- review of financial statements for H1 2010, H1 2011 and H1 2012 (PGNiG S.A.);
- review of financial statements for the first three quarters of 2010, 2011 and 2012 (PGNiG S.A.);
- carrying out certain procedures required by the banks financing PGNiG S.A. for 2010, 2011 and 2012;
- translation of the audited financial statements into English for yearly and half-yearly periods.

The table below presents the fees paid or payable to the qualified auditor of financial statements, for 2009-2010.

Auditor's fees (PLN)

	2010	2009
Audit of the annual financial statements	230,000	310,000
Other certification services, including review of financial statements	320,000	510,000
Tax advisory services	-	-
Other services	11,923	124,703

1.1. Key Financial and Business Data

In 2010, the PGNiG Group posted a net profit of PLN 2,457.2m, up by PLN 1,220.3m year on year.

Summary information reflecting the PGNiG Group's financial standing in 2010 relative to 2009 is presented below in the financial statements prepared in accordance with the International Financial Reporting Standards, which comprise:

- statement of financial position,
- income statement,
- statement of cash flows,
- selected financial ratios.

Consolidated statement of financial position (PLNm)

ASSETS	Dec 31 2010	Dec 31 2009
Non-current assets	27,432.9	24,657.5
Property, plant and equipment	25,662.2	22,888.9
Investment property	9.9	7.5
Intangible assets	246.7	173.4
Investments in associated undertakings valued with equity method	555.8	556.5
Financial assets available for sale	170.5	89.8
Other financial assets	39.9	299.9
Deferred tax asset	676.8	592.1
Other non-current assets	71.1	49.4
Current assets	6,883.3	6,416.9
Inventories	1,049.6	1,258.9
Trade and other receivables	4,061.2	3,680.0
Current income tax receivable	229.6	199.4
Prepayments and accrued income	78.8	55.3
Financial assets available for sale	8.8	7.5
Derivative financial instruments	77.9	18.0
Cash and cash equivalents	1,373.3	1,196.3
Non-current assets held for sale	4.1	1.5
Total assets	34,316.2	31,074.4

Consolidated statement of financial position (PLNm) – contd.

EQUITY AND LIABILITIES	Dec 31 2010	Dec 31 2009
Equity	23,519.5	21,435.3
Share capital	5,900.0	5,900.0
Currency translation differences on foreign operations	(57.3)	(51.2)
Share premium account	1,740.1	1,740.1
Other capital reserves	12,268.2	11,455.4
Retained earnings/(deficit)	3,655.1	2,380.5
Equity (attributable to owners of the parent)	23,506.1	21,424.8
Equity attributable to non-controlling interests	13.4	10.5
Non-current liabilities	4,973.3	3,740.3
Loans, borrowings and debt securities	969.9	44.1
Provisions	1,501.1	1,315.8
Deferred income	1,089.2	1,093.3
Deferred tax liability	1,392.0	1,268.4
Other non-current liabilities	21.1	18.7
Current liabilities	5,823.4	5,898.8
Trade and other payables	3,291.5	2,733.4
Loans, borrowings and debt securities	1,229.2	1,984.1
Derivative financial instruments	104.4	260.4
Current tax liability	226.0	47.4
Provisions	289.6	240.3
Deferred income	682.7	633.2
Total liabilities	10,796.7	9,639.1
Total equity and liabilities	34,316.2	31,074.4

Consolidated income statement (PLNm)

	2010	2009
Sales revenue	21,281.2	19,331.5
Total operating expenses	(18,394.5)	(17,956.6)
Raw and other materials used	(11,675.2)	(11,522.7)
Employee benefits	(2,647.3)	(2,454.3)
Depreciation and amortisation	(1,524.7)	(1,496.2)
Contracted services	(3,148.8)	(2,963.6)
Cost of products and services for own needs	1,043.0	900.1
Net other operating expenses	(441.5)	(419.9)
Operating profit/(loss)	2,886.7	1,374.9
Finance income	80.5	203.3
Finance expenses	(30.4)	(94.6)
Share in profit/(loss) of equity-accounted undertakings	(0.7)	(0.4)
Pre-tax profit/(loss)	2,936.1	1,483.2
Income tax	(478.9)	(246.3)
Net profit/(loss)	2,457.2	1,236.9
Attributable to:		
Owners of the parent	2,453.7	1,235.2
Non-controlling interests	3.5	1.7
	2,457.2	1,236.9

Consolidated statement of cash flows (PLNm)

	2010	2009
Net cash provided by/used in operating activities	3,843.3	2,554.9
Net cash provided by/(used in) investing activities	(3,558.8)	(3,637.7)
Net cash provided by/used in financing activities	(107.9)	858.2
Change in net cash	176.6	(224.6)
Cash and cash equivalents at beginning of period	1,196.3	1,420.9
Cash and cash equivalents at end of period	1,372.9	1,196.3

Financial ratios

Profitability

	2010	2009
EBIT (PLNm) operating profit	2,886.7	1,374.9
EBITDA (PLNm) operating profit + depreciation/amortisation	4,411.4	2,871.1
ROE net profit* to equity at end of period	10.4%	5.8%
NET MARGIN net profit* to sales revenue	11.5%	6.4%
ROA net profit* to assets at end of period	7.2%	4.0%

* Net profit for the financial year attributable to owners of the parent.

Liquidity

	2010	2009
CURRENT RATIO current assets (net of prepayments and accrued income) to current liabilities	1.2	1.1
QUICK RATIO current assets (net of prepayments and accrued income) less inventories to current liabilities	1.0	0.9

Debt

	2010	2009
DEBT RATIO total liabilities to total equity and liabilities	31.5%	31.0%
DEBT/EQUITY RATIO total liabilities to equity*	45.9%	45.0%

* Equity attributable to owners of the parent.

1.2. Financial Overview

Relative to 2009, the Group's operating profit rose by PLN 1,511.8m. The strengthening of the Group's financial position followed primarily from improved margins on high-methane gas sales, better results on crude oil sales and the higher value of reversed impairment losses on gas distribution companies' assets.

Exploration and production

The Exploration and Production segment posted operating profit of PLN 587.6m, up by PLN 413.9m relative to 2009. The PGNiG Group generated considerably higher margins on sales of crude oil in comparison with 2009. Given higher prices of crude on the global markets, PGNiG S.A. sold the product at prices which were by 28% higher than in 2009. Moreover, following the launch of the new denitrating plant in Grodzisk Wielkopolski, production of nitrogen-rich gas rose by 7%. The higher production volumes were accompanied by a concurrent 7% drop in the sales volumes of nitrogen-rich gas, as more gas was sent for denitrating and projects were implemented to switch customers to high-methane gas. A significant decrease in net negative impairment losses and lower value of expenditure incurred on dry wells charged to expenses also had a considerable positive effect on the segment's operating profit.

Trade and storage

The PGNiG Group's financial performance improved primarily in the Trade and Storage segment, which posted PLN 815.5m in operating profit, up by PLN 702.6m on 2009. The improvement in the segment's operating profit was attributable to a substantial increase in the profitability of high-methane gas sales, following a 6% decrease in the prices of imported gas, primarily due to a weaker US dollar. In addition decrease in the unit cost of imported gas in 2010 was also a result of discounts negotiated in the annex to the Yamal contract, assuming a preferential price for the gas received above minimum quantities.

The margins on high-methane gas sales improved despite a fall in average gas selling prices by about 0.5%. This decline was due to three subsequent changes in the gaseous fuel tariff rates and charges. In June 2009, the President of the Energy Regulatory Office approved a tariff with the average gas price reduced by 8.8%, whereas effective from June 2010, the average price of high-methane was raised by 4.8%. On September 16th 2010, as a result of significant volatility of the FX market, the President of the Energy Regulatory Office approved a new tariff, applicable in settlements with customers from October 1st 2010. In accordance with the new tariff, the average prices of high-methane gas went up by 6.3%.

Moreover, a lower result on valuation of derivative instruments within operating activity had a significant effect on the operating profit of the Trade and Storage segment.

Distribution

The Distribution segment's operating profit was PLN 1,491.2m, up by PLN 405.3m year on year, mainly due to higher rates and charges for network services as of June 2010 and higher reversals of impairment losses on gas distribution companies' assets.

Segments' operating results

Financial data of the PGNiG Group's segments for 2010 (PLNm)

2010	Exploration and Production	Trade and Storage	Distribution	Other Activities	Eliminations	Total
Sales to external customers	2,244.8	18,701.4	126.5	208.5	-	21,281.2
Intersegment sales	1,206.7	378.2	3,411.4	359.5	(5,355.8)	-
Total segment's revenue	3,451.5	19,079.6	3,537.9	568.0	(5,355.8)	21,281.2
Segment's expenses	(2,863.9)	(18,264.1)	(2,046.7)	(541.4)	5,321.6	(18,394.5)
Operating profit/(loss)	587.6	815.5	1,491.2	26.6	(34.2)	2,886.7
Net finance expenses						50.1
Share in net profit/(loss) of equity-accounted undertakings	-	(0.7)	-	-	-	(0.7)
Pre-tax profit/loss						2,936.1
Corporate income tax						(478.9)
Net profit/(loss)						2,457.2
Capital expenditure on property, plant and equipment and intangible assets	(2,193.2)	(505.6)	(957.9)	(13.2)	-	(3,669.9)

Financial data of the PGNiG Group's segments for 2009 (PLNm)

2009	Exploration and Production	Trade and Storage	Distribution	Other Activities	Eliminations	Total
Sales to external customers	1,866.0	17,157.6	102.6	205.3	-	19,331.5
Intersegment sales	1,172.3	213.0	2,978.7	255.3	(4,619.3)	-
Total segment's revenue	3,038.3	17,370.6	3,081.3	460.6	(4,619.3)	19,331.5
Segment's expenses	(2,864.6)	(17,257.7)	(1,995.4)	(439.4)	4,600.5	(17,956.6)
Operating profit/(loss)	173.7	112.9	1,085.9	21.2	(18.8)	1,374.9
Net finance expenses						108.7
Share in net profit/(loss) of equity-accounted undertakings	-	(0.4)	-	-	-	(0.4)
Pre-tax profit/(loss)						1,483.2
Corporate income tax						(246.3)
Net profit/(loss)						1,236.9
Capital expenditure on property, plant and equipment and intangible assets	(1,913.4)	(779.7)	(1,127.4)	(20.3)	-	(3,840.8)

The higher net profit (up by PLN 1,220.3m) was reflected in improved basic efficiency ratios. Return on equity (ROE) went up from 5.8% to 10.4%, return on assets (ROA) rose from 4.0% to 7.2%, and net margin improved from 6.4% to 11.5%.

The balance sheet as at December 31st 2010 shows a balance-sheet total of PLN 34,316.2m, up by PLN 3,241.8m (or 10%) year on year.

Property, plant and equipment, of PLN 25,662.2m as at the end of 2010 (up by PLN 2,773.3m, or 12%, on December 31st 2009, was the largest item of the Group's assets. The increase in the value of property, plant and equipment was primarily attributable to the investment projects implemented by the PGNiG Group, as well as to revaluation of assets, mainly those related to the exploration and production business.

Other financial assets fell considerably, by PLN 260.0m (or 87%) compared with the end of December 2009. This change is attributable to the decrease in non-current receivables following the payment of non-cash dividend to the State Treasury and regular lease payments received from OGP GAZ-SYSTEM S.A.

As at December 31st 2010, financial assets available for sale stood at PLN 170.5m, up by PLN 80.7m relative to the end of 2009. The increase in this item was primarily due to a revaluation of the shares in Zakłady Azotowe w Tarnowie-Mościcach.

As at December 31st 2010, current assets were PLN 6,883.3m, up by PLN 466.4m (or 7%) year on year.

The change in current assets was chiefly attributable to a PLN 381.2m (or 10%) increase in trade and other receivables on the back of record high sales of natural gas in 2010.

During the period under review, inventories fell by PLN 209.3m (or 17%). The inventories disclosed in the balance sheet comprise mainly the gas stored in underground storage facilities. The decrease in inventories was primarily caused by the drop of unit purchase price of imported gas and the withdrawal of gas from storage facilities in order to satisfy increased demand for gaseous fuel.

Cash and cash equivalents stood at PLN 1,373.3m and were by PLN 177.0m (or 15%) higher than the figure reported at the end of 2009, primarily due to higher cash provided by current operating activities, as well as increased amount and enhanced structure of external financing, following the execution by PGNiG Norway AS in August 2010 of a seven-year USD 400m credit facility agreement with seven banks, full repayment by PGNiG S.A. of the debt under a multi-currency syndicated loan and launch of a note issue programme in July 2010.

The value and structure of the current assets held by the PGNiG Group continued to guarantee its full capacity to settle all its liabilities in a timely manner. Liquidity ratios reflected the Group's improved operational efficiency in this area. Current ratio increased from 1.1 to 1.2 as well as quick ratio which went up from 0.9 to 1.0.

Equity is the primary source of financing of the PGNiG Group's assets. Relative to the end of 2009, the Group's equity rose by PLN 2,084.2m (or 10%). The level of equity was mainly affected by the net profit generated in the period (of PLN 2,457.2m) and by the payment of non-cash and cash dividend (of PLN 472.0m) as part of distribution of the previous year's profit.

Relative to the end of December 2009, the Group recorded a substantial rise in non-current liabilities (up by PLN 1,233.0m). This rise was attributable to a PLN 925.8m increase in loans, borrowings and debt securities, following execution of the credit facility agreement by PGNiG Norway AS, and a PLN 185.3m (14%) increase in non-current provisions as part of the revaluation of provisions for decommissioning of production assets.

As at December 31st 2010, current liabilities stood at PLN 5,823.4m, and were by PLN 75.4m lower than on December 31st 2009. Current liabilities were chiefly impacted by a PLN 754.9m (or 38%) drop in loans, borrowings and debt securities following repayment of the syndicated loan and by the launch of the note issue programme, as well as by a PLN 558.1m (or 20%) increase in trade and other payables.

The ratios reflecting the relation between equity and other items of equity and liabilities did not change significantly. Debt to equity ratio rose from 45.0% to 45.9% as at the end of 2010. Debt ratio (total liabilities to total equity and liabilities) went up from 31.0% to 31.5%.

Material off-balance-sheet items

As at December 31st 2010, the PGNiG Group's most important off-balance-sheet item was represented by contingent liabilities, which stood at PLN 3,639.4m. The main items under contingent liabilities included:

- performance bond securing performance of PGNiG Norway AS's licence and legal obligations towards Norway, issued by PGNiG S.A. (PLN 2,485.3m);
- performance bond securing performance of POGC-Libya B.V.'s obligations towards National Oil Corporation, Libya, issued by PGNiG S.A. (PLN 320.1m);
- promissory notes issued by PGNiG S.A. securing the Company's proper performance of obligations towards the Oil and Gas Institute of Kraków under agreements for co-financing of construction and extension of the underground gas storage facilities (the Wierchowice Underground Gas Storage Facility, the Kosakowo Underground Gas Storage Cavern Facility, the Mogilno Underground Gas Storage Cavern Facility and the Strachocina Underground Gas Storage Facility); these projects are partially financed from EU funds as part of the Infrastructure and Environment Operational Programme for 2007-2013 (PLN 673.5m).

Use of share issue proceeds

As a result of the Public Offering carried out in 2005, PGNiG S.A. obtained issue proceeds totalling PLN 2,682.0m. Net of the issue costs of PLN 41.9m, the proceeds amounted to PLN 2,640.1m. As at the end of 2010, PLN 2,304.6m of the issued proceeds (87% of the total proceeds) were spent in aggregate. Of this amount, PLN 21m was spent in 2010. The key investment projects financed with the issue proceeds in 2010 included modernisation and extension of the distribution network, carried out by the Gas Distribution Companies, as well as PGNiG S.A.'s contribution to the share capital of its subsidiary PGNiG Energia S.A.

As at December 31st 2010, the use of the issue proceeds in the individual business segments was as follows:

- exploration and production – PLN 1,078.5m
- trade, storage and transmission – PLN 627.0m
- distribution – PLN 466.1m
- generation of electricity and heat – PLN 1.0m
- debt repayment (5% of the issue proceeds) – PLN 132m.

The total limit set in the Issue Prospectus for spending in the exploration and production business was reached by the end of 2007. In 2009, the Company reached the spending limit set for trade, storage and transmission. The funds which remain available for use amount to PLN 335.5m.

Feasibility of investment projects

Given its low financial leverage, positive assessment of the PGNiG S.A.'s creditworthiness by rating agencies, as well as the improving situation on the financial markets, the Group has been able to carry out its investment projects as planned. External financing will be raised mainly through debt securities issue programmes.

Transactions concluded on non-arms' length terms

In 2010, PGNiG S.A. and its subsidiaries did not enter into any material related party transactions on non-market terms.

Explanation of discrepancies between the actual results and the forecasts for the given year

In 2010, the PGNiG Group did not publish any financial forecasts.

Key equity investments at the PGNiG Group

The PGNiG Group's key equity investments in 2010 included:

- a NOK 4,400m long-term loan advanced by PGNiG S.A. to PGNiG Norway AS; the loan was granted to finance the purchase of interests in licences on the Norwegian Continental Shelf and the capital expenditure on the Skarv and Gro projects, as well as to refinance the loan advanced by PGNiG S.A. on October 16th 2007;
- a NOK 786.0m short-term loan advanced by PGNiG S.A. to PGNiG Norway AS to finance capital expenditure on the Skarv project;
- an increase of the share capital of POGC-Libya B.V. by EUR 18m, to be used for financing of the company's day-to-day operations;
- issue of short-term notes offered to the PGNiG Group companies; as at December 31st 2010, PGNiG S.A.'s debt under the notes stood at PLN 120m.

2. Financial Management

The funds at the disposal of the PGNiG Group ensure timely financing of all current and planned expenditure related to the core business and investing activities. However, in order to enhance its financial safety, PGNiG S.A. has a reserve in the form of available overdraft facilities (PLN 280m in total), as well as a syndicated loan agreement effective until July 27th 2010 which provided for a revolving multi-currency credit facility of EUR 600m. On June 10th 2010, PGNiG S.A. executed an agreement (effective until July 31st 2013) with six banks (Bank Pekao S.A., ING Bank Śląski S.A., PKO BP S.A., Bank Handlowy w Warszawie SA, Societe Generale SA and BNP Paribas S.A. Polish Branch) on a PLN 3.0bn Note Issue Programme. Under the Programme, PGNiG S.A. may issue discount and coupon notes with maturities ranging from one month to one year. The first note issue took place on July 26th 2010. The Company used the proceeds to repay the EUR 600m multi-currency revolving credit facility contracted on July 27th 2005. As at December 31st 2010, the Company's debt under the Programme amounted to PLN 1.1bn.

Furthermore, on September 17th 2010, PGNiG S.A. executed a mandate agreement with three banks (Societe Generale SA, BNP Paribas S.A. and Unicredit Bank AG) concerning arrangement of a EUR 1.2bn Eurobond issue programme and the first Eurobond issue, which is expected to take place in the first half of 2011. Proceeds from the issue will be used to finance PGNiG S.A.'s investment programme and its day-to-day operations.

In order to optimise liquidity management within the Group, on December 1st 2010 the Parent Undertaking executed a PLN 397.3m short-term note issue programme agreement with Bank Handlowy w Warszawie S.A. The agreement is effective until November 30th 2013. The note issue programme optimises liquidity management within the Group by providing for a flow of cash from the companies having excess liquidity to those seeking external financing. The first issue was carried out on December 22nd 2010. As at December 31st 2010, PGNiG S.A.'s debt under the notes in issue amounted to PLN 120m.

2.1. Current Investments

In 2010, the PGNiG Group invested its free cash in instruments carrying the lowest possible credit risk, i.e. treasury securities and bank deposits. Investments in debt securities issued by the State Treasury represented approximately 14% of the total transaction volume. The financial investments made in 2010 were current investments, with maturities of up to one month. This was consistent with PGNiG S.A.'s financial investment policy adopted by the Company's governing bodies and with the provisions of the Issue Prospectus.

2.2. Loan Agreements

In 2010, the PGNiG Group entered into loan agreements for a total amount of PLN 433.8m, CZK 5m and USD 410.6m. The most significant was the USD 400m credit facility agreement of August 31st 2010 executed by PGNiG Norway AS with seven banks: Credit Agricole CIB (France), BNP Paribas (France), Societe Generale (France), Natixis (France), The Bank of Tokyo Mitsubishi UFJ (United Kingdom), UniCredit Bank AG (Germany) and KBC Bank NV (Ireland). The agreement provides for a revolving credit facility which was made available for seven years. Credit Agricole CIB was appointed as the Facility and Security Agent, while BNP Paribas and Societe Generale were assigned the roles of Technical Agents. This credit facility agreement was concluded for the purpose of financing capital expenditure on development of the Skarv field. PGNiG Norway's 12% interest in the Skarv field is the principal security provided under the agreement. Other credit facilities have been contracted mainly to finance the day-to-day operations.

The table below sets forth the details of the key loan agreements executed by the PGNiG Group in 2010.

Key loan agreements concluded by the PGNiG Group

Bank	Loan amount (PLNm)	Currency	Interest rate	Type	Maturity date
Bank syndicate	400.0	USD	LIBOR+margin	investment loan	Aug 31 2017
Bank Handlowy w Warszawie SA	40.0	PLN	1M WIBOR + 0.45%	working capital loan	Dec 30 2011
Bank Pekao S.A.	40.0	PLN	1M WIBOR + 0.80%	working capital loan	Jul 31 2011
PKO BP S.A.	40.0	PLN	1M WIBOR + 1.15%	working capital loan	Jul 13 2011
BRE BANK S.A.	40.0	PLN	O/N WIBOR + 0.85%	working capital loan	Sep 9 2011
Societe Generale S.A. Polish Branch	40.0	PLN	1M WIBOR + 0.40%	working capital loan	Aug 31 2011
ING Bank Śląski SA	40.0	PLN	1M WIBOR + 0.70%	working capital loan	Dec 6 2011
Bank Millennium S.A.	40.0	PLN	1M WIBOR + 0.50%	working capital loan	Dec 18 2011
Bank Pekao S.A.	25.0	PLN	1M WIBOR + 0.90%	working capital loan	Dec 31 2011
BGK	25.0	PLN	1M WIBOR + 1.33%	working capital loan	May 30 2011

In 2010, the PGNiG Group did not terminate any loan agreements. Furthermore, the Group did not advance any loans and it neither contracted nor terminated loans from entities other than banks.

2.3. Guarantees and Sureties

In 2010, the PGNiG Group provided 43 guarantees and sureties for a total amount of PLN 39.6m. The guarantees and sureties were related to the PGNiG Group's day-to-day operations and were mainly provided as performance bonds.

Guarantees and sureties received by the PGNiG Group in 2010 totalled PLN 73.4m, of which 81% was attributable to 30 guarantees and sureties for an amount of more than PLN 500 thousand. The received guarantees and sureties were related to the PGNiG Group's day-to-day operations, with most of them securing gas sales contracts.

2.4. Financial Risk Management

The main objective of the PGNiG Group's financial risk management policy is to limit the volatility of cash flows related to the Group's operations to levels which are acceptable in the short and mid term perspective and to build the company value in the long term. In 2010, the PGNiG Group was exposed to a number of financial risks, and in particular to market risk (including commodity price, interest rate and currency risk) as well as liquidity and credit risk.

Market risk

The PGNiG Group manages market risk by identifying, measuring, monitoring and limiting key risks, i.e. the adverse effect of changes in commodity prices and exchange and interest rates on the Company's financial performance.

The key risks to which the Group is exposed include the risk of commodity price and exchange rate fluctuations, which affect the Group's gas purchases.

In 2010, the PGNiG Group used the following financial instruments to manage the gas price risk:

- purchase of Asian commodity call options with European settlement;
- commodity option structures (a combination of two commodity options);
- commodity swaps settled by reference to the average price of the commodity over the term of the transaction.

In order to mitigate its currency risk, the Group used the following financial instruments in 2010:

- forward contracts;
- purchase of currency call options;
- option structures (in most cases consisting in a combination of two currency options).

In addition, PGNiG S.A. used CCIRS (limiting the currency and interest rate risk) to hedge its exposure related to the loan advanced to PGNiG Norway AS.

Since April 1st 2009, the Company has used cash flow hedge accounting with respect to transactions hedging payments for gas, and since May 2010 - with respect to transactions hedging gas prices. The application of cash flow hedge accounting allows the Company to recognize the effective portion of the hedge in the revaluation reserve, which results in the matching of the effect on profit or loss of valuation of hedging instruments and the result on the hedged item. This approach allows to eliminate profit or loss volatility attributable to valuation of derivative instruments and to achieve the offsetting effect in the income statement in one reporting period. In consequence, the economic and accounting effects of hedging are reflected in the same period.

Credit risk

The credit risk to which the PGNiG Group is exposed is related to the potential failure by the Group's counterparties or other entities to meet their obligations towards the Group. In 2010, the PGNiG Group managed its credit risk by entering into framework agreements with its counterparties (precisely defining the rights and obligations of the parties) and diversifying its counterparties. Furthermore, the key criteria for the selection of counterparties to whom the Group entrusted a portion of its assets included their financial standing as confirmed by rating agencies, as well as their market shares.

Cash flow disruption risk

The measures taken by the PGNiG Group to mitigate the risk of disruptions in its day-to-day operational cash flow included diversification of electronic banking systems used, ongoing monitoring of credit/debit transactions in bank accounts, collecting information on cash flows within the Group, consolidating bank accounts and entering into overdraft facility agreements.

Liquidity risk

In order to mitigate its risk of loss of financial liquidity, in 2010 PGNiG S.A. executed an agreement providing for a PLN 3bn note issue programme, as well as a number of overdraft facility agreements. Moreover, PGNiG S.A. prepared cash flow projections at the Company and Group level, estimated the condition and the value of assets available for sale, maintained highly liquid financial assets and cooperated with rating agencies.

3. Projected Future Financial Performance

Factors of key importance to the financial performance of the PGNiG Group will include crude oil prices on the international markets, situation on the foreign-exchange markets, and the position adopted by the President of the Energy Regulatory Office regarding gaseous fuel tariffs.

Crude oil and petroleum product prices have a significant effect on the Company's financial standing. Stability of the fuel market seen in 2010 was materially disturbed by the waves of public demonstrations spreading across North Africa. Following the outbreak of the conflict in Libya, prices of crude on the global markets soared to their highest level in the last two years. This dramatic rise in oil prices will become reflected in higher prices of imported gas in future periods.

The situation on currency markets is another factor with a material bearing on the financial results posted by PGNiG S.A. In 2010, the currency market was characterised by significant volatility and unpredictability. Appreciation of the dollar has been increasing the cost of high-methane gas imports. Given that the Company is not able to immediately transfer rapid USD/PLN exchange rate fluctuations onto its gas selling prices, it has sustained a loss on trading operations. Volatility of exchange rates will be significantly determining the financial performance of the PGNiG Group in the future.

On December 16th 2010, the President of the Energy Regulatory Office approved a new gaseous fuel tariff, applicable in settlements with customers from January 1st to March 31st 2011. In the new tariff, gas prices were reduced on average by 3.2%. The decision to change the tariff was related to the discount on natural gas supplies received from Gazprom Export. On February 11th 2011, the Company filed an application with the President of the Energy Regulatory Office requesting a rise in gaseous fuel prices. The requested increase of natural gas selling prices is justified by higher prices of crude oil on the global markets, to which the price of imported gas is correlated, as well as by the appreciation of the US dollar. The Company's future margins on natural gas trading will substantially depend on the decision of the President of the Energy Regulatory Office.

External financing of the Company's operations in 2011 will be based on the PLN 3.0bn note issue programme to be implemented under the agreement concluded with six banks on June 10th 2010. The agreement is effective until July 31st 2013. Under the programme, PGNiG S.A. may issue discount and coupon notes with maturities ranging from one month to one year. Moreover, on September 17th 2010 PGNiG S.A. concluded a mandate agreement with three banks providing for the arrangement of a EUR 1.2bn Eurobond issue programme. The first Eurobond issue is expected to take place in the first half of 2011.

The PGNiG Group intends to maintain a high level of capital expenditure on investments, including mainly investment projects designed to extend underground gas storage facilities, increase hydrocarbon production capacity and diversify gas supply sources, as well as on projects related to exploration for and appraisal of crude oil and natural gas reserves or building of the Group's power generation segment.

Members of the Management Board

President of the Management Board

Michał Szubski

Vice-President of the Management Board

Radosław Dudziński

Vice-President of the Management Board

Sławomir Hinc

Vice-President of the Management Board

Marek Karabula

Vice-President of the Management Board

Mirosław Szkałuba
