DIRECTORS' REPORT
ON THE OPERATIONS OF PGNIG S.A.
IN H1 2010

Warsaw, August 12th 2010

Contents

Chapter I: General Information on the Company

1. Establishment of the Company

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. The Deed of Transformation, together with the Company's Articles of Association, were executed in the form of a notarial deed dated October 21st 1996 (Rep. A No. 18871/96).

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. As of the registration date, the Company acquired legal personality. On November 14th 2001, the Company was entered into the Register of Entrepreneurs of the National Court Register under entry No. 0000059492.

Currently, the share capital of PGNiG S.A. amounts to PLN 5.9bn and is divided into 5,900,000,000 shares.

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.

2. PGNiG S.A.'s Organisational Structure

PGNiG S.A. is the largest company in Poland operating in the area of hydrocarbon exploration and production, and natural gas trading. PGNiG S.A. is the leader across all areas of the Polish gas sector, including natural gas import, exploration, oil and gas production, gaseous fuel storage and sale of natural gas.

PGNiG S.A. has a number of branches. As at June 30th 2010, the PGNiG S.A. corporate structure comprised the Head Office and fifteen branches. Their core activities are presented in the table below:

Core activities of PGNiG S.A.'s organisational units

Unit	Core activity
Head Office, Warsaw	Corporate supervision over the Company branches Supervision over the PGNiG Group as part of ownership supervision
Sanok Branch	Production of natural gas and crude oil Operating underground gas storage facilities Direct sale of off-system natural gas and other products and services Exploration-related work
Zielona Góra Branch	Production of natural gas and crude oil Operating underground gas storage facilities Direct sale of off-system natural gas and other products and services Exploration-related work
Odolanów Branch	Processing of nitrogen-rich natural gas into high-methane gas

Core activities of PGNiG S.A.'s organisational units - continued

Branch	Core activity
Operating Branch in Pakistan	Exploration for and production of hydrocarbons in licence areas in Pakistan
Egypt Branch	Exploration for and production of hydrocarbons in licence areas in Egypt
Denmark Branch	Exploration for and production of hydrocarbons in licence areas in Denmark
Algieria Branch	Exploration for and production of hydrocarbons in licence areas in Algieria
Lower Silesian Gas Trading Division in Wrocław	Comprehensive customer sales service related to sale of natural gas and other products and services
Upper Silesian Gas Trading Division in Zabrze	
Carpathian Gas Trading Division in Tarnów	
Mazovian Gas Trading Division in Warsaw	
Pomeranian Gas Trading Division in Gdańsk	
Greater Poland Gas Trading Division in Poznań	
Storage System Operator in Warsaw	Gaseous fuel storage
Central Measurement and Testing Laboratory, Warsaw	Provision of services to ensure accuracy and reliability of measurements related to natural gas

As at June 30th 2010, PGNiG S.A. had foreign representative offices in Moscow (Russia), Brussels (Belgium), Kiev (Ukraine) and Vysokoye (Belarus).

3. Structure of the PGNiG Group

As at June 30th 2010, the PGNiG Group comprised PGNiG S.A. (the parent undertaking) and 36 production and service companies, including:

- 27 subsidiaries of PGNiG S.A.
- 9 indirect subsidiaries of PGNiG S.A.

The table below presents a list of the Group members as at June 30th 2010.

Companies of the PGNiG Group

	Name	Share capital (PLN)	Shareholding of PGNiG S.A. (PLN)	% of share capital held by PGNiG S.A.	% of the total vote held by PGNiG S.A
	Subsidiaries of PGNiG S.A.				
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	„INVESTGAS" S.A.	502,250.00	502,250.00	100.00%	100.00%
11	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000.00	658,384,000.00	100.00%	100.00%
12	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000.00	1,300,338,000.00	100.00%	100.00%
13	Karpacka Spółka Gazownictwa Sp. z o.o.	1,484,953,000.00	1,484,953,000.00	100.00%	100.00%
14	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000.00	1,255,800,000.00	100.00%	100.00%
15	Pomorska Spółka Gazownictwa Sp. z o.o.	614,696,000.00	614,696,000.00	100.00%	100.00%
16	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000.00	1,033,186,000.00	100.00%	100.00%
17	B.S. i P.G. „Gazoprojekt" S.A.	4,000,000.00	3,000,000.00	75.00%	75.00%
18	BUG Gazobudowa Sp. z o.o.	39,220,000.00	39,220,000.00	100.00%	100.00%
19	Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	23,500,000.00	23,500,000.00	100.00%	100.00%
20	Geovita Sp. z o.o.	86,139,000.00	86,139,000.00	100.00%	100.00%
21	Budownictwo Naftowe Naftomontaż Sp. z o.o.	44,751,000.00	39,751,000.00	88.83%	88.83%
22	PGNiG Energia S.A.	5,000,000.00	5,000,000.00	100.00%	100.00%
23	Górnictwo Naftowe Sp. z o.o.	50,000.00	50,000.00	100.00%	100.00%
24	„NYSAGAZ Sp. z o.o."	6,800,000.00	3,468,000.00	51.00%	51.00%
25	ZRUG Sp. z o.o. (Pogórska Wola)	4,300,000.00	4,300,000.00	100.00%	100.00%
26	BUD-GAZ PPUH Sp. z o.o.	51,760.00	51,760.00	100.00%	100.00%
27	PPUiH „TURGAZ" Sp. z o.o. w likwidacji (in liquidation)	176,000.00	90,000.00	51.14%	51.14%
	Subsidiaries of subsidiaries of PGNiG S.A.	Share capital (PLN)	Shareholding of PGNiG S.A. (PLN)	% of share capital held by PGNiG S.A.	% of the total vote held by PGNiG S.A.
28	Geofizyka Torun Kish Ltd (IRR)[1), 2)]	10,000,000.00	10,000,000.00	100.00%	100.00%
29	Oil Tech International F.Z.E. (USD)[1)]	20,000.00	20,000.00	100.00%	100.00%
30	Powiśle Park Sp. z o.o.	81,131,000.00	81,131,000.00	100.00%	100.00%
31	Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła)	1,806,500.00	1,806,500.00	100.00%	100.00%
32	Biogazownia Ostrowiec Sp. z o.o.	5,000.00	5,000.00	100.00%	100.00%
33	„Polskie Elektrownie Gazowe" Sp. z o.o.[3)]	2,500,000.00	1,288,000.00	51.52%	51.52%
34	GAZ Sp. z o.o. (Błonie)	300,000.00	153,000.00	51.00%	51.00%
35	GAZ MEDIA Sp. z o.o. (Wołomin)	300,000.00	153,000.00	51.00%	51.00%
36	NAFT-STAL Sp. z o.o. w upadłości (in bankruptcy)	667,500.00	450,000.00	67.40%	67.40%

1) Figures shown in foreign currencies.
2) Share capital not paid up.
3) 51.52% of the shares in the company are held by PGNiG Energia S.A., and the remaining 48.48% - by PGNiG S.A.

The following changes in the Group's structure took place in H1 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, a new company under the name of Biogazownia Ostrowiec Sp. z o.o. was incorporated; its entire share capital of PLN 5,000 was acquired for cash by PGNiG Energia Sp. z o.o. The company was registered with the National Court Register on May 13th 2010.
- On June 29th 2010, the District Court in Krosno issued a decision declaring bankruptcy, involving liquidation of the bankrupt's assets, of NAFT-STAL Sp. z o.o. w upadłości (in bankruptcy).
- 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.

In H1 2010, the following share capital increases were registered with the National Court Register:

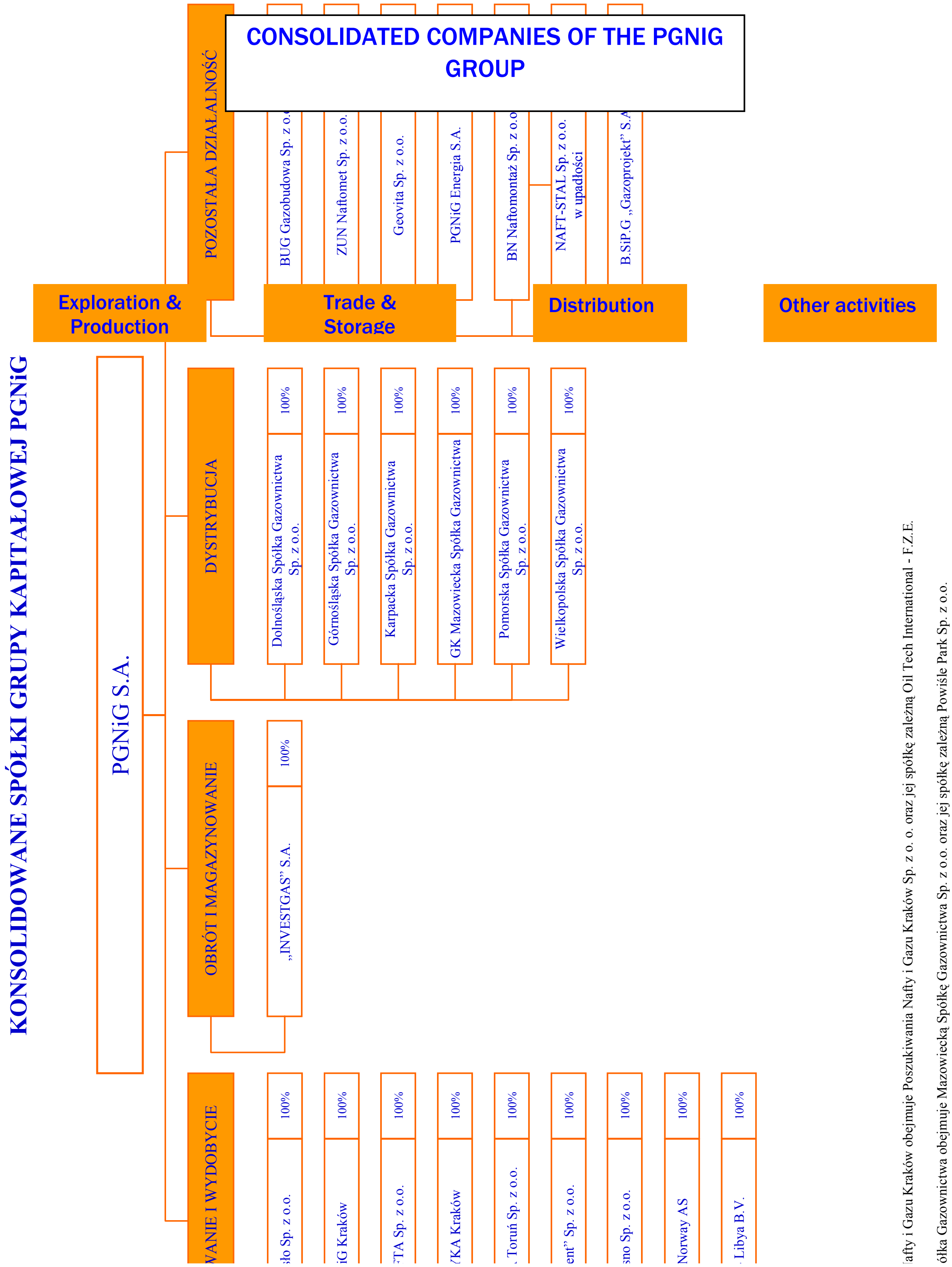
- Share capital increase at Górnośląska Spółka Gazownictwa Sp. z o.o. by PLN 850,000, to PLN 1,300,338,000, effected on January 4th 2010.
- Share capital increase at Powiśle Park Sp. z o.o. by PLN 3,000,000, to PLN 81,131,000, effected on February 5th 2010.

Events Subsequent to the End of the Reporting Period

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, the Extraordinary General Shareholders Meeting of Górnictwo Naftowe Sp. z o.o. adopted a resolution on amendments to the company's articles of association, an increase of its share capital by PLN 2,000,000, and acquisition for cash of all of the newly issue shares by PGNiG S.A. As soon as the changes are registered with the National Court Register, the company will change its name to PGNiG Technologie Sp. z o.o. These steps have been taken in connection with commencement of the process of consolidation of construction and assembly companies and engineering design companies within the PGNiG Group.

The chart below presents the consolidated companies of the PGNiG Group as at June 30th 2010 (by operating segments).



The Poszukiwania Nafty i Gazu Kraków Group comprises Poszukiwania Nafty i Gazu Kraków Sp. z o.o. and its subsidiary Oil Tech International F.Z.E.

The Mazowiecka Spółka Gazownictwa Group comprises Mazowiecka Spółka Gazownictwa Sp. z o.o. and its subsidiary Powiśle Park Sp. z o.o.

4. Employment

The table below presents staffing levels as at June 30th 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)

	H1 2010
PGNiG S.A. Head Office	838
Exploration and Production	4,308
Trade and Storage	3,720
Other activities	39
Total	8,905

Since January 2009, the PGNiG 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. A 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 being made redundant.

5. Sale and Acquisition of Natural Gas

PGNiG S.A. recorded sales revenue of PLN 10.4bn, with 95% of that figure derived from sales of natural gas.

Sales revenue (PLNm)

	H1 2010
Natural gas, including:	9,882.3
- high-methane gas	9,276.3
- nitrogen-rich gas	606.0
Crude oil	374.1
Condensate	1.9
Helium	21.5
Propane-butane	22.6
Geophysical and geological services	0.8
Gas storage services	16.1
Other sales	46.6
Total	10,365.9

In H1 2010, PGNiG S.A. sold 7.6 billion cubic meters of natural gas, with 95% of that figure accounted for by revenues from the transmission and distribution systems and the balance – by direct sales of natural gas from fields.

Natural gas sales volume (million cubic meters)

	H1 2010
Trade and Storage	7,273.4
Exploration and Production	348.7
Total	7,622.1

In H1 2010, the volume of natural gas acquired by PGNiG S.A. reached 7.7 billion cubic meters, with 71.8% of that amount sourced from imports, mostly from Russia. Natural gas production from domestic reserves represented 27.5% 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)

	H1 2010
Imports	5,498.3
Domestic production	2,103.9
Domestic suppliers	51.3
Total	7,653.5

Chapter II: Company's Governing Bodies

1. Management Board

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, Chief Financial Officer
- Mirosław Szkałuba – Vice-President, Social Dialogue and Assets
- Waldemar Wójcik – Vice-President, Oil 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 Karabuła, 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.

As at June 30th 2010, the composition of the Management Board of PGNiG S.A. was as follows:

- Michał Szubski – President
- Radosław Dudziński – Vice-President, Strategy
- Sławomir Hinc – Vice-President, Chief Financial Officer
- Marek Karabuła – Vice-President, Gas and Trade
- Mirosław Szkałuba – Vice-President, Social Dialogue and Assets
- Waldemar Wójcik – Vice-President, Oil Mining.

On July 19th 2010, the Supervisory Board of PGNiG S.A. appointed Marek Karabuła as Member of the Management Board of PGNiG S.A.

2. Supervisory Board

The composition of the Supervisory Board of PGNiG S.A. did not change in H1 2010 and as at June 30th 2010 was as follows:

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

On July 19th 2010, Marek Karabuła resigned from his position as Member of the Supervisory Board of PGNiG S.A.

Chapter III: Shareholder Structure

Employee Stock

On June 25th 2008, the Ministry of State Treasury disposed of one share in PGNiG S.A. 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 will expire on October 1st 2010. The eligible persons have 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 cannot be traded before July 1st 2010, and 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 will decrease from 84.75% to 72.03%. The start date for executing agreements on the acquisition of Company shares free of charge was April 6th 2009. Until June 30th 2010, 57,702 eligible persons acquired 713,630,894 shares (representing approximately 95.2% of the pool of shares available to be acquired free of charge and over 12% of the Company's share capital).

As the lock-up period applicable to employee shares pursuant to the Commercialisation and Privatisation Act of August 30th 1996 expired on June 30th 2010, on July 1st 2010 749,944,750 shares in PGNiG S.A. were assimilated to the existing shares and introduced to trading on the Warsaw Stock Exchange. 55,250 shares acquired by Members of the Management Board have not been assimilated or introduced to stock-exchange trading, yet. They will be assimilated and introduced to stock-exchange trading on July 1st 2011.

Shareholder Structure

As at June 30th 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 June 30th 2010 is shown in the table below:

Shareholder structure

Shareholder	Number of shares as at Jun 30 2010	% of share capital held as at Jun 30 2010	Number of votes conferred by shares held	% of total vote at GM as at Jun 30 2010
State Treasury	4,286,369,105	72.65%	4,286,369,105	72.65%
Others	1,613,630,895	27.35%	1,613,630,895	27.35%
Total	5,900,000,000	100.00%	5,900,000,000	100.00%

PGNiG Shares Held by Management and Supervisory Personnel

The table below shows PGNiG shares and shares in PGNiG S.A.'s related undertakings held by the management and supervisory personnel as at June 30th 2010:

Shares held by management personnel

Name	Number of shares as at Dec 31 2009	Change in number of shares held	Number of shares as at Jun 30 2010	Par value of shares (PLN)
Michał Szubski	6,825	-	6,825	6,825
Mirosław Szkałuba	9,425	-	9,425	9,425
Waldemar Wójcik	19,500	-	19,500	19,500

Shares held by supervisory personnel

Name	Number of shares as at Dec 31 2009	Change in number of shares held	Number of shares as at Jun 30 2010	Par value of shares (PLN)
Stanisław Rychlicki	9,897	-	9,897	9,897
Mieczysław Kawecki	19,500	-	19,500	19,500
Jolanta Siergiej	9,425	-	9,425	9,425

Shares held by commercial proxies

Name	Number of shares as at Dec 31 2009	Change in number of shares held	Number of shares as at Jun 30 2010	Par value of shares (PLN)
Mieczysław Jakiel	30,101	-	30,101	30,101
Tadeusz Kulczyk	21,316	-	21,316	21,316

Chapter IV: Regulatory Environment

1. Licences

As at June 30th 2010, the Company 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 August 17th 2009, PGNiG S.A. filed a request with the President of the Energy Regulatory Office to approve a change in the scope of licence for gaseous fuels storage. The licence scope is changed to reflect exclusion of working capacities of the storage facilities which are used by PGNiG S.A. in production or by the Transmission System Operator, as well as changes in the working capacities of the Mogilno and Husów Underground Storage Facilities, resulting from technical conditions of operation. By the date of this Report, the proceedings before the President of the Energy Regulatory Office had not been concluded.

As at June 30th 2010, the Company held the following licences granted under the Geological and Mining Law:

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

2. Changes in 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.

On February 12th 2010, PGNiG S.A. filed a request with the President of the Energy Regulatory Office for approval of PGNiG S.A.'s Gaseous Fuel Tariff.

By virtue of his decision of May 17th 2010, the President of the Energy Regulatory Office approved the PGNiG S.A.'s Gaseous Fuel Tariff which has been effective for settlements with customers since June 1st 2010. The new Tariff comprises:
- Part A – "Gaseous Fuel Supply Tarriff No. 3/2010," which will remain in effect until November 30th 2010; and
- Part B – "Gaseous Fuel Storage Services Tariff No. 1/2010," which will remain in effect until May 31st 2011.

The following table shows a summary of average tariffs (PLN per cubic meter) used in settlements with customers purchasing gaseous fuels, by fuel type and place of receipt.

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

	2010	2009*	Change (in %)
W-1	2.4073	2.3528	2.3%
W-2	1.8265	1.7798	2.6%
W-3	1.6838	1.6249	3.6%
W-4	1.5742	1.5206	3.5%
W-5 –W-7B	1.4273	1.3752	3.8%
W-8 – W-10	1.1587	1.1207	3.4%

	2010	2009*	Change (in %)
S-1	1.7686	1.6798	5.3%
S-2	1.3437	1.2450	7.9%
S-3	1.2181	1.1371	7.1%
S-4	1.0583	1.0002	5.8%
S-5 – S-7B	1.0301	0.9612	7.2%
S-8 – S-10	0.8735	0.8241	6.0%

	2010	2009*	Change (in %)
Z-1	1.3897	1.3124	5.9%
Z-2	1.2377	1.1419	8.4%
Z-3	1.0865	1.0100	7.6%
Z-4	0.9715	0.9130	6.4%
Z-5 – Z-7B	1.0055	0.9296	8.2%

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

	2010	2009*	Change (in %)
W-1	2.3981	2.3142	3.6%
W-2	1.9388	1.8665	3.9%
W-3	1.6488	1.5846	4.1%
W-4	1.5693	1.5129	3.7%
W-5 – W-7B	1.4627	1.4080	3.9%
W-8 – W-10	1.1881	1.1441	3.8%

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

	2010	2009*	Change (in %)
W-1	2.3057	2.2241	3.7%
W-2	1.8178	1.7483	4.0%
W-3	1.5886	1.5245	4.2%
W-4	1.5336	1.4697	4.3%
W-5 – W-7B	1.4422	1.3845	4.2%
W-8 – W-10	1.1664	1.1233	3.8%

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

	2010	2009*	Change (in %)
W-1	2.6210	2.5681	2.1%
W-2	1.7665	1.7210	2.6%
W-3	1.5520	1.5085	2.9%
W-4	1.4994	1.4592	2.8%
W-5 – W-7B	1.4115	1.3728	2.8%
W-8 – W-10	1.0942	1.0609	3.1%

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

	2010	2009*	Change (in %)
W-1	2.5192	2.4457	3.0%
W-2	1.8964	1.8459	2.7%
W-3	1.6611	1.6050	3.5%
W-4	1.5875	1.5336	3.5%
W-5 – W-7B	1.4712	1.4252	3.2%
W-8 – W-10	1.1476	1.1194	2.5%

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

	2010	2009*	Change (in %)
W-1	2.5206	2.4259	3.9%
W-2	1.8355	1.7731	3.5%
W-3	1.6749	1.6151	3.7%
W-4	1.5712	1.5159	3.6%
W-5 – W-7B	1.4005	1.3545	3.4%
W-8 – W-10	1.1324	1.0964	3.3%

	2010	2009*	Change (in %)
S-1	1.7620	1.6803	4.9%
S-2	1.3222	1.2637	4.6%
S-3	1.1800	1.1407	3.4%
S-4	1.0799	1.0388	4.0%
S-5 – S-7B	1.0371	1.0192	1.8%

	2010	2009*	Change (in %)
Z-1	1.6440	1.5663	5.0%
Z-2	1.2071	1.1522	4.8%
Z-3	1.0465	1.0067	4.0%
Z-4	0.9740	0.9359	4.1%
Z-5 – Z-7B	0.9385	0.9197	2.1%

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

Tariff group	2010	2009*	Change (in %)
E-1A – E-4B	1.0410	1.0114	2.9%
Lw-1 – Lw-4	0.8033	0.7549	6.4%
Ls-1 – Ls-4	0.6652	0.6175	7.7%

* 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 an application with the President of the Energy Regulatory Office requesting that the President's decision of May 17th 2010 approving PGNiG S.A.'s Gaseous Fuel Tariff (Part A – "Gaseous Fuel Supply Tarriff 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. By this Report date, the proceedings were still pending before the President of the Energy Regulatory Office.

On July 23rd 2010, the Company filed an application with the President of the Energy Regulatory Office requesting adjustment of the Gaseous Fuel Tariff (Part A – "Gaseous Fuel Supply Tarriff No. 3/2010") with respect to the prices of gaseous fuels (except for propane-butane-air and decompressed propane-butane).

3. Regulatory Risks

Legal Changes

The second half of 2010 should see further changes in the laws governing the operation of the gas sector companies. 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. Regulation of the Minister of Economy on detailed terms of operation of the gas system (the so-called "systemic regulation") became effective in July 2010. Therefore, work on amending of the tariff regulation can be expected to start soon.

Legal changes, including delays in amendments to legal acts, create risks stemming from uncertainty as to the scope of regulatory changes and shorter the time for adaptation to such changes, which might adversely affect the Company's financial results and growth prospects.

Draft Law on Energy Efficiency

In 2009, a draft law on energy efficiency, implementing Directive 2006/32/EC of the European Parliament and of the Council of April 5th 2006 on energy end-use efficiency and energy services into the Polish law, was being prepared. Under certain provisions contained in the draft law, the power sector is given favourable treatment, which may lead to a situation where electricity providers are subsidised at the expense of other energy sectors (including the gas sector) and where the competitive balance among particular energy carriers is disrupted. Upon its enactment, the law will also 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. Furthermore, after it is implemented, the law is bound to hinder the development of the Polish gas market, thus undermining a fundamental assumption of *Poland's Energy Policy Until 2030*.

Tariff Calculation

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

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.

Licences for Exploration for and Appraisal of Deposits

In recent years, the increase in prices of fuels on global markets has led to increased interest in exploration activities. There is a risk of competition from other companies active on the Polish market seeking licences for exploration for and appraisal of deposits or the implementation of a strategy providing for acquiring access to own hydrocarbon reserves. Having obtained relevant licences, PGNiG S.A.'s competitors will enter the Polish market. A strong competitive edge may be gained especially by large companies which enjoy established positions on the international markets and have access to much greater financial resources compared with PGNiG S.A., helping them to accept the high risk of exploration activities in Poland.

Chapter V: Exploration and Production

1. Exploration

In H1 2010, PGNiG S.A. conducted exploration and appraisal work in the Carpathian mountains, Carpathian Foothills, Polish Lowlands and the Lublin Province. Reservoir test results were obtained in the case of four wells, including three exploration wells and one appraisal well. Two wells were classified as positive, and two as dry. In total, PGNiG S.A. completed 12,590m of drillings.

In H1 2010, PGNiG S.A. completed drilling of the Markowola-1 well. The well is located in the Pionki-Kazimierz licence area in the Lublin Province. As an analysis of geophysical data confirmed the probability of presence of an unconventional gas (tight gas) deposit, a hydraulic fracturing operation was carried out in the Markowola-1 well in July 2010.

Geophysical work in Poland was conducted by PGNiG S.A. in the Carpathian mountains and in Polish Lowlands. In H1 2010, the Company acquired 409.4km of 2D seismic and 368.4km^2 of 3D seismic data. In the foreign markets, PGNiG S.A. carried out services consisting in acquisition of 7.5km of 2D geophysical data and 36.4km^2 of 3D data.

Expenditure on exploration and appraisal work in H1 2010 amounted to PLN 271.6m.

As at June 30th 2010, the volume of reserves approved by the Minister of Environment was:
- 95.3 billion cubic meters of natural gas, measured as high-methane gas equivalent;
- 20.8 million tonnes of crude oil.

<u>Joint Ventures in Poland</u>

In H1 2010, PGNiG S.A. cooperated with FX Energy Poland Sp. z o.o. in the following areas covered by licences awarded to PGNiG S.A.:

- "Płotki" – under the Agreement for Joint Operations dated May 12th 2000; licence interests: PGNiG S.A. – 51%, FX Energy – 49%,
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under the Operating Agreement of Mining Users dated October 26th 2005; licence interests: PGNiG S.A. – 51%, FX Energy – 24.5%, CalEnergy – 24.5%,
- "Poznań" – under the Agreement for Joint Operations dated June 1st 2005; licence interests: PGNiG S.A. – 51%, FX Energy – 49%,

and in the following areas covered by licences awarded to FX Energy Poland Sp. z o.o.:

- "Blok 255" – under the Agreement for Joint Operations dated October 29th 1999; licence interests: FX Energy – 81.82%, PGNiG S.A. – 18.18%,
- "Ostrowiec" – under the Agreement for Joint Operations dated February 27th 2009, covering licence blocks nos. 163 and 164; licence interests: FX Energy – 51%, PGNiG S.A. – 49%.

In the "Płotki" area, production was conducted from the Klęka field and the Roszków field. In H1 2010 production from the Klęka field was ended and decision was made to abandon the well and decommission the infrastructure. Total volume of natural gas produced from the Klęka field was approx. 76 million cubic meters. In the "Płotki"-"PTZ" area, production continued on the Zaniemyśl gas field.

With respect to the "Poznań" area, reprocessing and interpretation of the Żerków-Pleszew 3D seismic survey was completed. In July 2010, PGNiG S.A. obtained licences to produce natural gas from the Kromolice, Kromolice S and Środa Wielkopolska fields in the "Poznań" area. Also, the working interests of the parties to the agreement for joint operations in the abovementioned licence area were determined. In H2 2010, drilling of the Lisewo-1k and Pławce-2 (tight gas) boreholes is planned to commence.

Despite discontinued production from the Wilga field ("Blok 255") and no hydrocarbon flow identified in the Ostrowiec-1 borehole, analyses of the available material continued during H1 2010 to identify any further exploration potential in these areas.

Under Agreement for Joint Operations dated June 1st 2007, PGNiG S.A. cooperated with Eurogas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o. in the "Bieszczady" area. The interests are as follows: PGNiG S.A. – 51%, Eurogas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%. In H1 2010, processing and interpretation of the Kostarowce-Zahutyń 2D seismic profiles in the Carpathian mountains was completed, and location of the Niebieszczany-1 borehole was determined. Drilling of the Niebieszczany-1 borehole is planned to commence in H2 2010.

In H1 2010, PGNiG S.A. was engaged in joint operations with Orlen Upstream Sp. z o.o. in the "Sieraków" area, under Agreement for Joint Operations dated June 22nd 2009. The project interests are as follows: PGNiG S.A. – 51%, Orlen Upstream Sp. z o.o. – 49%. In H1 2010, the Sieraków-4 well was worked over and tested. Sieraków-3 exploration well is planned to be drilled in H2 2010.

In 2009, the Minister of Environment approved the following allocation of working interests (division of mining usufruct rights) among the parties to the agreements for joint operations regarding the following areas (allocation consistent with interests in the joint venture projects as established under the agreements):

- "Budzów", "Bielsko-Biała", "Bestwina" and "Cieszyn" – under the Agreement for Joint Operations with Energia Karpaty Zachodnie Sp. z o.o. Sp. k., dated December 17th 2009; the interests are: Energia Karpaty Zachodnie Sp. z o.o. Sp. k. – 60%, PGNiG S.A. – 40%,
- "Mszana Dolna" and "Jordanów" – under the Agreement for Joint Operations with Energia Karpaty Wschodnie Sp. z o.o. Sp. k., dated December 17th 2009; the interests are: Energia Karpaty Wschodnie Sp. z o.o. Sp. k. – 80%, PGNiG S.A. – 20%.

In H1 2010, reprocessing work commenced with respect to approx. 3,000km of 2D seismic profiles covering licence areas in which the Company cooperates with Energia Karpaty Zachodnie Sp. z o.o. Sp. k.

<u>Exploration Abroad</u>

PGNiG S.A. continued exploration work in Pakistan in the Kirthar licence area, jointly with Pakistan Petroleum Ltd. (interests held: PGNiG S.A. – 70%, PPL – 30%). In H1 2010, tests were completed to define the output of the Rehman-1 exploration borehole, and acquisition of 3D seismic data started. Activities planned for H2 2010 include completion of the 3D seismic field operation and commencement of workover of the Hallel-1 borehole.

In Denmark, PGNiG S.A. was engaged in exploration activity in the 1/05 licence area. The interest holders in the licence are: PGNiG S.A. (operator) – 80%, Nordsofonden – 20%. In H1 2010, acquisition and processing of the 3D and 2D seismic data was completed. Furthermore, advanced processing of seismic data started, and is expected to be completed in H2 2010. Results of the above work will provide the basis for a potential decision to drill an exploratory borehole.

In Egypt, PGNiG S.A. conducted exploration work in the Bahariya licence area (Block 3). The Company holds a 100% interest in the licence. In H1 2010, reprocessing of 2,000km of 2D seismic data began; it was completed in July 2010. Work planned for H2 2010 includes gravimetric analysis.

2. Production

Natural gas and crude oil production in Poland is conducted by two PGNiG S.A. branches, the Zielona Góra Branch and the Sanok Branch. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 21 mines (including 13 gas mines, and 8 oil and gas mines), while the Sanok Branch produces high-methane and nitrogen-rich natural gas and crude oil at 46 mines (including 26 gas mines, and 20 oil-and-gas and oil mines).

In H1 2010, PGNiG S.A. produced a total of 2.1 billion cubic meters of natural gas (high-methane gas equivalent) and 226.8 thousand tonnes of crude oil. The table below shows the volumes of PGNiG S.A.'s production in H1 2010:

Production volumes

		Unit	H1 2010
1	Natural gas, including:	million cubic meters*	2,103.9
a	high-methane, including:	million cubic meters	797.4
	- Zielona Góra Branch	million cubic meters	0
	- Sanok Branch	million cubic meters	797.4
b	nitrogen-rich, including:	million cubic meters *	1,306.5
	- Zielona Góra Branch	million cubic meters *	1,265.4
	- Sanok Branch	million cubic meters *	41.1
2	Crude oil	thousand tonnes	226.8
	- Zielona Góra Branch	thousand tonnes	203.2
	- Sanok Branch	thousand tonnes	23.6

* Measured as high-methane gas equivalent.

In H1 2010, four new wells (Pantalowice 6k, Pantalowice 5k, Zalesie 15k and Przemyśl 280k) came on stream in the Sanok Branch area. Total production capacity addition from these wells is approx. 11.7 thousand cubic meters per hour.

In H1 2010, PGNiG S.A. was engaged in various activities aimed at maintaining the gas and oil output from the currently producing fields, e.g. the company completed drilling of the Buszewo 6k production well. To counteract the natural decline in production yields, sixteen old wells, whose technical conditions made further production impossible, were subject to major remedial treatment. Additionally, a number of well stimulation operations were carried out (consisting in fracturing, acidizing or application of other enhanced recovery techniques) in order to sustain or increase the rates of recovery or to improve absorption rates in injectors. Two compressors were also installed on the Jodłówka field to raise the pressure of gas supplied to the transmission network.

The processing of crude oil generates commercial products such as condensate, sulphur and propane-butane. A part of the nitrogen-rich gas produced from a well operated by the Zielona Góra Branch is processed into high-methane gas by the Odolanów Branch. The cryogenic nitrogen removal process also generates helium and LNG. Technological tests are currently under way at the Grodzisk Wielkopolski denitriding plant, where nitrogen-rich gas is processed into high-methane gas and LNG.

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	H1 2010
1	Natural gas, including:	million cubic meters	348.7
	- high-methane gas - nitrogen-rich gas*	million cubic meters million cubic meters	26.5 322.2
2	Crude oil	thousand tonnes	231.0
3	Condensate	thousand tonnes	1.1
4	Helium	million cubic meters	1.6
5	Propane-butane	thousand tonnes	9.7
6	Nitrogen	thousand kg	577.8
7	Sulphur	thousand tonnes	11.9

* Measured as high-methane gas equivalent.

In H1 2010, PGNiG S.A.'s foreign customers accounted for 41% of total sales in the case of crude oil, and for 83% 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

In H1 2010, PGNiG S.A. continued work on extension of the existing high-methane gas underground storage facility in Strachocina as well as on construction of a new nitrogen-rich (Lw) gas storage facility in Bonikowo. The table below sets forth the working capacities of the underground storage facilities used to store produced gas as at June 30th 2010.

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

High-methane gas	H1 2010
Brzeźnica (E)	65.0
Strachocina (E)	150.0
Swarzów (E)	90.0
Nitrogen-rich gas	
Daszewo (Ls)	30.0

3. Planned Activities

Exploration in Poland

In 2010, PGNiG S.A. plans to conduct exploration activities involving geophysical and drilling work in the Carpathian mountains, Carpathian Foothills and in the vicinity of Gdańsk and Poznań. Drilling of the Tymowa-1, Piaski-3, Pławce-2 (tight gas) and Lubocino-1 (shale gas) exploration wells, subject to significant risk, is scheduled for H2 2010.

Exploration abroad

In H1 2010, PGNiG S.A. took a number of steps with a view to acquiring new sites for exploration and new licence areas in North Africa and Iraq. All these initiatives will be continued throughout 2010. Furthermore, the Company plans to carry on the exploration work in its licence areas in Denmark, Egypt and Pakistan.

Natural Gas Production

The plans for 2010 assume a natural gas production volume of 4.3 billion cubic meters of high-methane gas equivalent with a calorific value of 39.5 MJ/m^3. Maintenance of gas output levels will be achieved owing the launch of production from the Wielichowo and Ruchocice fields (gas from these fields will constitute input for the denitriding plant in Grodzisk Wielkopolski). Moreover, in H2 2010, production will be launched at the Jasionka – Phase II, Kupno, Morawsko and Palikówka fields. In order to increase the production volume to approximately 4.5 billion cubic meters, in the next few years PGNiG S.A. intends to develop and commence production from a number of gas reserves, including in Międzychód, Jabłonna and Elżbieciny (nitrogen-rich gas deposits in western Poland) and Rudka – Phase II (high-methane gas deposits in Subcarpathia).

Crude Oil Production

In H1 2010, work continued on the sub-project "LMG Project – Central Facility, well areas, and other infrastructure". Development of the Lubiatów-Międzychód-Grotów (LMG) field aims at increasing PGNiG S.A.'s crude oil production output. The production target for 2010 has been set at over 500 thousand tonnes. A significant increase, to approximately 0.9m tonnes annually, is expected in 2013, after the development of the LMG field is completed and production starts, and after five production wells on the Barnówko-Mostno-Buszewo (BMB) field come on stream. Two wells on the BMB field are scheduled to be hooked up in H2 2010.

4. 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 exploratory risk. This means that not all the identified potential deposit sites have deposits of hydrocarbons which can qualify as an accumulation. Whether or not such deposits exist 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 offset the production from the existing reserves, PGNiG S.A.'s recoverable reserves will decrease pro rata to the current production volumes.

The size of reserves and production projections may be erroneous due to flaws in the measurement 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. The 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 parameters established in the course of preparing the relevant documentation are reviewed after the production starts. Each downgrade of the size of the reserves or production quantities 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 well completions. 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 deposits, that is 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 define, value, offer and purchase numbers of fields (including the operation thereof and underlying licences) larger than it would be possible in the case of PGNiG S.A., given the Company's financial and human resources. This competitive edge of 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 work

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 prices of casing pipes and lifting casing that is used in drilling. An increase in prices of energy and materials translates into an increase in the cost of exploration work. Moreover, profitability of foreign exploratory 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 exploratory activity.

Qualified Personnel

The presence of foreign companies on the Polish market intensified the companies' takeover of highly qualified employees with extensive professional experience. This risk is especially high with respect to professionals specialised in the exploration for natural gas and crude oil deposits. 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 conducting exploratory activity. This may be a particular threat in countries where law changes depend on the decisions of authoritarian governments.

Political and Economic Situation

Some countries where PGNiG S.A. carries out exploratory activity face the risk of armed conflicts or terrorist attacks, which may result in limitation, suspension or discontinuation of the exploration and production business there.

In some areas of PGNiG S.A.'s operations 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 activity related to oil. 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 limitation, suspension or discontinuation of PGNiG S.A.'s operations.

Chapter VI: Trade and Storage

1. Purchases

In H1 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)

	H1 2010	%
Imports, including:	5,498.3	99.1%
- Gazprom Export	4,977.9	90.6%
- VNG AG	447.0	8.1%
- Other foreign suppliers	73.4	1.3%
Domestic suppliers	51.3	0.9%
Total	5,549.6	100.0%

New Agreements

On January 27th 2010, a trilateral Memorandum of Understanding was signed between PGNiG S.A., Gazprom Export and SGT EUROPOL GAZ S.A. The Memorandum of Understanding provides for extending the existing contract for the supply of natural gas from the Russian Federation to Poland until December 31st 2037, with an option to further extend it until December 31st 2045, and increasing the volume of natural gas supplies under the contract. The Memorandum of Understanding also provides for extending the term of the contract for the transit of natural gas through the Polish territory via the SGT EUROPOL GAZ S.A.'s pipeline, with other terms and conditions of the contract remaining unchanged. PGNiG S.A. is currently waiting for an inter-governmental agreement to be executed between the governments of the Republic of Poland and the Russian Federation. Once the government documents have been executed, PGNiG S.A. and Gazprom Export will sign an annex amending the Yamal contract.

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 LNG purchase conditions under the LNG purchase agreement concluded between PGNiG S.A. and Qatargas Operating Company Ltd. in June 2009.

2. Sales

Pursuant to the requirements of the Polish Energy Law, in H1 2010 PGNiG S.A. continued the replacement of commercial agreements with comprehensive agreements.

In H12010, PGNiG S.A. signed comprehensive agreements for the supply of gaseous fuel, both from the transmission system and from the distribution system, to 29.3 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.

The key products sold by the Trade and Storage segment are high-methane gas and nitrogen-rich gas. In H1 2010, sales of natural gas rose by approx. 7% (or 522.1 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. Demand from industrial customers rose as well, mostly in those industries which benefited from the economic recovery, i.e. the power sector (power plants and CHP plants), and the refining and petrochemicals industries. PGNiG S.A. sold gas chiefly on the domestic market. The sales structure of the Trade and Storage segment in H1 2010 sales is presented in the table below.

Sales structure of key products

		Unit	H1 2010
1	Natural gas, including:	million cubic meters	7,273.4
	- high-methane gas	million cubic meters	6,991.2
	- nitrogen-rich gas*	million cubic meters	282.2
2	Propane-butane	thousand tonnes	1.0

*Measured as high-methane gas equivalent.

The Company's main customers purchasing natural gas included companies from the chemicals, steel 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 31%. The most prominent share in the natural gas sales was claimed by industrial customers (55%). The table below presents the structure of natural gas sales (measured as high-methane gas equivalent) broken down by major customers.

System sales of natural gas (million cubic meters)

	H1 2010	%
Industrial customers	3,980.9	54.7%
Trade and services	925.8	12.7%
Households	2,256.4	31.0%
Wholesale customers	85.3	1.2%
Exports	25.0	0.4%
Total	7,273.4	100.0%

In H1 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. This investment process is scheduled for completion in H2 2010.

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 natural gas (Lw) 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, with a possibility to set the start date of gas deliveries between July 1st 2012 and December 31st 2012. 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 execution of a new agreement on the supply of natural gas to KGHM Polska Miedź S.A.

3. Storage

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 H1 2010, PGNiG S.A. continued to expand the working capacities of the existing high-methane gas storage facilities in Wierzchowice (Underground Gas Storage Facility) and in Mogilno (Underground Gas Storage Cavern Facility). In Mogilno, work related to the construction of four caverns was performed. Moreover, the Company conducted work related to the construction of a new high-methane gas storage facility, namely the Kosakowo Underground Gas Storage Cavern Facility. The Company continued the construction of a leaching installation along with pipeline for brine discharge, as well as drillings for the needs of the storage facility.

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)

	H1 2010
Husów	350.0
Mogilno	377.9
Wierzchowice	575.0

4. Planned Activities

Natural Gas Purchase

In H2 2010, PGNiG S.A. does not plan any material changes in the structure of its natural gas supply sources relative to the previous periods. Since 2009, PGNiG S.A. has been in negotiations with Gazprom Export concerning the provisions of the existing contract for natural gas supply. Execution of the annex to the contract is conditional on the conclusion of the inter-governmental agreement between the governments of the Republic of Poland and the Russian Federation, which as at this Report date has not yet been signed. The Company also took a number of steps with a view to diversifying its gas supply sources.

Underground Gas Storage Facilities

In H2 2010, PGNiG S.A. will continue the extension of the Wierzchowice Underground Gas Storage Facility and the Mogilno Underground Gas Storage Cavern Facility. The target working capacity of the facility in Mogilno is 800 million cubic meters. The first stage of the extension of the Wierzchowice Underground Gas Storage Facility from the existing working capacity of 575 million cubic meters to 1,200 million cubic meters 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.

5. Risks Related to Trade and Storage

Gas Supplies

In June 2010, there were again some disruptions in gas supplies from the east. Given the policy pursued by the main supplier and the political and economic situation in the transit countries, disruptions in gas supplies may also occur in the future. Moreover, there is a risk that demand for gaseous fuel in 2010 will not be fully met by supplies, as the amounts secured in import contracts are not sufficient. This situation is attributable to the fact that the inter-governmental agreement between the governments of the Republic of Poland and the Russian Federation has not been signed.

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 usually purchase gas from PGNiG S.A.. Suppliers from outside the PGNiG Group which trade in natural gas operate mostly in the areas which have not been covered by the gas pipeline networks. The aforementioned companies include local gas distributors that own transmission infrastructure and offer – in addition to traditional network gas supply – innovative solutions of the natural gas supply involving the use of LNG. An intensified commercial activity of competitors which aims at attracting current and potential customers of PGNiG S.A. may 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 a deterioration in the financial standing of customers purchasing gas, mainly those from the chemicals industry, there may still be some difficulties with timely settlement of payments for the supplied gaseous fuel.

Storage

The implementation of 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, into the Polish law may significantly reduce PGNiG S.A.'s power to influence the gas storage services market.

Another risk factor is related to a potential deficit of funding required for the planned capex. If the investments in the Mogilno Underground Gas Storage Cavern Facility, the Kosakowo Underground Gas Storage Cavern Facility, the Strachocina Underground Gas Storage Facility and the Wierzchowice Underground Gas Storage Facility are not co-financed by the European Union, PGNiG S.A. will have to seek additional funding to finance its investment projects.

Chapter VII: Other Activities

PGNiG S.A.'s organisational unit classified in the "Other Activities" segment is the Central Measurement and Testing Laboratory Branch. The Branch provides services aimed at ensuring accurate and reliable measurements of natural gas, comprising in particular calibration of measurement devices, attestation of gas meters and gas volume converters, gas quality testing, testing of new gas equipment as well as measurement and analytical supervision over process analyser systems and equipment installed in transmission and distribution networks, and in gas storage facilities. The Branch also provides advisory services, issues opinions and provides expert reports. In March 2009, the Branch obtained the status of a notified body, the first one in Poland, with respect to testing of gas volume converters.

In H1 2010, the Branch's main areas of activity included:

- metrologic control of measurement systems on the Yamal-Europe transit gas pipeline (Polish section),
- metrologic control of measurement systems on metering stations of industrial customers (25 facilities),
- checking natural gas measurement systems for the purpose of evaluation of CO_2 emissions by large industrial emitters,
- measurement supervision of the process analyser systems for the evaluation of quality of natural gases in the transmission and distribution networks, mines and storage facilities,
- validations and measurement supervision of the field laboratories controlling the quality of natural gases.

The Branch provided its services mainly to the companies of the PGNiG Group, EUROPOL GAZ S.A. and OGP GAZ-SYSTEM S.A.

Planned activities

The Branch intends to maintain and strengthen its leading market position in the area of metrologic control of measurement systems and devices, attestation of gas meters, rotameters, other types of flow meters and gas volume converters, quality assessment of natural gases of all types (E and L) and forms (NG, LNG, CNG) and biogas, as well as evaluation of measurement and process analyser systems used to estimate CO2 emissions. Additionally, the Central Measurement and Testing Laboratory plans to include shale gas quality assessment in the range of its services.

Chapter VIII: 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 watercourses. Furthermore, if gas wells remained unplugged, there would be a risk that escaping gas could accumulate inside, posing a fire hazard. In H1 2010, PGNiG S.A. plugged and abandoned 15 wells which had reached their economic limit.

Carbon Credit Trading System

Under the existing carbon credit trading system (CCTS), in 2010 PGNiG S.A. reviewed the annual reports on carbon dioxide emissions for 2009 and reconciled the volumes of carbon dioxide emission with the permit held. Following the cancellation of the carbon credits used in 2009, 23,622 Mg CO_2 credit units were retained. In the discussed settlement period, the following facilities were included in the system: the Odolanów Branch, Zielona Góra Branch and the Mogilno Underground Gas Cavern Storage Facility.

Methane Emissions

In H1 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 H1 2010, the Company carried out supplementary tests and surveys concerning properties located in Toruń, Koźmin Wielkopolski, Gorzów Wielkopolski, Szczecin, Katowice – Mysłowice, Reszel, Gryfice, Czersk, Zabrze (ul. Pyskowicka), Radków and Szprotawa. Reclamation work on properties in Wrocław, Świdnica, Jugowice, Lądek Zdrój and Ziębice, with the total area of approx. 60 thousand square metres, was completed by the end of July 2010.

Supplementary tests and surveys concerning properties located in Kargowa, Zabrze, Wałbrzych, Łabiszyn and Międzylesie, as well as land reclamation work on the properties in Bartoszyce, Radków, Pyrzyce and Koźmin Wielkopolski, with the total area of 24 thousand square metres, have been scheduled for H2 2010.

Chapter IX: Other Information

Distribution of the 2009 Profit

On April 29th 2010, the Annual General Shareholders Meeting of PGNiG S.A. adopted a resolution on the distribution of the 2009 net profit in the amount of PLN 665.9m. Distributions from the profit were allocated 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 will be distributed to the State Treasury as non-cash dividend (the assets to be distributed as dividend and the valuation method will be defined in a separate resolution of the General Shareholders Meeting), with a proviso that additional cash will be distributed to the State Treasury if the value of the non-cash assets is below PLN 400.0m;
- PLN 8.9m was allocated to increase the Company's social benefits fund;
- PLN 54.6m was allocated to awards 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.

Appointment of a Qualified Auditor

On May 25th 2010, Deloitte Audyt Sp. z o.o. was appointed to audit the financial statements of PGNiG S.A. and the consolidated financial statements of the PGNiG Group for the financial years 2010, 2011 and 2012.

Agreement with TAURON Polska Energia S.A.

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 construction of a 400MW combined cycle gas turbine unit.

At least 50% of the agreement's value will be financed with debt instruments secured by assignment of receivables under long-term trade contracts. The upper limit of the agreement's value has been set by the parties at PLN 1,950,000,000.

The agreement was made for the period until the date of conclusion of the "SPV Operating Agreement", but for no longer than until December 31st 2010, and subject to obtaining approval of the planned concentration by the President of the Office for Competition and Consumer Protection and of all the required corporate approvals from the parties to the project. The unit will be constructed and operated by a newly-established SPV Elektrociepłownia Stalowa Wola SA. Pursuant to the agreement, the target shareholders in Elektrociepłownia Stalowa Wola S.A. will be Elektrownia Stalowa Wola S.A. (member of the TAURON Group) and PGNiG Energia S.A. (member of the PGNiG Group). Each of the companies will ultimately hold 50% of shares in Elektrociepłownia Stalowa Wola S.A. As at this report date, 100% of the shares in the SPV Elektrociepłownia Stalowa Wola S.A. are held by Elektrownia Stalowa Wola S.A.

The parties will be entitled to receive the electricity generated by the CCGT unit in amounts proportional to their interests in Elektrociepłownia Stalowa Wola S.A.

Legal Actions Against PI GAZOTECH Sp. z o.o.

- PGNiG S.A.'s action instituted 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. The proceedings 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.

- The 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, are pending before the Regional Court of Warsaw and the Warsaw Court of Appeals. By virtue of the ruling of October 31st 2008, the Regional Court dismissed PGNiG S.A.'s action. On July 30th 2009, the Court of Appeals reversed the ruling of the first instance and remanded the case for re-examination.
- 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. By virtue of the ruling of May 30th 2008, the Regional Court dismissed the Company's claim and reversed the decision on securing the claim (the temporary injunction order). The proceedings to rescind or declare invalidity of the resolution on additional contributions and to maintain the security for the claim (the temporary injunction order) 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. By virtue of the ruling of May 25th 2010, the Court of Appeals once again reversed the Regional Court's decision reversing the decision concerning security for the claim (the temporary injunction order), and referred the case to the Regional Court of Warsaw.

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.

Chapter X: Financial Performance

The financial statements of PGNiG S.A. have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union (EU) as at June 30th 2010.

The accounting policies applied in preparing the separate financial statements are presented in the consolidated financial statements of the PGNiG Group for the period ended June 30th 2010.

1. Financial Standing

In H1 2009, PGNiG S.A. posted net profit of PLN 910.3m, up by PLN 1,399.6m relative to the figure recorded in H1 2009.

Summary information on PGNiG S.A.'s financial standing in H1 2010 is presented below in the financial statements prepared in accordance with the International Financial Reporting Standards and comprising:

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

Separate Statement of Financial Position (PLNm)

ASSETS	Jun 30th 2010	Dec 31 2009
Non-current assets	19,228.9	18,772.1
Property, plant and equipment	10,070.6	9,726.9
Investment property	3.5	3.8
Intangible assets	83.1	68.9
Financial assets available for sale	6,288.8	6,219.4
Other financial assets	2,436.3	2,417.6
Deferred tax assets	312.0	299.6
Other non-current assets	34.6	35.9
Current assets	5,322.2	5,411.4
Inventories	1,220.2	1,110.2
Trade and other receivables	3,011.4	3,687.1
Current income tax receivable	-	161.5
Prepayments and accrued income	58.9	9.4
Financial assets available for sale	-	-
Assets from derivative financial instruments	138.0	18.0
Cash and cash equivalents	893.7	425.2
Non-current assets held for sale	-	-
Total assets	24,551.1	24,183.5

Separate Statement of Financial Position (PLNm) – continued

EQUITY AND LIABILITIES	Jun 30 2010	Dec 31 2009
Equity	17,853.9	17,339.7
Share capital	5,900.0	5,900.0
Foreign exchange differences on translation of foreign operations	4.7	(2.9)
Share premium account	1,740.1	1,740.1
Other capital reserves	9,222.3	8,983.1
Retained earnings/(deficit)	986.8	719.4
Non-current liabilities	1,677.0	1,638.7
Loans, borrowings and debt securities	1.2	2.6
Provisions	1,130.5	1,084.4
Deferred income	14.5	3.9
Deferred tax liabilities	514.8	531.3
Other non-current liabilities	16.0	16.5
Current liabilities	5,020.2	5,205.1
Trade and other payables	2,295.2	2,359.7
Loans, borrowings and debt securities	1,604.2	1,904.1
Liabilities from derivative financial instruments	317.5	260.4
Current income tax receivable	117.8	-
Provisions	139.2	134.6
Deferred income	546.3	546.3
Total liabilities	6,697.2	6,843.8
Total equity and liabilities	24,551.1	24,183.5

Separate Income Statement (PLNm)

	30 Jun 2010	30 Jun 2009
Sales revenue	10,365.9	9,910.2
Total operating expenses	(9,661.8)	(10,854.1)
Raw materials and energy used	(5,734.6)	(7,442.6)
Employee benefits	(435.7)	(397.3)
Depreciation and amortisation	(288.3)	(317.0)
Contracted services	(2,941.6)	(2,566.7)
Cost of products and services for own needs	5.0	5.9
Net other operating expenses	(266.6)	(136.4)
Operating profit/(loss)	704.1	(943.9)
Finance income	498.0	631.3
Finance expenses	(119.0)	(339.3)
Pre-tax profit/loss	1,083.1	(651.9)
Corporate income tax	(172.8)	162.6
Net profit/loss	910.3	(489.3)

Separate statement of cash flows (PLNm)

	30 Jun 2010	30 Jun 2009
Net cash provided by/used in operating activities	1,718.0	275.1
Net cash provided by/used in investing activities	(917.6)	(1,392.7)
Net cash provided by/used in financing activities	(331.9)	567.2
Change in net cash	468.5	(550.4)
Cash and cash equivalents at beginning of period	425.2	808.2
Cash and cash equivalents at end of period	893.7	257.7

Financial Ratios

Profitability

	H1 2010	H1 2009
EBIT (PLNm) operating profit	704.1	-943.9
EBITDA (PLNm) operating profit + depreciation/amortisation	992.4	-626.9
ROE net profit to equity at end of period	-	-
NET MARGIN net profit to sales revenue	8.8%	-4.9%
ROA net profit to assets at end of period	-	-

Liquidity

	H1 2010	2009
CURRENT RATIO current assets (net of prepayments and accrued income) to current liabilities	1.0	1.0
QUICK RATIO current assets (net of prepayments and accrued income) less inventories to current liabilities	0.8	0.8

Debt

	H1 2010	2009
DEBT RATIO total liabilities to total equity and liabilities	27.3%	28.3%
DEBT/EQUITY RATIO total liabilities to equity	37.5%	39.5%

Relative to the corresponding period of 2009, the Company's operating profit rose by PLN 1,648.0m (or 175%). The strengthening of the Company's financial position followed primarily from improved margins on high-methane gas sales, as a result of the following factors:

- a 30% fall in unit purchase costs of imported gas, and
- a ca. 3% drop in the average gas sale prices.

The 30% decline in unit purchase costs of imported gas was the key driver of margin expansion on the high-methane gas sales. The steady, moderate growth in crude oil prices observed since Q2 2009 resulted in relatively stable purchase prices of imported gas for the Company. Moreover, lower unit costs of gas imports were partly due to a decline in the average USD exchange rate of about 10% relative to H1 2009.

The margins on high-methane gas sales improved despite the fall in average gas selling prices by about 3%. This fall was due to two 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%.

PGNiG S.A's financial situation remained stable also owing to good performance in the production business. Relative to H1 2009, the Company generated higher margins on sales of crude oil, due to higher crude prices on the global markets. Moreover, following the launch of the new denitriding plant in Grodzisk Wielkopolski, production of nitrogen-rich gas rose by 11%. Increased supplies of gas for denitriding and implementation of projects to switch customers to high-methane gas resulted in 15% lower nitrogen-rich gas sales volume.

Moreover, result on operating activities was also strongly affected by net other operating expenses, which grew by PLN 130.2m relative to H1 2009. This increase was chiefly due to a lower result on valuation of derivative instruments. At the same time, the Company reported lower impairment losses on non-financial assets, including mainly the Company's exploration and production assets.

In H1 2010, result on financing activities rose by PLN 87.0m year on year. This growth was chiefly attributable to higher dividend income, mainly as a result of better financial performance by the Gas Companies, and higher interest income. The improved result on financing activities came along with lower reversals of impairment losses on financial investments, following last year's reversal of impairment losses on disputed interest and a loan advanced to SGT EUROPOL GAZ S.A.

The balance sheet as at June 30th 2010 shows a balance-sheet total of PLN 24,551.1m, up by PLN 367.6m (or 2%) year on year.

The largest item of assets was property, plant and equipment, which stood at PLN 10,070.6m as at the end of H1 2010, up by PLN 343.7m (or 4%) from December 31st 2009. This increase was primarily due to investment projects implemented by PGNiG S.A., as well as revaluation of assets, mainly those related to the exploration and production business.

Another significant item of the balance sheet is represented by financial assets available for sale, which amounted to PLN 6,288.8m as at June 30th 2010, up by PLN 69.4m (or 1%) from the end of 2009. This increase was chiefly attributable to additional contribution to equity at the subsidiary undertaking POGC-Libya B.V.

As at June 30th 2010, current assets totalled PLN 5,322.2m, down by 89.2m (or 2%) compared with the end of 2009.

Within current assets, the most significant changes concerned trade and other receivables, which fell by PLN 675.7m (or 18%) compared with the end of 2009. This fall was attributable to the seasonal decrease in the natural gas sales volume, combined with an increase in current loans advanced to PGNiG Norway AS.

During the period under review, inventories rose by PLN 110.0m (or 10%). The inventories disclosed in the balance sheet comprise mainly the gas stored in underground storage facilities. The increase in inventories was caused by higher gas acquisition costs.

Cash and cash equivalents stood at PLN 893.7m and were by PLN 468.5m (or 110%) higher than the figure reported at the end of 2009, primarily due to higher cash provided by current operating activities.

The value and structure of the current assets held by PGNiG S.A. continued to guarantee the Company's full capacity to settle all its liabilities in a timely manner. Liquidity ratios did not change from the end of 2009: current ratio was 1.0, and quick ratio stood at 0,8.

Equity is the primary source of financing of the Company's assets. Relative to the end of 2009, equity increased by PLN 514.2m (or 3%). The level of equity was mainly affected by the net profit generated in the period (of PLN 910.3m) and the payment of non-cash and cash dividend (of PLN 472.0m) as part of distribution of the previous year's profit.

As at June 30th 2010, current liabilities fell by PLN 184.9m (or 4%) relative to the level reported as at December 31st 2009. The level of current liabilities was chiefly the effect of a PLN 299.9m (or 16%) drop in current loans and borrowings following repayment of credit facilities and an increase in current tax liabilities by PLN 117.8m.

The ratios reflecting the relation between equity and other items of equity and liabilities improved. The debt to equity ratio fell from 39.5% to 37.5%, whereas the debt ratio (total liabilities to total equity and liabilities) decreased from 28.3% to 27.3%.

Transactions concluded on non-arms' length terms

In H1 2010, PGNiG S.A. and its subsidiaries did not enter into any material related party transactions on terms other than the market terms.

Guarantees and Sureties

In H1 2010, PGNiG S.A. and its subsidiaries did not issue any sureties in respect of repayment of credit facilities or loans or guarantees to any single entity or its subsidiary whose aggregate value would be equivalent to 10% or more of PGNiG S.A.'s equity.

Feasibility of Meeting Published Performance Forecasts

In H1 2010, the Company did not publish any financial forecasts.

2. Projected Future Financial Performance

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

Prices of crude oil and petroleum products have been moderately rising on global markets for over a year. If this trend continues in the forthcoming periods, the Company will benefit from relatively stable prices of imported gas.

The situation on currency markets exerts a major influence on the financial results posted by PGNiG S.A. Since April 2010, the US dollar has been rapidly appreciating against the złoty. The strengthening of the US dollar has an adverse effect on the costs of purchase of imported high-methane gas. If the US dollar appreciates further, the profitability of high-methane gas trading may deteriorate.

Although the current tariffs have been approved to stay in effect until November 2010, PGNiG S.A. has filed a new application with the President of the Energy Regulatory Office requesting approval of the PGNiG S.A. Gaseous Fuel Tariff which would apply in settlements with customers from September 2010. The requested increase of natural gas selling prices is justified by the appreciation of the US dollar. Future margins on natural gas trading will substantially depend on the decision of the President of the Energy Regulatory Office regarding the rates and charges for gaseous fuels in the revised tariff.

The Company has taken steps to secure financing for its day-to-day operations and extensive investment activity. On June 10th 2010, PGNiG S.A. executed an agreement with six banks (Pekao SA, ING Bank Śląski SA, PKO BP SA, Bank Handlowy w Warszawie SA, Societe Generale SA and BNP Paribas SA Polish Branch) concerning a bond issue programme with a value of up to PLN 3.0bn (the "Programme"). Under the Programme, effective until July 31st 2013, PGNiG S.A. will be able to issue discount and coupon bonds with maturities ranging from one month to one year. Proceeds from the first issue were used to repay a multi-currency loan which matured on July 27th 2010, and proceeds from subsequent issues will be used to meet general liquidity needs.

Although PGNiG S.A. has funds which ensure timely financing of all its current and planned expenditure related to the core business and investing activities, to enhance its safety the Company has a liquidity reserve in the form of overdraft facility agreements (for a total amount of PLN 240.0m).

In H2 2010, PGNiG S.A. intends to maintain a high level of capital expenditure on investments, including mainly investment projects designed to enlarge 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.

Management Board

President	Michał Szubski	________________
Vice-President	Radosław Dudziński	________________
Vice-President	Sławomir Hinc	________________
Vice-President	Marek Karabuła	________________
Vice-President	Mirosław Szkałuba	________________
Vice-President	Waldemar Wójcik	________________