

**POLSKIE GÓRNICTWO NAFTOWE
I GAZOWNICTWO S.A.
WARSAW, UL. M. KASPRZAKA 25**

**FINANCIAL STATEMENTS
FOR THE 2009 FINANCIAL YEAR
WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

TABLE OF CONTENTS

AUDITOR'S OPINION 3

**REPORT SUPPLEMENTING THE OPINION ON THE AUDIT
OF THE FINANCIAL STATEMENTS OF POLSKIE GÓRNICTWO
NAFTOWE I GAZOWNICTWO S.A. FOR THE 2009 FINANCIAL
YEAR..... 5**

I. GENERAL INFORMATION..... 5

1. Details of the audited Company 5

2. Information on the financial statements for the previous financial year 9

3. Details of the authorized entity and the Certified Auditor acting on its behalf..... 9

4. Availability of data and management's representations 9

5. Economic and financial position of the Company..... 10

II. DETAILED INFORMATION 11

1. Evaluation of the accounting system 11

2. Information on the audited financial statements..... 11

3. Information on selected material items of the financial statements 12

4. Completeness and correctness of drawing up notes and explanations and
the report on the activities of the entity 13

5. Final information and findings 13

**FINANCIAL STATEMENTS OF POLSKIE GÓRNICTWO NAFTOWE
I GAZOWNICTWO S.A. FOR THE 2009 FINANCIAL YEAR**

1. Statement of financial position

2. Statement of comprehensive income

3. Statement of changes in equity

4. Statement of cash flow

5. Notes, comprising adopted summary of significant accounting policies and other
explanatory information.

REPORT ON ACTIVITIES OF THE COMPANY

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo S.A.

We have audited the attached financial statements of Polskie Górnictwo Naftowe i Gazownictwo S.A. with registered office in Warsaw, ul. M. Kasprzaka 25, including:

- statement of financial position prepared as of 31 December 2009, with total assets and liabilities plus equity of PLN 24,183,549 thousand,
- income statement for the period from 1 January 2009 to 31 December 2009, disclosing a net profit of PLN 665,874 thousand,
- Statement of comprehensive income for the period from 1 January 2009 to 31 December 2009, disclosing a comprehensive income of PLN 689,331 thousand,
- statement of changes in equity for the period from 1 January 2009 to 31 December 2009, disclosing an increase in equity of PLN 158,331 thousand,
- cash flow statement for the period from 1 January 2009 to 31 December 2009, showing a net cash outflow of PLN 382,931 thousand,
- notes, including information on the adopted accounting policy and other explanatory notes.

Preparation of these financial statements is the responsibility of the Management Board of the Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these financial statements and the correctness of the underlying accounting records.

Our audit of the financial statements was planned and performed in accordance with:

- section 7 of the Accounting Act of 29 September 1994 (Journal of Law from 2009, No. 152, item 1223 with subsequent amendments),
- auditing standards issued by the National Council of Certified Auditors in Poland

in such a way as to obtain reasonable and sufficient basis for expressing an opinion as to whether the financial statements were free of material misstatements. Our audit included in particular examination, largely on a test basis, of the accounting evidence and records supporting the amounts and disclosures in the financial statements, assessment of the accounting principles (policy) applied and material estimates made by the Management Board, as well as evaluation of the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited financial statements of Polskie Górnictwo Naftowe i Gazownictwo S.A. for the 2009 financial year were prepared in all material respects to the Act of 29 September 1994 on accounting books and give true and fair view of all the information essential for evaluating the financial position and financial profit/loss of the Company for the 12-month period ended 31 December 2009 in accordance with the International Financial Reporting Standards as endorsed by the European Union.

The Report on the Company's activities in the 2009 financial year is complete in the meaning of Article 49 clause 2 of the Accounting Act and regulation of the Finance Minister's Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states and consistent with underlying information disclosed in the audited financial statements.

.....
Maria Rzepnikowska
Certified Auditor
No. 3499/1028

.....
represented by

.....
Entity entitled to audit
financial statements entered under
number 73 on the list kept by the
National Council of Certified Auditors

Warsaw, 3 March 2010

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT SUPPLEMENTING THE OPINION ON THE AUDIT OF THE FINANCIAL
STATEMENTS OF POLSKIE GÓRNICTWO NAFTOWE
I GAZOWNICTWO S.A. FOR THE 2009 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Company

The Company operates under the name POLSKIE GÓRNICTWO NAFTOWE I GAZOWNICTWO S.A. (PGNiG S.A.). The Company's registered office is located in Warsaw, ul. M. Kasprzaka 25.

The Company operates as a joint stock company established by the notarized deed of 21 October 1996 before notary public Paweł Błaszczak in Warsaw (Repertory A No. 18871/96). The Company was registered in the Commercial Register kept by the District Court, XVI Business and Registry Department in Warsaw, RHB number 48382, based on the decision of 27 December 2001. Currently, the Company is recorded in the enterprise register kept by the District Court of the capital city of Warsaw, XX Business Registry Division of the National Court Register in Warsaw under number KRS 0000059492.

The Company has a tax identification number NIP: 525-000-80-28, assigned by the Second Tax Office Warszawa-Śródmieście on 22 November 1996.

The REGON number assigned to the Company by the Statistical Office on 14 November 1996 is: 012216736.

The Company operates based on the provisions of the Code of Commercial Companies.

The scope of the Company's business activities in accordance with its Articles of Association includes:

- production of crude oil,
- production of natural gas,
- services related to exploration of crude oil and natural gas fields,
- mining of sulphur-bearing materials,
- other mining, n.e.c.,
- production of crude oil and refined products,
- reprocessing crude oil and refined products,
- services related to installation, repair and maintenance of machines for mining and building industry,
- production of electricity,
- transmission of electricity,
- distribution of electricity,
- production of gas fuels,
- distribution of gas fuels through the network,
- production of heat (steam and hot water),
- distribution of heat (steam and hot water),
- geological and engineering excavations and drilling,
- execution of general construction works in respect to line structures: pipelines, power lines, electrical traction and telecommunication– transmission lines,

- execution of general construction works in respect to line structures: pipelines, power lines, electrical traction and telecommunication– industry lines,
- central heating and ventilation installations,
- gas installations,
- service and repair of motor vehicles,
- retail sale of fuels,
- wholesale of solid, liquid and gas fuels and derivative products,
- wholesale of semi-finished products,
- other specialized wholesale trade,
- hotels and motels with restaurant,
- hotels and motels without restaurants,
- cargo road transport by specialized vehicles,
- cargo transport by road, using general-purpose vehicles,
- pipeline transport,
- warehousing and storage of goods in other storage areas,
- travel agencies,
- fixed line telephony and telegraphy,
- mobile telephony,
- data transmission, information and communication technology,
- radio communications,
- research and development work in technical sciences,
- geological and exploration activity,
- surveying and mapping,
- rental of real property on own account,
- management of residential real property,
- management of non-residential real property,
- purchase and sales of real property on own account,
- non-public libraries,
- archives,
- museums,
- technical tests and analyses,
- leasing of the Company's assets dedicated to transmission of energy and gas,
- other financial brokerage services,
- holdings,
- other printing operations, not elsewhere classified,
- DTP and typesetting services,
- auxiliary graphics services,
- service activity related to installation, repair and maintenance of measurement, control, research, testing and navigation instruments and equipment,
- heating, water, ventilation and gas installations,
- brokerage sales of fuels, ore, metals and industrial chemicals,
- activities of agents involved in the sales of various goods,
- wholesale trade of metal products and equipment as well as additional plumbing and heating equipment,
- other retail sale in non-specialized stores,
- finance lease,
- auxiliary financial services related to insurance and pension-retirement funds,
- rental of machines and equipment,
- data processing,
- activity related to databases,
- other IT-related services,

- accounting and bookkeeping services,
- advertisement,
- Call Center services,
- other commercial activity, n.e.c.,
- property management services,
- other short-term accommodation, n.e.c..

In the audited period, the Company business activity included exploration and exploitation of crude oil and gas fields, general construction work regarding pipelines and mines, sales of crude oil and natural gas, lease of the Company's assets used for transmission of energy and gas.

As at 31 December 2009, the Company's equity amounted to PLN 5,900,000,000 and was divided into:

- 1) 4,250,000,000 A series bearer shares with face value of PLN 1 each,
- 2) 750,000,000 A1 series bearer shares with face value of PLN 1 each,
- 3) 900,000,000 B series bearer shares with face value of PLN 1 each.

As at 31 December 2008, the Company's shareholders included:

- State Treasury – 72,94% of shares,
- Publicly traded shares – 27,06% of shares.

No changes in the Company's share capital took place during the financial year.

No changes in the Company's shareholding structure took place in the audited period.

No changes in the Company's share capital took place after the balance sheet date.

As of 31 December 2009, the Company's total equity amounted to PLN 17,339,703 thousand.

The Company's financial year is the calendar year.

The Company has the following related parties:

- Karpacka Spółka Gazownictwa Sp. z o.o. - 100% of shares
- Górnośląska Spółka Gazownictwa Sp. z o.o.-100% of shares
- Mazowiecka Spółka Gazownictwa Sp. z o.o. - 100% of shares
- Wielkopolska Spółka Gazownictwa Sp. z o.o. - 100% of shares
- Pomorska Spółka Gazownictwa Sp. z o.o. - 100% of shares
- Dolnośląska Spółka Gazownictwa Sp. z o.o. - 100% of shares
- Górnictwo Naftowe Sp. z o.o.- 100% of shares
- PNIG Jasło Sp. z o.o.- 100% of shares
- PNIG Kraków Sp. z o.o.- 100% of shares
- Geovita Sp. z o.o.- 100% of shares
- PN Diament Sp. z o.o.- 100% of shares
- PNIG Nafta Piła Sp. z o.o.- 100% of shares
- BUG Gazobudowa Sp. z o.o.- 100% of shares
- GK Geofizyka Kraków Sp. z o.o.- 100% of shares
- Geofizyka Toruń Sp. z o.o.- 100% of shares
- BN Naftomontaż Sp. z o.o. - 88,83% of shares
- Zakład Robót Górniczych Krosno Sp. z o.o. –100% of shares
- ZUN Naftomet Sp. z o.o.- 100% of shares
- ZRUG Sp. z o.o. (in Pogórska Wola)- 100% of shares

- BUD-GAZ Sp. z o.o.- 100% of shares
- Investgas S.A.- 100% of shares
- PGNiG Norway AS – 100% of shares
- BSiPG Gazoprojekt S.A.- 75% of shares
- PI Gazotech Sp. z o.o.- 69,44% of shares (46,30% of votes)
- PPUiH TURGAZ Sp. z o.o. under liquidation - 51,14% of shares
- Nysagaz Sp. z o.o.- 51% of shares
- InterTransGas GmbH- 50% of shares
- "Polskie Elektrownie Gazowe" Sp. z o.o. under liquidation - 48% of shares
- SGT EuRoPol Gaz S.A.- 49,74% of shares
- PFK Gaskon S.A.- 45,94% of shares
- Gas Trading S.A.- 43,41% of shares
- ZWUG Intergaz Sp. z o.o. – 38,30% of shares
- Dewon S.A. – 36,38% of shares
- Sahara Petroleum Technology Llc under liquidation - 49% of shares
- Gazomontaż S.A.- 45,18% of shares
- ZRUG Sp. z o.o. (in Poznań) - 40,06% of shares (41,71% of votes)
- HS "Szczakowa" S.A. in bankruptcy (liquidation of assets) – 33,30% of shares
- ZRUG Toruń S.A.- 31,33% of shares
- ZRUG Zabrze Sp. z o.o.- 11,43% of shares
- "TE-MA" WOC Małaszewicze Terespol Sp. z o.o. in liquidation - 20,97% of shares (21,32% of votes)
- Zakłady Azotowe w Tarnowie-Mościcach S.A. – 10,23% of shares,
- Polish Oil and Gas Company Libya B.V. – 100% of shares,
- PGNiG Energia S.A. – 100% of shares,
- Agencja Rynku Energii S.A. – 7,27% of shares (12,70% w głosach)
- Polski Serwis Płynów Wiertniczych Sp. z o.o. – 14% of shares (15,56% w głosach)
- Walcownia Rur „Jedność” Sp. z o.o. In bankruptcy – 8,30% of shares,
- Polskie Konsorcjum Energetyczne Sp. z o.o. – 9,50% of shares.

As at the opinion date, the composition of the Company's Management Board was as follows:

- Michał Szubski - Chairman of the Board,
- Mirosław Dobrut – Vice Chairman of the Management Board in Charge of Gas Production and Trade,
- Radosław Dudziński – Vice Chairman of Management Board in Charge of Strategy,
- Sławomir Hinc – Vice Chairman of the Management Board in Charge of Finance,
- Mirosław Szkałuba – Vice Chairman of the Board in Charge of HR and Restructuring,
- Waldemar Wójcik – Vice Chairman of the Board in Charge of Oil Mining.

The following change in the Company's Management Board took place during the audited period:

On 28 January 2009, the Supervisory Board of PGNiG S. A. appointed Waldemar Wójcik for the position of Member of the Management Board, Vice President in Charge of Oil Production.

The above change was filed and recorded in the proper court register.

2. Information on the financial statements for the previous financial year

The activities of the Company in 2008 resulted in a net profit of PLN 546,236 thousand. The Company's financial statements for the 2008 financial year were audited by a certified auditor. The audit was performed by authorized entity Deloitte Audyt Sp. z o.o. On 7 April 2009, the certified auditor issued an unqualified opinion on these financial statements.

The General Shareholders' Meeting which approved the financial statements for the 2008 financial year was held on 23 June 2009. The General Shareholders' Meeting decided on the following distribution of the net profit for 2008 of PLN 546,236 thousand and retained earnings in the amount of PLN 42,324 thousand.

Distribution of net profit for 2008:

- contribution to supplementary capital – PLN 1,436 thousand
- dividends to shareholders – PLN 531,000 thousand
- write-off to the Company's Social Benefits Fund – PLN 8,800 thousand
- central restructuring fund – PLN 5,000 thousand

Distribution of retained earnings:

- bonus fund – PLN 39,769 thousand
- contribution to supplementary capital – PLN 2,555 thousand

In accordance with applicable laws, the financial statements for the 2008 financial year were submitted to the National Court Register (KRS) on 1 July 2009 and submitted for publication in Monitor Polski B on 1 July 2009. The financial statements were published in Monitor Polski B No. 2050 on 27 October 2009.

3. Details of the authorized entity and the Certified Auditor acting on its behalf

The audit of the financial statements was performed based on the agreement of 16 August 2007 concluded between Polskie Górnictwo Naftowe i Gazownictwo S.A. and Deloitte Audyt Sp. z o.o. with registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit was conducted under the supervision of a certified auditor Maria Rzepnikowska (No. 3499), at the Company's premises from 14 January to 3 March 2010.

The authorized entity was appointed by the Supervisory Board by resolution of 26 July 2007 based on authorization referred to in Article 33 the Company's Articles of Association.

Deloitte Audit Sp. z o.o. and the certified auditor Maria Rzepnikowska confirm that they are authorized to carry out audits and meet the requirements of Article 66 clauses 2 and 3 of the Accounting Act to express an unbiased and independent opinion on the financial statements of Polskie Górnictwo Naftowe i Gazownictwo S.A.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorised entity and the Certified Auditor, as confirmed e.g. in the written representation of the Management Board of 3 March 2010.

5. Economic and financial position of the Company

Presented below are main items from the income statement as well as financial ratios describing the financial profit/loss of the Company and its economic and financial situation compared with the previous years.

<u>Main items from the income statement (in PLN '000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Sales revenue	18,578,265	18,038,820	15,119,944
Operating expenses	18,204,983	17,745,871	13,001,973
Financial revenue	699,891	379,770	481,542
Financial expenses	349,905	107,848	178,481
Income tax	57,394	18,635	266,111
Net profit (loss)	665,874	546,236	2,154,921
Total comprehensive income	689,331	506,405	

<u>Profitability ratios</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
– gross profit margin	2%	2%	14%
– net profit margin	4%	3%	14%
– net return on equity	4%	3%	14%

<u>Effectiveness ratios</u>			
– assets turnover ratio	0.77	0.77	0.64
– receivables turnover in days	61	60	47
– liabilities turnover in days	52	41	28
– inventory turnover in days	27	27	32

<u>Liquidity/Net working capital</u>			
– debt ratio	28%	27%	24%
– equity to fixed assets ratio	72%	73%	76%
– net working capital (PLN '000)	206,342	2,009,800	2,632,773
– current ratio	1.04	1.47	1.67
– quick ratio	0.83	1.10	1.40

The analysis of the above figures and ratios indicated the following trends occurring in 2009:

- An increase in net profit margin and net return on equity
- An increase in receivables and liabilities turnover
- An increase in debt ratio

- A decrease in current and quick ratio

II. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation describing the accounting principles (policy) applied, including in particular: definition of the financial year and reporting periods thereof, methods of measuring assets and liabilities, and determining the financial profit/loss, method of keeping the accounting records and the system of data and file protection. The documentation of the accounting policy was developed in line with the Accounting Act and in relation to measurement of assets, liabilities and equity, as well as presentation of the financial statements, in accordance with International Financial Reporting Standards as endorsed by the EU; the policy was approved for use effective 1 January 2007 by a resolution of the Management Board no. 341/2007 of 17 May 2007 amended by a resolution no. 210/2008 of 23 April 2009, resolution no. 144/2009 of 24 March 2009 and resolution no. 614/2009 of 24 November 2009 – effective 1 January 2009. Basic methods of measuring assets and liabilities, and the financial profit/loss were presented in the explanatory notes.

The Company uses SAP computerized accounting system, which allows for recording all business transactions occurring in the Company. Apart from SAP, the Company uses the Kadrowo-Placowy module of Warsoft. The SAP system is password protected against unauthorized access and has functional access controls. The description of the information system complies with the requirements of Article 10 clause 1 point 3 letter c) of the Accounting Act.

The opening balance resulting from the approved financial statements for the prior financial year was properly introduced into the accounting records of the audited period.

In the audited sample, the documentation of business transactions, the accounting records and the relationships between the accounting entries financial documents and financial statements comply with requirements of section 2 of the Accounting Act.

The accounting records and vouchers, the documentation of the accounting system and the approved financial statements of the Bank are stored in compliance with section 8 of the Accounting Act.

The Company performed a reconciliation of assets and liabilities within the scope, timing and frequency provided for in the Accounting Act. Identified differences were recorded and settled in the accounting records for the audited period.

2. Information on the audited financial statements

The audited financial statements were prepared as at 31 December 2009 and include:

- statement of financial position prepared as of 31 December 2009, with total assets and liabilities plus equity of PLN 24,183,549 thousand,
- income statement for the period from 1 January 2009 to 31 December 2009, disclosing a net profit of PLN 665,874 thousand,

- Statement of comprehensive income for the period from 1 January 2009 to 31 December 2009, disclosing a comprehensive income of PLN 689,331 thousand,
- statement of changes in equity for the period from 1 January 2009 to 31 December 2009, disclosing an increase in equity of PLN 158,331 thousand,
- cash flow statement for the period from 1 January 2009 to 31 December 2009, showing a net cash outflow of PLN 382,931 thousand,
- notes, including information on the adopted accounting policy and other explanatory notes.

The structure of assets and liabilities plus equity as well as items affecting the financial profit/loss were correctly presented in the financial statements.

3. Information on selected material items of the financial statements

Tangible fixed assets

The Company's tangible fixed assets include:

- fixed assets of PLN 6,484,570 thousand,
- fixed assets under construction of PLN 3,242,300 thousand,

Explanatory notes correctly describe changes in fixed assets and fixed assets under construction, including disclosure of any revaluation write-downs on such assets.

Long-term investments

The Company's long-term investments include:

- available-for-sale financial assets
(including listed and non-listed shares) of PLN 6,219,361 thousand,
- originated loans of PLN 2,216,818 thousand
- finance lease receivables of 283,285 thousand
- other long-term investment of PLN 7,468 thousand

Explanatory notes correctly describe changes in investments during the financial year.

Structure of inventory

The structure of inventory was correctly presented in the respective explanatory note.

Structure of receivables

The ageing analysis of trade receivables was correctly presented in the respective explanatory note. The audited sample did not include expired or redeemed receivables.

Liabilities

The ageing analysis and liabilities by type were correctly presented in the respective explanatory note. Key items of the Company's liabilities include:

- trade liabilities in the amount of PLN 1,069,876 thousand
- public law liabilities in the amount of PLN 793,329 thousand
- liabilities due to loans, borrowings and debt securities of PLN 1,904,065 thousand
- other liabilities in the amount of PLN 496,490 thousand

The nature of contracted loans and a description of how they are secured have been presented in explanatory notes. The audited sample did not include expired or redeemed liabilities.

Prepayments, accruals and provisions for liabilities

The structure of the above items is correctly described in the respective explanatory notes.

Expenses and revenues settled over time were correctly classified in respect to the audited financial year.

Provisions for liabilities were determined at reliably estimated amounts.

The items are recognised completely and correctly in all material respects in relation to the financial statements as a whole.

4. Completeness and correctness of drawing up notes and explanations and the report on the activities of the entity

The Company confirmed the validity of the going concern principle followed in preparing the financial statements. The notes give a correct and complete description of valuation principles applied to assets and liabilities, principles of measuring the financial profit/loss and preparing the financial statements.

Limitations imposed on individual assets disclosed in the balance sheet arising from security granted to creditors were described.

The explanatory notes fully describe the reporting items and present the remaining data required by IFRS in a clear manner.

The financial statements were supplemented with the Management Board's report on the activities of the Company in the 2009 financial year. The report contains all information required under Article 49 clause 2 of the Accounting Act and the Minister of Finance's ordinance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to render information required by non-member state regulations as equivalent. We have audited the report in respect to the disclosed information derived directly from the audited financial statements.

5. Final information and findings

Management Board's Representation

Deloitte Audyt Sp. z o.o. and the Certified Auditor received a representation letter from the Company's Management Board, in which the Board stated that the Company complied with the laws in force.

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Maria Rzepnikowska
Certified Auditor
No. 3499/1028

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Represented by

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Entity entitled to audit
financial statements entered under
number 73 on the list kept by the
National Council of Certified Auditors

Warsaw, 3 March 2010