Polskie Górnictwo Naftowe i Gazownictwo SA

DIRECTORS' REPORT ON PGNiG S.A.'S OPERATIONS IN 2007

Warsaw, April 4th 2008

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Chapter I: General Information on the Company

1. Establishment of the Company

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (PGNiG S.A.), with registered offices 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).

The Minister of State Treasury executed the Deed of Transformation pursuant to the Regulation of the President of the Polish Council of Ministers of September 30th 1996 on transformation of the state-owned enterprise Polskie Górnictwo Naftowe i Gazownictwo of Warsaw into a state-owned stock company.

On October 30th 1996, the Company was entered in the commercial register under the name Polskie Górnictwo Naftowe i Gazownictwo S.A. of Warsaw under entry No. RHB 48382. 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.

With a view to implementing the Restructuring and Privatisation Programme for PGNiG adopted by the Polish Council of Ministers on October 5th 2004, by virtue of a decision issued by the Polish Securities and Exchange Commission, PGNiG S.A. shares were admitted to public trading on May 24th 2005.

On October 6th 2005, the District Court for the Capital City of Warsaw registered a share capital increase at PGNiG S.A. Following the increase, the Company's share capital amounts to PLN 5.9b and is divided into 5,900,000,000 shares, including:

- 4,250,000,000 Series A bearer shares with an aggregate par value of PLN 4,250m,
- 750,000,000 Series A1 bearer shares with an aggregate par value of PLN 750m,
- 900,000,000 Series B bearer shares with an aggregate par value of PLN 900m.

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. Core Business

PGNiG S.A. is the largest company in Poland dealing with exploration, production and trade in natural gas. PGNiG S.A. is the leader across all areas of the domestic gas sector, i.e. natural gas imports, exploration work, production of crude oil and natural gas, storage of gaseous fuels and sale of natural gas.

Pursuant to its Articles of Association, the Company engages in production, service and trade activities. The scope of the Company's core business is as follows:

- exploration, management and exploitation of crude oil and natural gas deposits as well as sulphur-containing minerals;
- production and processing of refined petroleum products;
- production and distribution of gaseous fuels;
- wholesale and retail sale of fuels;

- test drilling and boring;
- geological and exploration activities, geodetic and cartographic activities;
- production, transmission and distribution of electricity;
- lease, management, purchase and sale of real estate;
- lease of particular items of the Company's property used for electricity and gas transmission;
- distribution of gaseous fuels through mains.

Pursuant to its Articles of Association, the Company performs activities aimed at ensuring energy security of Poland. These relate in particular to the following:
- ensuring continuity of gas supplies to consumers and maintaining necessary reserves;
- ensuring safe operation of gas networks;
- ensuring gaseous fuels balance, managing operations and capacity of power equipment connected to the common gas distribution network;
- engaging in gas production.

3. Organisational Structure

PGNiG S.A. has a number of branches. As at December 31st 2007, the organisational structure contained the Head Office and eight branches. The table below presents the core activities by individual units:

Branch	Core Activity
Head Office, Warsaw	Corporate supervision Supervision over the PGNiG Group as part of ownership supervision
Odolanów Branch	Conversion of nitrogen-rich natural gas into high-methane gas
Sanok Branch	Production of natural gas and crude oil Maintenance of underground storage facilities Direct sale of off-system natural gas and other products and services Exploration
Zielona Góra Branch	Production of natural gas and crude oil Maintenance of underground storage facilities Direct sale of off-system natural gas and other products and services Exploration
Operating Branch in Pakistan	Exploration of and production from hydrocarbon deposits
Central Measurement and Research Lab, Warsaw	Provision of services to ensure accurate and reliable measurements related to natural gas
Trading Division, Warsaw	Sale of natural gas, crude oil and other products and services
Branch in Libya	Exploration of and production from hydrocarbon deposits
Branch in Egypt	Exploration of and production from hydrocarbon deposits

As at December 31st 2007, PGNiG S.A. had foreign representative offices in Moscow, Brussels, Kiev and also in Belarus.

The following branches and representative offices were established in 2007:

- Representative office in Kiev – on January 24th 2007
- Trading Division in Warsaw – on April 20th 2007
- Branch in Libya – on December 5th 2007

- Branch in Egypt – on December 5th 2007
- Representative office in Belarus – on December 18th 2007.

On January 22nd 2008, a representative office of PGNiG S.A. was established in Yemen, and on January 29th 2008 – a Branch of PGNiG S.A. in Denmark.

4. Equity Links

As at December 31st 2007, PGNiG S.A. held shares in 57 commercial-law companies, including:

- 27 companies in which PGNiG S.A. held over 50% shares or votes;
- 16 companies in which PGNiG S.A. held between 20% and 50% shares or votes;
- 14 companies with the Company's shareholding below 20% of shares or votes.

Total par value of PGNiG S.A.'s equity interests in the commercial-law companies was PLN 6,338.5m as at December 31st 2007.

The companies in which PGNiG S.A. holds 5% or more equity are listed in the table below.

PGNiG S.A.'s equity interests as at December 31st 2007

	Company name	Share capital (PLN)	Shareholding of PGNiG S.A. (PLN)	% of share capital held	% of votes held
	Strategic companies				
1	Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o.	1,310,749,000.00	1,310,749,000.00	100.00%	100.00%
2	Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	1,197,314,000.00	1,197,314,000.00	100.00%	100.00%
3	Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.	930,819,000.00	930,819,000.00	100.00%	100.00%
4	Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.	847,159,000.00	847,159,000.00	100.00%	100.00%
5	Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o.	502,750,000.00	502,750,000.00	100.00%	100.00%
6	Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	546,448,000.00	546,448,000.00	100.00%	100.00%
	Core-business companies				
7	PNiG Jasło Sp. z o.o.	100,000,000.00	100,000,000.00	100.00%	100.00%
8	PNiG Kraków Sp. z o.o.	105,231,000.00	105,231,000.00	100.00%	100.00%
9	PN Diament Sp. z o.o.	62,000,000.00	62,000,000.00	100.00%	100.00%
10	PNiG NAFTA Sp. z o.o.	60,000,000.00	60,000,000.00	100.00%	100.00%
11	GEOFIZYKA Kraków Sp. z o.o.	34,400,000.00	34,400,000.00	100.00%	100.00%
12	GEOFIZYKA Toruń Sp. z o.o.	66,000,000.00	66,000,000.00	100.00%	100.00%
13	Zakład Robót Górniczych Krosno Sp. z o.o.	26,903,000.00	26,903,000.00	100.00%	100.00%
14	B.SiP.G Gazoprojekt S.A.	4,000,000.00	3,000,000.00	75.00%	75.00%
15	SGT EUROPOL GAZ S.A.	80,000,000.00	38,400,000.00	48.00%	48.00%
16	GAS-TRADING S.A.	2,975,000.00	1,291,350.00	43.41%	43.41%

	Special-purpose vehicles				
17	Górnictwo Naftowe Sp. z o.o.	50,000.00	50,000.00	100.00%	100.00%
18	PGNiG Finance B.V. (EUR)*	20,000.00	20,000.00	100.00%	100.00%
19	NYSAGAZ Sp. z o.o.	3,700,000.00	1,887,000.00	51.00%	51.00%
20	InterTransGas GmbH (EUR)*	200,000.00	100,000.00	50.00%	50.00%
21	INVESTGAS S.A.	502,250.00	502,250.00	100.00%	100.00%
22	Polskie Elektrownie Gazowe Sp. z o.o. in liquidation	2,500,000.00	1,212,000.00	48.48%	48.48%
23	Dewon Z.S.A. (UAH)*	11,146,800.00	4,055,205.84	36.38%	36.38%
24	Polskie LNG Sp. z o.o.	39,000,000.00	39,000,000.00	100.00%	100.00%
25	PGNiG Norway AS (NOK)*	497,327,000.00	497,327,000.00	100.00%	100.00%
	Other companies - material				
26	Geovita Sp. z o.o.	86,139,000.00	86,139,000.00	100.00%	100.00%
27	BUG Gazobudowa Sp. z o.o.	39,220,000.00	39,220,000.00	100.00%	100.00%
28	ZUN Naftomet Sp. z o.o.	23,500,000.00	23,500,000.00	100.00%	100.00%
29	ZRUG Sp. z o.o. (in Pogórska Wola)	4,300,000.00	4,300,000.00	100.00%	100.00%
30	BUD-GAZ PPUH Sp. z o.o.	51,760.00	51,760.00	100.00%	100.00%
	Other companies – non-material				
31	BN Naftomontaż Sp. z o.o.	44,751,000.00	39,751,000.00	88.83%	88.83%
32	PI GAZOTECH Sp. z o.o. **	1,203,800.00	65,000.00	69.44%	46.30%
33	PPUiH TURGAZ Sp. z o.o.	176,000.00	90,000.00	51.14%	51.14%
34	Sahara Petroleum Technology Llc (RO)*	150,000.00	73,500.00	49.00%	49.00%
35	PFK GASKON S.A.	13,061,325.00	6,000,000.00	45.94%	45.94%
36	GAZOMONTAŻ S.A.	1,498,850.00	677,200.00	45.18%	45.18%
37	ZRUG Sp. z o.o. (in Poznań)	3,781,800.00	1,515,000.00	40.06%	41.71%
38	ZWUG INTERGAZ Sp. z o.o.	4,700,000.00	1,800,000.00	38.30%	38.30%
39	ZRUG TORUŃ S.A.	4,150,000.00	1,300,000.00	31.33%	31.33%
40	ZRUG Zabrze Sp. z o.o.	2,750,000.00	600,000.00	21.82%	21.82%
41	Polski Serwis Płynów Wiertniczych Sp. z o.o.	250,000.00	35,000.00	14.00%	14.00%
42	TeNET 7 Sp. z o.o . in liquidation	50,000.00	5,000.00	10.00%	10.00%
43	Polskie Konsorcjum Energetyczne Sp. z o.o.	100,000.00	9,500.00	9.50%	9.50%
44	WALCOWNIA RUR JEDNOŚĆ Sp. z o.o.	220,590,000.00	18,310,000.00	8.30%	8.30%
45	Agencja Rynku Energii S.A.	1,376,000.00	100,000.00	7.27%	12.70%
46	ZRUG Warszawa S.A. in liquidation	6,000,000.00	2,940,000.00	49.00%	49.00%
47	TE-MA WOC Małaszewicze Terespol Sp. z o.o. in liquidation	262,300.00	55,000.00	20.97%	20.97%

48	HS Szczakowa S.A. in bankruptcy	16,334,989.44	5,439,494.72	33.30%	33.30%
49	Zakład Remontowy Urządzeń Gazowniczych Wrocław Sp. z o.o. in bankruptcy	1,700,000.00	270,000.00	15.88%	15.88%

* Figures shown in foreign currencies.

** The shares held by one of the shareholders were retired by virtue of a resolution of the Extraordinary General Shareholders Meeting of April 23rd 2004. The share capital and par value of the shares remained unchanged.

5. Changes in Equity Interests

In H1 2007, the following six Gas Trading Companies were registered with the National Court Register:

- Dolnośląska Spółka Obrotu Gazem Sp. z o.o. (on February 21st 2007)
- Górnośląska Spółka Obrotu Gazem Sp. z o.o. (on February 27th 2007)
- Karpacka Spółka Obrotu Gazem Sp. z o.o. (on January 31st 2007)
- Mazowiecka Spółka Obrotu Gazem Sp. z o.o. (on February 12th 2007)
- Pomorska Spółka Obrotu Gazem Sp. z o.o. (on February 8th 2007)
- Wielkopolska Spółka Obrotu Gazem Sp. z o.o. (on January 30th 2007).

Additionally, the share capitals of the Gas Trading Companies were increased as a result of acquisition of the Trading Divisions spun off from the Gas Companies (these changes were registered on June 29th 2007).

Also in H1 2007, share capital reductions at the Gas Trading Companies and their new names listed below were registered with the National Court Register:

- Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. (changes registered on June 27th 2007)
- Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. (changes registered on June 19th 2007)
- Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. (changes registered on June 27th 2007)
- Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. (changes registered on June 26th 2007)
- Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. (changes registered on June 27th 2007)
- Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. (changes registered on June 22nd 2007).

On October 1st 2007, a merger between PGNiG S.A. and the six Gas Trading Companies carried out under Art. 492.1 of the Commercial Companies Code, i.e. by transferring all the assets of the Gas Trading Companies to PGNiG S.A., was registered. The registration of the merger triggered deletion of the Gas Trading Companies from the National Court Register.

On May 21st 2007, Polskie LNG Sp. z o.o. was registered with the National Court Register, with a share capital of PLN 28,000,000. All of the 28,000 shares, with a par value of PLN 1,000 per share, were acquired by PGNiG S.A.

On June 9th 2007, PGNiG Norway AS of Stavanger, Norway, was registered. The company's share capital is NOK 10,000,000. All of the 10,000 shares, with a par value of NOK 1,000 per share, were acquired by PGNiG S.A.

On April 16th 2007, Przedsiębiorstwo Wielobranżowe MED-FROZ S.A. (in liquidation) was deleted from the National Court Register. PGNiG S.A.'s share in the company's share capital was 23.07%.

In 2007, the equity positions held by PGNiG S.A. in subsidiary undertakings were increased as follows:

- PLN 33,000,000 increase in the share capital of GEOFIZYKA Toruń Sp. z o.o., to PLN 66,000,000; the increase was registered with the National Court Register on April 18th 2007;
- PLN 6,381,000 increase in the share capital of PGNiG Kraków Sp. z o.o., to PLN 105,231,000; the increase was registered with the National Court Register on June 15th 2007;
- PLN 101,000 increase in the share capital of Zakład Robót Górniczych Krosno Sp. z o.o., to PLN 26,903,000; the increase was registered with the National Court Register on July 27th 2007;
- PLN 11,000,000 increase in the share capital of Polskie LNG Sp. z o.o., to PLN 39,000,000; the increase was registered with the National Court Register on October 8th 2007;
- NOK 487,327,000 increase in the share capital of PGNiG Norway AS, to NOK 497,327,000; the increase was registered with the National Court Register on November 8th 2007.

The remaining changes in the equity positions held by PGNiG S.A. were related to the following transactions:

- On July 4th 2007, reduction in par value of shares in Huta Stalowa Wola S.A. (HSW S.A.), from PLN 6.86 to PLN 4.75 per share, was registered with the National Court Register. Accordingly, the total par value of PGNiG S.A.' shareholding in HSW S.A. fell to PLN 2,066,069.50. At the same time, the share capital of HSW S.A. was increased. PGNiG S.A. did not participate in the share capital increase. Accordingly, the Company's share in the HSW S.A. share capital fell to 0.85%;
- On August 22nd 2007, a PLN 7,000,000 increase in the share capital of IZOSTAL S.A. was registered with the National Court Register. PGNiG S.A. did not participate in the share capital increase. Accordingly, the Company's share in the IZOSTAL S.A. share capital fell to 4.61%;
- On September 14th 2007, a PLN 2,580,000 increase in the share capital of Agencja Rozwoju Pomorza S.A. was registered with the National Court Register. PGNiG S.A. did not participate in the share capital increase. Accordingly, the Company's share in Agencja Rozwoju Pomorza S.A. share capital fell to 0.64%.

In 2007, two companies in which PGNiG S.A. holds equity interests (Polskie Elektrownie Gazowe Sp. z o.o. and TeNET 7 Sp. z o.o.) were placed in liquidation.

The following changes have occurred since the end of the financial year 2007:

- Another, PLN 11,000,000, increase in the share capital of Polskie LNG Sp. z o.o., to PLN 50,000,000; the increase was registered with the National Court Register on January 7th 2008;
- PLN 286,531,000 increase in the share capital of Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o., to PLN 1,217,350,000; the increase was registered with the National Court Register on January 24th 2008;
- PLN 165,363,000 increase in the share capital of Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o., to PLN 1,476,112,000; the increase was registered with the National Court Register on February 12th 2008;
- PLN 93,391,000 increase in the share capital of Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o., to PLN 596,141,000; the increase was registered with the National Court Register on February 29th 2008;
- On February 4th 2008, amendments to the articles of association of PGNiG Finance B.V. were registered in the Netherlands; under the amended articles of association, the company's name was changed to Polish Oil and Gas Company - Libya B.V. and its business profile was completely redefined;
- On February 5th 2008, the extraordinary general shareholders meeting of Polski Serwis Płynów Wiertniczych Sp. z o.o. adopted a resolution to retire 50 shares held by PPiEZRiG PETROBALTIC S.A. without reducing the share capital; by virtue of a decision adopted on March 10th 2008, PPiEZRiG PETROBALTIC S.A. was deleted from the National Court Register

as a shareholder of Polski Serwis Płynów Wiertniczych Sp. z o.o. Consequently, PGNiG S.A.'s share in the total vote at the General Meeting grew to 15.56%;

- On January 23rd 2008, a court decision was issued declaring WALCOWNIA RUR JEDNOŚĆ Sp. z o.o. bankrupt. The decision is not yet final.

6. Employment

As at December 31st 2007, PGNiG S.A. employed 8,432 staff, i.e. 3,609 staff more than in 2006. Changes in the employment structure which occurred in 2007 resulted mainly from the separation of gas distribution from the trading business and integration of trade activities at PGNiG S.A. As a result of the restructuring process, 3,145 employees of the Gas Companies and 90 employees of the Head Office of PGNiG S.A. were transferred to the Trading Division. In addition, as of January 1st 2007, 142 employees were transferred from the Head Office of PGNiG S.A. to the Sanok and Zielona Góra Branches due to the reorganisation of geologic services.

The table below presents the employment at PGNiG S.A. as at December 31st 2007 and 2006.

Employment at PGNiG S.A. (no. of staff)

	2007	2006
Head Office	604	811
Branches	7,828	4,012
Total	8,432	4,823

Since 2000, PGNiG S.A. has been implementing the "Programme of employment restructuring and employee protection measures for PGNiG S.A. branches and subsidiaries". The programme was extended until the end of 2008. In 2007, 582 employees were covered by the restructuring initiatives.

Chapter II: Governing Bodies

1. Management Board

As stipulated in the Company's Articles of Association, the number of persons on PGNiG S.A.'s Management Board is determined by the Supervisory Board and ranges from two to seven. The members are appointed for the common term of office, which lasts three years. Individual members or the entire Management Board are appointed by the Supervisory Board. The member of the Management Board is appointed following the verification procedure, pursuant to the Regulation of the Council of Ministers on verification procedure for positions of Management Board members in certain companies, dated March 18th 2003 (Dz. U. No. 55, item 476). The Regulation does not apply to Management Board members appointed by employees. Each Management Board member may be removed from office or suspended by the Supervisory Board or the General Shareholders Meeting. As long as the State Treasury remains the Company's shareholder and the average annual headcount exceeds 500 staff, the person elected by the Company employees is appointed to the Management Board.

In 2007, there were no changes in the composition of the Management Board of PGNiG S.A. As at December 31st 2007, the Management Board consisted of the following members:

- Krzysztof Głogowski – President
- Jan Anysz – Vice-President and Financial, HR and Restructuring Director
- Zenon Kuchciak – Vice-President and Trading Director
- Stanisław Niedbalec – Vice-President and Director of Investments and Technology
- Tadeusz Zwierzyński – Vice-President and Director of Strategic Projects.

On March 12th 2008, PGNiG S.A.'s Supervisory Board removed the following members from the Management Board of the Company:

- Krzysztof Głogowski,
- Zenon Kuchciak,
- Stanisław Niedbalec,
- Tadeusz Zwierzyński.

On March 12th 2008, PGNiG S.A.'s Supervisory Board appointed the following members to the Management Board of the Company:

- Michał Szubski – as President
- Mirosław Dobrut – as Vice-President and Director of Investments and Technology
- Sławomir Hinc – as Vice-President and Financial and Economic Director
- Radosław Dudziński – as Vice-President and Director of Strategic Projects.

On March 20th 2008, the Supervisory Board of PGNiG S.A. removed Jan Anysz from the Management Board and appointed Mirosław Szkałuba as Vice-President of the Management Board.

<u>Agreements Concluded with Managing Personnel</u>

Agreements concluded with the President of the Management Board, Vice-President and Trading Director, Vice-President and Director of Technology and Investments, and Vice-President and Director of Strategic Projects, which were in force in 2007, included a clause whereby the Management Board members are guaranteed to receive a severance pay equal to three times monthly salary on the removal from office or termination of the employment contract for reasons other than breach of basic responsibilities related to employment. The agreements concluded with other members of the Management Board, i.e. Vice-President and HR and Restructuring Director and proxies, did not contain such clauses.

In 2007, non-competition agreements concluded with all members of the Management Board continued in force. Non-competition agreements are concluded for 12 months, from the date of termination of the employment relation. In return for non-competition, Management Board members are entitled to monthly compensation of 150% of the average gross remuneration for the last three months, received while under employment relation. Concurrently, non-competition agreements concluded with all proxies continued in force in 2007. Non-competition agreements are concluded for 12 months, from the date of termination of the employment relation. In return for non-competition, proxies are entitled to monthly compensation of 100% of the average gross remuneration for the last three months, received while under employment relation.

2. Proxies

On July 30th 2007, the Management Board of PGNiG S.A. revoked the power of proxy granted to Bogusław Marzec. On August 28th 2007, the Management Board of PGNiG S.A. appointed Bogusław Marzec as proxy. As at December 31st 2007, two persons were appointed as the Company’s proxies:

- Ewa Bernacik
- Bogusław Marzec.

On January 3rd 2008, the Management Board of PGNiG S.A. appointed Jan Czerepok, Waldemar Wójcik and Marek Dobryniewski as proxies. On March 17th 2008, the Management Board of PGNiG S.A. revoked the power of proxy granted to Jan Czerepok.

3. Supervisory Board

Pursuant to the provisions of PGNiG S.A.’s Articles of Association, its Supervisory Board is composed of five to nine members, appointed by the General Shareholders Meeting for a common term of three years. As long as the State Treasury holds an interest in the Company, the State Treasury, represented by the minister competent for matters pertaining to the State Treasury, acting in consultation with the minister competent for economic affairs, has the right to appoint or remove one member of the Supervisory Board. In accordance with PGNiG S.A.’s Articles of Association, the General Shareholders Meeting appoints one independent member to the Supervisory Board. Par. 36.3 of PGNiG S.A.’s Articles of Association stipulates that an independent Supervisory Board member will be elected by way of a separate vote. Written proposals of candidates for the post of an independent Supervisory Board member may be submitted to the Chairman of the General Shareholders Meeting by the shareholders present at the General Shareholders Meeting whose agenda includes election of such Supervisory Board member. Written proposals are to be submitted along with a written statement given by the candidate that he / she accepts being a candidate and meets the independence criteria. If there are no candidates for the position of an independent Supervisory Board member proposed by the shareholders, candidates to the Supervisory Board are put forward by the Supervisory Board. If the Supervisory Board is composed of up to six members, two of them are appointed from among persons nominated by the Company’s employees. In the event of the Supervisory Board being composed of seven to nine members, three of them are appointed from among persons nominated by the Company’s employees.

In 2007, there were no changes in the composition of the Supervisory Board of PGNiG S.A. As at December 31st 2007, the Supervisory Board was composed of the following nine members:

- Andrzej Rościszewski – Chairman
- Piotr Szwarc – Deputy Chairman
- Kazimierz Chrobak – Secretary
- Wojciech Arkuszewski – Member
- Mieczysław Kawecki – Member
- Marcin Moryń – Member
- Mieczysław Puławski – Member
- Mirosław Szkałuba – Member
- Jarosław Wojtowicz – Member.

After the date of this Report, the following changes occurred in the Supervisory Board of PGNiG S.A.:

- On February 7th 2008, Mr Mirosław Szkałuba resigned from the Supervisory Board of PGNiG S.A.
- On February 15th 2008, the Extraordinary General Shareholders Meeting of PGNiG S.A. removed Piotr Szwarc, Jarosław Wojtowicz, Andrzej Rościszewski and Wojciech Arkuszewski from the Supervisory Board.
- On February 15th 2008, the Extraordinary General Shareholders Meeting of PGNiG S.A. appointed Stanisław Rychlicki and Grzegorz Banaszek to the Supervisory Board.

4. Remuneration of Members of the Management and Supervisory Boards

The table below presents the remuneration and awards paid to the Members of the Management Board and Supervisory Board:

Remuneration and awards paid to the Members of the Management Board (PLN thousand)

Name	Total amount of remuneration, benefits and awards paid in 2007	Total amount of remuneration and awards paid in 2007 for performing functions in the governing bodies of subordinated undertakings	Total remuneration paid in 2007
Krzysztof Głogowski	222.7	840.8	1,063.5
Jan Anysz	270.3	178.2	448.5
Zenon Kuchciak	242.3	779.5	1,021.8
Stanisław Niedbalec	251.7	378.0	629.7
Tadeusz Zwierzyński	226.0	130.3	356.3
Ewa Bernacik	251.8	39.6	291.4
Bogusław Marzec	315.0	470.4	785.4

Remuneration and awards paid to the Members of the Supervisory Board (PLN thousand)

Name	Total amount of remuneration, benefits and awards paid in 2007	Total amount of remuneration and awards paid in 2007 for performing functions in the governing bodies of subordinated undertakings	Total remuneration paid in 2007
Andrzej Rościszewski	33.9	-	33.9
Piotr Szwarc	33.9	56.7	90.5
Kazimierz Chrobak	33.9	6.0	39.9
Wojciech Arkuszewski	33.9	-	33.9
Mieczysław Kawecki	33.9	31.9	65.8
Marcin Moryń	33.9	-	33.9
Mieczysław Puławski	33.9	-	33.9
Mirosław Szkałuba	33.9	33.9	67.7
Jarosław Wojtowicz	33.9	-	33.9

5. Changes in Management Policies

In 2007, there were no changes in the Company's or the Group's basic management policies.

Chapter III: Corporate Governance

Corporate Governance Rules in 2007

In a statement published on March 29th 2007, PGNiG S.A. undertook to comply with 49 out of the 53 corporate governance rules set out in "Best Practices in Public Companies 2005". The Company's non-compliance with four rules (No. 2, 20, 28 and 43) is due primarily to certain legal considerations involved in the nature of the Company's operations.

Rule No. 2 (best practices of general shareholders meetings) recommends the need to justify a request for convening a general shareholders meeting and for including specific items in the meeting's agenda. While the Company acknowledges the relevance of this rule, it may not guarantee that each entitled entity would always observe it. Pursuant to Par. 57 of the Company's Articles of Association, a request for convening a General Shareholders Meeting wherein specific matters are submitted for that body's consideration, should be accompanied by a justification of the Management Board together with a written opinion of the Supervisory Board, expect for matters pertaining to members of the Management and Supervisory Boards specified in Par. 56 of the Articles of Association. Accordingly, the Company decided to abstain from adopting Rule No. 2.

Rule No. 20 (best practices of supervisory boards) provides that at least half of the supervisory board members should meet the criteria of being independent. Pursuant to Art. 12 of the Polish Commercialisation and Privatisation Act of August 30th 1996, representatives of employees are included in the composition of the Supervisory Board of PGNiG S.A. Given that the Supervisory Board of PGNiG S.A. is composed of five to nine members appointed by the General Shareholders

Meeting, the Company is not able to ensure that a larger number of independent members sit on its Supervisory Board. It is so because any increase in the number of independent members of the Supervisory Board in relation to the number currently provided for in the Articles of Association would lead to a situation where the State Treasury (as the majority shareholder) would be deprived of the right to appoint a majority of the Supervisory Board's members. PGNiG S.A. fully acknowledges that best corporate practices should encompass the principle whereby supervisory boards include members who meet the criteria of being independent. Nevertheless, the Company was not able to adopt Rule No. 20.

Under Rule No. 28 (best practices of supervisory boards), supervisory boards are obliged to operate in accordance with their publicly available rules of procedure. Such rules of procedure should provide for the appointment of at least two committees: the audit and the remuneration committee. The audit committee should include at least two independent members and at least one member qualified and experienced in accounting and finance. The Company acknowledges the need to ensure that the Company's supervisory function is influenced by an independent member and that the Supervisory Board members have the appropriate qualifications. However, given the fact that – in accordance with the Company's Articles of Association – the Supervisory Board includes only one independent member, the Company chose to abstain from adopting Rule No. 28. No separate audit or remuneration committees were set up at the Company.

Rule No. 43 (best practices in the area of external relations) defines the procedure for selection of an auditor. The procedure requires the audit committee to give its opinion. Given the fact that the Company does not apply Rule No. 28, the Company also chose to abstain from the application of Rule No. 43. An auditor is selected by the Supervisory Board of PGNiG S.A. Pursuant to Par. 33.5 and Par. 33.1.5 of the Articles of Association, selection of an auditor is conditional upon the consent of an independent member of the Supervisory Board.

A report on PGNiG S.A.'s compliance with corporate governance rules in 2007 was attached to its annual report.

<u>Corporate Governance Rules in 2008</u>

PGNiG S.A observes the corporate governance rules embodied in the "Code of Best Practice for WSE Listed Companies" implemented by the Warsaw Stock Exchange as of January 1st 2008, with the exclusion of Rules No. 6, 7 and 8 from Part III of the Code.

The above rules relate to independent members of the Supervisory Board and the audit committee established as part of the Supervisory Board.

Under Rule No. 6 from Part III of the "Code of Best Practice for WSE Listed Companies", at least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. PGNiG S.A. acknowledges the need to ensure that the Company's supervisory function is influenced by independent members. However, according to the Articles of Association of PGNiG currently in effect, the Company's Supervisory Board includes only one independent member. Pursuant to Art. 12 of the Polish Commercialisation and Privatisation Act of August 30th 1996, representatives of employees are included in the composition of the Supervisory Board of PGNiG S.A. The Supervisory Board of PGNiG S.A. is composed of five to nine members appointed by the General Shareholders Meeting. Any increase in the number of independent members of the Supervisory Board in relation to the number currently provided for in the Articles of Association would lead to a situation where the State Treasury (as the majority shareholder) would be deprived of the right to appoint a majority of the Supervisory Board's members.

Under Rule No. 7 from Part III of the "Code of Best Practice for WSE Listed Companies", the Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. The Company agrees with the need to ensure that its supervisory function is influenced by an independent member and that the Supervisory Board members have the appropriate qualifications. However, given the fact that – in accordance with the Company's Articles of Association – the Supervisory Board includes only one independent member, the Company chose to abstain from adopting Rule No. 7 in its current wording. In addition, no separate audit committee has been set up at the Company. However, the Company informs that it will consider compliance with Rule No. 7 when the need to do so arises and when certain circumstances (especially those related to PGNiG S.A.'s ownership structure) change.

Under Rule No. 8 from Part III the "Code of Best Practice for WSE Listed Companies", Annex I to the Commission Recommendation of February 15th 2005 *on the role of non-executive or supervisory directors…* should apply to the tasks and the operation of the committees of the Supervisory Board. As currently there are no committees operating as part of the Company's Supervisory Board, PGNiG S.A. does not observe Rule No. 8.

Nevertheless, bearing in mind the importance of corporate governance standards, the Company will consider recommending to its shareholders an introduction of appropriate solutions (in the form of amendments to the Articles of Association) that would result in an increase in the number of independent members of the Supervisory Board and the establishment of an audit committee.

PGNiG S.A. incorporates the corporate governance rules in its internal corporate documents, that is the Rules of Procedure for the Management Board, for the Supervisory Board and for the General Shareholders Meeting, as well as other internal procedures guaranteeing transparency and rationality of decisions adopted by the Company's governing bodies. The rules applied by PGNiG S.A. reflect justified interests of the Company and its shareholders to the extent expected by the market.

Chapter IV: Regulatory Environment

The key laws regulating the activities of PGNiG S.A. are:

- Polish Energy Law of April 10th 1997 (Dz.U. of September 1st 2003, No. 153, item 1504, as amended) – with respect to the activities in the area of trade in gaseous fuels, gas distribution and storage of gaseous fuels.
- Act on Reserves of Crude Oil, Petroleum Products and Natural Gas, as well as Rules of procedure to be followed when the state's fuel security is threatened or the petroleum market is disturbed, dated February 16th 2007 (Dz.U. of March 23rd 2007, No. 52, item 343) – with respect to the activities in the area of international trade in natural gas.
- Polish Geological and Mining Law of February 4th 1994 (Dz.U. of March 1st 1994, No. 27, item 96, as amended) – with respect to production activities and related sales of gas.

1. Polish Energy Law

PGNiG S.A.'s activities in the area of trade in gaseous fuels are regulated and require a licence granted and tariff approved by the President of URE. The tariff specifies prices of gaseous fuels.

Pursuant to the provisions of the Polish Energy Law implementing Directive 2003/55/EC, on July 1st 2007, PGNiG S.A. carried out a legal separation of trade and distribution.

In 2007, the Act on amendment to the Polish Energy Law, dated June 15th 2007 (Dz. U. of June 29th 2007, No. 115, item 790) came into force. The provisions of the Act regulate the process of separation of trade and distribution activities as conducted by the vertically integrated undertakings. The Act ensures smooth operation of the undertakings whose business consists in distribution and trade, as well as new undertakings engaged in trade established by way of a spin-off.

In 2007, the binding secondary legislation concerning tariffs, connections and restrictions was issued under the previous wording of the Energy Law, prior to the amendment of May 3rd 2005; consequently, it did not provide for the preparation of a tariff for a comprehensive service, provided for in the currently binding Polish Energy Law.

On February 20th 2008, the Regulation of the Minister of Economy and Labour on detailed rules for preparing and calculating tariffs for gaseous fuels and on settlements in gaseous fuels trade (Dz. U. of February 20th 2008, No. 28, item 165) became effective.

In 2007, the Regulation of the Minister of Economy and Labour on detailed rules for functioning of the gas system was prepared and submitted for public consultations. Until the date of preparation of this Directors' Report, the Regulation has not been implemented.

1.1. Licences

As a result of the integration of PGNiG S.A.'s trading activities, in 2007 the Company acquired by succession six licences for trade in gaseous fuels, two licences for international trade in natural gas and one licence for trade in liquid fuels from the Gas Trading Companies.

As at December 31st 2007, the Company held the following licences granted by the President of URE:

- one licence for transmission and distribution of gaseous fuels,
- seven licences for trade in gaseous fuels,

- three licences for international trade in natural gas,
- one licence for storage of gaseous fuels,
- two licences for trade in liquid fuels.

On November 7th 2007, the Company filed a request to the President of URE for adjusting the licences to the new conditions of conducting business by PGNiG S.A. and for extending until December 31st 2025 the validity of the licences for:
- trade in gaseous fuels,
- international trade in natural gas,
- trade in liquid fuels.

Until the date of preparation of this Directors' Report, the President of URE has issued no decisions with respect to the abovementioned proceedings.

The objective of the proceedings pending with respect to the licences for international trade in natural gas and trade in liquid fuels, among other things, is to make the Company actually hold only one licence for each type of activity.

On February 18th and February 19th 2008, the President of URE issued decisions where he declared that six licences for trade in gaseous fuels granted to the Gas Trading Companies had expired consequently to deletion of those entities from the relevant register.

On November 14th 2007, the Company filed a request to the President of URE for maintaining the existing licence for transmission and distribution at least until its expiry date. The respective proceedings are pending.

1.2. Tariff Policy

The crucial factor determining PGNiG Group's regulated business is the dependence of the Group's revenue on tariffs which are subject to approval by the President of URE. Tariff prices are crucial for the Company's ability to generate revenue that can cover the incurred justified costs plus return on capital employed. Currently, this revenue depends on regulated selling prices of gaseous fuels. The gas prices are directly connected with the applied tariff preparation methodology.

The rules for determination of tariffs are stipulated in secondary legislation to the Polish Energy Law, and especially in the Tariff Regulation. In spite of a number of amendments to the Polish Energy Law, a lack of secondary legislation and Tariff Regulation protracted the proceedings aimed to obtain the President of URE's approval of PGNiG S.A. tariff. The proceedings commenced on November 14th 2007 and by the date of this Directors' Report no tariff for gaseous fuels has been approved.

The applied tariff preparation methodology is based on the determination of prices and charge rates against forecast costs and gas sales targets. In accordance with the guidelines issued by the regulatory authority (the President of URE), calculation of prices of gaseous fuels included the cost of acquisition of natural gas from all possible sources, that is of both imported and domestically produced gas. In practice this means that both international trade and domestic production are subject to regulated pricing. Given that the current prices of imported gas are higher than those of domestically produced gas, the inclusion of production cost for gas from domestic sources in the cost basket, taken into account in pricing, resulted in a situation where the tariff prices (applicable in settlements with customers) were determined below the level that would have been set based on the cost of acquisition of imported gas.

In the settlements with customers with which PGNiG S.A. had concluded agreements for sale of gaseous fuels with the delivery to points of acceptance were regulated by the settlement rules and charge rates specified in subsequent tariffs approved by the President of URE.

On November 8th 2006, Karpacka Spółka Gazownictwa Sp. z o.o. filed a request to the President of URE for exempting the Company from the obligation to submit for approval tariffs for compressed natural gas used in motor vehicles. On June 15th 2007, the President of URE issued a decision whereby he exempted the Company from the obligation to submit tariffs for compressed natural gas for approval, stating that the compressed natural gas market, on which the requesting party operates, complies with the requirements for a competitive market within the meaning of Art. 49 of the Polish Energy Law.

In August and September 2007, the Gas Trading Companies filed requests for exempting them from the obligation to submit for approval tariffs for compressed natural gas used in motor vehicles. As a result of integration of PGNiG S.A.'s trading activities, by succession the Company has taken over and continues as a party to the abovementioned proceedings.

On March 28th 2008, the President of URE issued a decision whereby he exempted the Company from the obligation to submit for approval tariffs for compressed natural gas used in motor vehicles.

1.3. Changes in Tariffs

In 2007, settlements with customers were made according to Tariff No. 4 for Gaseous Fuels approved by the President of URE on March 17th 2006; the Tariff contained the following price adjustments made at PGNiG S.A.'s request:

- By virtue of a decision of December 15th 2006, the Tariff was extended until March 31st 2007, and new prices of gaseous fuels were approved; following the tariff changes effected as at January 1st 2007, the prices of gaseous fuels increased by 9.9%.
- By virtue of a decision of March 14th 2007, the Tariff was extended until September 30th 2007.
- By virtue of a decision of August 17th 2007, the Tariff was extended until December 31st 2007, for it is reasonable to set new tariff upon completing the process of integration of trading business and publication of secondary legislation to the current Polish Energy Law.

Prices and charge rates used in settlements with customers in 2007:

- Prices of gaseous fuels

Gas type	Price applicable in settlements in 2007
	PLN/m3
High-methane gas E	0.7788
Nitrogen-rich gas Ls	0.4936
Nitrogen-rich gas Lw	0.5761

- Charge rate for high-methane gas transmission, based on costs of transmission services provided by System Gazociągów Tranzytowych EUROPOL GAZ S.A.; the charge is to compensate for cost of gas transmission over transit networks from the country border to a point of entry into the domestic system.

Tariff group	Rate based on the acquisition cost of transmission service provided by SGT EUROPOL GAZ S.A.
	PLN/m3
For customers supplied with high-methane gas E	
E 1- E 4	0.0068

- Charge rate for storage of high-methane gas:

Tariff group	Storage charge rate
	PLN/m3
For customers supplied with high-methane gas E	
E 1	0.0215
E 2	0.0174
E 3	0.0157
E 4	0.0098

- Subscription charges:

Gas type	Price applicable for settlement in 2007
	PLN/month
High-methane gas E	541.00
Nitrogen-rich gas Ls	541.00
Nitrogen-rich gas Lw	541.00

On November 14th 2007, PGNiG S.A. applied to the President of URE for approval of the Gaseous Fuel Tariff No. 1/2008 of Polskie Górnictwo Naftowe i Gazownictwo S.A. for the period from January 1st 2008 to March 31st 2008. On February 20th 2008, the Company amended the application in order to bring it into compliance with the new Tariff regulation. The amendment included, among others, a request for a change of the term of the Tariff. As at the date of this Report, no resolution in respect of the above proceeding has been passed by the President of URE.

1.4. Regulatory Framework Risks

Regulatory Risk

The key tariff risk relates to the inadequacy of secondary legislation with regard to the current legal acts concerning the Polish gas market. Such a situation occurred at the turn of 2007, when the lack of a Tariff regulation amended in accord with the amended Polish Energy Law delayed the proceedings related to the approval of the Gaseous Fuel Tariff. The Minister of Economy signed the tariff regulation as late as in February 2008. However, another regulation, crucial for the operation of the gas market and outlining detailed terms of the gas system operation (system regulation), is being drafted.

In 2008, further amendments may be made to the legal acts regulating operation of the gas sector. These amendments will be made, first and foremost, to the Polish Energy Law. Once the amended Law enters into force, the tariff regulation will need to be amended.

Changes in the legal environment gradually implemented in connection with Poland's accession to the European Union may not allow for the specific nature of PGNiG S.A.'s business. Further legal changes affecting the operation of gas companies may be introduced in following years. Legal changes, including delays in amendments to legal acts, create risks relating to business adaptation to such changes, which might adversely affect the PGNiG Group's business, financial results and growth prospects.

Calculation Risk

Pursuant to the applicable rules for price regulation, while approving tariffs for a given period, the President of URE 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 URE may consider certain cost unjustified or may reject the assumptions adopted by PGNiG S.A. with respect to main drivers of cost changes and profit targets allowing for business risk. The URE may also refuse 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.

Forecasting Risk

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 those forecast).

Market Risk

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. The market of crude oil and petroleum products has recently been to a large extent unpredictable, given the continual price changes. These 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 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.

Risk of Competition

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 licenses for exploration and prospecting of deposits or the implementation of a strategy providing for acquiring access to own hydrocarbon reserves. At present, competition in the domestic market is limited. However, after having been granted relevant licenses, 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., allowing them to accept the high risk of exploration activities in Poland.

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

The Act on Reserves of Crude Oil, Petroleum Products and Natural Gas, as well as Rules of procedure to be followed when the state's fuel security is threatened or the petroleum market is disturbed regulates the issues related to ensuring the state's fuel security, including the area of international trade in natural gas. The Act introduces certain changes with respect to the business activity conducted by PGNiG S.A.:

- It imposes the obligation to maintain mandatory reserves of natural gas,
- It sets the timetable for creation of mandatory reserves of natural gas; it stipulates that in 2012, the volume of mandatory reserves will cover 30 days' average daily imports of gas;
- It provides for return on capital employed in storage activity of at least 6%;
- It stipulates that cost related to maintaining, releasing and supplementing reserves is justified operating cost within the meaning of Art. 3.21 of the Polish Energy Law.

3. Polish Geological and Mining Law

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

- carrying out geological work,
- extracting minerals from reserves,
- storing waste matter in rock mass, including in worked-out caverns,
- protection of mineral reserves, underground waters and other environmental resources in connection with geological works and extraction of minerals.

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

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

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

Licences

As at December 31st 2007, PGNiG S.A. held:

- 67 licences for exploration and prospecting of crude oil and natural gas reserves;
- 213 licences for production of crude oil and natural gas from reserves;
- 8 licences for underground gas storage;
- 4 licences for waste matter storage.

In 2007, the Ministry of Environment assigned eight licences held by Eurogas Polska Sp. z o.o. to PGNiG S.A. covering the total area of 3520 km^2 and granted one new licence for exploration and prospecting of crude oil and natural gas reserves. Since the beginning of 2007, eight expired licences have not been extended because further exploration and prospecting would be unprofitable. In 2007, eight new production licences were obtained, while three licences were cancelled. In the period under review, no changes occurred with respect to licences for underground gas and waste matter storage.

In 2008, the Company intends to extend all expired exploration licences and apply for nine new licences. The Company has also applied to the Ministry of Environment for three new production licences.

Chapter V: Shareholder Structure

As at December 31st 2007, 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 shares of all series (A, A1 and B) are ordinary bearer shares and each confers the right to one vote at the General Shareholders Meeting. The Articles of Association of PGNiG S.A. do not provide for any limitations on the exercise of voting rights attached to PGNIG shares. PGNiG S.A.'s shareholder structure as at December 31st 2007 is presented in the table below.

Shareholder structure

Shareholder	Number of shares as at December 31st 2007	% share in the share capital as at December 31st 2007	Number of votes attached to the Company shares	% share in the total vote at the General Shareholders Meeting as at December 31st 2007
State Treasury	5,000,000,000	84.75%	5,000,000,000	84.75%
Other	900,000,000	15.25%	900,000,000	15.25%
Total	5,900,000,000	100.00%	5,900,000,000	100.00%

As at December 31st 2007, only the State Treasury held shares representing 5% or more of the Company's share capital, which conferred the right to 5% or more of the total vote at the Company's General Shareholders Meeting.

Changes in the Shareholder Structure

In 2007, and by the date of this Report, there were no significant changes in the group of major shareholders of PGNiG S.A.

PGNiG Shares and Shares in the Related Undertakings of PGNiG S.A. Held by the Management and Supervisory Personnel

As at December 31st 2007, the only member of the Company's managing personnel who held shares in PGNiG S.A. was Stanisław Niedbalec (holding 857 shares with a total par value of PLN 857). As at December 31st 2007, no member of the Company's supervisory personnel held shares in PGNiG S.A.

Purchase of Own Shares

In 2007, and by the date of this Report, PGNiG S.A. did not purchase any own shares.

Agreements which May Give Rise to Future Changes in the Number of Shares Held by the Existing Shareholders and Bondholders

As at the date of this Report, PGNiG S.A. is not aware of any agreements which may give rise to future changes in the number of shares held by the existing shareholders and bondholders.

Information on Holders of Securities which Confer Special Control Powers with Respect to the Company

As at the date of this Report, PGNiG S.A. has no knowledge of any holders of securities which confer special control powers with respect to the Company.

Restrictions on Transfer of Ownership of the Company Securities

PGNiG S.A. is not aware of any restrictions on transfer of ownership of the Company securities or any limitations on the exercise of voting rights attached to the Company shares.

Information on Control Systems for Employee Stock Option Plans

By the date of this report, PGNiG S.A. had not issued any employee shares.

Price of the PGNiG S.A. Stock

900,000,000 Series B shares, representing 15.25% of the Company's share capital, are listed on the Warsaw Stock Exchange. Over 2007, the price of the PGNiG S.A. stock increased by 37.1%. With the dividend paid out at PLN 0.17 per share, the rate of return stood at 41.7%. The highest price at which the Company's stock traded in 2007 was PLN 6.10. The high price of the Company stock confirms PGNiG S.A.'s stable financial standing. To compare, in 2007 the WIG and WIG20 indices gained 8.7% and 3.2%, respectively, while WIG-Paliwa, the main index reflecting the economic situation in the fuel sector, recorded a 9.2% increase. The performance of the WSE indices and PGNiG S.A. stock is presented in the table below.

WSE indices and PGNiG S.A. stock performance in 2007

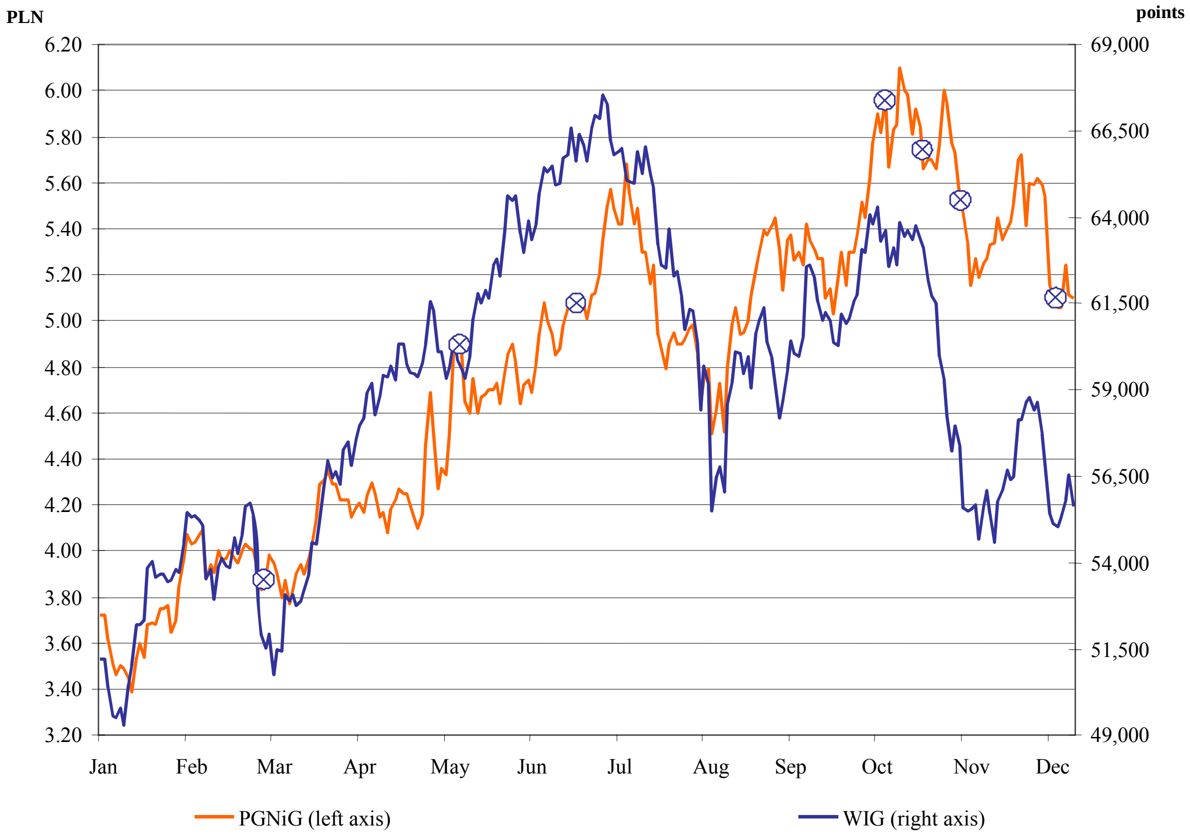
	As at Jan 2 2007	Max	Min	As at Dec 28 2007	Rate of return	PGNiG S.A.'s weight in index as at Dec 28 2007
WIG	51,203	67,569	49,264	55,649	8.7%	2.24%
WIG20	3,348	3,918	3,149	3,456	3.2%	3.88%
WIG-Paliwa	3,250	4,122	2,880	3,548	9.2%	19.41%
PGNiG S.A.	3.72	6.10	3.39	5.10	37.1%	–

Source: WSE.

In 2007, the fluctuations in the value of indices on the global markets were driven mainly by the news on the situation in the U.S. economy. The slowdown in the United States and the threat of a recession triggered a sharp fall in the indices also on the Warsaw Stock Exchange in the second half of 2007. The macroeconomic news from the United States drove the price of the PGNiG S.A. stock much more than the news on the internal situation of the Company.

The chart below illustrate the price performance of the PGNiG S.A. stock against the WIG index and description of the selected events at the Company in 2007.

PGNiG stock price against the WIG index



March 1st 2007

Publication of the Q4 2006 consolidated quarterly report. The published results were in line with analysts’ expectations. On the same day, PGNiG S.A. also reported that it had concluded a conditional agreement for purchase of interests in the licences in the Norwegian Continental Shelf. The stock price over two consecutive trading days increased from PLN 3.83 to PLN 3.98.

May 15th 2007

The publication of the Q1 2007 consolidated quarterly report. Investors expected very good results, which was reflected in the changes of the stock price. In the period between May 10th and May 15th the stock price increased from PLN 4.33 to PLN 4.92.

June 28th 2007

Decision of the General Shareholders Meeting on profit distribution for 2006 (PLN 0.17 per share dividend). The dividend yield was 63.4%. The decision on distribution of dividend did not affect the stock price on the day of the announcement; however, over the next two weeks the stock price went up from PLN 5.07 to PLN 5.68.

October 17th 2007

Conclusion of a loan agreement between PGNiG S.A. and PGNiG Norway AS to finalise the purchase of interests in the licences in the Norwegian Continental Shelf. Both companies subsequently concluded a guarantee agreement. The news was met with a very positive reaction of the market, which was reflected in the stock price. In the period from October 19th to October 23rd, the stock price grew from PLN 5.67 to PLN 6.10 and reached its all-time high.

October 31st 2007

Purchase by PGNiG Norway AS of interests in the PL212, PL212B and PL262 exploration and production licences in the Norwegian Continental Shelf.

The information was met with a positive reaction from investors: over the subsequent week the stock price grew by 6.0% to PLN 6.00.

November 14th 2007
Publication of the Q3 2007 consolidated quarterly report. The Company's performance was fell short of the analysts' expectations, which resulted in a decline of the stock price from PLN 5.78 to PLN 5.54 (-4.2%). On the same day, the WIG20 index lost 2.5%, and the WIG index decreased by 2.3%.

December 18th 2007
The Supervisory Board of PGNiG S.A. closed the recruitment process for the positions of President of the Management Board and Members of the Management Board of PGNiG S.A. without selecting any candidate. The decision of the Supervisory Board coincided with a lack of decision of the President of URE on the new tariff for the gaseous fuels. Over three trading days (December 13th, 14th and 17th 2007), the Company stock price lost 8.0%. The WIG20 and WIG indices also decreased by 5.3% and 4.0%, respectively.

Chapter VI: Trading Activities

PGNiG S.A. conducts commercial activities consisting in the trade in natural gas and sales of Company products, including natural gas from domestic sources, crude oil, condensate, propane-butane gas and helium. Imported natural gas is purchased chiefly from eastern markets. The sale of natural gas through the distribution and transmission network is regulated by the Polish Energy Law, while gas prices are determined based on the tariffs approved by the President of the Polish Energy Regulatory Authority. Sales of natural gas directly from reserves as well as sales of other products of the Company are conducted on free-market terms, whereby prices are individually negotiated with customers on a case-by-case basis.

1. Structure of Sales and Purchases

The key products sold by PGNiG S.A. are natural gas and crude oil. The sales of natural gas and crude oil represent approx. 97% of the Company's sales revenue. PGNiG S.A. is engaged in trade on the domestic and international markets. In 2007, the exports of gas amounted to PLN 27.9m, crude oil – PLN 442.7m and helium – PLN 18.2m. The sales structure of PGNiG S.A. in 2007 is presented in the table below.

Sales structure of key products:

Product		Unit	2007		2006	
			Quantity	Value (PLNm)	Quantity	Value (PLNm)
1.	Natural gas, including:	million m^3*	13,685.7	13,955.0	13,657.5	11,027.3
	- high-methane gas	million m^3	12,284.1	12,755.3	12,324.6	10,073.5
	- nitrogen-rich gas	million m^3*	1,401.6	1,199.7	1,332.9	953.8
2.	Crude oil	thousand tonnes	540.6	777.9	515.0	739.1
3.	Condensate	thousand tonnes	1.1	1.6	3.9	6.3
4.	Helium	million m^3	2.4	30.5	2.4	32.7
5.	Propane-butane	thousand tonnes	19.5	39.5	16.9	32.1
Total:				14,804.5		11,837.5

* Million m^3 measured as high-methane gas equivalent.

In 2007, the sales of gas to the Gas Companies, end customers and Distribution System Operators accounted for 58% of the total sales of gas. As a result of the legal separation of distribution and trade functions in the mid 2007, the Gas Companies were transformed into Distribution System Operators and the trading activities were taken over by PGNiG S.A. Therefore, in H2 2007 the Company sold gas to end-customers, while the Distribution System Operators purchased gas for their own needs. The Company's main customers who purchased the Company's products through the distribution and transmission network primarily included chemicals sector, the steel industry and the power sector, as well as households. As at December 31st 2007, households accounted for 99.6% of PGNiG S.A.'s customers. The table below presents the structure of natural gas sales measured as high-methane gas equivalent broken down by major customers.

Structure of natural gas sales by customers:

Sales of natural gas to		Unit	2007	%	2006	%
1.	Six Gas Companies	million m^3	4,033.0	29.5%	8,118.1	59.5%
	- Dolnośląska Spółka Gazownictwa	million m^3	419.2	10.4%	853.6	10.5%
	- Górnośląska Spółka Gazownictwa	million m^3	665.1	16.5%	1,353.9	16.7%
	- Karpacka Spółka Gazownictwa	million m^3	945.3	23.4%	1,940.7	23.9%
	- Mazowiecka Spółka Gazownictwa	million m^3	847.3	21.0%	1,717.5	21.1%
	- Pomorska Spółka Gazownictwa	million m^3	447.8	11.1%	849.0	10.5%
	- Wielkopolska Spółka Gazownictwa	million m^3	708.3	17.6%	1,403.4	17.3%
2.	Customers acquired from the six Gas Companies	million m^3	3,840.1	28.1%	-	-
3.	Six Distribution System Operators	million m^3	77.6	0.6%	-	-
4.	End-customers, from the transmission network	million m^3	5,105.5	37.3%	4,974.0	36.4%
5.	Customers, directly from reserves	million m^3	629.5	4.6%	565.4	4.1%
Total:		million m^3	13,685.7	100.0%	13,657.5	100%

In 2007, PGNiG S.A. derived natural gas from imports, own production and, to a limited extent, from domestic suppliers. The main sources of natural gas were Russia and Central Asia. The own production of natural gas represented approx. 32% of PGNiG S.A.'s total supplies of natural gas. The table below presents the natural gas supply structure measured as high-methane gas equivalent.

Structure of natural gas supplies by supply sources:

Source		Unit	2007	%	2006	%
1.	Imports	million m^3	9,286.0	68.4%	10,028.4	70.1%
	- OOO Gazprom eksport	million m^3	6,219.2	67.0%	6,839.7	68.2%
	- ROSUKRENERGO AG	million m^3	2,279.3	24.5%	2,346.9	23.4%
	- Other foreign suppliers	million m^3	787.5	8.5%	841.8	8.4%
2.	Domestic production	million m^3	4,276.1	31.5%	4,277.1	29.9%
3.	Domestic suppliers	million m^3	13.5	0.1%	-	-
Total:		million m^3	13,575.6	100.0%	14,305.5	100.0%

2. Major Commercial Agreements

Purchase Agreements

In 2007, PGNiG S.A. imported natural gas mainly under the agreements and contracts specified below, i.e. the long-term contracts for imports from OOO "Gazprom Eksport" and VNG-Verbundnetz Gas AG, as well as medium-term contracts for supplies from ROSUKRENERGO AG and VNG-Verbundnetz GAS AG/ E.ON Ruhrgas AG:

- Contract for sales of Russian natural gas to the Republic of Poland, executed with OOO "Gazprom Eksport", dated September 25th 1996, which will remain in force until 2022;
- Agreement on sales 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 sales of natural gas executed with VNG-Verbundnetz GAS AG/E.ON Ruhrgas AG, dated September 15th 2004, which will remain in force until September 30th 2008;
- Agreement on sales of natural gas executed with ROSUKRENERGO AG, dated November 17th 2006, which will remain in force until January 1st 2010 and may be extended until January 1st 2012.

On January 17th 2007, PGNiG S.A. and DONG Energy A/S signed a Protocol, in which they expressed intention to continue their cooperation related to natural gas business. In their future cooperation, the Parties will draw on their experience, taking into account the European gas markets environment, and may carry out infrastructural projects in the Baltic Sea basin to ensure safety of supplies.

On March 27th 2007, PGNiG S.A. and TOTAL E&P NORGE AS of Norway signed the General Terms of Natural Gas Sales, which act as a framework agreement and provide basis for execution of agreements for supplies of natural gas. The General Terms of Natural Gas Sales set forth general rules defining cooperation of the companies with regard to gas supplies, whereas the details concerning particular deliveries, their volumes and prices will be specified more precisely in particular transactions' terms. Under the provisions of the General Terms of Natural Gas Sales PGNiG S.A. is granted access to Norwegian gas terminals in Europe, thus being able to purchase natural gas in the periods of greater demand for the product and resell the surplus, if any. The General Terms were concluded for an indefinite term.

Sale Agreements

In 2007, PGNiG S.A. signed nine comprehensive agreements for supply of gaseous fuel to customers, from both transmission and distribution systems. Moreover, PGNiG S.A. signed two agreements on sale of natural gas for its own needs, with OGP GAZ-SYSTEM S.A.

The Company also executed two agreements on sale of gaseous fuel directly from reserves, including:

- one ten-year agreement on sale of nitrogen-rich natural gas, with the start of supplies scheduled for Q2 2008;
- one agreement remaining in force until the end of 2008.

In Q2 2007, as part of cooperation with the Orlen Group, PGNiG S.A. resumed cooperation with Rafineria Trzebinia which thus became the main customer for crude oil delivered by rail. The Company continues to supply crude oil to Rafineria Nafty Jedlicze, a member of the Orlen Group, on the terms defined in a ten-year agreement.

Transmission Services Agreements

On October 1st 2007, PGNiG S.A. and OGP GAZ-SYSTEM S.A. entered into two transmission agreements which contemplate provision of high-methane and nitrogen-rich gas transmission services and stipulate the conditions for supply of gaseous fuel to and its collection from the transmission system. The terms of the agreements extend from October 1st 2007 to December 31st 2010, and their estimated value approximates PLN 5.6bn.

Distribution Services Agreements

In late August and early September 2007, the following six agreements were executed between:

- Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. and Dolnośląska Spółka Obrotu Gazem Sp. z o.o., with an estimated value of PLN 811.7m over the entire agreement term;
- Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. and Górnośląska Spółka Obrotu Gazem Sp. z o.o., with an estimated value of PLN 2,200.0m over the entire agreement term;
- Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. and Karpacka Spółka Obrotu Gazem Sp. z o.o., with an estimated value of PLN 3,200.0m over the entire agreement term;
- Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. and Mazowiecka Spółka Obrotu Gazem Sp. z o.o., with an estimated value of PLN 3,800.0m over the entire agreement term;
- Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. and Pomorska Spółka Obrotu Gazem Sp. z o.o., with an estimated value of PLN 2,040.6m over the entire agreement term;
- Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. and Wielkopolska Spółka Obrotu Gazem Sp. z o.o., with an estimated value of PLN 1,364.9m over the entire agreement term.

Under the agreements, a given Distribution System Operator is to provide to a given Gas Trading Company gaseous fuel distribution services, on a continuous basis, using the distribution system owned or operated by the Distribution System Operator. The agreements will remain in force for four years, starting June 29th 2007. Following the incorporation of the Gas Trading Companies into PGNiG S.A., the Company has become a party to these agreements by succession.

3. Separation of Natural Gas Trading from Distribution

In 2007, PGNiG S.A. and the Gas Companies completed the work on bringing the organisational structures in line with the Energy Law implementing the requirements of EU Directive (2003/55/EC), under which natural gas distribution should be kept separate from the trading business, and Distribution System Operators (DSO) are to be separated by July 1st 2007.

In H1 2007, the National Court Register registered incorporation of six Gas Trading Companies, followed by registration of a share capital increase at each of those companies in connection with their assumption of the trading business from the Gas Companies. In addition, a share capital decrease and amendments to the Articles of Association were registered for the six Gas Companies, as they were transformed into Distribution System Operators and their scope of activities was limited. On June 30th 2007, the President of URE issued a decision whereby the DSO companies were to serve as the Distribution System Operators for one year.

In April 2007, the Management Board of PGNiG S.A. resolved to establish the Trading Division as part of the Company's organisational structure. The Division deals with gas trading, crude oil sales, customer service and gas trade balancing. As of July 1st 2007, the Trading Division commenced operations as a separate organisational unit within PGNiG S.A.

The incorporation of Gas Trading Companies into PGNiG S.A. took effect on October 1st 2007. Following the incorporation, PGNiG S.A. is responsible for retail trade in gas and customer service across Poland.

4. Activities Planned in the Trading Segment

Alternative Gas Supply Routes

On April 19th 2007, PGNiG S.A. and Energinet.dk executed a Letter of Intent concerning construction of the Baltic Pipe – a gas pipeline connecting the Polish and Danish gas distribution systems. On November 7th 2007, PGNiG S.A. and OGP GAZ-SYSTEM S.A. executed the bilateral Cooperation Agreement Concerning the Baltic Pipe Project. On November 15th 2007, Energinet.dk, PGNiG S.A. and OGP GAZ-SYSTEM S.A. executed a trilateral cooperation agreement, which is another step in the execution of the Baltic Pipe Project. At present, the parties to the agreement are jointly conducting technical analyses and working on the detailed arrangements relating to the project execution.

On June 20th 2007, PGNiG S.A. joined the consortium established for the purpose of construction of the Skanled gas pipeline (from Karsto in Norway to Sweden and Denmark) and acquired 15% of shares in the consortium for no consideration. The investment decision is to be made in October 2009.

Natural Gas Purchase

PGNiG S.A. does not plan to introduce any changes in the structure of supply sources in 2008, or to make any changes to the effective natural gas purchase agreements. Steps are being undertaken to ensure gas supplies in connection with the expiry, on September 30th 2008, of the gas sale agreement executed with VNG-Verbundnetz Gas AG/ E.ON Ruhrgas AG dated September 15th 2004.

Natural Gas Sales

The projected rise in the natural gas sales volume is attributable to development investments of PGNiG's strategic customers in the petrochemical, construction and steel sectors. In 2007, PGNiG S.A. established cooperation on possible gaseous fuel supplies with several major prospective customers, including companies operating in the power sector and planning to replace hard coal fired generating units with gas fired ones. The start of natural gas supplies to modernised power plants and CHP plants is planned for 2011–2012. Moreover, in 2007, the Company started negotiations with electricity suppliers concerning combined sales of electricity and natural gas. The preparation of a cooperation model and first joint implementation initiatives are expected in 2008.

5. Trade-Related Risk

High Natural Gas Prices

The major risk factor posing a threat to gas market growth is a high price of natural gas, which is a natural consequence of high prices of crude oil and crude oil derivatives. This, combined with a lack of economic incentive, potentially generated by rigid emission requirements, brings a serious impediment to the growth of gas power business, which was to contribute largely to the development of the Polish gas market.

Competition Risk

At present, PGNiG S.A. is the largest supplier of natural gas in Poland. PGNiG S.A.'s share in the gas market is approx. 98%, the remaining 2% is represented by suppliers from outside PGNiG S.A. which usually purchase gas from PGNiG S.A. Local gas distributors are businesses with both Polish and foreign capital (in the latter case, mostly of German origin). They are active mainly in northern and western Poland. PGNiG S.A.'s competitors expand mostly in the areas which have not yet been covered by the gas pipeline networks. Some of the aforementioned companies own a transmission infrastructure. A number of gaseous fuel distributors outside the PGNiG Group enjoy a firm position on the local markets and offer a range of value-added services. Recently, new entities are becoming increasingly active on the Polish market. These entities are local gas distributors which offer innovative solutions of the natural gas supply involving the use of LNG

As at the end of December 2007, the President of URE granted licences (to companies other than PGNiG S.A. and the Group's other undertakings) for conducting the following business activities:

- trade in gaseous fuels (76 companies);
- transmission and distribution of gaseous fuels (46 companies);
- distribution of gaseous fuels (13 companies);
- foreign trade in gaseous fuels (20 companies);
- liquefying and regasifying gaseous fuels (2 companies).

Majority of the companies holding licences for trade, transmission and distribution of gaseous fuels sell gas to customers who are located at the site of licence-holders or in their immediate vicinity. At present, as few as 15 companies from outside the PGNiG Group conduct activity comprising trade and distribution of natural gas to customers. An intensified commercial activity of competitors which aims at attracting current and potential customers of the PGNiG Group may pose in the future a tangible threat of customer churn.

Risk Related to Disruptions in Imported Gas Supplies

In the previous years, the deliveries of natural gas from the eastern markets were disrupted. Taking into consideration the difficult relations between the main supplier and the transit countries (Ukraine and Belarus), similar incidents are likely to occur in the future.

Risk Related to Conclusion of Comprehensive Agreements

Since 2007, PGNiG S.A. has been a party to new agreements on provision of transmission services, concluded with OGP GAZ-SYSTEM S.A., and a party to agreements on provision of distribution services, concluded with the Distribution System Operators (DSO). The Company has commenced the process of harmonising the comprehensive agreements with applicable laws, which poses the following threats:

- DSOs' possible omissions in the performance of their obligations under the agreements might prevent PGNiG S.A. from performing its obligations under agreements with customers;
- PGNiG S.A.'s contracting additional financial liabilities towards DSOs, connected with a lack of rating, and the need to ensure proper metering and inspection of metering systems.

Risk Related to Lower Sales of Gas to the Power Sector

In accordance with the provisions of Art. 9a.8 of the Energy Law (Dz.U. of 1997, No. 54, item 348, as amended), since July 1st 2007 the Polish Energy Exchange (Towarowa Giełda Energii S.A.) has operated the Register of Certificates of Origin for energy produced by high-efficiency cogeneration. Under the provisions governing issuance of Certificates of Origin for energy produced by cogeneration, the annualised efficiency of converting the chemical energy of fuel into electricity or mechanical energy and usable heat in steam and gas systems must be at least 80%. The requirement to obtain such a high efficiency factor may lead to a situation where electricity and heat are generated in full cogeneration only. This in turn may cause the CHP plants to work only in the heating season (i.e. in winter), so as to obtain the Certificates of Origin for energy produced by cogeneration – and the resulting subsidies. The possible emergence of the market for Certificates of Origin for energy produced by cogeneration over the next few years may result in lower volumes of gas fuel purchased by the power sector and limited development prospects for the sub-sector concerned with gas power.

Chapter VII: Liquefied Natural Gas (LNG)

In recent years, liquefied natural gas (LNG) has grown in significance – both in Europe and globally – as a source of natural gas supplies. Importing LNG to Poland is one of the strategies to diversify sources of natural gas supplies and a way to meet the growing demand for gas.

Based on results of a feasibility study, on December 15th 2006, the Management Board of PGNiG S.A. resolved to build an LNG terminal in Świnoujście, and on February 6th 2007, a decision was made to commence preparatory and design work for the project. The adopted projections provide for the initial volume of gas supplies from the LNG terminal to the network approximating 2.5bn m^3 *pa*. Depending on the demand for gas, the annual throughput may increase to 5bn m^3 *pa*, with the target throughput of 7.5bn m^3 *pa*.

In 2007, the preparatory stage of the project was executed, including:

- OGP GAZ-SYSTEM S.A. defined the conditions for connecting the terminal to the transmission system; negotiations of the relevant connection agreement commenced;
- Polskie LNG Sp. z o.o. was established; the company's main objective is to conduct regasification operations, and in particular unloading, reloading and regasification of LNG at the LNG terminal;
- An agreement was executed with the Nature Conservation Office in Szczecin for preparation of an environmental impact study for the project;
- A lease agreement was executed with Zarząd Morskich Portów Szczecin i Świnoujście S.A. (Port Authority) concerning real estate to be used for the purpose of the LNG Project;
- The local zoning plan for Świnoujście was amended;
- Preparation of the technical and economic documentation of the LNG terminal, together with the necessary permits, was mandated.

To enable maritime imports of LNG to Poland, PGNiG S.A.'s growth initiatives will focus on the execution of a long-term contract for LNG supplies.

<u>Risk Related to the Absence of LNG Supplies</u>

The key risk related to the LNG Project concerns LNG supplies on the terms acceptable to PGNiG S.A. The lack of security in the form of a long-term contract for LNG supplies can result in:

- a failure to attain one of the key objectives of the LNG Project – the diversification of LNG supplies;
- having to incur costs related to the terminal operating at a less-than-optimal level.

<u>Risk of Failure to Meet the Deadline</u>

Due to a tight schedule and the fact that the LNG terminal will be built concurrently with other projects (a breakwater, an external port and a connection of the terminal to the transmission network), there is a risk that the set deadline for completion of the LNG Project may not be met. Timely implementation of the LNG Project largely depends on formal and legal procedures and connection to the newly built technical infrastructure in line with the pre-arranged schedule.

Risk of Cross-Border Impact

Considering the location of the LNG terminal close to the state border, obtaining an environmental permit from the Polish authorities might prove insufficient. Time-consuming procedures of cross-border impact may cause a delay in complete implementation of the LNG Project.

Risk of Failure to Obtain a Waiver of the TPA Principle

The risk relates to the time-consuming process of obtaining a waiver of the Third Party Access (TPA) principle. The procedure includes arrangements with the Energy Regulatory Authority and European Commission. A failure to obtain the waiver will result in changes in financing structure and basic assumptions of the LNG Project.

Chapter VIII: Exploration

PGNiG S.A. conducts exploration and prospecting work domestically and abroad. The work mainly includes exploration and development of geological structures containing reserves of hydrocarbons in the form of natural gas and crude oil. The exploration and prospecting of reserves comprise a study of historical data, as well as geological analyses and geophysical and drilling research. The work is conducted by PGNiG S.A. and the companies of the PGNiG Group

1. Exploration Work

In 2007, PGNiG S.A. conducted exploration and prospecting work in three regions of Poland: the Carpathians, Carpathian Foreland and Polish Lowlands. A total of 52,081m of drillings were performed. Drilling work covered 31 boreholes, including 25 exploratory boreholes and six prospecting boreholes; in the case of four boreholes, drilling work started in 2006 was continued. As at December 31st 2007, drilling work and open hole tests were concluded on 24 boreholes and bore sampling was carried out in one borehole.

Based on bore sampling, 16 boreholes were classified as positive. Industrial outflow of gas and crude oil was obtained in 13 and 3 of those boreholes, respectively.

In 2007, the expenditure on exploration and prospecting work totalled PLN 477.4m. There was an increase in producible reserves:

- natural gas – by 2,807 million m^3 high-methane equivalent,
- crude oil – by 360 thousand tonnes.

As at the end of 2007, the documented reserves of natural gas amounted to 96.9bn m^3 (high-methane equivalent), while the reserves of crude oil were estimated at 21.2m tonnes. The size of the reserves was favourably assessed by the Mineral Reserves Commission and accepted by the Minster of Environment.

In 2007, PGNiG S.A. conducted geophysical research in the following locations:
- the Carpathians, Carpathian Foreland and Polish Lowlands, where a total of 1,573 km 2D seismic field works and 600 km^2 3D seismic field works were performed.
- Pakistan, where 161,7 km 2D seismic field works were performed.

2. Joint Ventures

Exploratory Work in Poland

In 2006, the borehole Huwniki-1 was drilled to a depth of 5,000 m under an agreement with the National Fund for Environmental Protection and Water Management. The agreement provided for recompletion of the borehole Huwniki-1 with a view to identifying the geological structure as well as oil and gas-bearing characteristics in the north-east part in the Przemyśl sigmoid zone in the Polish Carpathians. In 2007, the study "Huwniki-1 Borehole Geological Documentation" was completed and submitted to the Ministry of Environment.

In 2007, PGNiG S.A. continued joint projects with FX Energy Poland Sp. z o.o. in the following areas:

- "Płotki" (under the Agreement for Joint Operations dated May 12th 2000, as amended);
- "Płotki" – "PTZ" – in cooperation with CalEnergy Resources Poland Sp. z o.o. (the Extended Zaniemyśl Area, under the Operating Agreement of Mining Users dated October 26th 2005);
- "Poznań" (under the Agreement for Joint Operations dated June 1st 2005);
- Blok 255 (under the Agreement for Joint Operations dated October 29th 1999).

On January 9th 2007, PGNiG S.A. and FX Energy Poland Sp. z o.o. concluded an Agreement for Transfer of the Mining Use of the Klęka Natural Gas Reservoir and the Agreement on Settlement of Payments for Natural Gas Produced from the Klęka-11 Borehole, as part of continuation of joint operations in the "Płotki" area. 3D seismic field works were performed in the area and the exploration well was executed, where the productivity is measured and the open hole tests are carried out.

In 2007, in the "Płotki"– "PTZ" the production from the Zaniemyśl natural gas deposit continued. In the area "Poznań" production commenced at the Winna Góra-1 borehole, where also 3D seismic field works and analyses were performed with a view to preparing new drills.

In 2007, PGNiG S.A. and FX Energy Poland Sp. z o.o. concluded an Agreement for Transfer of the Mining Use of Block 255, whereby FX Energy Poland Sp. z o.o. transferred to PGNiG S.A. 18.8% of its mining rights. In 2007, production from the Wilga (Block 255) natural gas deposit continued.

Under the Agreement for Joint Operations between PGNiG S.A., Eurogas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o., dated June 1st 2007, in 2007 the parties carried out joint exploration work under Eurogas Polska Sp. z o.o.'s licence covering the Bieszczady area, which was assigned to PGNiG S.A. in January 2007. Under the agreement, PGNiG S.A. acts as the operator, holding a 51% interest in the project. Eurogas Polska Sp. z o.o. transferred a part of its interest in the project to Energia Bieszczady Sp. z o.o., a subsidiary of the British Aurelian Oil&Gas PLC. At present, the shareholding structure of the project is as follows: PGNiG S.A.: 51%, Eurogas Polska Sp. z o.o.: 24% and Energia Bieszczady Sp. z o.o.: 25%.

Skarv Project

The involvement of the PGNiG Group on the Norwegian Continental Shelf is in line with PGNiG S.A.'s Development Strategy designed to increase the volume of Company's reserves of crude oil and natural gas outside of Poland. The acquisition of interests in three exploration and production licences in Norway is a long-term investment meant to ensure diversified sources of natural gas supplies and, thereby, to increase the security of gas supplies to Poland.

On February 28th 2007, PGNiG S.A. concluded a conditional agreement with Mobil Development Norway A/S and ExxonMobil Production Norway Inc. concerning purchase of a 15% interest in the three PL 212, PL 212B and PL 262 licences covering the Skarv and Snadd fields in the Norwegian Continental Shelf, for USD 360m.

British Petroleum was the direct operator of the fields, while the other partners include Shell, Statoil and Norsk Hydro. The agreement on purchase of an interest in licences for the exploration and production of Skary-Idun reserves by E.ON AG from Shell was concluded in August 2007. Currently, British Petroleum is the operator, while the other partners include StatoilHydro and E.ON Ruhrgas Norge.

As a result of combining the Skarv and Snadd fields with the Idun field in the Norwegian Continental Shelf, PGNiG S.A.'s share in the combined (extended to include the Idun field) exploration and production area is 12%.

According to the data approved by the Norwegian Petroleum Directorate, the aggregate capacity of the fields covered by the licences in which interests were acquired form ExxonMobil Production Norway Inc., is estimated at approximately:

- 37.9 billion m^3 of natural gas
- 16.8 million m^3 of crude oil and condensate (approx. 15 million tonnes)
- 5.3 million tonnes of NGL (Natural Gas Liquids).

Natural gas and crude oil will be produced starting in H2 2011. It is estimated that capital expenditure on the development of oilfields will amount to around USD 5bn, including PGNiG S.A.'s capital expenditure of around USD 600m.

For the purposes of the Norwegian Continental Shelf project, PGNiG S.A. established PGNiG Norway AS – a subsidiary; the new company is based in Stavanger, Norway. PGNiG Norway AS was registered in the Register of Business Enterprises on June 9th 2007. Its share capital is NOK 10,000,000; PGNiG S.A. acquired 100% shares in the company. The company's business comprises exploration and production of crude oil and natural gas reserves and participation in infrastructural projects related to crude oil and natural gas transmission activities at sea.

The company could launch production activities on the Norwegian Continental Shelf provided that it obtained a pre-qualification certificate from the Norwegian Ministry of Petroleum and Energy (MPE). PGNiG S.A. was granted the relevant permit in September 2007.

On October 19th 2007, PGNiG S.A. and PGNiG Norway AS signed an agreement for transfer of all rights and obligations arising under the agreement for the purchase of interests in licences covering the areas in the Norwegian Continental Shelf. The agreement became effective upon closing of the transaction related to the purchase of interests in licences covering the areas in the Norwegian Continental Shelf

In 2007, the Company fulfilled a number of conditions arising under the Polish and Norwegian laws which determined the execution of the agreement. The relevant decisions and authorisations were issued by the Minister of State Treasury, General Shareholders Meeting of PGNiG S.A., Norwegian Ministry of Petroleum and Energy, and Norwegian Ministry of Finance.

Having fulfilled the conditions, on October 30th 2007, PGNiG Norway AS acquired interests in the PL 212, PL 212B, PL 262 licences from Mobil Development Norway A/S and ExxonMobil Production Norway Inc, for which the company paid USD 360m. The transaction was financed with a loan advanced by PGNiG S.A. and the funds obtained by way of an increase in PGNiG Norway AS's share capital.

PGNiG Norway AS's is currently focused on the Skarv field development project. In December 2007, following approval of the Reserve Development Plan by the Norwegian Parliament, the implementation of the Scarv Project commenced.

Other exploratory work abroad

PGNiG S.A. conducts exploratory work in Pakistan under an agreement between PGNiG S.A. and the Pakistani government of May 18th 2005, regarding exploration of hydrocarbons in the area covered by the Kirthar licence. Exploratory work in the Kirthar block area is conducted in cooperation with Pakistan Petroleum Ltd. (interests in the project: PGNiG S.A. – 70%; PPL – 30 %).

In 2007, 2D seismic field works were completed. The next stage of work involved processing of the obtained data. Based on the results of geological and geophysical studies and the economic analysis, the Company decided to drill an exploration borehole in the southern section of the area covered by the Kithar licence. The drilling work is planned for 2008.

3. Planned Directions of Exploratory Work

Exploratory Work in Poland

In 2008, exploratory work is planned in the following regions:

- Lubaczów-Tarnogród
- Przemyśl-Jarosław
- Rzeszów-Łańcut-Kolbuszowa
- Pilzno-Tarnów
- Ostrów Wielkopolski-Pogorzela
- Środa Wielkopolska-Jarocin (cooperation with FX Energy Poland Sp. z o.o.)
- Świebodzin-Wolsztyn-Nowy Tomyśl
- Pniew-Stęszew
- Gubin-Krosno Odrzańskie
- Sulęcin-Międzyrzecz
- Kostrzyn-Myślibórz
- Międzychód-Gorzów Wielkopolski
- Wronki-Sieraków.

Exploratory Work Abroad

In 2007, PGNiG S.A. took a number of steps to acquire new sites for exploration and new licence areas in such countries as Libya, Algeria, Egypt, Iran, India, Kazakhstan and Denmark. All these efforts will be continued in 2008.

On June 18th 2007, PGNiG S.A. and Willumsen Exploration Consultants Aps (WeXco), a Danish company, executed a memorandum of understanding concerning assignment of a 40% interest in the 1/05 licence for mainland Denmark to PGNiG S.A. The agreement was signed on December 6th 2007. Interests held in the license: PGNiG S.A. – 40%, Odin Energi A/S – 40%, Nordsofonden (a Danish government-controlled company) – 20%. At the beginning of 2008, a reprocessing of archive seismic data commenced in preparation of 3D seismic research which is due to start in 2009.

In mid 2007, PGNiG S.A. won a tender for provision of operating services in new license areas in Libya, and was allowed to sign an Exploration and Production Sparing Agreement (EPSA), regulating the exploration and production works on Block 113. On February 6th 2008, PGNiG Finance B.V. was transformed into POGC Libia B.V. for the purposes of the project execution in Libya. The exploration of Block 113 is due to commence in 2008.

In May 2007, PGNiG S.A. won a tender for the Bahariya license (Block 3) in Egypt. The license contract was initialled in July 2007. As soon as the contract is signed, PGNiG S.A. intends to commence exploration on Block 3.

On February 6th 2008, PGNiG S.A. signed a letter of intent with Iranian Offshore Oil Company (IOOC) for development of the Lavan gas and condensate deposit.

4. Risks Relevant to the Exploration Sector

Risk relating to Discovery of New Deposits and Decreasing Production from the Existing Developed Deposits

When the results of PGNiG S.A.'s successful exploration activity, in the form of documented new reserves do not offset the production from the existing deposits, PGNiG S.A.'s documented deposits will decrease pro rata to the current production volumes.

Risk of Competition on the Exploration Market

The risk of competition from other companies active on the Polish market appears to be high with respect to acquisition of licences for exploration and prospecting of deposits or implementation of a strategy providing for acquiring access to own hydrocarbon reserves, in the light of the growing global interest in new exploration and economic expansion areas. Certain competitors, 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 offers 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.

Risk of Loss of Highly Qualified Personnel

The presence of foreign companies on the Polish market intensified the companies' takeover of highly qualified employees with vast professional experience. This risk is especially high with respect to professionals specialised in the exploration of natural gas and crude oil deposits.

Risk Relating to Assessment of Economically Viable Producible Reserves

Data on economically viable producible reserves of crude oil and natural gas is actually estimated and 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 lasts six to eight years.

Risk of Growing Cost of Ensuring Compliance with Legal Regulations Concerning Safety, Environmental Protection and Health

Ensuring compliance with environmental law in Poland and abroad might significantly increase PGNiG S.A.'s costs of operations. PGNiG S.A. has incurred and expects to incur significant capital expenditure and costs on harmonising its operations with ever more complex and stringent legal regulations concerning safety and health at work, as well as environmental protection. 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 Nature 2000 area 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.

Risk of Delayed Exploratory Work

Under the currently binding legal regulations, obtaining a licences for exploration and prospecting of crude oil and natural gas deposits lasts from one to one and a half year. Moreover, prior to the commencement of field work, the Company is obliged to arrange for numerous formalities, including obtaining formal and legal permits and approvals for entering the area, meeting environmental protection-related requirements and abiding by the regulations governing tenders for a work contractor. Under the currently binding legal regulations, another several months pass before an agreement with the work contractor is signed. These factors create the risk of delayed exploratory work.

Risk of Growing Cost of Exploration

Exploratory work is capital consuming, given the prices of energy carriers and materials. Cost of exploratory work is especially sensitive to steel prices, which are passed on prices of casing pipes and lifting casing used in drilling. An increase in prices of energy and materials translates into an increase in the cost of exploratory work.

Chapter IX: Production

PGNiG S.A.'s conducts production activities in the entire territory of Poland. Exploitation of reserves includes the estimation of resources, development of the discovered reserves and economic management of available resources. As part of exploitation works, borehole repairs and intensification works are performed to sustain the original production capacities of the reserves. Boreholes whose production capacities fell below the cost of running and maintenance are liquidated, while land where production works were completed is subject to reclamation. The denitriding plant in Odolanów provides a flexible interconnection between the nitrogen-rich and high-methane natural gas transmission networks.

1. Production Activities

Two of PGNiG S.A.'s branches, the Zielona Góra Branch and Sanok Branch, carry out production of natural gas and crude oil in Poland. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 26 mines (including 16 gas mines, and 10 oil and gas mines), while the Sanok Branch produces crude oil and high-methane natural gas at 47 mines (including 25 gas mines, and 22 oil mines and oil and gas mines).

In 2007, PGNiG S.A. produced a total of 4,276.1m m^3 of natural gas (high-methane equivalent) – 1,885.1m m^3 was produced in the Sanok Branch, and 2,391.0m m^3 in the Zielona Góra Branch. Total production of crude oil stood at 518.2 thousand tones in 2007.
The table below sets forth PGNiG S.A.'s production in 2007.

Production structure

	Product	Unit	2007	2006
1.	Natural gas, including:	million m^3 *	4,276.1	4,277.1
	- Zielona Góra Branch - Sanok Branch	million m^3 * million m^3 *	2,391.0 1,885.1	2,377.6 1,899.5
2.	Crude oil, including:	thousand tonnes	518.2	528.9
	- Zielona Góra Branch - Sanok Branch	thousand tonnes thousand tonnes	472.0 46.2	480.8 48.1
3.	Condensate	thousand tonnes	9.6	12.1
4.	Sulphur	thousand tonnes	23.3	20.7
5.	LPG	thousand tonnes	18.2	17.1
6.	Helium	milion m^3	2.3	2.4
7.	LNG	milion m^3 *	21.7	19.9

* High-methane equivalent

PGNiG S.A. operates six underground gas storage facilities of an aggregate working capacity of 1,660.2m m^3. The Sanok Branch operates four underground gas storage facilities located in worked out natural gas caverns (the Underground Gas Storage Facility Brzeźnica, Underground Gas Storage Facility Husów, Underground Gas Storage Facility Strachocina and Underground Gas Storage Facility Swarzów). The Zielona Góra Branch operates the Underground Gas Storage Facility Wierzchowice, and INVESTGAS S.A., acting on behalf and to the benefit of PGNiG S.A., operates the Underground Gas Storage Cavern Facility Mogilno (in salt caverns).

In 2007, PGNiG S.A. repaired 46 and liquidated 69 boreholes. The tables below set forth the borehole repairs and liquidations performed by the branches in 2007.

Repairs

Branch	Cost of repairs (PLNm)	Non-complete boreholes	Complete boreholes	Total boreholes
Zielona Góra	41.45	4	21	25
Sanok	15.56	1	20	21
Total:	57.01	5	41	46

Liquidated boreholes

Branch	Liquidation cost (PLNm)	Number of boreholes
Zielona Góra	0.71	1
Sanok	25.96	68
Total:	26.67	69

In 2007, the main tasks in the area of intensifying hydrocarbon production were to maintain or improve production capacities of production boreholes and improve absorption capacity in boreholes used for pumping deposit water. The structure of related expenditure was as follows:

- Natural gas reserves PLN 1.2m (including PLN 0.3m at the Zielona Góra Branch and PLN 0.9m at the Sanok Branch)
- Crude oil reserves PLN 4.2m (including PLN 4.0m at the Zielona Góra Branch and PLN 0.2m at the Sanok Branch).

In 2007, a total of 10 boreholes were placed in operation within the operating area of the Sanok Branch on the following deposits: Żołynia, Kańczuga, Jasionka (first phase – seven boreholes) and Przemyśl. The total production capacities of these boreholes amounts to approx. 530 m^3/min. Also in 2007, two boreholes were placed in operation within the operating area of the Zielona Góra Branch: Radlin, with a production capacity of 30 m^3/min, and Buszewo, with a production capacity of 70 tonnes of crude oil per day.

2. Production Plans

Prospects for Natural Gas Production

The current forecast assumes that the production capacities (high-methane equivalent with calorific value of 39.5 MJ/m^3) will go up from 4.3bn m^3 in 2007 to 4.6bn m^3 in 2008.

In connection with a pressure increase at interconnector terminal points of the transmission network, it was necessary to install compressors on certain reserves. In 2007, three compressors were installed on the reserve in Dzików and three on the reserve in Tarnów. Works aimed at ensuring appropriate volumes of natural gas extraction and its injection into the transmission system will continue in the years to come.

New Connections

In 2008, the Company envisages to commence production at the Jasionka reserves (second phase), Cierpisz reserve, Łękawica reserve and in ten boreholes in producing reserves (Rzeszów-9, Tarnów-81k, Kowale-2, Wierzchosławice-5, Mirocin-62, Żołynia-75, 76, 82, 83, 84), whose aggregate production capacity amounts to approximately 470 m^3/min.

Grodzisk Nitrogen-Removal Plant

The Grodzisk Nitrogen-Removal Plant, with the annual throughput capacity of feedstock gas amounting to 500m m^3, is to commence operations in 2010. The objective behind its construction is to allow for development of the reserves located in the Nowy Tomyśl-Grodzisk region (Paproć, Paproć W, Wielichowo, Ruchocice and Jabłonna) and of the gas extracted from the Lubiatów-Międzychód-Grotów (LMG) reserves, as well as the construction of a second controller, besides the Odolanów Branch, connecting the system for extraction of nitrogen-rich gas to the high-methane gas transmission network. It will be possible to route gas from this facility both to the E gas system and the Lw system, and thus to achieve considerable flexibility of these systems.

Feasibility Prospects for Crude Oil Extraction

The forecasts provide for crude oil production at the level of 513 thousand tonnes in 2008. A significant increase in crude oil production is expected as soon as the LMG reserve (Lubiatów-Międzychód-Grotów) is developed and placed in operation.

3. Risks in the Area of Production

Risk Related to the Emergence of Competitors on the Hydrocarbon Market

For the time being, competition in the domestic hydrocarbon market is limited. However, after having been granted relevant licences, PGNiG S.A.'s competitors will enter the Polish market. A strong competitive edge may be gained especially by large companies which have an established position on the international markets and much greater financial resources compared to PGNiG S.A.

Risk Related to Unpredictable Events

Hydrocarbon reserves 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 degree of 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.

Risk Related to Production Projections and Accuracy of Resource Documentation

A number of the factors and assumptions adopted when determining the extent of resources and production projections may turn out erroneous due to flaws in the methods and measurement equipment used in the geophysical surveys, drilling and production testing. Deposit parameters established in the course of preparing the relevant documentation are reviewed upon deposit development. Each negative adjustment to the extent of the resources or to the extraction schedule may lead to a lower revenue and adversely impact PGNiG S.A.'s financial performance.

4. Environmental Protection

Carbon Credit Trade System

Under the existing carbon credit trading system (CCTS), in H1 2007 PGNiG S.A. reviewed the annual reports on carbon dioxide emissions for 2006 and brought the volumes of carbon dioxide emission in line with the amounts stipulated by the permit held. Following the cancellation of the carbon credits used in 2006, 6,454.7 Mg CO_2 credit units were retained.

Furthermore, under the CCTS, PGNiG S.A. collected data necessary to develop the National Plan for the Distribution of Carbon Credits for 2008–2012 (KPRU II). In that settlement period, the system will be joined by the facilities of the Odolanów Branch, Zielona Góra Branch and the Gas Storage Facility in Mogilno.

Environmental Management Systems

In 2007, PGNiG S.A. commenced preparatory work on implementation and certification of the environmental management system meeting the requirements of the PN-EN ISO 14001 standard at its Warsaw head office. Obtaining a PN-EN ISO 14001 compliance certificate will enable the Company to increase its environmental credibility in contacts with state administration and customers. Implementation of the environmental management system commenced in January 2008.

REACH (Registration, Evaluation, Authorisation of Chemicals) – Chemical Substances and Preparations

In order to ensure compliance with the new regulations concerning mandatory registration of chemical substances, assessment of technical documentation, evaluation of substances and authorisations for use of substances in production and trading, which came into effect in H1 2007, PGNiG S.A. initiated work aimed at identifying the relevant substances produced in its operations or purchased and used by the PGNiG Group. Completion of the work is scheduled for the beginning of 2008.

Natura 2000

As part of the national consultations regarding the Natura 2000 network, in 2007 the Ministry of Environment began identifying new special areas of habitat protection and new areas of special bird protection. PGNiG S.A. reported existence of the Natura 2000 areas within the operating areas of the PGNiG Group and/or potential conflicts between the planned investment, exploration and production projects and the Natura 2000 areas.

Chapter X: Investment Projects

PGNiG S.A. is carrying out a number of investment projects in all of its business areas. The major ones include oil mining investment projects prepared to ensure proper functioning of the natural gas and crude oil production chain, extension of underground gas storage facilities, and investments made to guarantee natural gas delivery at times of increased demand. Within the financial constraints of PGNiG S.A. and in line with procedures defined in the agreement with OGP GAZ-SYSTEM S.A., investment projects are being implemented for the purposes of the transmission system.

1. Capital Expenditure in 2007

In 2007, capital expenditure incurred by PGNiG S.A. amounted to PLN 847m. The table below presents the expenditure structure.

Investment project	Value (PLNm)
Investment projects in the area of exploration	221.5
Investment projects in the area of oil mining	379.7
Underground gas storage facilities	61.2
Investments in the area of trading activities	6.6
Investments in the area of transmission	116.0
Investments in the area of distribution	41.2
Other investments	20.8
Total capital expenditure	847.0

Described below are the major investment projects implemented in 2007.

Investment projects in the area of exploration

In the area of exploration, capital expenditure totalling PLN 221.5m was incurred on positive boreholes and boreholes which were not completed prior to the end of 2007.

The LMG Project

The objective of this project is to develop the Lubiatów-Międzychód-Grotów (LMG) reserves of crude oil and natural gas, as well as arrange for transport, storage and sale of crude oil, natural gas, sulphur and LPG from the LMG Crude Oil and Natural Gas Mine. In 2007, the expenditure incurred on the LMG Project totalled PLN 43.7m.

The Grodzisk Project

The objective of this project is to support the sale of gas from nitrogen-rich reserves after the gas has been treated (cryogenic denitriding of nitrogen-rich gas) to obtain its uniform composition meeting the parameters of high-methane gas. The Grodzisk Denitriding Plant is constructed with a view to increasing nitrogen-high gas production volume at the existing mines and from reserves earmarked for development, and to supporting a balanced exploitation of the nitrogen-high natural gas reserves in the winter and summer seasons. The project provides for the treatment of natural gas produced from the

Wielichowo, Ruchocice and Paproć-W reserves, as well as for modernisation of the Paproć Natural Gas Mine (KGZ Paproć), construction of the Przyłęk-KGZ Paproć gas pipeline network. After extension of the investment by two projects, its total value is estimated at PLN 380m. In 2007, the capital expenditure incurred on the project totalled PLN 76.7m.

The project provides for the treatment of natural gas produced from the Wielichowo, Ruchocice, Elżbieciny, Jabłonna and Paproć-W reserves, as well as for modernisation of the Paproć Natural Gas Mine (KGZ Paproć), construction of the Przyłęk-KGZ Paproć gas pipeline network and construction of the Grodzisk Denitriding Plant. The total capacity of the Denitriding Plant will stand around 35,000 m^3/h. The high-methane gas from the Denitriding Plant will be delivered to the national gas system.

The Barnówko-Mostno-Buszewo Project

The investment is carried out in order to maintain crude oil production at the already exploited reserves on current levels and to ensure incremental extraction volumes following the incorporation of a new reserve. The investment project comprises drilling and development of five production boreholes on the BMB reserve. Additional works, which were necessary due to changes in the geologic conditions of the reserve, increased the expenditure incurred on the project to PLN 120m, of which PLN 82m was spent in 2007.

Other Investment Projects in the Area of Oil Mining

Other investment projects provide for the development of documented or exploited natural gas reserves, maintenance and recreation of hydrocarbons production capacity (to set off the naturally occurring decrease in reserve capacity) and the functioning of the production business segment. 2007 saw the implementation of the other investment projects in the area of oil mining, whose value totalled PLN 177.3m. Key investment tasks performed in 2007 included:

- modernisation and extension of natural gas mines
- development of natural gas reserves in Jasionka (second phase) and Kaleje
- development of boreholes in Luchów and Wola Różaniecka
- drilling and development of boreholes in Pantalowice, Pilzno and Sędziszów
- upgrading production installations at the Odolanów denitriding plant
- purchases of ready-to-use investment assets as well as backup and infrastructure.

Underground Gas Storage Facilities

In 2007, the surface infrastructure of the Swarzów underground gas storage facility was modernised, works were carried out to increase the working capacity of the underground gas storage facilities in Wierzchowice, Mogilno and Strachocina, and preparation for the development of the Kosakowo underground gas storage facility was launched. The works will continue in the years ahead. The extension of the facilities will optimise the natural gas supplies to end consumers. Total expenditure incurred on underground gas storage facilities in 2007 amounted to PLN 61.2m.

Investment Projects in the Area of Gas Trade

The 2007 investment projects in the area of gas trade, with the value of PLN 6.6m, involved expanding the coverage of gas pipeline network in new regions and construction of pipelines to reach end-users.

Investment Projects in the Area of Gas Transmission

In line with the investment plan of OGP GAZ-SYSTEM S.A. as well as the financial capabilities of PGNiG S.A. and the procedures specified in the agreement for the technical preparation and execution of investment projects for the purposes of the transmission system, PGNiG S.A. carried out investment projects involving transmission assets, which are subsequently incorporated in the register of tangible assets covered by the lease agreement. In 2006, the total expenditure in this area amounted to PLN 116.0m.

Investment Projects in the Area of Distribution

Expenditures incurred in the area of distribution related to distribution assets which were transferred to the Distribution System Operators. The total expenditure incurred in 2007 amounted to PLN 41.2m.

Other investments

In 2007, capital expenditure of PLN 20.8m was incurred principally on telecommunications and data transmission investment projects and purchase of ready-to-use investment assets.

2. Risk Factors and Threats

Risk of Delayed Investment Work

Formal and legal issues beyond PGNiG S.A.'s control, such as:
- local governments' failure to adopt local land development plans (MPZPs)
- obstacles in incorporating investment projects into the MPZPs
- 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,

constitute factors which 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.

Risk Related to Estimation of Capital Expenditure

A protracted investment process exacerbates the risk related to estimation of capital expenditure. A variety of factors, such as price fluctuations of production materials (notably steel), necessity to comply with the requirements regarding safety of individuals and property as well as environmental protection (Natura 2000 network), situation of contractors, unforeseeable circumstances and market competition, may cause the estimated capital expenditure amounts to materially deviate from the original assumptions contained in the investment plan. Furthermore, major price hikes necessitate amendments to the agreements executed with contractors, which is yet another source of delay.

Chapter XI: Other Events

Adoption of the Natural Gas Industry Policy by the Council of Ministers

On March 20th 2007, the Council of Ministers adopted the Natural Gas Industry Policy, drafted by the Ministry of Economy. The document stipulates that PGNiG S.A. is a strategic company in light of Poland's energy security policy.

Distribution of Profit for 2006

On June 28th 2007, the Annual General Shareholders Meeting of PGNiG S.A. adopted a resolution on the 2006 net profit distribution in the amount of PLN 1,582.3m. Distributions from profit were allocated according to the following formula:

· PLN 545.3m was allocated to the Company's statutory reserve funds

· PLN 1,003m was allocated to dividend payments (PLN 0.17 per share), including:

- PLN 850m as non-cash dividend to the State Treasury – eleven subsystems, along with their constituent and accessory parts necessary to use these subsystems, and cash dividend of PLN 1,615.19

- PLN 153m as cash dividend to the other shareholders

· PLN 9m was allocated to increase the Company's social benefits fund

· PLN 25m was allocated to employee awards.

Concurrently, the Annual General Shareholders Meeting of PGNiG S.A. set July 27th 2007 as the dividend record date and October 1st 2007 as the dividend payment date.

Annex to the Agreement with OGP GAZ-SYSTEM S.A.

In line with the Natural Gas Industry Policy, an Annex to the Operating Lease Agreement concluded between PGNiG S.A. and OGP GAZ-SYSTEM S.A. on July 6th 2005 was signed on July 2nd 2007. Execution of the Annex results in exclusion of distribution assets, whose value amounts to PLN 851.9m, from the lease as of January 1st 2008.

Action Against PI GAZOTECH Sp. z o.o.

1. On March 7th 2006, the Regional Court of Warsaw dismissed PGNiG S.A.'s action instituted against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolutions of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated April 23rd 2004, including the resolution whereunder PGNiG S.A. is obliged to pay additional contributions in the amount of PLN 52m. In view of the dismissal, PGNiG S.A. filed an appeal against the court ruling, which was rejected by the Court of Appeals in Warsaw on January 10th 2007 on account of the Company's failure to duly paid the required fees. On March 1st 2007, PGNiG S.A. filed a complaint with the Supreme Court regarding the Court of Appeals's ruling. On July 20th 2007, the Supreme Court examined the complaint in closed session and overruled the Court of Appeals's decision to reject PGNiG's appeal. On February 4th 2008, the Court of Appeals dismissed PGNiG's appeal. The decision is final and binding. On February 6th 2008, PGNiG requested for the grounds of the decision to be presented. From the date of passing the verdict by the Court of Appeals the Company's claim is no longer secured by suspension of the resolution authorising the additional contributions.

2. On December 7th 2006, the Regional Court of Warsaw dismissed PGNiG's action instituted against PI GAZOTECH Sp. z o.o. to confirm the non-existence of the resolution on redemption of shares, adopted by the General Shareholders Meeting of PI GAZOTECH Sp. z o.o. on April 23rd 2004. PGNiG S.A. filed an appeal against the ruling. The Court of Appeals in Warsaw dismissed the appeal at the hearing of February 5th 2008. The decision is final and binding. The Court of Appeals in Warsaw provided the Company with the grounds for the decision. PGNiG S.A. considers filing a cassation complaint against the decision.

3. The proceedings based on PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated January 19th 2005, whereunder PGNiG S.A. is obliged to pay additional contributions in the amount of PLN 25,999,998, held before the Regional Court of Warsaw were adjourned until rulings on the issues referred to in item 1 and 2 become legally binding. The Company's claim is secured by suspension of the resolution authorising the additional contributions.

4. The proceedings based upon PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated October 6th 2005, whereunder PGNiG S.A. is obliged to pay additional contributions in the amount of PLN 6,552,000, instigated before the Regional Court of Warsaw were adjourned until rulings on the issues referred to in item 1 and 2 become legally binding. The Company's claim is secured by suspension of the resolution authorising the additional contributions. The hearing is to be held before the Regional Court of Warsaw on May 30th 2008.

Dispute with the Town Commune of Wysokie Mazowieckie

In connection with the claim filed against PGNiG S.A. upon the motion of the Wysokie Mazowieckie Commune on January 7th 2004, the President of the Anti-Trust and Consumer Protection Authority imposed a fine of PLN 41,362,000 on the Company by virtue of his decision dated September 29th 2004. The fine was awarded on the charge of the Company's abusing its dominant position on the local natural gas sale market in Wysokie Mazowieckie by way of postponing the release of technical terms and conditions for connection of the existing boiler house to the gauging station despite a requirement to do so. PGNiG S.A. filed an appeal against the decision, demanding a statement asserting that the actions undertaken by the Company did not constitute an abuse of its dominant position and requesting that the imposed fine be quashed. Upon the Regional Court's rejection of the request, PGNiG S.A. filed an appeal.

On February 6th 2007, the Court of Appeals passed a judgement, whereunder the fine was reduced to PLN 2,068,100, and ordered that the cost of proceedings be covered jointly by both parties. The decision is final and binding.

On June 1st 2007, PGNiG S.A., through the Court of Appeals in Warsaw, filed a cassation complaint with the Supreme Court, demanding a reformatory decision, i.e. a decision to overrule the verdicts issued by the Court of Appeals and the Regional Court of Warsaw, as well as the decision of the President of the Anti-Trust and Consumer Protection Authority dated September 29th 2004, or alternatively to overrule the verdict of the Court of Appeals and submit the case for re-examination.

The complaint was rejected by virtue of a resolution passed at introductory hearing by a single judge of the Supreme Court on October 11th 2007.

Dispute with Bartimpex S.A.

On August 9th 2005, in connection with a motion filed by PHZ Bartimpex S.A., the President of the Anti-Trust and Consumer Protection Authority ruled that the Company pursues 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. The President of the Anti-Trust and Consumer Protection Authority also stated the abovementioned practices ceased as of June 2nd 2003. By virtue of his decision of August 9th 2005, the President of the Anti-Trust and Consumer Protection Authority imposed a fine on PGNiG S.A. in the amount of PLN 2,000,000 along with an order to repay the costs of proceedings for the benefit of PHZ Bartimpex S.A.

By way of submitting a letter of August 31st 2005, PGNiG appealed against the decision. As a consequence, on January 31st 2007 the Regional Court of Warsaw issued a verdict reducing the fine imposed on PGNiG S.A. to the amount of PLN 500,000.

As a result of appeals filed by both parties to the proceedings, the Court of Appeals changed the Regional Court's decision. Accordingly, a fine of PLN 2,000,000 was imposed and PGNiG's appeal was dismissed. The decision whether to file a cassation complaint against the Court of Appeals's verdict will be made upon obtaining the verdict and the reasons for it.

Dispute with SGT EUROPOL GAZ S.A.

The proceedings based upon PGNiG S.A.'s actions against SGT EUROPOL GAZ S.A. to receive payment of interest due under agreement no. DF/33/95, dated September 25th 1995, on a loan and guarantee to finance the construction of a system of transmission pipelines, have been pending since February 27th 2004. On March 31st 2006, the Regional Court of Warsaw passed a decision whereby PGNiG S.A. was to receive PLN 32,699,276.36 with statutory interest accrued from February 27th 2004 to the payment date, and PLN 107,200 as costs of proceedings. SGT EUROPOL GAZ S.A. appealed against the decision. On December 7th 2006, the Court of Appeals in Warsaw overruled the decision and submitted the case for re-examination by the Regional Court of Warsaw, which was also to decide on costs of the appellate instance. By way of submitting a letter of April 23rd 2007, PGNiG S.A. modified its claim to the effect that it demanded PLN 36,618,037.33 and withdrew its claim concerning payment of PLN 2,382,581.66, due to the statute of limitation. On July 2nd 2007, the Regional Court of Warsaw rejected the claim for payment of PLN 36,618,037.33, discontinued the proceedings concerning payment of PLN 2,382,581.66, and decided that PGNiG S.A. is to cover costs of proceedings of PLN 119,815 to SGT EUROPOL GAZ S.A. On July 30th 2007, PGNiG S.A. appealed against this decision. On November 15 2007, the Court of Appeals in Warsaw dismissed the appeal. The decision is final and binding. On March 20th 2008, a cassation complaint was filed against the Court of Appeals's decision.

Dispute with EMFESZ NG Sp. z o.o.

On March 9th 2006, proceedings before the President of URE were instigated upon a motion filed by EMFESZ NG Polska Sp. z o.o. regarding refusal to execute an agreement on provision of gaseous fuel storage services. On June 11th 2007, a team of URE experts completed their work aimed at preparing an expert opinion on the technological feasibility of provision of gas storage services by PGNiG S.A. to third parties. On August 24th 2007, the President of URE announced that the relevant decision would be made by October 24th 2007.

Afterwards, by virtue of subsequent documents, the President of URE was continuously postponing this date up to February 24th 2008. On February 25th, he passed a resolution suspending the proceedings until the decision of the European Commission on the introductory issue regarding examination of the President of URE's stand on PGNiG's request for temporary exemption from the obligation of gaseous fuels storage.

On December 18th 2006, the proceedings, instigated upon a motion submitted by EMFESZ NG Polska Sp. z o.o., commenced before the President of the Anti-Trust and Consumer Protection Authority in order to make a preliminary assessment whether the objectionable conduct, i.e. OGP GAZ-SYSTEM S.A.'s refusal to execute an agreement on provision of gaseous fuel transmission services and PGNiG S.A.'s refusal to execute an agreement on provision of storage services, and, thus, a violation of the provisions under the Anti-Trust and Consumer Protection Act, actually took place. On February 20th 2007, the President of the Anti-Trust and Consumer Protection Authority closed explanatory proceedings and recognised that neither the actions of PGNiG S.A. nor those of OGP GAZ-SYSTEM S.A. violated the provisions of the Anti-Trust and Consumer Protection Act of December 15th 2000.

Dispute with EWE Sp. z o.o. of Poznań

On June 28th 2007, proceedings before the President of URE were instigated upon a motion filed by EWE Sp. z o.o. to resolve the dispute concerning PGNiG S.A.'s refusal to conclude a gas sales agreement. The explanations and documents demanded by the President of URE have been provided. By virtue of a decision issued by the President of URE on October 15th 2007, the proceedings were discontinued.

Chapter XII: Financial Standing

1. Financial Performance in 2007

The 2007 financial statements of PGNiG S.A. and the 2007 consolidated financial statements of the PGNiG Group have been audited by Deloitte Audyt Sp. z o.o. The agreement with the auditor was concluded on August 16th 2007 for a term of three years (2007–2009). The scope of the auditor's responsibilities includes:

- auditing financial statements for 2007, 2008 and 2009,
- reviewing financial statements for Q1 2008, Q1 2009 and Q1 2010,
- reviewing financial statements for H1 2007, H1 2008 and H1 2009, and
- reviewing financial statements for three quarters of 2007, three quarters of 2008 and three quarters of 2009.

The auditor's fee under the agreement (review and audit of the financial statements prepared in 2007 (i.e. a review of the Q1 2007 financial statements and the financial statements for three quarters of 2007, and an audit of the 2007 financial statements)) is PLN 830,000.

The 2006 financial statements of PGNiG S.A. and the 2006 consolidated financial statements of the PGNiG Group were audited by Deloitte Audyt Sp. z o.o. The agreement was concluded on December 1st 2006, and the agreed fee was PLN 510,000. In addition, PGNiG S.A. undertook to reimburse all reasonable and documented costs incurred by the auditor in connection with the performance of the agreement (business travel expenses, accommodation, telephone bills, courier services) up to the amount of 9% of the auditor's fee. The audit was completed on April 20th 2007; the scope of the auditor's tasks was as follows:

- auditing the 2006 financial statements of PGNiG S.A.
- auditing the 2006 financial statements of the PGNiG Group.

1.1. Economic and Financial Highlights

The net financial result posted by PGNIG S.A. in 2007 confirms that the Company continued along the path of value growth, despite a number of unfavourable economic events. The 2007 net profit of PGNiG S.A. stood at PLN 2,154.9m, and was by PLN 1,058.0m (97%) higher from the net result recorded in the previous year.

Summary information on the PGNiG Group's financial standing in 2007, compared with the 2006 data, is presented in the following financial statements prepared in accordance with the International Financial Reporting Standards:

- the balance sheet,
- the income statement,
- the cash flow statement,
- the selected financial ratios.

Non-Consolidated Balance Sheet (PLNm)

ASSETS	December 31st 2007	December 31st 2006
Non-current assets	17,021.5	17,055.6
Property, plant and equipment	8,568.9	8,299.5
Investment property	4.5	4.8
Intangible assets	33.1	15.0
Financial assets available for sale	4,787.4	5,017.3
Other financial assets	3,340.7	3,393.1
Deferred tax asset	261.2	288.9
Other non-current assets	25.7	37.0
Current (short-term) assets	6,542.6	5,760.9
Inventories	1,061.2	1,239.5
Trade and other receivables	4,355.6	1,510.0
Current income tax receivable	-	-
Prepayments and accrued income	24.1	6.7
Financial assets held for sale	29.3	29.3
Derivative financial instrument assets	17.4	5.7
Cash and cash equivalents	1,055.0	2,969.7
Assets available for sale	0.2	-
Total assets	23,564.3	22,816.5

Non-Consolidated Balance Sheet (PLNm)

EQUITY AND LIABILITIES	December 31st 2007	December 31st 2006
Equity	17,796.0	16,622.7
Share capital	5,900.0	5,900.0
Currency-translation differences on foreign-currency undertakings	(1.5)	0.5
Share premium account	1,740.1	1,740.1
Other reserve funds	3,344.2	2,797.5
Retained earnings/(deficit)	6,813.2	6,184.6
Non-current liabilities	1,858.5	4,335.0
Loans, borrowings and debt securities	0.1	2,298.7
Provisions	901.1	917.6
Deferred income	7.6	2.8
Deferred tax liability	929.1	1,115.5
Other non-current liabilities	20.6	0.4
Current liabilities	3,909.8	1,858.8
Trade and other payables	3,174.0	1,560.9
Loans, borrowings and debt securities	4.3	11.2
Liabilities under derivative financial instruments	35.5	55.1
Current tax liability	187.2	138.0
Provisions	111.8	92.6
Deferred income	397.0	1.0
Total liabilities	5,768.3	6,193.8
Total equity and liabilities	23,564.3	22,816.5

Non-Consolidated Income Statement (PLNm)

	2007	2006
Sales revenue	15,119.9	12,116.1
Total operating expenses	(12,997.9)	(10,908.6)
Raw materials and energy used	(7,837.2)	(8,162.3)
Employee benefits	(513.1)	(369.6)
Depreciation and amortisation	(577.6)	(497.2)
Contracted services	(3,871.6)	(2,237.6)
Cost of products and services for own needs	9.0	8.1
Other net operating expenses	(207.4)	350.0
Operating profit	2,122.0	1,207.5
Financial income	502.2	555.7
Financial expenses	(203.2)	(492.2)
Pre-tax profit	2,421.0	1,271.0
Corporate income tax	(266.1)	(174.1)
Profit distribution	-	-
Net profit	2,154.9	1,096.9
Discontinued operations	-	-
Profit/(loss) for the financial year on discontinued operations	-	-
Net profit for the financial year	2,154.9	1,096.9

Non-Consolidated Cash Flow Statement (PLNm)

	2007	2006
Net cash provided by/used in operating activities	1,794.1	663.1
Net cash provided by/used in investing activities	(1,230.6)	(124.4)
Net cash provided by/used in financing activities	(2,501.7)	(295.6)
Change in net cash	**(1,938.2)**	**243.1**
Cash and cash equivalents at beginning of period	2,993.5	2,750.4
Cash and cash equivalents at end of period	1,055.3	2,993.5

Financial Ratios

Profitability Ratios

	2007	2006
EBIT (PLNm) operating profit	2,122.0	1,207.5
EBITDA (PLNm) operating profit + depreciation/amortisation	2,699.6	1,704.7
ROE (Return on Equity) net profit to equity at end of period	12.1%	6.6%
Net margin net profit to sales revenue	14.3%	9.1%
ROA (Return on Assets) net profit to assets at end of period	9.1%	4.8%

Liquidity Ratios

	2007	2006
CURRENT RATIO current assets (net of prepayments and accrued income) to current liabilities	1.7	3.1
QUICK RATIO current assets (net of prepayments and accrued income) decreased by inventories to current liabilities	1.4	2.4

Debt Ratios

	2007	2006
DEBT RATIO total liabilities to total equity and liabilities	24.5%	27.1%
DEBT/EQUITY RATIO total liabilities to equity	32.4%	37.3%

1.2. Financial Overview

Year on year, the Company recorded an increase in operating profit of PLN 914.5m (76%).

The EBIT growth was mostly driven by the materially improved results of high-methane gas sales. Dynamic growth of high-methane gas sales profitability related to the following:

- higher average selling prices of natural gas than in 2006,
- lower unit purchase costs of imported gas,
- lower volume of imported high-methane gas,
- transfer of the margin earned by the Gas Companies to PGNiG S.A.

The increase of gas selling prices by 9.9% on account of the President's of the Polish Energy Regulatory Authority approval of changed tariff rate effective from January 1st 2007 positively affected revenue on sales of gaseous fuels. The average prices of gaseous fuels were higher by approx. 13% year on year, mainly due to the increase in gas prices. However, the price lset by the Polish Energy Regulatory Authority was too low to cover the unit purchase price of imported gas. PGNiG S.A. generated profit on gas sales exclusively thanks to selling gas from own production.

Fluctuations in imported gas prices are an important factor affecting the result generated by PGNiG S.A. on account of high share of imported gas in the total sales of gaseous fuels. The unit prices of imported natural gas kept dropping throughout 2007, principally on account of the situation on the global crude oil market and a strengthening of the exchange rate of the złoty against the dollar. As a result, the negative unit margin on imported high-methane gas decreased by approx. 78% year on year.

The net result on high-methane gas sales in 2007 was also affected by the 7% decline in the volume of high-methane gas sales. Lowering the volumes of imported gas in Q4 2007 was possible due to the increased use of gas from underground storage facilities, into which cheaper gas from domestic production is also injected.

Another factor with a positive contribution to the net result on sales of high-methane gas was integration of trade activities at PGNiG S.A.; under the new structure, the customers served so far by the Gas Companies and the margin earned by them on trading activities were taken over by the Company.

An overall upward trend in net operating profit was accompanied by a strong decline in other net operating expenses by PLN 557.4m, resulting primarily from creation in 2007 of a PLN 229.9m provision for costs related to the withdrawal of transmission assets used under lease agreements, and a lower level of released provisions for possible changes in gas prices under the Yamal Contract.

Gross profit achieved in 2007 rose by PLN 1,150.0m (91%) from the previous year, and was positively affected by the profit on financing activities, which rose by PLN 235.5m. A better result on financing activities was primarily related to the income on dividend and share in profits of related companies, and an increase in interest on advanced loans and short-term bank deposits.

A significant improvement of PGNiG S.A.'s financial standing can be seen in the growth of its key profitability ratios. Return on equity (ROE) rose from 6.6% to 12.1%, return on assets (ROA) increased from 4.8% to 9.1%, while net margin went up from 9.1% to 14.3%.

On the assets and liabilities side, the balance sheet as on December 31st 2007 shows a balance sheet total of PLN 23,564.3m, up by PLN 747.8m (3%) year on year.

The largest item in assets is represented by property, plant and equipment. As at the end of 2007, it was PLN 8,568.9m, up by PLN 269.4m (3%) year on year. The increase in value of property, plant and equipment was caused by PGNiG S.A.'s investment projects, revaluation of assets related to exploration and production activities, and an increase in property, plant and equipment following the incorporation of assets of the Gas Companies.

The total value of investments into property, plant and equipment in 2007 was PLN 847m; the major part of expenditure related to such segments as crude oil mining, transmission and exploration. In 2007, the capital expenditure on intangible assets totalled PLN 8.5m.

As a result of the integration of trading activities at PGNiG S.A., the Company stopped disclosing its shareholdings in Gas Trading Companies in the balance sheet, therefore the financial assets held for sale decreased by PLN 229.9m (5%) relative to the end of 2006.

As at December 31st 2007, current assets totalled PLN 6,542.6m, up by PLN 781.7m (14%) year on year. The key factors contributing to the increase in current assets were the increase in trade and other payables and a decrease in cash.

Trade and other receivables increased by PLN 2,845.6m (189%) relative to 2006 on account of an increase in sales revenue, resulting from the integration of trading activities at PGNiG S.A., and a growth of average selling prices of gaseous fuels.

As at the end of the year, cash and cash equivalents were lower by PLN 1,914.7m (65%) year on year, primarily on account of:

- Debt restructuring; at the beginning of May 2007 the Company repaid its EUR 600m term loan, and secured availability of a renewable facility of the same amount,
- Advancement of a long-term loan in the amount of NOK 3,800m to PGNiG Norway AS to finance purchase of the interest in licenses on the Norwegian Continental Shelf; the first tranche of the loan, totalling NOK 1,800m (equivalent to PLN 809.5m, according to mid exchange rate quoted by NBP for December 31st 2007), was disbursed in 2007.

Decrease in cash affected the liquidity ratios of the Company. The current ratio dropped from 3.1 to 1.7, while the quick ratio fell from 2.4 to 1.4. Despite the decline in liquidity ratios, the value and structure of current assets held by PGNiG S.A. still enables the Company to settle all its current operating liabilities.

Inventories decreased by PLN 178.3m (14%) in the period under review as a result of the sale of natural gas and crude oil stored in underground storage facilities in 2007.

The main financing source of the Company's assets was equity, whose value rose by PLN 1,173.3m relative to the previous year. The change was largely caused by net profit allocation for the period (PLN 2,154.9m) and distribution of previous year's earnings. The value of other reserve funds increased by PLN 545.3m on account of distribution of the balance-sheet profit for 2006, while the balance of the profit (PLN 1,003m) was used to pay non-cash and cash dividend.

The value of non-current liabilities disclosed in the liabilities and equity part of the balance sheet decreased by PLN 2,476.5m (57%). Lower level of non-current liabilities results from repayment of the EUR 600m term loan.

Current liabilities rose by PLN 2,051.0m (110%) relative to 2006. PGNiG S.A. became the major recipient of distribution services provided by the Distribution System Operators, which caused an increase in trade and other payables by PLN 1,613.1m (103%).

The ratios reflecting the relation between capital and other items of shareholders' equity and liabilities did not change significantly from 2006. The total debt-to-equity ratio fell from 37.3% to 32.4% in 2007, while the debt ratio (total liabilities to total equity and liabilities) fell from 27.1% to 24.5%.

The financial standing of PGNiG S.A. is strong. PGNiG S.A.'s activities continue to be marked by growth in management efficiency. However, the development of the growth path in the years ahead will be primarily conditional on the position of the Polish Energy Regulatory Authority concerning gas selling prices in the domestic market.

The Use of Issue Proceeds until December 31st 2007

As a result of the Public Offering, in 2005 PGNiG S.A. earned issue proceeds totalling PLN 2,682.0m Net of the amount of PLN 41.9m representing the issue's costs, net proceeds amounted to PLN 2,640.1m.

The aggregate expenditure of the funds obtained from the public issue of shares at the end of 2007 totalled PLN 1,849.7m, which accounted for 70% of total proceeds. The break down of expenditure looked as follows: PLN 31.8m was spent by the end of 2005, PLN 1,292.3m was spent in 2006, while PLN 525.6m was spent in 2007.

The use of proceeds from the public issue of shares in individual business segments:

- upstream – PLN 1,078.5m
- trade, transmission and storage – PLN 361.2m
- distribution – PLN 278.0m

- debt repayment (5% of the issue proceeds) – PLN 132m.

The key investment projects implemented with the use of issue proceeds in 2007 were:

- projects in the area of crude oil mining, including the LMG project, the denitriding plant in Grodzisk, the Skarv project and exploratory works,
- increasing the capacities of underground gas storage facilities in Swarzów, Mogilno, Wierzchowice and Strachocin, and investment in transmission assets included in the list of fixed assets under a lease agreement.
- Modernisation and extension of distribution network carried out by the Distribution System Operators.

As at the end of 2007, the total limit set in the Issue Prospectus for expenditures on upstream activities was exhausted.

Explanation of discrepancies between the actual results and forecasts for 2007.

In 2007, the Company did not publish any forecasts.

1.3. Transactions with Related Undertakings

The table below sets forth the transactions with related undertakings whose value exceeds EUR 500,000.

Transactions with related undertakings

Undertaking	Sales[1)] [PLNm]	Other sales[2)] [PLNm]	Purchases[3)] [PLNm]	Other purchases[4)] [PLNm]
Total (related undertakings)	4 439.6	259.4	2 684.6	2.7
Undertakings consolidated with full method	4 417.7	229.5	2 548.4	2.7
GEOFIZYKA Kraków Sp. z o.o.	0.0	1.1	45.6	0.0
GEOFIZYKA Toruń Sp. z o.o.	0.1	0.5	104.9	0.0
PNiG Jasło Sp. z o.o.	0.1	0.5	145.1	0.0
PNiG Kraków Sp. z o.o.	0.3	3.3	80.6	0.0
PNiG NAFTA Sp. z o.o.	0.2	0.6	150.3	0.0
ZRG Krosno Sp. z o.o.	0.3	0.0	55.6	0.0
PN Diament Sp. z o.o.	0.5	2.0	73.6	0.0
PGNiG Norway AS	0.0	13.1	0.0	0.0
Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	477.1	26.7	187.6	0.4
Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	723.1	1.0	285.7	0.4
Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o.	1 038.3	90.2	375.6	0.7
Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.	940.2	55.6	349.6	0.4
Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o.	476.4	23.5	179.4	0.5
Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.	760.6	9.9	277.4	0.4

BUG Gazobudowa Sp. z o.o.	0.0	0.4	104.6	0.0
BN Naftomontaż Sp. z o.o.	0.2	1.0	80.2	0.0
ZUN Naftomet Sp. z o.o.	0.0	0.0	11.2	0.0
B.SiP.G Gazoprojekt S.A.	0.4	0.0	11.0	0.0
INVESTGAS S.A.	0.0	0.0	30.4	0.0
Undertakings consolidated with equity method	20.7	28.8	96.1	0.0
EUROPOL GAZ S.A.	20.7	13.1	96.1	0.0
GAS-TRADING S.A.	0.0	15.7	0.0	0.0
Other related entities, excluded from consolidation	1.2	1.1	40.1	0.0
ZRUG Sp. z o.o. of Pogórska Wola	0.0	0.2	11.6	0,0
BUD-GAZ Sp. z o.o.	1.1	0.0	15.2	0.0
ZRUG Sp. z o.o. of Poznań	0.1	0.7	4.7	0.0
BG GAZOMONTAŻ S.A. of Wołomin	0.1	0.1	8.7	0.0

1) Revenue on sales of products, goods for resale and materials
2) Financial income and other income
3) Costs by type, tangible assets under construction and inventories
4) Financial expenses and other expenses

Sales transactions relate to:

- sale of gas to the six Gas Companies until they are converted into Distribution System Operators
- sale of gas and of services of an operator of a transit pipeline to EUROPOL GAZ S.A.
- interest receivable on advanced loans and dividends from Distribution System Operators
- interest receivable on advanced loans from PGNiG Norway AS
- interest receivable on advanced loans from EUROPOL GAZ S.A.
- dividend from GAS-TRADING S.A.

Purchase transactions include:

- Purchase of distribution services from the six Distribution System Operators
- Purchase of services relating to exploration for crude oil and natural gas reserves, among others, 2D/3D seismic tests and drilling works from the companies in the upstream segment
- Purchase of gas transmission services from EUROPOL GAZ S.A.
- Purchase of pipeline construction and maintenance services from BUG Gazobudowa Sp. Z o.o.
- Purchase of reserves development services and services related to upgrading the underground gas storage facilities from BN Naftomontaż Sp. z o.o.
- Purchase of technical equipment for oil production from ZUN Sp. z o.o.
- Purchase of design work and analyses relating to construction and extension of the underground gas storage facilities from B.SiP.G Gazoprojekt S.A.
- Purchase of services relating to operation, maintenance and extension of the underground gas storage facilities from INVESTGAS S.A.

2. Financial Management

The PGNiG S.A.'s funds guarantee financing of current and planned expenses related to the Company's current and investing activities. Although no risk of liquidity loss occurs, in order to enhance security, the company concluded current account loan agreements as a reserve (total of PLN

280m) and a loan agreement of July 27th 2005, providing for revolving loans of EUR 600m and 300m, which remain fully available. As at December 31st 2007, there were no liabilities under loans and borrowings.

The management of financial resources at the PGNiG Group is governed by internal procedures, applicable for both the Company and its subsidiaries. In accordance with the relevant regulations, the financial investments may involve treasury bills, treasury bonds and bank deposits. In addition, the share of financial instruments issued by the State Treasury in PGNiG S.A. may not be lower than 50% of the investment portfolio. Free funds are deposited as deposits on the bank accounts, taking into consideration the need to diversify banks, and as debt securities issued by the State Treasury and the National Bank of Poland.

The measures undertaken by the Company to mitigate the risk of losing financial liquidity included:

- conclusion of current-account facility agreements
- conclusion of a revolving facility agreement
- projections of cash flows at the Company/the Group
- estimation of the condition and the value of assets available for sale
- maintenance of highly liquid financial assets.

Free cash is invested in instruments involving minimum credit risk, i.e. treasury securities and bonds issued by the National Bank of Poland. It is also deposited with commercial banks with investment grade rating.

2.1. Current Investments

In 2007, the Company made the following current investments:

- Bank deposits,
- Conditional buy/sell transactions on securities issued by the State Treasury (treasury bills, treasury bonds) and bonds issued by the National Bank of Poland.

Investments in debt securities issued by the State Treasury and the National Bank of Poland represented approximately 76% of the transaction volume. The financial investments executed in 2007 were current investments, maturing in up to three months, which was consistent with the Company's policy of making financial investments and the objectives disclosed in the issue prospectus.

2.2. Contracted Loans and Borrowings

As at December 31st 2007, PGNiG S.A. claimed no liabilities under loans and borrowings. In 2007, the Company's financial liquidity was secured by current account loans totalling PLN 280m, and a revolving syndicated loan of EUR 900m. The syndicated loan agreement was concluded on July 27th 2005 between PGNiG S.A. and a group of banks, with Bank Handlowy w Warszawie S.A. as their agent. The credit facility was divided into a five-year term loan of EUR 600m and a three-year revolving loan of EUR 300m. On April 27th 2007, PGNiG S.A. executed an annex to the agreement, whereby the term loan of EUR 600m was changed into a revolving multicurrency loan (PLN, EUR, USD). As at December 31st 2007, both loans remained fully available.

As at December 31st, the effective interest rate of the syndicated loan determined on the basis of 365 days amounted to:

- 3.36% – for the loan of EUR 600m with the maturity date of July 27th 20010
- 5.10 % – for the loan of EUR 300m with the maturity date of July 27th 2008.

The Gas Companies issued bank guarantees for the benefit of PGNiG S.A. in the aggregate amount of EUR 1.250m. The guarantee agreement, which was concluded on September 22nd 2005, will be in force up to January 27th 2012. On October 1st 2007, the liabilities under the guarantee, by way of succession, were taken by the Distribution System Operators.

Furthermore, as at December 31st 2007, PGNiG S.A. had current-account loans for financing of its current operations. The table below sets forth active current account loan agreements.

PGNiG S.A.'s current account loan agreements

Bank	Currency	Limit	Drawn as at Dec 31 2007	Date signed	Maturity date
Pekao S.A.	PLNm	40.0	0.0	Aug 21 2003	Jul 31 2008
PKO BP S.A.	PLNm	40.0	0.0	Mar 9 2006	Mar 08 2008
Pekao S.A. (previous BPH)	PLNm	40.0	0.0	Feb 16 2006	Feb 15 2008
Bank Handlowy S.A.	PLNm	40.0	0.0	Dec 21 2007	Dec 31 2008
Societe Generale S.A. Branch in Poland	PLNm	40.0	0.0	Aug 22 2003	Aug 29 2008
Millennium S.A.	PLNm	40.0	0.0	Oct 26 2005	Oct 25 2008
BRE Bank S.A.	PLNm	40.0	0.0	Jul 20 2007	Jun 27 2008
		280.0	0.0		

2.3. Loans Granted

The aggregate amount of loans advanced in 2007 by PGNiG S.A. to its related undertakings was PLN 246m and NOK 3,800m. As at December 31st 2007, the companies' balance of debt under loans advanced by PGNiG S.A. amounted to PLN 381.8m and NOK 1,800m. The loans were granted primarily to finance projects involving the construction and expansion of the high-pressure transmission grid, construction and upgrade of the distribution network, connection of new customers to the grid, purchase of geophysical surveying and drilling equipment, acquisition of interests in the licence blocks on the Norwegian Continental Shelf and development of reserves. The table below contains detailed information on the loans advanced by PGNiG S.A. to its related undertakings as at December 31st 2007.

Loans advanced by PGNiG S.A. to its related undertakings:

	Company	Expressed in	Loan agreement date	Loan amount	Debt under				Loan repayment date
					Principal	Interest	Total debt	Past due debt	
1.	EUROPOL GAZ S.A.*	USD m	Sep 25 1995	78.6	48.5	5.3	53.8	5.3	Jan 31 2012
2.	PNiG Kraków Sp. z o.o.	PLN m	Sep 14 1998	9.1	6.4	0.1	6.5	0.1	Jun 30 2011
3.	Dewon Z.S.A.*	USD m	Apr 25 2001	3.1	3.1	2.0	5.1	2.5	Jun 30 2009
4.	Geofizyka Toruń Sp. z o.o.	PLN m	Aug 17 2006	12.3	7.2	0.0	7.2	0.0	Aug 31 2009
5.	PNiG Kraków Sp. z o.o.	PLN m	Aug 28 2006	54.0	49.5	0.8	50.3	0.8	Nov 15 2011
6.	Geofizyka Kraków Sp. z o.o.	PLN m	Oct 26 2006	23.1	17.7	0.0	17.7	0.0	Oct 31 2011
7.	WOSD Sp. z o.o.	PLN m	Oct 26 2006	15.1	10.0	0.0	10.0	0.0	Dec 31 2009
8.	DOSD Sp. z o.o.	PLN m	Oct 30 2006	40.0	34.0	0.0	34.0	0.0	Mar 31 2012
9.	POSD Sp. z o.o.	PLN m	Nov 16 2006	14.8	12.0	0.0	12.0	0.0	Jan 31 2012
10.	POSD Sp. z o.o.	PLN m	Nov 16 2006	24.2	21.9	0.0	21.9	0.0	Jan 31 2017
11.	PNiG Jasło Sp. z o.o.	PLN m	Dec 21 2006	12.0	10.2	0.0	10.2	0.0	Mar 31 2012
12.	PNiG Nafta Sp. z o.o.	PLN m	May 24 2007	30.0	27.0	0.0	27.0	0.0	Dec 31 2012
13.	MOSD Sp. z o.o.	PLN m	Aug 16 2007	60.0	60.0	0.0	60.0	0.0	Aug 31 2008
14.	DOSD Sp. z o.o.	PLN m	Oct 30 2007	25.0	25.0	0.0	25.0	0.0	Dec 31 2008
15.	POSD Sp. z o.o.	PLN m	Oct 12 2007	100.0	69.0	0.0	69.0	0.0	Sep 30 2024

	Company	Expressed in	Loan agreement date	Loan amount	Debt under				Loan repayment date
					Principal	Interest	Total debt	Past due debt	
16.	ZRG Krosno Sp. z o.o.	PLN m	Nov 5 2007	3.0	3.0	0.0	3.0	0.0	Dec 31 2010
17.	WOSD Sp. z o.o.	PLN m	Nov 15 2007	10.0	10.0	0.0	10.0	0.0	Feb 29 2008
18.	PGNiG Norway AS	NOK m	Oct 16 2007	3 800.0	1 800.0	0.0	1 800.0	0.0	Dec 20 2022
19.	POSD Sp. z o.o.	PLN m	Nov 30 2007	18.0	18.0	0.0	18.0	0.0	Sep 30 2009

*a revaluation write-off was made for the entire amount of the loan, including interest; the balance-sheet value of the loan is PLN 0 (zero).

2.4. Guarantees and Surety Provided

In 2007, the limit of bank guarantees issued at the request of PGNiG S.A. was PLN 641m (USD 263.3m). As at December 31st 2007, the aggregate limit of bank guarantees issued at the Company’s request was PLN 1,085m (USD 445.6m).

In 2007, PGNiG S.A granted to PGNiG Norway AS a guarantee in the amount of EUR 627.6m whose beneficiary is the Norwegian government. The guarantee was provided to secure the performance of PGNiG Norway AS’ potential obligations towards the Norwegian government and certain Norwegian entities under the licence agreement or under applicable laws.

As at December 31st 2007, PGNiG S.A. also reported a loan surety provided for SGT EUROPOL GAZ S.A. whose beneficiary is Bank Millennium S.A.

Bank guarantees issued at the request of PGNiG S.A.

Guarantee beneficiary	Guarantee-issuing bank	Issuance date	Expiry date	Guarantee limit (USD m)	Guarantee limit (PLN m)
President of the Islamic Republic of Pakistan	Polish branch of Societe Generale SA	20.11.2000	31.12.2008	2.3	5.6
OOO „Gazprom-export"	Polish branch of Societe Generale SA	12.12.2006	08.02.2008	90.0	219.2
OOO „Gazprom-export"	Bank Pekao S.A .	12.12.2006	08.02.2008	90.0	219.2
Egyptian General Petroleum Corporation	Polish branch of Societe Generale SA	24.06.2007	28.02.2012	0.5	1.2
National Oil Corporation Libia	Polish branch of Societe Generale SA	29.11.2007	15.05.2008	10.8	26.3
OOO „Gazprom-export"	Polish branch of BNP Paribas S.A.	14.12.2007	08.02.2009	210.0	511.3
OOO „Gazprom-export"	Bank PKO BP S.A.	14.12.2007	08.02.2009	42.0	102.2

Guarantees and surety granted by PGNiG S.A.

Guarantee/surety beneficiary	Primary obligor	Grant date	Expiry date	Valid until	Guarantee /surety amount (EUR m)	Guarantee /surety amount (PLN m)	Type pf guarantee/surety
Bank Gdański S.A. (currently Millennium S.A.)	SGT EUROPOL GAZ S.A.	08.10.1996	30.09.2009	30.09.2012	-	56.0	Loan surety
State of Norway	PGNiG Norway AS	19.10.2007	01.01.2050	01.01.2050	627.6	2,247.9	Guarantee

2.5. Financial Risk Management

In 2007, PGNiG S.A. used the following financial instruments to manage the price risk:

- FX forwards,
- purchased foreign exchange call options,
- option strategies – generally representing combinations of at least two FX options,
- cross currency interest rate swaps.

The following was undertaken by the PGNiG to mitigate the credit risk:

- investment of free cash in instruments with a minimum credit risk (treasury bills, treasury bonds and bonds issued by the National Bank of Poland);
- cooperation with the leading commercial banks holding an investment rating;
- restructuring of debt (simplification of documentation, elimination of a substantial number of covenants, significant cost reduction);
- conclusion of framework agreements with business partners, which expressly define the rights and obligations of the parties;
- diversification of business partners;
- cooperation with rating agencies, with the resulting improvement of the rating granted to the Company; on February 5th 2007, the S&P agency increased the rating of the Company from BBB to BBB+.

The measures undertaken by the PGNiG S.A. to mitigate the risk of cash-flow disruptions included:

- diversification of e-banking systems;
- on-going control of credit/debit operations on bank accounts;
- gathering information on cash flows at the Company/the Group;
- consolidation of bank accounts;
- conclusion of current account facility agreements.

To mitigate the risk of losing financial liquidity, the Company undertook measures which included:

- conclusion of current-account facility agreements and a revolving facility agreement;
- projections of cash flows at the Company/the Group;
- estimation of the condition and the value of assets available for sale;
- maintenance of highly liquid financial assets.

The main objective of the PGNiG S.A.'s financial risk management policy is to limit the volatility of the cash flows related to the Company's operations to the acceptable levels in the short and mid term and building the Company value in the long term.

The Company limited the volatility of the cash flows resulting from payments under concluded gas purchase agreements and the payments resulting from repayment of the Company's credit liabilities in 2007 by concluding transactions hedging the foreign exchange risk (FX forwards, FX options, option strategies, cross currency swaps).

In 2007, PGNiG S.A. did not apply hedge accounting, therefore the changes in the fair value of hedged financial instruments and hedging instruments were disclosed in the profit and loss account for the given accounting period. However, most of the concluded transactions are effective in terms of hedge accounting.

3. Projected Financial Standing

Changes in the prices of petroleum products on international markets and, what follows, the prices of imported gas will be crucial for the performance of PGNiG S.A. The global market for such products is characterised by a significant uncertainty and volatility. In 2007, the dynamics of the domestic price increases did not match the dynamics of the increases in import prices.

The key factor affecting the 2008 results will be the position of the President of the Polish Energy Regulatory Authority on the approval of new tariffs. By the date of this Report, the tariff rate for gaseous fuel, applicable as of January 1st 2007, had not changed. Given the fact that the current tariff was approved at the time when the crude oil price was around USD 55 per barrel, and the current price exceeds USD 100 per barrel, a decline in the Company's financial performance should be expected. As prices of imported gas are closely related to the price of crude oil, any further delay in approving the new tariffs by the President of the Polish Energy Regulatory Authority will cause a further deterioration of the Company's financial standing. Since the sales forecast for Q1 2008 represent over 30% of the total sales, the failure to launch new tariffs as of January 1st 2008 will have an adverse effect on the Company's financial performance. This could mean that the results in 2008 will be worse relative to the previous year.

The prices of petroleum products also affect profitability of the crude oil production. The production of crude oil is the most important area of such activity for the Company which in 2007 contributed PLN 777.9m to the Company's revenue. In 2008, the Company plans to maintain high profitability of its production operations and intensify its investment activity in order to increase domestic production of natural gas and crude oil.

The financial standing of PGNiG S.A. is significantly affected by the situation on the foreign exchange markets. The foreign exchange market is characterised by significant volatility. In 2007, the difference between the lowest and highest US dollar exchange rate was over 20.2%. In the case of euro the difference in 2007 amounted to over 9.5%. It should be noted that in the case of increases in the purchase prices of imported gas (and also in foreign exchange rates) of up to 5% from the levels assumed in the tariff approval request, PGNiG S.A. has no formal legal grounds to apply to the Polish Energy Regulatory Authority to change the tariff and make the customers incur the increased cost. The risk related to a significant increase in foreign exchange rates and, what follows, the cost of acquisition of imported gas is limited by active hedging policy conducted by the Company.

The Company's good financial standing supports the performance of planned investment projects. The balance of available funds provides PGNiG S.A. with flexibility with regard to performance of the investment projects. Owing to the low financial leverage and positive assessment of the PGNiG S.A.'s risk, as confirmed by the rating agencies (BBB+ with stable prospects), along with the creditworthiness, the opportunity arise for the Company to finance the planned investment projects with the bank loans advanced on favourable conditions or the issue of debt securities.

Members of the Management Board

President	Michał Szubski	
Vice-President	Mirosław Dobrut	
Vice-President	Radosław Dudziński	
Vice-President	Sławomir Hinc	
Vice-President	Mirosław Szkałuba	