



Draft Resolutions of the Extraordinary General Shareholders Meeting of Polskie Górnictwo Naftowe i Gazownictwo S.A. Convened for July 31st 2008

Current Report No. 59/2008 of July 4th 2008

The Management Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG") hereby releases the draft resolution to be submitted to the Extraordinary General Shareholders Meeting of PGNiG convened for July 31st 2008:

**Resolution No. ...
of the Extraordinary General Shareholders Meeting of
Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna
of Warsaw,
dated**

concerning: acquisition of shares in Zakłady Azotowe w Tarnowie – Mościcach S.A.

Acting pursuant to Par. 56.6 of the Company's Articles of Association and based on the opinion of the Supervisory Board, expressed in Resolution No. of issued in connection with the Management Board's request contained in Resolution No. of, the Extraordinary General Shareholders Meeting hereby resolves as follows:

Par. 1

The Extraordinary General Shareholders Meeting has granted approval, under Art. 17.2 of the Commercial Companies Code, for the acquisition by PGNiG S.A. of 4,000,001 Series B shares (four million and one shares) in Zakłady Azotowe w Tarnowie – Mościcach S.A., with a par value of PLN 5.00 per share, for the price of PLN 19.50 (nineteen złoty and fifty grosz) per share, i.e. for the total price of PLN 78,000,019.50 (seventy-eight million and nineteen złoty, and fifty grosz), in the increased share capital of the company.

Par. 2

This Resolution shall take effect as of its adoption date.

Grounds:

As part of its strategy, Polskie Górnictwo Naftowe i Gazownictwo S.A. seeks to enhance its shareholder value. The Company's endeavours towards that end focus on the development of the domestic gas market. Therefore, one of the PGNiG Group's strategic priorities is to evolve into a multi-energy concern, or to reshape its business model from that of a company engaged predominantly in the sale of natural gas into a modern concern controlling the entire value chain and cooperating with a wide range of companies e.g. from the chemicals sector. The realisation of PGNiG's ambition to extend the value chain will allow it to increase gas sales and consolidate its leading position on the market.



At present, the PGNiG Group is the leading supplier of natural gas in Poland: gas supplied by the PGNiG Group accounts for 97% of the total natural gas consumed in Poland. Given that the competition in the area of natural gas trading and supply may become fiercer in the future, the Company wishes to have influence on the large purchasers of gas such as the Great Chemical Synthesis sector, which buys natural gas at wholesale prices in the amount of approx. 2.5bn m³ per annum. The acquisition of a block of shares in a key customer creates two opportunities, on the one hand it guarantees continued supplies to that customer and on the other – the possibility of achieving synergies on consolidation with the Great Chemical Synthesis sector.

Zakłady Azotowe w Tarnowie-Mościcach S.A. (ZAT) is the first state-stock company in one and a half years and the third Great Chemical Synthesis company ever to float its shares on the Warsaw Stock Exchange. Zakłady Azotowe Puławy and Zakłady Chemiczne Police, both traded on the WSE, generate similar results to ZAT, which means that the acquisition of ZAT shares may be beneficial for PGNiG S.A.

Seeing opportunities for further development of the Group, PGNiG S.A. wants to increase the scale of its operations (extend the value chain) by acquiring a block of shares in Zakłady Azotowe w Tarnowie-Mościcach S.A. Since the companies of the Great Chemical Synthesis sector are one of the largest customers of PGNiG S.A., and their production relies on natural gas supplies, acquisition of their shares results in a natural extension of the value chain, and concurrently guarantees continued demand for the natural gas sold by PGNiG. The equity investment in the chemicals sector will enhance the position of the PGNiG Group.

Core Business of Zakłady Azotowe w Tarnowie-Mościcach S.A.

Zakłady Azotowe w Tarnowie-Mościcach S.A. is one of the largest chemicals companies in Poland. Its core business consists in production and sale of chemicals and plastics, in particular in the following product areas:

- caprolactam – semi-product used in the production of polyamide 6; a by-product of the production of caprolactam is ammonium sulphate which is one of the fertilisers offered by the company;
- engineering plastics (polyamide 6, polyoxymethylene, modified plastics);
- mineral fertilisers (nitro-chalk, ammonium nitrate, ammonium sulphate).

ZAT sells its products in Poland, other EU countries and China. Smaller product quantities are also sold in other European countries as well as Asia, South and North America and Africa.

ZAT S.A. is a state-stock company, established following the transformation of a state-owned enterprise under the name of Zakłady Azotowe w Tarnowie.

Sources of Supply

The key strategic raw materials necessary for large-tonnage production at ZAT include phenol, natural gas, benzene and ammonia, which accounted for 66% of the total cost of electricity and raw materials in 2006. The company depends on natural gas supplies to a large extent. PGNiG S.A. is the only company supplying natural gas to ZAT. ZAT is a party to two agreements with PGNiG S.A., one entered into on January 14th 1999, covering approximately two-thirds of its demand, and the other, dated December 28th 2004, concerning deliveries of natural gas from local fields.



The first agreement for the supply of high-methane natural gas used by ZAT in technological processes was concluded for an indefinite term. It defines the technical conditions for the supply and receipt of the gaseous fuel, and is based on the "Take or Pay" principle.

The second agreement was concluded for a definite term (i.e. for ten years from the date of the start of commercial production of gas from the Tarnów I, Tarnów II and Łękawica fields) and relates to the sale of natural gas from the local fields to be used by the company in its technological processes. Natural gas is delivered to the company directly, without using the national transmission system. The production from the said fields started in January 2005.

Benefits from the Acquisition of Shares in Zakłady Azotowe w Tarnowie-Mościcach S.A.

PGNiG's acquisition of a block of shares in ZAT will allow the Company to benefit from the following synergies between the two companies:

- Defence against competition and stability of gas sales,
- Stable sales – an issue of crucial importance, particularly in the light of the market deregulation,
- Possibility of full development of the gas fields near Tarnów,
- Extension of the value chain and formation of a gas and chemicals concern,
- Possible entry into the sector of industrial power plants – a concept to construct of a gas-fired power plant with the capacity of 200MW.

The entire core business of ZAT relies on the natural gas supplied by PGNiG S.A. The acquisition of shares in ZAT offers PGNiG S.A. not only the possibility to extend the value chain and ensure stability of gas sales, but also the opportunity to exploit local sources of natural gas to a greater extent than is currently the case. By developing sales of locally produced gas, PGNiG S.A. can potentially increase its revenues and profits, ensure stable gas sales and defend itself against competition.

Given that Zakłady Azotowe w Tarnowie-Mościcach S.A. owns a heat and power generating plant which covers ZAT's demand for heat and electricity, there is an opportunity for PGNiG to combine the natural gas and the electricity value chains (by extending the value chain to include power generation assets) and to gain expertise in new business areas (power generation and trading). The investment in ZAT creates an opportunity to build power generating assets with the capacity of 200MW. Preliminary analyses indicate that ZAT needs a further 100MW to meet its demand. However, the success of the project would depend on the decision of the Tarnów authorities to participate in the project, as the city is the potential customer interested in buying the remaining 100MW of the generated power.

Through the issue of shares, ZAT will increase its share capital, which will have a positive effect on the implementation of the investment projects planned by the company. The issue proceeds will support the company's development, thus increasing ZAT's consumption of the natural gas supplied by PGNiG S.A.

Being in one Group with a chemicals company guarantees development of the market and boosts sales of the Company's key product.

An additional significant benefit from these activities will be the opportunity to implement technologically advanced investment projects, such as the construction of gas-fired generation facilities. Such projects would mean the implementation of the environmental policy, connected with achieving a clean fuel structure in electricity generation and improving



domestic fuel sources efficiency, based on the certificates evidencing high efficiency and low emission of the gas-fired generation facilities.

PGNiG S.A. intends to enter the chemicals sector and intends to acquire, in a public offering, four million and one shares in Zakłady Azotowe w Tarnowie-Mościcach S.A., at the issue price of PLN 19.50 per share, which adds up to the total transaction value of PLN 78m.

PGNiG treats the acquisition of ZAT shares as a long-term investment and intends to exert influence on the company's management through active participation in its governing bodies.

To sum up, the PGNiG Group intends to reshape its business model from that of an integrated gas and oil company into a strong fuel and energy group, characterised by a modern management style and an attractive market offering, controlling a vast value chain. Therefore, we recommend the purchase of a block of shares in Zakłady Azotowe w Tarnowie-Mościcach S.A.