



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

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

**concerning:** use of the capital reserve "Central Restructuring Fund for 2005–2007" for one-off payments (social packages) to former employees of ZUN Naftomet Sp. z o.o. of Krosno

Acting pursuant to Par. 56.3.9 of the Company's Articles of Association and based on the positive opinion of PGNiG's Supervisory Board, contained in Resolution No. ... of ..., the Extraordinary General Shareholders Meeting of PGNiG hereby resolves as follows:

**Par. 1**

The General Shareholders Meeting of PGNiG resolves to use funds from the capital reserve "Central Restructuring Fund for 2005–2007", in the amount of PLN 180,000, for one-off payments (social packages) to four former employees of ZUN Naftomet Sp. z o.o. of Krosno.

**Par. 2**

This Resolution shall take effect as of its adoption date.

**MOTION**

Acting pursuant to Par. 56.3.9 of the Company's Articles of Association, the Management Board of PGNiG S.A. hereby proposes the adoption of the following resolution concerning the use of funds from the capital reserve "Central Restructuring Fund for 2005–2007", created pursuant to Resolution No. 1 of PGNiG's Extraordinary General Shareholders Meeting of July 21st 2005 on the creation of the capital reserve "Central Restructuring Fund", in the amount of PLN 180,000, for one-off payments (social packages) to four former employees of ZUN Naftomet Sp. z o.o. of Krosno.

**GROUND**

The General Shareholders Meeting of PGNiG created the capital reserve "Central Restructuring Fund for 2005–2007" with a view to providing social packages to entitled employees covered by the Programme for Employment Restructuring and Spin-Off of Certain Functions from the PGNiG Group in 2005–2007 (stage 2), approved by virtue of Resolution No. 1 of PGNiG's Extraordinary General Shareholders Meeting of July 19th 2005.

The Programme specifies that one of the key objectives of the Fund is to support restructuring efforts by providing social packages to employees included in the restructuring programmes at the PGNiG Group companies which face financial difficulties or are subject to bankruptcy or liquidation proceedings".



As required by the terms of the Programme, a Central Restructuring Fund Committee was established at the Head Office of the Company, comprised of the representatives of the Head Office Departments and representatives of the Head Offices of the Oil and Gas Industry Trade Unions.

The Central Restructuring Fund Committee received a motion from the Management Board of ZUN Naftomet Sp. z o.o. of Krosno, prepared in liaison with the company's trade unions, requesting that one-off payments (social packages) be made from the Fund to the dismissed employees.

The financial standing of ZUN Naftomet Sp. z o.o. is very poor. In the recent years the company incurred losses. As at December 31st 2006, the loss amounted to PLN 10,324,286.82. The equity deficit is 43.93%. The Management Board of the company has launched a Remedial Plan, cutting expenses in the following areas: reduction in the consumption of energy and raw materials, reduction in the cost of raw materials and third party services, general management and administrative expenses, expenses related to auxiliary branches and employment-related expenses. Given its financial standing, ZUN Naftomet Sp. z o.o. is not in a position to meet all the costs of employment restructuring on its own. When cutting down the labour force, the company pays the statutory severance pays and severance pays due under the collective employment agreement from its own resources. However, it has no resources to cover the severance pays (social packages) due to employees as a result of including ZUN Naftomet Sp. z o.o. in the Employment Restructuring Programme at the PGNiG Group.

The Management Board of ZUN Naftomet Sp. z o.o. included information on its inability to finance the employment restructuring process from its own resources in the Plan for Employment Restructuring at ZUN Naftomet in 2007, submitted to the General Shareholders Meeting of ZUN Naftomet Sp. z o.o. of Krosno, and in a supplement to the Plan for Employment Restructuring in 2007. The aggregate expenditure on employment restructuring in 2007 envisaged in these Plans amounts to PLN 1,683 thousand, including PLN 1,210 thousand for social packages.

In connection with the above, four employees had their employment contracts terminated on the basis of the Act on special rules governing termination of employment for reasons not attributable to employees of March 13th 2003 (Dz. U. No. 90, item 844, as amended). These employees are entitled to one-off payments (social packages) at specified amounts, following from the type of restructuring activity provided for in the Programme for Employment Restructuring at the PGNiG Group.

The sum of the abovementioned one-off payments (social packages) amount to PLN 180,000.

The Central Restructuring Fund Committee considered the motion submitted by the Management Board of ZUN Naftomet Sp. z o.o. on October 25th 2007. Having reviewed the submitted materials, including the declarations and statements of the company's employees, the Committee approved the abovementioned motion of the Management Board of ZUN Naftomet Sp. z o.o. of Krosno and requested the Restructuring and Asset Department to prepare a relevant motion to PGNiG's Management Board in order to commence proceedings aimed at using the funds of the Central Restructuring Fund.

We also need to add that the first group (26 persons) of the former employees of ZUN Naftomet Sp. z o.o. covered by the Plan for Employment Restructuring in 2007 received, in accordance with Resolution No. 3 of PGNiG's Extraordinary General Shareholders



Meeting of September 26th 2007, one-off payments (social packages) totalling PLN 1,070,000. Reduction in labour costs had a positive impact on the company's results. Therefore, we move as first herein above.

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

**concerning:** approval of acquisition by PGNiG S.A. of a plot with a surface area of 11,159 m<sup>2</sup>, situated at ul. Kasprzaka 25 A, Warsaw

Acting pursuant to Par. 56.3.2 of the Company's Articles of Association, in view of the positive opinion issued by PGNiG S.A.'s Supervisory Board in Resolution No. .... of ..... with respect to the motion submitted by the Management Board in Resolution No. 890/2007 of December 11th 2007 the Extraordinary General Shareholders Meeting resolves as follows:

**Par. 1**

The Extraordinary General Shareholders Meeting hereby approves the acquisition by PGNiG S.A., for no more than PLN 50m, of a plot of land with buildings, with a surface area of 11,159 sq m, situated at ul. Kasprzaka 25 A, Warsaw, the Centrum Municipality, the Wola District, held in perpetual usufruct by EURO-NET Sp. z o.o., with registered office at ul. Muszkieterów 15, 02-273 Warsaw, Poland.

**Par. 2**

This Resolution shall take effect as of its adoption date.

**MOTION**

Acting pursuant to Par. 56.3.2 of the Company's Articles of Association, the Management Board of PGNiG S.A. hereby requests approval for:

Acquisition by PGNiG S.A., for no more than PLN 50m, of a property comprising a plot of land with buildings, with a surface area of 11,159 sq m, situated at ul. Kasprzaka 25 A, Warsaw (Poland), in the Wola district, held in perpetual usufruct by EURO-NET Sp. z o.o., with registered office at ul. Muszkieterów 15, 02-273 Warsaw, Poland.

**GROUND**

On the west, the property borders plots of land held in perpetual usufruct by PGNiG S.A. by virtue of Decision No. 4 of the President of the Capital City of Warsaw, dated November 22nd 2006.



The market value of the property was established based on a valuation prepared by a property appraiser. The appraiser estimated its value at approximately PLN 41,511,480, which is above the equivalent of EUR 2,000,000.

The 2008 Preliminary Investment Plan, adopted by PGNiG S.A.'s Management Board and Supervisory Board, provided PLN 50m was for this investment.

The Supervisory Board issued a positive opinion on the proposed acquisition.

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

**concerning:** approval of acquisition of new shares in Geofizyka Kraków Sp. z o.o.

Acting pursuant to Par. 56.6 of the Company's Articles of Association and taking into consideration the positive opinion expressed by the Supervisory Board in Resolution No. ...., dated ....., with respect to the motion of the Company's Management Board contained in Resolution No. ...., dated....., the Extraordinary General Shareholders Meeting resolves as follows:

**Par. 1**

The Extraordinary General Shareholders Meeting approves the subscription by PGNiG S.A. of 30,000 (thirty thousand) new shares, with a par value of PLN 30,000,000.00 (thirty million złoty), in the increased share capital of Geofizyka Kraków Sp. z o.o., and agrees for the payment for the shares to be made in the following manner:

- 17,000 shares – with a cash contribution, by offsetting, by virtue of an agreement, the receivables under a loan advanced to Geofizyka Kraków Sp. z o.o. by PGNiG on October 26th 2006 against the PLN 17,000,000.00 (seventeen million złoty) payable for the new shares,
- 13,000 shares – with a cash contribution of PLN 13,000,000.00 (thirteen million złoty).

**Par. 2**

This Resolution shall take effect as of its adoption date.

**MOTION**

The Management Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. hereby requests the General Shareholders Meeting to adopt, pursuant to Par. 56.6 of the Company's Articles of Association, a resolution approving the acquisition by PGNiG S.A. of 30,000 (thirty thousand) new shares in the increased share capital of Geofizyka Kraków Sp. z o.o.



## **GROUND**

### **I. Motion for a share capital increase, filed in 2006**

In 2006, the Management Board of Geofizyka Kraków Sp. z o.o. submitted with the General Shareholders Meeting of Geofizyka Kraków Sp. z o.o. a motion for increasing the company's share capital. However, the motion was rejected by the Controlling Department of PGNiG S.A.

Consequently, instead of a share capital increase Geofizyka Kraków Sp. z o.o. received a long-term (five-year) loan of PLN 23m for financing the purchase of equipment indispensable in performance of its contractual obligations.

### **II. Economic and financial position of the Company in the period from 2004 until the end of the first ten months of 2007**

#### **Financial highlights of Geofizyka Kraków Sp. z o.o.:**

PLN '000	2004	2005	2006	First 10 months of 2007 (acc. to IAS)	2007 plan (acc. to IAS)
Item					
<b>Share capital</b>	34,400	34,400	34,400	34,400	34,400
<b>Equity</b>	30,017	30,850	36,721	51,430*	55,713
<b>Balance-sheet total</b>	94,893	115,697	185,417	192,049	183,557
<b>Sales revenue</b>	99,681	131,936	208,500	211,348	235,738
<b>Operating expenses</b>	95,163	125,256	186,689	207,788	227,112
<b>Total liabilities (including provisions for liabilities)</b>	64,876	84,848	148,696	140,619	127,844
<b>Profit/(loss) on sales</b>	4,518	6,681	21,811	3,560	8,626
<b>Net profit/(loss)</b>	432	1,117	6,281	-923	642

\* The increase in equity recorded in 2007 results primarily from the fact that the Company maintains its accounting records in accordance with IFRSs (the equity for the first ten months of 2007, calculated in accordance with the Polish Accountancy Act, would amount to PLN 35,798 thousand).



### Profitability ratios

	2004	2005	2006	First 10 months of 2007	2007 plan
Ratio					
<b>Sales margin</b>	4.53%	5.06%	10.46%	1.68%	3.65%
<b>Net sales margin</b>	0.43%	0.85%	3.01%	-0.43%	0.27%
<b>Operating margin</b>	4.81%	3.46%	8.50%	0.74%	2.55%
<b>Return on assets (ROA)</b>	0.46%	0.97%	3.39%	1.07%	0.43%
<b>Return on equity (ROE)</b>	1.44%	3.62%	17.11%	-1.79%	1.76%
<b>Return on share capital</b>	1.26%	3.25%	18.26%	-2.68%	1.87%

Taking advantage of favourable conditions prevailing on geophysical markets (especially international markets), Geofizyka Kraków Sp. z o.o. has been expanding its export business since 2005. As a consequence, the company doubled the value of its sales over just two years: the sale revenue recorded for 2006 outstripped the 2004 figure by 112%.

The substantial rise in sales revenue drove up the company's profitability in 2006. The net profit went up from PLN 1,116.6 thousand in 2005 to PLN 6,280.9 thousand in 2006, by as much as 462%. Relative to the preceding year, the 2006 sales revenue posted by Geofizyka Kraków Sp. z o.o. rose by 58% and its 2006 profit on sales – by 226%.

As may be seen from the data presented above, the upward trend in sales has been prevailing since 2004. However, the net profit, which was climbing up in 2005 and 2006, declined in the first ten months of 2007 and the company generated a loss. This is be attributable to the fact that a 37% increase in sales revenue for the first ten months of 2007, relative to the corresponding period of the previous year, went hand in hand with a 55% rise in operating expenses. As follows from the information obtained from Geofizyka Kraków Sp. z o.o., the considerable increase in the operating expenses in 2007, which had an adverse effect on financial performance, is mainly attributable to the company's dynamic entry on the Libyan market. Gaining a foothold in that market was inevitably connected with high expenses. This, however, is expected to bring stronger sales and profitability in the years to come. Furthermore, the deterioration in the financial standing of Geofizyka Kraków Sp. z o.o. was caused by political instability at key contract sites. Due to political and social unrest, the work performed in Turkey under a 2D contract executed with Merty Energy was delayed. In Pakistan, the work commissioned by a local company was discontinued due to unrest on the Afghanistan-Pakistan border (the Latambar project execution site), which adversely affected the projected sales. Also, as a consequence of political turmoil, the costs of contracted services rose due to alternate mobilisation and demobilisation of armed forces in Turkey and Pakistan.

For detailed information on the economic and financial standing of Geofizyka Kraków Sp. z o.o. in the period between 2005 and the first ten months of 2007 see the table attached to the motion.

It should be emphasised that the increase in sales recorded in 2006-2007 was almost fully financed with external capital, without a significant change in equity financing. The company was able to take advantage of the growth opportunities and expand into the Libyan market,





which however was accompanied by a substantial rise in debt and deterioration of debt and liquidity ratios.

The table below presents changes in equity, liabilities, and debt and liquidity ratios:

	2004	2005	2006	First 10 months of 2007
<b>Equity (PLN '000)</b>	30,017	30,850	36,721	51,430
<b>Total liabilities (excluding provisions for liabilities) (PLN '000)</b>	55,113	69,568	131,684	118,507
<b>Non-current liabilities (PLN '000)</b>	17,929	20,978	46,047	31,203
<b>Current liabilities (PLN '000)</b>	37,184	48,590	85,637	87,304
<b>Current ratio</b>	1.1	1	1	0.8
<b>Quick ratio</b>	1.0	0.9	0.8	0.7
<b>Equity financing of non-current assets</b>	56.00%	45.90%	37.20%	43.52%
<b>Equity and non-current liabilities to non-current assets</b>	89.40%	77.10%	83.80%	69.93%
<b>Total debt ratio</b>	54.40%	57.30%	63.20%	73.22%
<b>Debt to equity ratio</b>	172.00%	214.80%	349.20%	273.42%
<b>Working capital /current assets - current liabilities / (PLN '000)</b>	4,089	-146	1,020	-13,428

According to the financial data for the first ten months of 2007, the company's assets were financed mainly with liabilities and provisions for liabilities, which accounted for 73% of the total equity and liabilities. Furthermore, the company violated the golden balance-sheet rule, according to which non-current assets, associated with a company for a long time, should be financed with equity. In financing non-current assets, equity may be supplemented with non-current liabilities, especially with respect to large investment projects (recently Geofizyka Kraków Sp. z o.o. has been executing a large-scale investment project involving the purchase of equipment for geophysical research to be employed on the Libyan market). In such a case, the sum of equity and non-current liabilities (long-term capital) should exceed the value of non-current assets. According to the data for the first ten months of 2007, 69.9% of the non-current assets of Geofizyka Kraków Sp. z o.o. is financed with the sum of equity and non-current liabilities.

The Corporate Supervision Department estimates that the company's financial condition is difficult due to large liabilities. Liabilities and provisions for liabilities in the amount of PLN 140.6m (as at October 31st 2007) exceed the equity figure over twofold, which poses a threat to the company's financial stability, as further evidenced by low liquidity ratios.

It should also be noted that Geofizyka Kraków Sp. z o.o. has reached one of the highest levels of indebtedness among the other Group companies operating in the exploration sector.



### **III. Motion for a share capital increase, filed in 2007**

On October 9th 2007, Geofizyka Kraków Sp. z o.o. submitted to the General Shareholders Meeting another motion for a PLN 30,000,000.00 increase in the company's share capital.

#### **1. The Company's Business Plan for 2008–2010**

##### **Overview of Global Geophysical Markets**

The geophysical services market is currently very buoyant and is undergoing major structural changes. Rising crude oil prices encouraged the oil and gas industry to increase expenditure on exploration and development of new reserves. Significantly higher demand for geophysical services has been reported since the end of 2004. On the established (Iran, Egypt, Saudi Arabia) and, especially, emerging (Libya) exploration markets, after a period of dynamic growth there is still demand for the geophysical work needed in the exploration operations. As a result, geophysical companies became able to significantly broaden the scope and reach of their sales operations and reconstruct their technical capabilities in accordance with the requirements of their demanding customers, oil companies.

Favourable market conditions in the reserve exploration segment and substantial demand for geophysical services provide Geofizyka Kraków Sp. z o.o. with development opportunities and allow it to increase its sales revenue. In the circumstances, an increase in the share capital of Geofizyka Kraków Sp. z o.o., changing the structure of its balance sheet (debt reduction), would improve the Company's market credibility and, consequently, represent support provided to Geofizyka Kraków Sp. z o.o. by its owner in order to take advantage of market opportunities.

##### **Key Objectives of the Strategy of Geofizyka Kraków Sp. z o.o.**

The objectives of the strategy of Geofizyka Kraków Sp. z o.o. for the coming years are to:

- ⇒ meet the quantitative and qualitative requirements of PGNiG S.A. in the field of geophysical work;
- ⇒ become the preferred contractor of selected global companies on chosen markets;
- ⇒ procure orders from licence operators in Poland other than PGNiG S.A.,
- ⇒ maintain a 100% share in the Czech market;
- ⇒ expand into the promising Libyan market (to this end Geofizyka Kraków Sp. z o.o. has undertaken steps to incorporate a company under the law of Libya, a requirement to operate in the Libyan market – Geofizyka Kraków Sp. z o.o. plans to establish a joint venture in the form of a joint-stock company incorporated under the law of Libya with the participation of Libyan capital under the name of "Geofizyka Kraków Libia Spółka Akcyjna", for the period of 25 years, with two shareholders: Geofizyka Kraków Sp. z o.o. (the Polish partner with a 60% stake in the share capital) and BARARI Co. (the Libyan partner with a 40% stake in the share capital), with the share capital amounting to LYD 1,000,000.00 (one million Libyan dinars) at the time of incorporation;
- ⇒ expand into the markets of Pakistan and Turkey,
- ⇒ develop and strengthen the position of Geofizyka Kraków Sp. z o.o. in the EU market.





## Geofizyka Kraków Sp. z o.o.'s Financial Plan for 2008–2010

The financial plan for 2008–2010 (assuming a PLN 30m increase in the Company's share capital) contains the following assumptions:

- increase in sales on the Libyan market to PLN 110.0m by 2010 (higher by 183.5% relative to 2006),
- increase in sales in Pakistan to PLN 24.8m by 2010 (higher by 239.7% relative to 2006),
- increase in total sales revenue to PLN 263.3m by 2010 (higher by 26% relative to 2006),
- improvement in the Company's profitability – increase in net profit to PLN 12.6m by 2010 (higher by 100% relative to 2006).

The tables below present the selected items of Geofizyka Kraków Sp. z o.o.'s financial plan for 2008 –2010:

### Key figures of the forecast income statement and balance sheet:

PLN '000	2006	2007 forecast)	2008	2009	2010
Item			Following share capital increase		
Income statement (PLN '000)					
Sales revenue	208,501.0	235,738	251,975.6	258,923.9	263,354.5
Operating expenses	186,688.0	227,112	233,121.8	234,860.7	239,638.6
Profit/(loss) on sales	21,813.0	8,626	18,853.8	24,063.2	23,715.9
Net profit/(loss)	6,281.0	642	8,662.1	12,742.0	12,590.5
Balance sheet (PLN '000)					
Non-current assets	98,760.4	81,546.1	71,770.5	63,929.7	66,744.1
Current assets	86,657.1	67,085.2	63,489.1	66,140.9	64,991.5
Equity	36,721.4	36,550.9	74,882	79,395	79,880.6
Non-current liabilities	46,046.9	34,463.7	10,680.9	6,787.6	15,676.1
Current liabilities	85,637.4	62,826.8	41,344.2	36,015.7	28,802.3

According to the business plan submitted in August 2007, the target net profit for 2007 was PLN 5,179.9 thousand. The present profit forecast is PLN 642.0 thousand.

According to the information provided by the Management Board of Geofizyka Kraków Sp. z o.o., the disappointing 2007 profit is generally due to the Company's poor performance in Libya. 2007 was in practice the first year of full operational activities in Libya and Geofizyka Kraków Sp. z o.o. incurred significant costs related to gaining experience on the new market, both with respect to field work in difficult conditions and cooperation with local subcontractors. Furthermore, an event of force majeure (war activities) in the Pakistani market prevented the Company from discharging its obligations under the contracts, which resulted in poor performance against the sales targets and lower profit of the Pakistani Branch.

Such a significant reduction in the 2007 profit forecast was due to:



losses incurred in Libya on a project carried out for a Norwegian customer resulting from failure to achieve the planned production efficiency under extreme desert conditions. Moreover, the project for the Norwegian customer involved much greater scope of field

work to be performed than initially planned, which additionally raised the cost of contracted services;

due to a significant increase in the cost of services provided by subcontractors, the seismic teams working in Libya have to rely on subcontractors to a much greater extent than is the case in Poland, the Czech Republic or Pakistan, therefore the cost of contracted services has a greater impact on the results of projects. Moreover, some of the settlements with the subcontractors are disputed. The high cost of subcontractors was also due to insufficient auxiliary equipment of the Libyan teams (vehicles, containers and field camp equipment). The Company was not able to provide the teams with the required equipment and the previous motion to increase the equity, submitted in 2006, was rejected;

two withdrawals of the Polish personnel from Pakistan as a result of deterioration of security (disturbance on the border with Afghanistan). The Pakistani personnel continued drilling work for almost two months and the group incurred costs, but the recording of data and invoicing of work was not possible and the projected sales were not achieved.

Despite its poor performance in 2007, Geofizyka Kraków Sp. z o.o. maintains its sales and profit targets for 2008 and subsequent years and believes that they are feasible.

At present in Libya, Geofizyka Kraków Sp. z o.o. plans to launch two seismic teams well equipped in their own geophysical and auxiliary equipment, which will allow them to reduce the subcontractors' share in their cost volume. The Company is also changing the model of cooperation with its local subcontractors, renegotiating contracts, and changing its local partners, which will allow it to reduce the cost of contracted services for the two planned well-equipped teams and possibly a third one, provided that the Company wins another contract. The Management Board of Geofizyka Kraków Sp. z o.o. believes that the experience gained under the difficult Libyan desert conditions will allow the Company to improve its planning and organisation of field work and achieve the projected productivity.

In Pakistan, Geofizyka Kraków Sp. z o.o. has won contracts worth approx. USD 18m. The Company anticipates that after the parliamentary elections scheduled for January the situation in Pakistan will stabilise and the Company will be able to continue its operations in that market.



#### Key profitability, liquidity and debt ratios:

Item	2006	2007 (forecast)	2008	2009	2010
			Following share capital increase		
Profitability ratios					
Return on assets (ROA)	3.4%	0.79%	6.4%	9.8%	9.6%
Return on equity (ROE)	20.6%	1.76%	13.1%	19.1%	18.7%
Sales margin	10.5%	3.65%	7.5%	9.3%	9.0%
EBITDA (PLN '000)	41,716.8	35,255	43,990.3	44,770.1	41,001.3
EBIT (PLN '000)	17,731.4	4,982	17,554.3	22,720.1	22,339.3
Liquidity ratios					
Current ratio	1.1	1.4	1.7	2.0	2.5
Quick ratio	0.8	1.2	1.5	1.8	2.4
Cash ratio	0.1	0.2	0.1	0.2	0.2
Debt ratios					
Equity financing of non-current assets	37.2%	63.3%	104.3%	124.2%	119.7%
Long-term capital to non-current assets	83.8%	110.6%	119.2%	134.8%	143.2%
Total debt ratio	69.2%	72.46%	36.1%	30.4%	31.3%
Debt to equity ratio	349.2%	294.63%	65.2%	49.8%	51.7%

Following the contribution of additional capital of PLN 30m to the Company:

- ⇒ there would be a steady improvement in profitability ratios,
- ⇒ ROE would be at a satisfactory level,
- ⇒ there would be a distinct improvement in liquidity ratios which would remain at a safe level,
- ⇒ there would be an improvement in the debt ratios, especially compared with 2006, when the long-term capital covered 83.8% of the Company's non-current assets – which represented a violation of the “golden balance-sheet rule”. Following the share capital increase, the golden balance-sheet rule (that non-current assets should be financed with long-term capital) would be observed with a slight surplus.

#### Dividend Policy

In the years to come Geofizyka Kraków Sp. z o.o. plans to distribute its entire profit (less statutory contributions to reserve funds) in the form of dividend paid out to its owner.

	2008	2009	2010
Planned <b>dividend</b> assuming share capital increase (PLN '000)	8,229.0	12,104.9	11,960.9

Assuming the contribution of the additional capital of PLN 30m to the Company, the total dividend for the years 2008–2010 will amount to PLN 32,294.8 thousand. Accordingly, assuming the contribution of the additional capital to Geofizyka Kraków Sp. z o.o. at the



beginning of 2008, following three years (2008, 2009, 2010) **the owner will be returned the invested capital plus a profit of 7.6%.**

### Capital Expenditure Plan

In the upcoming years, the Company will continue to incur capital expenditure. Geofizyka Kraków Sp. z o.o.'s business plan for 2008-2010 provides for capital expenditure of approximately PLN 50m.

Following the completion of an extensive investment purchase plan in 2006 (PLN 50,334.5m) and the expected execution of investment projects worth PLN 26m in 2007, the company is about to reach the limits of its production capacities, given the current level of employment of the key personnel. In 2008-2010, the capital expenditure is expected to decrease, and part of lease liabilities related to the financing of investment projects are to be repaid. New investment purchases planned for this period will focus on buying new assets and replacing those assets which have been fully depreciated.

	2006	2007 forecast	2008 plan	2009 plan	2010 plan
<b>Capital expenditure</b>	50,334.5	26,342.5	14,773.1	14,773.1	20,698.7

### Key investment tasks planned for the years 2008-2010:

<b>2008</b>	<b>(PLN '000)</b>
probes for the geophysical drilling	7,500
cables and equipment boxes (FDU, LAUL, LAUX)	4,427
geophones (3,000x6)	2,155
<b>2009</b>	
a set of medium-sized vibrating mills	5,700
cables and equipment boxes (FDU, LAUL, LAUX)	1,000
geophones (2,000x6)	1,436
probes for geophysical drilling	5,000
<b>2010</b>	
a set of heavy-weight vibrating mills	7,980
cables and equipment boxes (FDU, LAUL, LAUX)	2,500
geophones (4,000x6)	2,873

### Summary

The benefits of the share capital increase at Geofizyka Kraków Sp. z o.o. from PGNiG S.A.'s perspective are as follows:

1. Geofizyka Kraków Sp. z o.o.'s value will increase in a long term.
2. Improvement in the financial result.



The benefits of the share capital increase at Geofizyka Kraków Sp. z o.o. from Geofizyka Kraków Sp. z o.o.'s perspective are as follows:

1. A major improvement in the structure of the company's equity and liabilities (on the one hand, the liabilities will be reduced, especially those towards the related undertakings, while, on the other hand, its share capital and equity will rise).
2. The balance of the company's cash will increase by PLN 11,000,000 and the required working capital will be obtained.
3. As a result of a debt-equity swap, the debt ratios, as well as the quick and current ratios, will improve.
4. Geofizyka Kraków Sp. z o.o.'s financial standing will improve, which is all the more important in connection with the company's export activities (in the first two quarters of 2007, over 70% of the company's sales revenue was contributed by exports); this will enable the company to further develop in the future.

To sum up, it should be added that an increase in Geofizyka Kraków Sp. z o.o.'s share capital seems justified not only on economic grounds, but it is also reasonable due to the company's activities on foreign markets. The value of contracts the company is performing abroad is considerable (even in excess of USD 30m).

During tender procedures for the selection of contractors, foreign-based principals often consider the value of bidders' share capital as one of the factors used in assessing the submitted bids. Therefore, a share capital increase may practically facilitate the company's operations on foreign markets.

In general, it should be stated that in 2004-2006 Geofizyka Kraków Sp. z o.o. made a tremendous progress in terms of the scale of its operations, the volume of sales and profitability. This major change was driven by the implementation of the adopted strategy, a prudent selection of markets on which the company has been active, investments in state-of-the-art geophysical equipment and talent development. These measures enabled the company to intensively develop on the back of an upturn in the oil and gas exploration market.

These development efforts entailed considerable expenditure on the part of the company. Provision of equipment to a number of seismic teams operating abroad and the financing of production cycles significantly increased the company's indebtedness.

Based on the collected information, it can be stated that Geofizyka Kraków Sp. z o.o.'s development in the future, as well as a sales volume increase, will be possible only if its financial foundations are strengthened. Furthermore, a capital injection will allow the company to carry out the required investments involving provision of additional equipment to seismic teams operating abroad (especially in Libya).

Based on the information cited in the motion, the Management Board of PGNiG S.A. recommends a share capital increase at Geofizyka Kraków Sp. z o.o.

### **Manner of Payment for Shares in the Increased Share Capital**



On October 26th 2006, Geofizyka Kraków Sp. z o.o. of Kraków and PGNiG S.A. concluded a PLN 23,126,219.00 loan agreement with a view to financing the acquisition of equipment for execution of contracts.

The Management Board of Geofizyka Kraków Sp. z o.o. suggested that the PLN 30m share capital increase should be performed by way of conversion of the outstanding loan amount and supplementation of the balance with cash up to the limit of PLN 30m.

With a view to executing the debt-equity swap, an agreement for the offset of mutual claims will be concluded by Geofizyka Kraków Sp. z o.o. and PGNiG S.A.

As at December 31st 2007, Geofizyka Kraków Sp. z o.o.'s outstanding loan balance repayable to PGNiG S.A. will be PLN 17,730,102.

The Management Board of PGNiG S.A. suggests that the shares should be paid for with a cash contribution in the following manner:

- 17,000 shares should be paid up by way of a cash contribution in the form of contractual offset of mutual claims related to the payment for the shares and repayment of the loan advanced by PGNiG S.A. to Geofizyka Kraków Sp. z o.o. on October 26th 2006. This option is permitted under Art. 14.4 of the Commercial Companies Code.
- 13,000 shares should be paid up with a cash contribution.

#### **Amendments to the Articles of Association of Geofizyka Kraków Sp. z o.o. Following Share Capital Increase**

At present, the company's share capital amounts to PLN 34,400,000.00, and following the increase it will reach PLN 64,400,000.00. The amendments to the Articles of Association concern Par. 5.1 and Par. 5.2.

The existing wording of Par. 5.1 and Par. 5.2. is as follows:

1. The share capital of the Company amounts to PLN 34,400,000.00 (thirty-four million and four hundred thousand złoty) and is divided into 34,400 (thirty-four thousand and four hundred) equal and indivisible shares with a par value of PLN 1,000.00 (one thousand złoty) each.

2. All the shares in the share capital have been subscribed for by the sole Shareholder of the company, a joint-stock company under the name of Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna. The shares were paid for with a non-cash contribution in the form of the Company's branch, Geofizyka Kraków of Kraków, an enterprise (*przedsiębiorstwo*) within the meaning in Art. 55.1 of the Polish Civil Code. The assets were contributed on the basis of Notarial Deed Rep. A No. 6023/98, prepared by Maria Ogrodzińska-Zalewska, Notary Public with notary office at ul. Krakowskie Przedmieście 62, Warsaw, Poland.

The proposed wording of Par. 5.1 and Par. 5.2 is as follows:

1. The share capital of the Company amounts to PLN 64,400,000.00 (sixty-four million and four hundred thousand złoty) and is divided into 64,400 (sixty-four thousand and four





hundred) equal and indivisible shares with a par value of PLN 1,000.00 (one thousand złoty) each.

2. All 64,400 (sixty-four thousand and four hundred) shares in the above share capital have been subscribed for by the sole shareholder of the company, a joint-stock company under the name of Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (hereinafter referred to as PGNiG S.A.). Of the above shares, 34,400 (thirty-four thousand and four hundred) were paid for with a non-cash contribution in the form of the Company's branch, Geofizyka Kraków of Kraków, an enterprise (*przedsiębiorstwo*) within the meaning of Art. 55.1 of the Polish Civil Code. The assets were contributed on the basis of Notarial Deed Rep. A No. 6023/98, prepared by Maria Ogrodzińska-Zalewska, Notary Public with notary office at ul. Krakowskie Przedmieście 62, Warsaw, Poland. 17,000 shares were paid for with a cash contribution through a contractual offset of claims related to the payment for the shares against claims related to the repayment of a loan advanced by PGNiG S.A. to Geofizyka Kraków Sp. z o.o., and the remaining 13,000 shares were paid for with a cash contribution.

Following the amendments to the Articles of Association of PGNiG S.A., as adopted by the Extraordinary General Shareholders Meeting on October 26th 2006, which took effect as of November 2nd 2006, a resolution of PGNiG's Supervisory Board is required for approving the manner of exercising the voting rights by PGNiG S.A.'s representative at the General Shareholders Meetings of companies in which PGNiG S.A. holds at least 50% of shares, in connection with such matters as amendments to the articles of association, share capital increase or reduction, etc. (Par. 33.3.15.a and Par. 33.3.15.b of PGNiG's Articles of Association).

Pursuant to Par. 56.6 and Par. 57.1 of the Articles of Association, an opinion of the Supervisory Board and approval of the General Shareholders Meeting is required for PGNiG's subscription for or acquisition of shares in other companies, except where such acquisition is to satisfy the Company's claims under composition or arrangement proceedings.

By virtue of Resolution No. 44/07 of August 27th 2007, the Supervisory Board of Geofizyka Kraków Sp. z o.o. issued a positive opinion on the motion of the Management Board of Geofizyka Kraków Sp. z o.o. submitted to the General Shareholders Meeting and concerning an increase of PLN 30,000,000.00 in the share capital of Geofizyka Kraków Sp. z o.o.

By virtue of Resolution No. ... of ..., PGNiG's Supervisory Board approved the following manner of exercising the voting rights attached to shares by a PGNiG representative at the Extraordinary General Shareholders Meeting of Geofizyka Kraków Sp. z o.o.:

- **in favour of** the resolution on increasing the company's share capital by PLN 30,000,000.00 (thirty million złoty), up to PLN 64,400,000.00 (sixty-four million and four hundred thousand złoty),
- **in favour of** the resolution on amending the company's Articles of Association in connection with the share capital increase, and adopting the consolidated text of the Articles of Association.

In view of the above facts, PGNiG's Management Board deems it reasonable for PGNiG to subscribe for the 30,000 new shares in the increased share capital of Geofizyka Kraków Sp. z o.o., and to pay for the new shares in the following manner:



- 17,000 shares – with a cash contribution through a contractual offset of claims related to payment for the shares against claims related to the repayment of a loan advanced to Geofizyka Kraków Sp. z o.o. by PGNiG S.A. on October 26th 2006.
  - 13,000 shares – with a cash contribution
- and moves for the adoption of the resolution in question.

By virtue of Resolution No. ... of ....., PGNiG's Supervisory Board issued a ..... opinion on the motion submitted by the Management Board of Geofizyka Kraków Sp. z o.o.