Warsaw, December 29th 2014

Strategy of the PGNiG Group for 2014-2022

Current Report No. 128/2014

The Management Board of Polskie Górnictwo Naftowe i Gazownictwo SA ("PGNiG", "the Company") hereby announces that on December 29th 2014 the PGNiG Supervisory Board approved the "Strategy of the PGNiG Group for 2014-2022" ("the Strategy").

Challenges

The imminent changes in the market environment and regulatory regime seriously affect the conditions in which the PGNiG Group operates, causing a significant erosion of the Group's EBITDA over the coming three years if the Group continued to follow its current business model.

The Group's current gas procurement portfolio, comprising mainly long-term take-or-pay contracts and domestic production, is assumed to cover almost the entire demand for gas in Poland. As a result of the Polish gas market's ongoing liberalisation, the Group will have to sell its entire gas volume at market prices, which fail to reflect the actual cost of gas procurement under the long-term contracts, and to export excess gas volumes following the expected loss of market share. Departure from the present model, where the security of gas supply is based on regulated prices, as well as the need to cover the cost of gas storage and of operation of the LNG terminal in Świnoujście are the key factors weighing on the future financial performance of the PGNiG Group.

In the period covered by the Strategy new tax burdens will come into effect which, in combination with the depletion of geological resources and falling domestic production, will adversely affect profitability and production projects in Poland.

Further, the current support system for gas-fired cogeneration is due to expire at the end of 2018.

Strategy

The initiatives outlined in the Strategy are to lay foundations for the continued development of the PGNiG Group and to generally eliminate the above-specified business risks which, under the base-case scenario, could have a significant adverse effect on results of the Group's operations. The Strategy covers four business areas of key importance for the Company and ten strategic initiatives to be implemented by 2022. The implementation of the strategic initiatives is expected to bring EBITDA to approximately PLN 7bn in 2022. In the period covered by the Strategy, the capital expenditure on organic growth and acquisitions will reach approximately PLN 40-50bn. The net debt to EBITDA ratio is to stay below 2.0 in 2022. At the same time, the proposed dividend should comprise 50% of consolidated net profit[1] in 2015−2022. In the context of the operational objectives, the key will be to increase hydrocarbon production to approximately 50-55 mboe in 2022, with the annual production in Poland maintained at the current level of approximately 33 mboe.

PGNiG S.A.'s four business areas for 2014–2022 are:

1. Maintaining stable value both in retail and wholesale

Within this area, PGNiG will seek to maintain its leading position on the gas market and to remain the preferred gas supplier across all customer segments. The Company intends to pursue these objectives by developing and implementing mechanisms which would ensure customers loyalty and improve customer service quality. PGNiG's strategy envisages maintaining the high stability of gas supplies to end customers and enhancing the product offering through such initiatives as launch of dual fuel products and development of additional services. The Company will seek to introduce more flexibility into its natural gas portfolio and adjust the portfolio to the changing pricing and supply/trading conditions on the market, while still maintaining its ability to ensure the security of supplies expected by customers.

2. Maximising cash flows from the infrastructure and generation area

The PGNiG Group's grid infrastructure, gas storage, and electricity and heat generation assets are a source of predictable, stable revenue and deliver attractive rates of return relative to the risks. In the coming years, the assets will prove important in stabilising the Group's financial performance and enhancing its ability to finance new projects. The role assigned to the infrastructure and generation area will call for ongoing cost control and optimisation of capital expenditure. At the time of intense competition, it will be of paramount importance to ensure that this business area generates maximum free cash, particularly for new growth-oriented projects. Furthermore, new investment projects will have to be carefully selected to ensure that the Group's potential and available synergies offered by new growth areas are fully leveraged.

3. Strengthening and transforming the exploration and production area

The growing importance of holding a diversified portfolio of hydrocarbon reserves, and the expertise and experience obtained by the PGNiG Group in the upstream segment, make oil and gas exploration and production an essential driver of the Group's further development.

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[1] *In its recommendations on dividend payment, the PGNiG Management Board will each time take into account the current financial standing of the PGNiG Group and its investment plans.*

PGNiG will recognise net profits of its subsidiaries in the consolidated accounts net of any dividend paid by the subsidiaries, so achieving the planned level of dividend payments by the Parent may be postponed by one year.

PGNiG's main objective is to maintain stable production of natural gas and crude oil in Poland. However, to secure further meaningful growth of shareholder value, the Company intends to take active steps to build a portfolio of foreign exploration and production assets.

The Company will also continue efforts to confirm the geological and economic potential of shale gas deposits in Poland, within its most promising licence areas, with a view to verifying recoverable unconventional reserves and commencing economically-viable production of hydrocarbons in the shortest possible time.

4. Laying foundations for growth along the entire value chain

To ensure further growth, the Group will take steps to improve its cost effectiveness and organisational efficiency at each stage of the value chain, including the Efficiency Improvement Programme. These steps will include cost rationalisation at the PGNiG Group, necessary in light of the market deregulation and growing competitive pressures, and development of new operations (upstream and infrastructure). The Group will also focus on segments of key importance for its future. These measures will improve the Group's ability to finance new projects and enhance its competitive position on the market.

Moreover, PGNiG is looking to assume a structured approach to R&D and innovation management, obtain financing for its R&D projects from EU funds, and optimise its portfolio of innovative projects.

For more information on the strategic initiatives, see the attached document.

Legal basis:
Art. 56.1.1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005 (Dz. U. No. 184, item 1539).