PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

Financial Performance of PGNiG Group
Q4 2009 and FY 2009

March 22nd, 2010

Financial highlights

PGNiG Group (PLNm)	2008	2009	*change*	Q4 2008	Q4 2009	*change*
Sales revenue	18,432	19,290	*5%*	5,519	5,629	*2%*
Operating expenses	(17,631)	(17,957)	*2%*	(6,207)	(4,111)	*34%*
EBITDA	2,226	2,830	*27%*	(320)	1,905	*n/a*
EBIT	801	1,334	*67%*	(688)	1,518	*n/a*
Result on financial activity	134	109	*(19%)*	25	11	*(56%)*
Net result	866	1,204	*39%*	(374)	1,289	*n/a*
High-methane gas sales margin	(7%)	(3%)	*4 pp*	(29%)	14%	*43 pp*

- In 2009, the PGNiG Group's financial position strengthened chiefly on improved profitability of high-methane gas sales in H2 2009. The average annual growth of selling prices was stronger than the increase in costs of gas purchases, resulting in significant reduction of the Group's losses on the high-methane gas sales in comparison with 2008;
- The structure of high-methane gas sources also changed. Given the limited availability of importing gas, the Company drew larger amounts of gas from the underground storage facilities and increased its own production at nitrogen removal facilities.
- In 2009, the PGNiG Group delivered a better result on high-methane gas sales than a year ago, but again failed to achieve a positive margin on this part of its business. In the discussed period, margin on high-methane gas sales was minus 3%, relative to minus 7% in 2008;
- The PLN 338m year-on-year growth of net profit helped improve the Group's key efficiency ratios. Return on equity edged from 4.2% to 5.6%, return on assets increased from 2.9% to 3.9%, while net sales margin grew from 4.7% to 6.2%.

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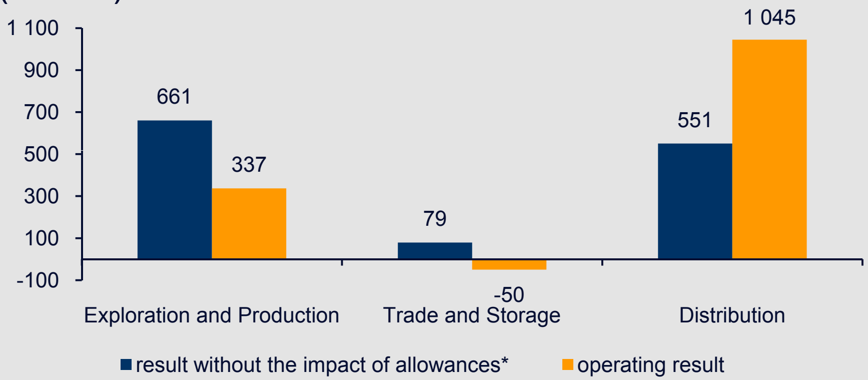
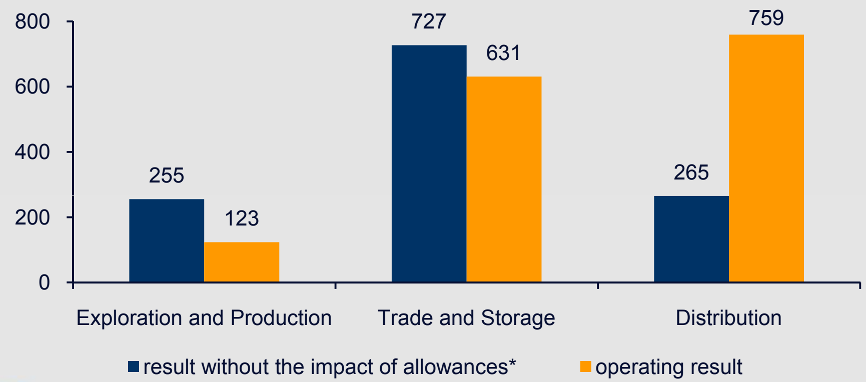
Effect of key valuation allowances on EBIT

Effect of allowances on the operating result in 2009 (PLNm)



Effect of allowances on the operating result in Q4 2009 (PLNm)



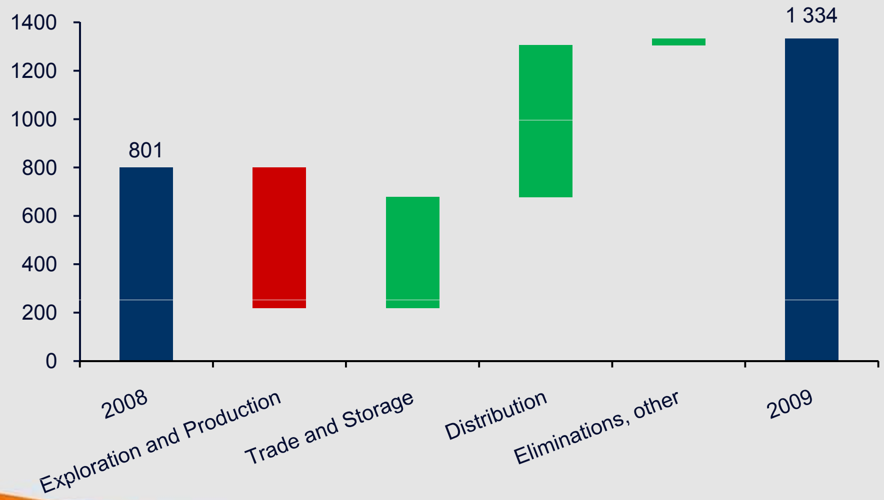
- In 2007, distribution companies of PGNiG Group had to recognise over PLN 1.3bn in valuation allowances for impairment of tangible assets;
- In Q4 2009, a portion of the valuation allowances (PLN 494m) was reversed due to improved profitability in Distribution segment. This amount has no effect on the PGNiG Group's cash flows or on PGNiG SA's non-consolidated financial statements;
- Reversal of the DCF allowance was made at three companies:
  - Karpacka Spółka Gazownictwa for +PLN 21m;
  - Pomorska Spółka Gazownictwa for +PLN 153m;
  - Wielkopolska Spółka Gazownictwa for +PLN 319m.
- In Q4 2009, the valuation allowance for mining assets (including the Underground Storage Facilities) amounted to PLN 132m, which was charged to the result of the Exploration and Production segment. In the whole of 2009, the valuation allowance for mining assets amounted to PLN 324m;
- PGNiG also established a valuation allowance for a portion of the receivables of ZCh Police – as at the end of 2009, the allowance was PLN 129m, of which PLN 96m was created in Q4 2009. The allowance for receivables affects the result of the Trading and Storage segment.

* Estimated operating result after elimination of the effect of allowances.

Segments – 2009

Operating result (PLNm)	2008	2009	*change*
Exploration and Production	918.4	336.6	*(63%)*
Trade and Storage	(509.9)	(50.0)	*90%*
Distribution	418.7	1,044.8	*150%*
Eliminations, other	(26.6)	2.4	*n/a*

Effect of segments on the operating result in 2008 and 2009 (PLNm)

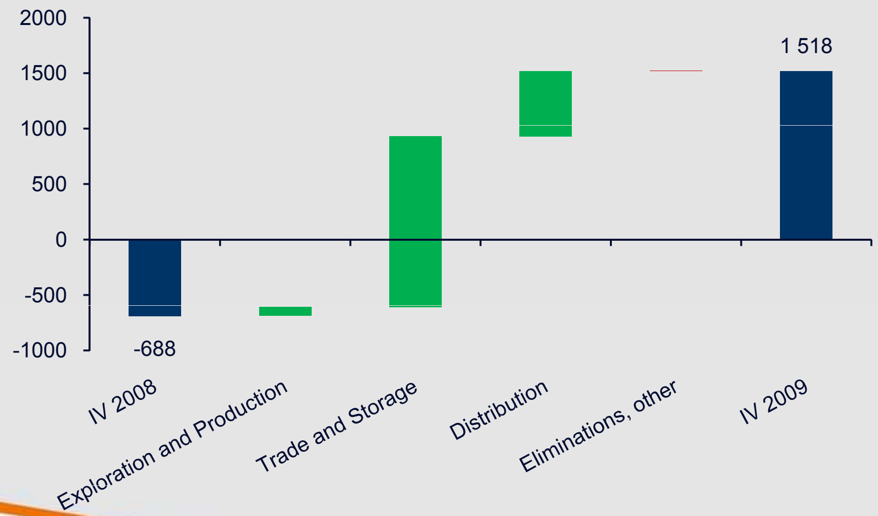


- In the whole of 2009, EBIT of the Exploration and Production segment declined by 63% (PLN 582m) year on year, which is primarily attributable to the valuation allowance for mining assets (PLN 324m), lower profitability on crude sales (fall in revenues by PLN 114m), as well as lower revenue from geophysical, geological, and exploration services (PLN 202m decline). Additionally, dry well costs increased by PLN 113m year on year. On the other hand, due to change of discount rate the expenses related to provisions for borehole liquidation decreased by PLN 123m in comparison with 2008;
- Improved financial position of the Trade and Storage Segment follows primarily from the higher profitability of high-methane gas sales (an 11% lower volume of imported gas was offset by cheaper gas from the Underground Storage Facilities and a 30% increase in own production at the nitrogen removal facilities);
- The operating result of the Distribution segment improved by PLN 626m year on year, primarily due to higher rates and charges for network services and the high released valuation allowances for the assets of distribution companies.

Segments – Q4 2009

Operating result (PLNm)	Q4 2008	Q4 2009	*change*
Exploration and Production	44.6	123.2	*177%*
Trade and Storage	(907.3)	630.9	*n/a*
Distribution	169.9	759.4	*347%*
Eliminations, other	5.1	4.7	*(8%)*

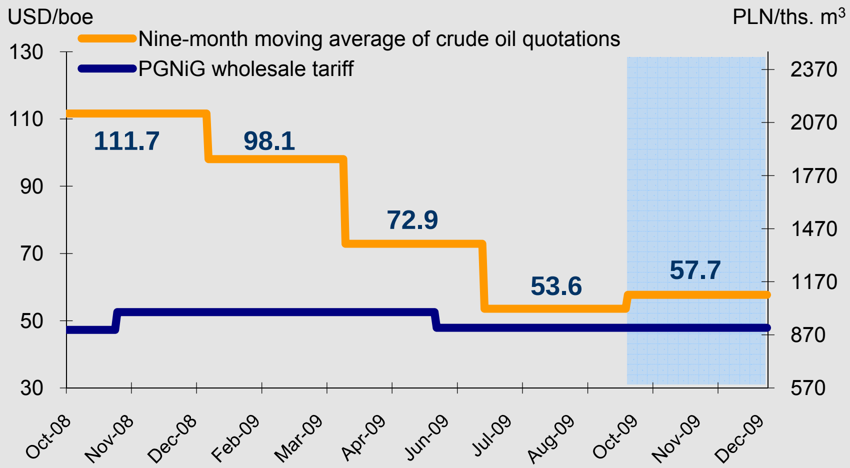
Effect of segments on the operating result in Q4 of 2008 and 2009 (PLNm)



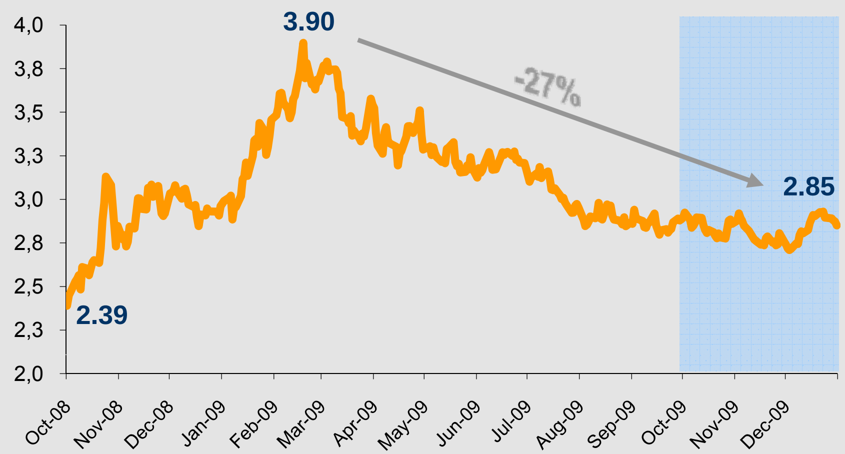
- In Q4 2009, operating profit of the Exploration and Production segment was PLN 79m (177%) up on the corresponding period of 2008. The improved result followed from the segment's higher revenues, chiefly from sales of nitrogen-rich gas transformed into high-methane gas at nitrogen removal facilities (sales between segments), crude oil sales as well as higher revenues from gas sales directly from the field. The valuation allowance for the mining assets, amounting to minus PLN 132m, was offset by lower expenses related to provisions for liquidation of dry wells, amounting to PLN 133m compared with Q4 2008;
- The very good operating result of the Trade and Storage segment is an effect of a 24% decline of the segment's costs, attributable primarily to lower, by 47% (PLN 2.08bn), cost of natural gas sold in Q4 2009;
- In Q4 2009, EBIT of the Distribution segment climbed by PLN 589m relative to Q4 2008. The operating result of the segment was driven by a 2% rise of the volumes of transmitted gas, combined with an increase in the tariff for distribution services (13,7% up). The rise in tariff prices contributed to a higher valuation of the distribution assets which allowed a partial reversal of the valuation allowances for assets made in 2007.

Financial performance drivers

Crude oil quoted prices* vs. tariff price



USD/ PLN exchange rate**



- The price of imported gas is linked to the oil price;
- The formula used to calculate the price of imported gas is based on a 9-month moving average price of oil derivative products, which has an almost 100% co-relation with crude oil prices;
- In Q4 2008, the 9-month average price of oil derivative products was around USD 112/boe. During the year it decreased by 48% and reached almost USD 58/boe in Q4 2009.

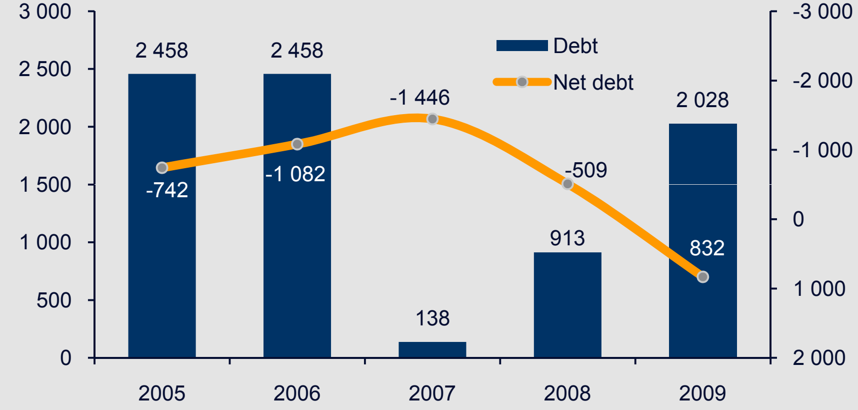
- In Q4 2009, the USD/PLN exchange rate remained stable, while in the whole of 2009 it declined by 4%, from 2.96 to 2.85. The significant weakening of the Polish złoty in H1 2009 adversely affected the cost of gas imports, particularly in Q1 2009 when one US dollar costed nearly four Polish złotys;
- Taking into account the average USD/PLN exchange rate, in Q4 2009 the nine-month average price of crude oil expressed in the Polish currency went down by 49% compared with its level in Q4 2008.

* European Dated Brent Forties Oseberg (BFO), source: Bloomberg.
** Source: National Bank of Poland (NBP).

Managing financial risk

- PGNiG is exposed to significant foreign exchange and interest rate volatility risk inherent in agreements and contracts concluded as part of the Company's ordinary business and financing activities;
- In order to hedge against the currency risk, PGNiG enters into derivative transactions:
  - purchase of an European call option;
  - zero-cost symmetric option strategies; risk reversal.
- In the whole of 2009, gain on derivative transactions and currency-translation differences was PLN 43m, down by PLN 211m relative to 2008. In Q4 2009 alone, the result was negative at minus PLN 3m (Q4 2008: PLN 255m);
- Foreign exchange and currency risk exposure under the loan extended to PGNiG Norway was hedged with a series of Cross Currency Interest Rate Swap transactions.

PGNiG Group's debt (PLNm)

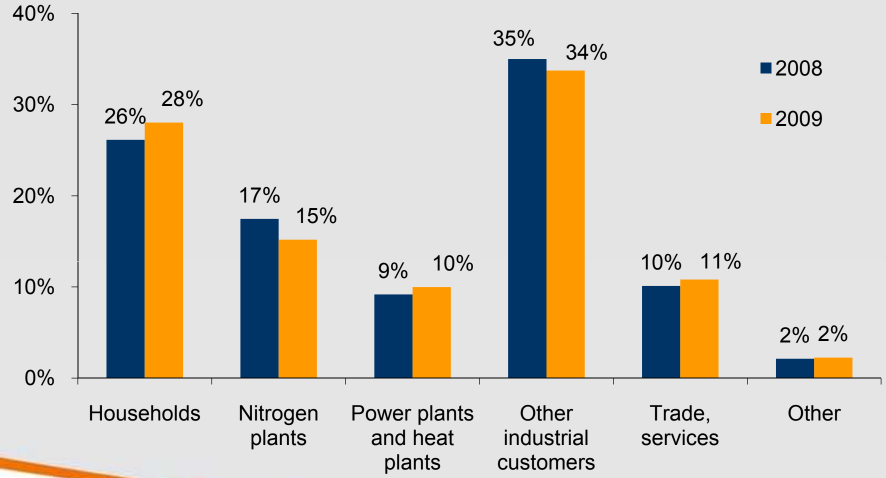


- As at the end of 2009, the total debt of the PGNiG Group was PLN 2.03bn, up by PLN 1.12bn year on year. In Q4 2009 alone, the debt increased by PLN 106m relative to Q3 2009;
- By 2008, the debt of the PGNiG Group was significantly reduced. The current debt relates to the implementation of investment projects by the PGNiG Group;
- As at the end of 2009, the amount of granted and unused credit lines available to the Group was PLN 893m.

Natural gas

PGNiG Group, IFRS	2008	2009	*change*	Q4 2008	Q4 2009	*change*
Production volume* (million m^3)	4,083	4,105	*1%*	1,082	1,099	*2%*
Sales volume** (million m^3)	13,862	13,284	*(4%)*	3,907	4,001	*2%*
Gas sales revenue (PLNm)	16,380	17,489	*7%*	5,032	5,134	*2%*
High-methane gas (E)	15,036	16,208	*8%*	4,623	4,799	*4%*
Nitrogen-rich gas (Ls, Lw)	1,344	1,281	*(5%)*	408	335	*(18%)*

Customers' percentage share in gas sales volume in 2008 and 2009



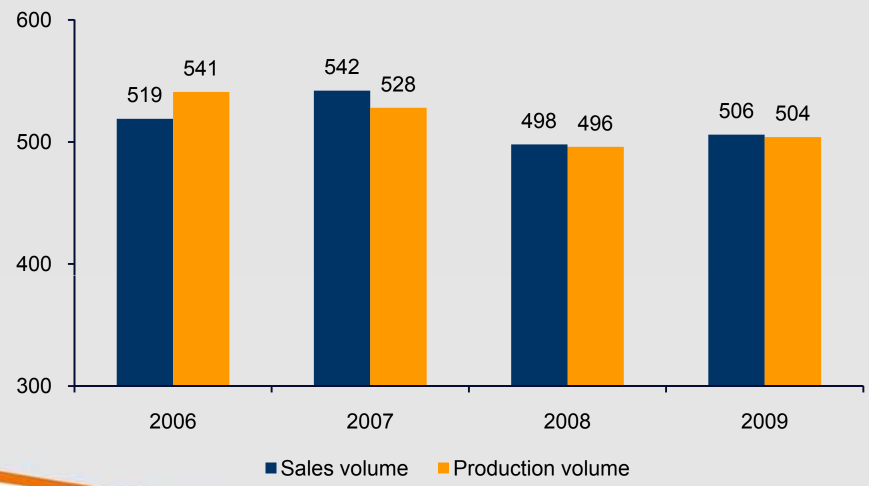
- The lower volume of natural gas sales in 2009 followed from the weaker demand for gas from the industrial customers, mainly the nitrogen plants (sales to this customer group fell by 17% on 2008). In Q4 2009, the volume of gas sales gained 2% year on year, chiefly on stronger demand from households (lower air temperatures) and small industrial clients;
- Increased revenue from natural gas sales on lower volumes of distributed gas followed from an approx. 9% increase in average selling price vs. an approx. 5% increase in the price of imported gas (on a year-on-year basis);
- In 2009, total imports of natural gas to Poland amounted to 9.136bn m^3 (10.264bn m^3 in 2008).

* Measured as high-methane gas equivalent (E).

Crude oil

PGNiG Group, IFRS*	2008	2009	*change*	Q4 2008	Q4 2009	*change*
Production volume (ths. t)	496	504	*2%*	138	138	*0%*
Sales volume (ths. t)	498	506	*1%*	137	140	*2%*
Sales revenue (PLN m)	779	664	*(15%)*	146	210	*44%*
Oil unit price (PLN/t)	1,563	1,314	*(16%)*	1,056	1,498	*42%*
Average price of Brent Dated oil for the period (USD/bbl)	98	62	*(36%)*	56	75	*33%*

Oil sales and production volume (ths. t)*



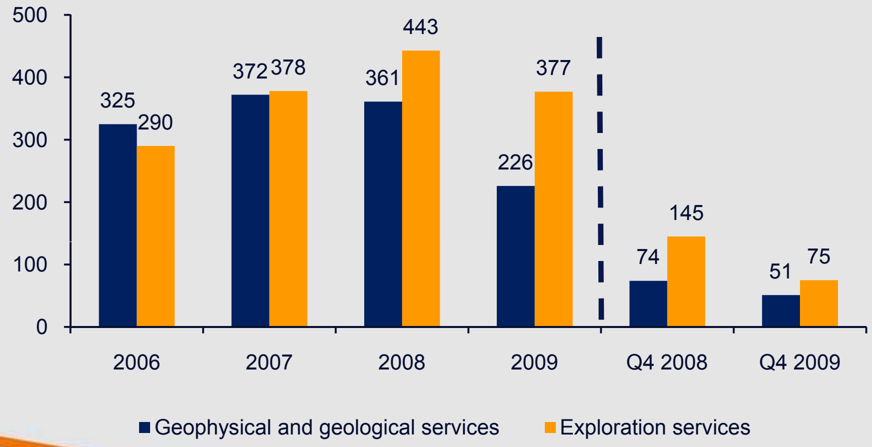
- PGNiG's production of crude oil and condensate was stable throughout the year (except a four-week period of planned overhaul shutdown at the Dębno mine), and reached 504 ths. tonnes for the year, i.e. 1.7% up on 2008. Due to the strong decline of crude prices on global markets, the value of crude sales fell by approx. 15% vs. 2008.
- In Q4 2009, crude oil production and sales increased compared with Q3 2009, which is a typical change for the winter season and low air temperatures;
- There were significant differences in crude oil prices between Q4 2008 and Q4 2009, which contributed to higher revenues on crude sales in 2009. An analysis of crude sales volumes indicates that the production continued stable.
- In 2009, 58% of crude oil and condensate was sold to Polish customers, and the balance was exported.

* For crude and condensate (together with tests from production).

Other sales

Sales revenue PGNiG Group (PLNm)	2008	2009	*change*	Q4 2008	Q4 2009	*change*
Helium	27.6	37.1	*34%*	7.8	10.8	*38%*
Propane-butane gas (LPG)	42.6	36.8	*(14%)*	11.9	11.8	*(1%)*
LNG	20.3	21.4	*5%*	6.4	6.8	*6%*
Geophysical and geological services	360.8	225.5	*(38%)*	73.8	50.7	*(31%)*
Exploration services	443.4	376.9	*(15%)*	145.1	75.1	*(48%)*
Other products and services	378.9	439.2	*16%*	96.2	130.4	*36%*

Revenues from geophysical, geological and exploration services (PLNm)



- In 2009, lower revenue from geophysical and geological services was primarily attributable to significant reduction of exploration projects by business partners, caused by the global economic slowdown. The additional factor which limited the revenues were delays in launching new contracts;
- Revenue from exploration services were stable in the first three quarters of 2009. The year-on-year decline in Q4 2009 followed from the less intense utilisation of the equipment, mainly in Egypt, Kazakhstan and Uganda.

Operating expenses

PGNiG Group, IFRS (PLNm)	2008	2009	*change*	Q4 2008	Q4 2009	*change*
Total operating expenses	**17,631**	**17,957**	***2%***	**6,207**	**4,111**	***(34%)***
Cost of gas sold	10,983	10,758	*(2%)*	4,409	2,332	*(47%)*
Other raw materials and consumables used	649	661	*2%*	201	193	*(4%)*
Employee benefits	2,162	2,454	*14%*	630	708	*12%*
Depreciation and amortisation	1,425	1,496	*5%*	367	387	*5%*
OGP GAZ-SYSTEM transmission services	1,367	1,354	*(1%)*	344	366	*6%*
Cost of written-off dry wells	152	265	*74%*	41	40	*(2%)*
Other contracted services	1,270	1,449	*14%*	413	473	*14%*
Other operating expenses net	363	420	*16%*	50	(89)	*n/a*
Cost of products and services for own needs	(739)	(900)	*22%*	(248)	(299)	*21%*

- Operating expenses were affected the most by the cost of gas sold, which in the entire 2009 amounted to PLN 10.8bn (60% of total operating expenses). In 2009, the unit cost of imported gas was by 5% higher relative to the previous year. In Q4 2009, the cost was 50% down on Q4 2008;
- The decrease in other net operating expenses in Q4 2009 year-on-year is an effect of reversal of valuation allowances for impairment of tangible assets at the distribution companies, amounting to approximately PLN 0.5bn;
- In 2009, employee benefits increased by PLN 292m. However, the increase in salaries and wages represented only 60% of that amount (PLN 177m). An amount of PLN 55m of the increase in salaries and wages related to an annual bonus paid from 2008 profit by the gas companies in H1 2009. In Q4 2009 alone, the increase in salaries and wages totalled PLN 33m (a 7% increase year-on-year, representing 42% of the increase in employee benefits).

Summary

- IMPROVED FINANCIAL RESULT
  In Q4 2009, the improved financial performance by the PGNiG Group was an effect of a fall of the unit purchase price of imported gas. As a result, the operating margin on high-methane gas sales in Q4 was positive at 14%, compared with minus 29% in Q4 2008. In the entire 2009, PGNiG failed to generate a positive margin on high-methane gas sales, which finally amounted to minus 3% (a year earlier it was minus 7%);

- LOWER SALES
  The economic slowdown translated into 4% lower volumes of natural gas sales in the entire 2009. In that period, industrial customers purchased over 700m m^3 less gas than a year earlier. However, since Q4 2009, we have seen a recovery in demand in this customer group. In the quarter under review, the volume of sales to industrial customers declined by only 2m m^3 relative to Q4 2008.

- AMBITIOUS INVESTMENT PLAN
  The PGNiG Group plans to spend approximately PLN 5bn each year on implementation of the objectives set out in the Strategy for 2008-2015. A portion of the funding will come from external sources. As at the end of 2009, the total debt of the PGNiG Group was in excess of PLN 2bn, up by PLN 1.1bn relative to the end of 2008.

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Thank you for your attention.