

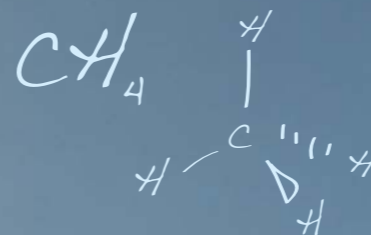
Annual Report

PGNiG 2010

Annual Report PGNiG 2010



Methane



Nitrogen



Helium



He

Annual Report

PGNiG 2010

The following abbreviations
and acronyms are used in this Report:

- PGNiG – the parent company of the PGNiG Group, i.e. Polskie Górnictwo Naftowe i Gazownictwo SA (Polish Oil and Gas Company)
- PGNiG Group – the PGNiG group of companies
- GAZ-SYSTEM – Operator Gazociągów Przesyłowych GAZ-SYSTEM SA
- EuRoPol GAZ – System Gazociągów Tranzytowych EuRoPol GAZ SA
- URE – Polish Energy Regulatory Authority

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While sharing your knowledge with others
it is most important to put across your
passion, to show how
fascinating world discoveries may be.



$$|\vec{D}| = C_D \frac{\rho |\vec{V}|^2}{2} S_D$$

A formula for aerodynamic resistance.

Mission

Our mission is to provide reliable and safe supplies of clean and environmentally friendly energy, using competitive and innovative energy solutions.

We remain true and faithful to our tradition and to our customers who trust us, but at the same time we are open-minded and ready to face new challenges.

Acting in the best interest of our shareholders, customers and employees, we strive to be a reliable and trustworthy partner, and an organisation that delivers growth and ever-greater value in accordance with the principles of sustainable development.

Key Figures

The PGNiG Group is the leader of the Polish natural gas market. Companies of the PGNiG Group employ approx. 31 thousand staff. Outside of Poland, where the PGNiG Group is one of the largest employers, we operate in various countries on many continents: in Belgium, Denmark, Egypt, Norway, Pakistan, Russia, Libya, Belarus, Ukraine and Hungary.

Natural gas production

4.22 bn m³

Our core business consists in the production and sale of natural gas and crude oil. Both domestically and abroad, we are engaged in geophysical and geological research, exploration for and production of hydrocarbons, as well as preparation of products for sale. The Group sells natural gas produced in Poland as well as imported gas. To secure stable and continuous supplies of natural gas, the PGNiG Group stores gas in eight modern underground gas storage facilities. Gas is supplied to our customers through thousands of kilometres of pipelines, owned and operated by six regional gas distribution companies.

Crude oil production

501 ths tonnes

Sales of natural gas

14.42 bn m³

PGNiG has been listed on the Warsaw Stock Exchange since September 2005. The PGNiG Group has enjoyed growing confidence of the capital market and has been assigned excellent credit ratings. Our stature is confirmed by the fact that PGNiG shares are included in WIG20, the blue-chip index of the Warsaw Stock Exchange.

Imports of natural gas

10.07 bn m³

Since October 2009, the shares have also been included in the Respect social responsibility index. In April 2011, PGNiG ranked second in the "500 List" of the Rzeczpospolita daily, featuring the largest Polish companies in 2010.

Length of the distribution network

117 ths kilometres

Key Events

January

Following the completion of the APA 2009 licensing round, PGNiG Norway was awarded a 15-percent interest in the PL558 exploration and production licence on the Norwegian Continental Shelf by the Norwegian Ministry of Hydrocarbons and Energy. Direct operatorship of the licence was awarded to E.ON Ruhrgas Norge AS (30-percent interest). The licence area is located in the immediate vicinity of the Skarv field and is adjacent to the PL350 license, in which PGNiG Norway holds a 30-percent interest.

A trilateral Memorandum of Understanding between PGNiG, OAO Gazprom Export, and SGT EuRoPol GAZ SA was signed in Moscow. The Memorandum provided for an extension of the Yamal Contract for the supplies of natural gas from Russia to Poland until December 31st 2037, as well as for an option to increase the volumes supplied under the Contract to a maximum level of 10.2 billion cubic meters. Furthermore, PGNiG and Gazprom Export agreed to introduce relevant amendments to the Contract. Additionally, the Memorandum of Understanding provided for extending the contract for the transit of natural gas through the Polish section of the Yamal pipeline owned by EuRoPol GAZ until 2045, with the other terms and conditions remaining unchanged.

February

The Norwegian Ministry of Hydrocarbons and Energy awarded PGNiG Norway the status of an operator on the Norwegian Continental Shelf. The decision of the Norwegian Ministry will enable PGNiG Norway to take on the leading role in projects involving exploration for and development of offshore oil and gas deposits. The status of an operator confirms that the PGNiG Group's experience and resources meet the highest global standards of the petroleum industry.

March

PGNiG executed a regasification services contract with Polskie LNG SA of Świnoujście. Under the contract, Polskie LNG will provide PGNiG with LNG regasification services at the LNG terminal in Świnoujście for a period of 20 years, starting from July 1st 2014. The contract provides for at least ten calls of LNG tankers at the terminal annually, unloading and receiving of the LNG through the terminal, regasification of the LNG, injection of the regasified LNG into the transmission system and loading of the gas into tanker trucks. The value of the agreement throughout its term is estimated at approx. PLN 13bn.

April

On April 30th, Mr Mirosław Dobrut resigned from the position of Vice-President of the Management Board of PGNiG for Gas and Trade. The reason for Mirosław Dobrut's resignation was his appointment as President of the Management Board of SGT EUROPOL GAZ SA.

May

PGNiG SA, PGNiG Energia SA, TAURON Polska Energia SA and Elektrownia Stalowa Wola SA signed a project execution agreement concerning "Construction of a CCGT Unit in Stalowa Wola". The agreement defines the rules of preparing and executing the investment process involving the construction of an approx. 400 MW CCGT Unit, the annual requirement for gas fuel will amount to approximately 0.5 – 0.6 billion cubic metres of natural gas. The gas fuel will be supplied by PGNiG. The project is to be executed till 2014. The upper limit of the agreement's value was set by the parties at PLN 1.95bn (VAT exclusive).

Mr Marek Karabula, member of PGNiG's Supervisory Board, was delegated by the Supervisory Board to temporarily stand in as member of PGNiG's Management Board – Vice-President for Gas and Trade – in the period from June 1st to August 31st 2010.

The President of the Energy Regulatory Office approved a new tariff for the supplies of gas fuels, which remained in force from June 1st to November 30th 2010. In accordance with the new tariff, the prices of high-methane gas went up by an average of 4.8%. The average increase in the price of high-methane gas was due to higher costs of purchase of imported gas and higher costs connected with the obligation to set up and maintain stocks of natural gas. Taking into account a change in network rates, the average amount of total charges related to the supplies of high-methane gas to customers rose by 3.3%.

June

PGNiG Norway and its licence partners made the Snadd North discovery within the area covered by the PL212 licence, near the Skarv oil and gas field. According to initial estimates, the recoverable reserves of the Snadd North field may range between 9 and 16 billion cubic meters of natural gas (between 57 and 100 Mmboe). PGNiG Norway holds a 11.9-percent interest in the newly discovered gas field.

PGNiG signed an agreement with six banks concerning a note issue programme for up to PLN 3bn. Under the programme, effective until July 31st 2013, PGNiG will be able to issue discount and coupon notes with maturities ranging from one month to one year. The issue is underwritten by the banks. Proceeds from the first issue were used to repay a multi-currency loan which matured on July 27th 2010, while proceeds from subsequent issues will be used for general liquidity purposes.

PGNiG and Grupa LOTOS SA entered into a comprehensive fuel supplies agreement for an indefinite term starting from December 16th 2011 (upon a reasonable request of Grupa LOTOS SA, the gas supplies start date may be postponed by six months). The annual supplies of natural gas will amount to 403 million cubic meters in 2012, while the target annual volume is 447 million cubic meters. The estimated value of the agreement over five years amounts to approx. PLN 2.208bn.

PGNiG Norway purchased a 10-percent interest in the PL326 licence on the Norwegian Continental Shelf under an agreement with Statoil Petroleum A/S. The licence is operated by Norske Shell A/S (50-percent interest). The licence, under which the Gro natural gas field was discovered, comprises four blocks with a total area of 1,671 square kilometres. The presence of gas accumulation was confirmed by well 6603/12-1 in 2009. The recoverable reserves of natural gas have been described as significant.

July

On July 19th 2010, PGNiG was notified that Mr Marek Karabula resigned from membership of the Supervisory Board of PGNiG. On the same day, the Supervisory Board appointed Mr Marek Karabula to the Management Board, as Vice-President of the Management Board.

PGNiG entered into a comprehensive agreement with KGHM Polska Miedz SA. The agreement provides for the sale of natural gas to be used as a power generation fuel in two combined cycle gas turbine (CCGT) units with the capacity of 45MWe each, delivered to the Głogów and Polkowice collection points. The target annual amount of gas to be delivered is 266 million cubic metres. The agreement is effective from its date until June 30th 2033, and contains a provision whereunder the start of gas supplies may be set at a date between July 1st and December 31st 2012. The value of the agreement is estimated at approx. PLN 4.0bn.

August

The Supervisory Board of PGNiG received a resignation (for personal reasons) by Mr Waldemar Wójcik from the position of Vice-President of the Management Board of PGNiG in charge of Oil Mining, with effect from August 15th 2010.

PGNiG Norway made early repayment of the full amount (along with interest) of a NOK 3.8bn (PLN 1.89bn) intra-group loan advanced by PGNiG on October 16th 2007. Concurrently, PGNiG and PGNiG Norway entered into a new loan agreement for NOK 4.4bn (PLN 2.19bn). The loan is to be repaid by December 20th 2021. The loan will be used to fund PGNiG Norway' general corporate needs, including current capital expenditure and exploration-related expenses.

PGNiG Norway entered into a USD 400m (PLN 1.25bn) Reserve Based Loan agreement with seven banks, whereunder the lenders' claims are secured with specific oil and gas reserves. It is a revolving credit facility, advanced for seven years. The key objective of the agreement is to finance the expenditure on the development of the Skarv field. PGNiG Norway has the possibility to flexibly use any funds which remain after the financing needs related to the Skarv project have been satisfied.

September

PGNiG and Instytut Nafty i Gazu (the Oil and Gas Institute) signed an agreement for partial financing of project "Wierchowice Underground Storage Facility", for up to PLN 503.6m, including 100% of the amount provided as direct payment. The amount of the partial financing depends on the amount of eligible expenditures incurred in the course of performance of the agreement.

The President of the Energy Regulatory Office approved a change of the gas fuel tariff, effective from October 1st 2010 to March 31st 2011. After the change, the average price of high-methane gas rose by approx. 6.34%. The rates of network charges and subscription fees did not change. The average amount of total charges related to the supplies of high-methane gas to customers rose by 4.4%. The price of high-methane gas was increased as a consequence of higher purchase costs of imported gas, which were driven by volatility in the PLN/USD exchange rate.

The Management Board of PGNiG announced that in order to ensure gas supplies to households and utilities it might decide to limit supplies to industrial customers in Q4 2010. The situation was due to the failure to execute an annex to the Yamal Contract for the supplies of natural gas from Russia to Poland, increasing the volume of gas imports. As the entire volume of natural gas contracted for 2010 was oftaken by PGNiG at the Drozdovitse and Vysokoye cross-border points, a deficit at these delivery points was expected after October 20th 2010. In such circumstances, the quantities of gas from domestic production, underground gas storage facilities, imports through the transit pipeline and from countries west of Poland were not sufficient to meet the demand for natural gas in the fourth quarter of 2010.

October

PGNiG SA and OAO Gazprom/OOO Gazprom Export signed an annex to the Yamal Contract of September 25th 1996. The annex provides for an increase in the volume of natural gas supplies to Poland in 2010 – 2022 and lifts the ban on gas re-export to third-party countries without Gazprom Export's consent. The annex also introduces a preference price in the period 2010 – 2014 for the quantities of gas oftaken in a given year above the contracted Minimum Annual Quantities. The estimated average annualised value of the contract for the supplies of Russian gas at the time of the annex execution was approx. PLN 8.5bn.

November

The Company was notified of the execution of an annex, dated October 22nd, to the agreement between PGNiG and EuRoPol GAZ of July 1st 2004 for the transmission of natural gas through the Yamal – Western Europe pipeline. In the annex PGNiG and EuRoPol GAZ agreed to extend the term of the agreement from December 31st 2012 to December 31st 2022. The other provisions of the agreement remained unchanged.

December

PGNiG and Instytut Nafty i Gazu (the Oil and Gas Institute) signed an agreement for partial financing of project "Strachocina Underground Gas Storage Facility", for up to PLN 53.2m, including 100% of the amount provided as direct payment. The amount of partial financing depends on the amount of eligible expenditures incurred in the course of performance of the agreement.

The President of the Energy Regulatory Office approved a second change of the tariff for the supplies of gas fuels, reducing the price of high-methane gas and nitrogen-rich gas by 3.23%. The new prices of gas fuels were introduced for the period from January 1st 2011 to March 31st 2011. The rates of network charges and subscription fees did not change. As a result, the average amount of total charges related to the supplies of high-methane gas to customers fell by 2.3%. In connection with the negotiated discount for natural gas obtained from Gazprom Export, PGNiG applied for the lowering of the tariff for gas sale effective until March 31st 2011.

PGNiG and Instytut Nafty i Gazu (the Oil and Gas Institute) signed two further agreements for partial financing of projects involving the construction and expansion of underground gas storage facilities. Project "Kosakowo Underground Gas Storage Cavern Facility" received co-financing of up to PLN 93.5m, while Project "Mogilno Underground Gas Storage Cavern Facility" received co-financing of up to PLN 23.1m. In both cases, 100% of the amount was provided as direct payment.

PGNiG and OGP GAZ-SYSTEM SA entered into two agreements for the transmission of high-methane and nitrogen-rich natural gas. The agreements are effective from January 1st 2011 to December 31st 2014. The estimated aggregate value of the two agreements over their entire term is approx. PLN 5.96bn (VAT exclusive).

Letter from the President of the Management Board

Dear Ladies and Gentlemen,

On behalf of Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, as well as on my own behalf, I present the PGNiG Group's 2010 Annual Report, a document addressed to our shareholders, investors, customers, and other capital market participants.

The results of 2010 are a reason for satisfaction – since the floatation of its shares on the Warsaw Stock Exchange never had the Company recorded such good performance. Sales revenue stood at a record-high level of PLN 21.3bn and net profit – at PLN 2.5bn. These results were attributable primarily to a record-breaking volume of natural gas sold as well as to higher revenue from sales of crude oil and geological/geophysical and exploration services.

In 2010, the Company focused on negotiating the terms of the gas contract with Russia, and after many months of discussions, in October 2010, an annex to the Yamal Contract was executed. Under the annex, the volume of natural gas delivered to Poland was increased and the ban on gas re-export was lifted. Furthermore, the annex introduced a preference price for deliveries in the period 2010–2014 (USD 20m – USD 50m). The discount obtained in 2010 enabled us to reduce the price for gas fuel in the first quarter of 2011 – the entire discount was reflected in the gas prices paid by our customers.

The key objective behind all efforts of the PGNiG Management Board has always been to secure reliable and stable supplies of natural gas, both to households and industrial customers. This, however, requires not only time, but also substantial capital expenditure on developing the Polish gas system, increasing the capacities of our underground gas storage facilities, or exploring for and producing natural gas and crude oil. PGNiG invests billions of zloties to pursue these objectives and the results are becoming increasingly more visible. In 2010, the Company completed the underground storage facility for nitrogen-rich gas in Boników,

thus increasing the storage capacity from 1.63 to 1.83bn cubic meters. A major project is also underway to increase the capacity of our largest gas storage facility in Wierzychowice. The three-year long investment process will be completed in 2012 and the facility's capacity will be doubled, to 1.2bn cubic meters.

2010 also saw first results in our new business line – power engineering. In May 2010, PGNiG SA, PGNiG Energia SA, Tauron Polska Energia SA and Elektrownia Stalowa Wola SA signed a project agreement for construction of a 400 MW CCGT unit in Stalowa Wola. In March 2011, all project partners executed all contracts and agreements required for the project implementation. PGNiG will act as the gas fuel supplier and the unit will become operational in 2014. In 2010, we also decided to establish PGNiG Technologie by consolidating construction and assembly companies from the PGNiG Group, with a view to enhancing our competitive position in this area and acquiring contracts for large projects.

I believe the Group's presence on foreign markets to be a significant factor contributing to its growth, and we can boast a number of successful initiatives in this area. In 2011, we will launch production of crude oil and gas from our first foreign location, in the Norwegian Continental Shelf. All works required under the Skarv/Snadd/Idun project are proceeding on schedule and within the budget. Also, in 2010 PGNiG Norway acquired interests in another two exploration licences located in the North Sea. Our German company, POGC Trading, is also expected to commence operations in 2011. Its business activity will comprise trading in natural gas, including gas transported from our Norwegian fields to continental Europe.

Last year saw a tangible growth of demand for gas fuel – we sold a record-breaking volume of 14.4bn cubic metres of natural gas. This was primarily attributable to low temperatures at the beginning and at the end of the year, and, to a larger extent, to a visibly stronger demand for the fuel from industrial customers. In 2010, we executed two contracts for natural gas deliveries, with Grupa



Dear Ladies and Gentlemen,

on behalf of the Management Board as well as on my own behalf, I would like to express my gratitude to all of you who contributed to the Group's success – our shareholders and customers, members of the Supervisory Board and all employees of the PGNiG Group. We believe that the substantial investment expenditure incurred by the Group, including expenditure on exploration of natural gas and crude oil in Poland, development of fields in Norway and entering the power sector, has laid the foundation for future growth of the Group's value for its existing and potential shareholders.

Yours faithfully,

Michał Szubski,
President and CEO of PGNiG SA

Lotos and KGHM, which will enable us to increase the sales volume by another 600 – 700 m cubic metres in the coming years. Also, the demand from the energy sector is expected to grow and the PGNiG Group intends to become one of the key players in the sector. We expect that by entering the power sector, we will not only increase the sales of gas fuel, but we will also enhance our production capacity. Over the next five years, a significant, 4bn cubic metres growth of natural gas sales is expected; half of this amount will be consumed by the power sector. We will be able to satisfy this increased demand thanks to the launch of the LNG terminal in 2014 and to larger volumes of gas supplies through new gas pipelines.

2010 was the first year in our history when the PGNiG Group operated in accordance with the CSR strategy, developed in previous years. Nevertheless, the number of challenges we have to face is still growing. Now we have an even clearer picture of how much needs to be done in order to fully integrate CSR principles into our operations. Even though this is not an easy task given the complexity of our activities, we believe it to be an important

component of the PGNiG Group's cooperation and along the entire value chain. It is an investment, affecting not only the future of our Company and employees, but also our social, economic and natural environment. We want the Group to pursue ethical, social and ecological values in its day-to-day operations and therefore in 2010 we devoted a lot of effort and energy to developing a system which would ensure these values are implemented across the entire PGNiG Group.

In 2010, PGNiG was awarded the title of the most responsible company in the industry in the Ranking of Responsible Companies published by Dziennik Gazeta Prawna. It was also included in the BI-NGO Index which recognises companies standing out for the clarity with which they present their CSR efforts on corporate websites. At the beginning of 2011, PGNiG was for the second time included in the prestigious group of 16 companies in the RESPECT Index of the Warsaw Stock Exchange, designed to promote responsible management at listed companies in the context of sustainable growth, disclosure performance and communication with the financial markets.

Management Board



Michał Szubski

Chief Executive Officer, President of the Management Board

(appointed to the Management Board with effect from March 12th 2008)

Michał Szubski graduated from the Faculty of Law and Administration at the University of Warsaw. He completed postgraduate courses in management of energy companies and natural gas transport and distribution. He joined PGNiG in 1994 and was first employed as Head of the Presidium Office of the Company. He later held the position of Head of the Legal Office and then served as Head of the Corporate Office. Since October 2000, he worked at the Mazovian Gas Distribution Division, the Warsaw Gas Sales Unit, first as Deputy Director for Restructuring and then as the General Director. Between 2003 and 2007, he was the President of the Management Board of gas distribution company Mazowiecka Spółka Gazownictwa Sp. z o.o. From July 2007 to March 2008 he served as advisor to the Management Board of PGNiG. Currently, Mr Michał Szubski holds the position of Vice-Chairman of the Supervisory Board of Yamal pipeline owner STG EuRoPol GAZ SA and serves as the Chairman of the Board of Directors of PGNiG Norway A/S. He received a number of distinctions, including a Silver Merit Cross (2004), and decorations for "Distinguished Service for Polish Mining Industry" and "Distinguished Service for PGNiG".



Radosław Dudziński

Vice-President of the Management Board for Strategy

(appointed to the Management Board with effect from March 12th 2008)

Radosław Dudziński graduated from the Warsaw University of Technology, where he majored in Gas Engineering. He also completed a graduate programme in Management and Marketing at the Warsaw University and an Executive MBA course at the University of Illinois Urbana Champaign. He has been with PGNiG SA since 1998. He gradually moved up the ranks in the operations division and then held the positions of Head of the Strategy Office and Head of the Strategy and Restructuring Department. In 2006 – 2008 he worked for A.T. Kearney Sp. z o.o. He has served as member of the Supervisory Boards of the following companies: Agencja Rynku Energii SA of Warsaw, Poszukiwania Naftowe Diament Sp. z o.o. of Zielona Góra, Mazowiecka Spółka Gazownictwa Sp. z o.o. of Warsaw, and InterTransGas GmbH of Potsdam. Currently, he is a member of the Supervisory Board of Yamal pipeline owner STG EuRoPol GAZ SA and a member of the Board of Directors of PGNiG Norway A/S.



Sławomir Hinc

Chief Financial Officer, Vice-President of the Management Board

(appointed to the Management Board with effect from March 12th 2008)

Sławomir Hinc is a holder of a Masters degree in Economics from the University of Gdańsk, where studied in the Institute of Foreign Trade at the Faculty of Economics. He also studied at Wirtschaftsuniversität in Austria, and at Technische Fachhochschule in Germany. He has obtained a PhD in Gas Engineering from the Warsaw University of Technology. He worked at the Audit and Business Consulting Department of Arthur Andersen Polska (1998 – 2000) and at Andersen Business Consulting (2000 – 2004), where he headed teams managing projects for clients from the energy sector. In 2004 – 2008 he held the position of Financial Director at Operator Gazociągów Przesyłowych GAZ-SYSTEM SA, in 2006 – 2008 he was also the company's registered proxy. Since 2010, he has been a member of the Governing Board of Eurogas, an organization of the EU gas industry. Currently, he is a member of the Supervisory Board of Yamal pipeline owner STG EuRoPol GAZ SA and a member of the Board of Directors of PGNiG Norway A/S.

Marek Karabuła

Vice-President of the Management Board for Oil Mining

(appointed to the Management Board with effect from July 19th 2010)

Marek Karabuła holds a degree in Economics from Cracow University of Economics. He has worked in the oil and gas industry since 2005. In 2005 – 2006 he served as Member of the Management Board of Rafineria Trzebinia, and during 2006 – as Member of the Management Board of ORLEN Oil Sp. z o.o. In 2008 – 2010, he served as President of the Management Board of Nafta Polska SA, and in 2010 as Vice-President of the Management Board of Agencja Rozwoju Przemysłu SA. He was appointed to the Supervisory Board of PKN ORLEN SA in February 2008 and re-appointed in 2010. From November 18th 2008 to July 19th 2010, he was Member of the Supervisory Board of PGNiG SA.



Mirosław Szkałuba

Vice-President of the Management Board for Trade

(appointed to the Management Board with effect from March 20th 2008)

Mirosław Szkałuba graduated from the AGH University of Science and Technology of Kraków, Faculty of Drilling, Oil and Gas, with a degree of Master Engineer of Oil Mining. In 1998, he completed post-graduate courses in equity investments and corporate development projects at the Warsaw School of Economics. Mr Szkałuba joined PGNiG SA in 1994. Since 2005, he has worked at the Exploration Department as specialist responsible for planning, supervision and settlement of exploration activities. In 2005 – 2008, he was a PGNiG Supervisory Board member appointed by the employees.

Letter from the Chairman of the Supervisory Board

Ladies and Gentlemen, Dear Shareholders,

Another year has passed when I had the honour and pleasure of chairing the Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo SA, which was closely watching the Company's activities throughout 2010.

The financial performance delivered by the PGNiG Group is a reason for pride and satisfaction – PLN 21.3 bn in sales revenue and PLN 2.5bn in net profit are the best results on record since the Company floated its shares on the Warsaw Stock Exchange. Even though the past year was exceptionally successful, the PGNiG Group – rather than resting on its laurels – must face up to the new challenges awaiting it in 2011.

The year 2010 was dominated by negotiations over the terms of a gas agreement, which culminated in the signing of an annex to the Yamal Contract between Poland and Russia. The Supervisory Board was keeping a close watch on the Management Board's activities in connection with its talks with the Russian partner. The agreed terms of the annex – which provides for a price discount of up to USD 40 m – 50 m annually over the period of five years, lifts the ban on gas re-export to third-party countries and increases the volume of gas supplies – enhance Poland's energy security for all PGNiG's customers – which, after all, is the Company's overriding objective.

Last year ushered in the first effects of the wide-ranging investment programme pursued by the Group. The underground gas storage capacities were expanded to 1.83 billion cubic metres, while capital spending earmarked for projects involving the exploration for and production of gas and oil was raised. The two major investment projects – the development of the LMG (Lubiatów-Międzychód-Grotów) field, expected to double the volume of oil production by 2013, and the expansion of the Wierzchowice underground gas storage facility – were making good progress according to schedule. The year ahead of us, 2011, should see the first-time launch of gas and oil production



outside of Poland, on the Norwegian Continental Shelf. The work on the Skarv/Snadd/Idun project is making timely headway, according to schedule and within budget. It needs to be noted that all projects undertaken by the PGNiG Group are regularly monitored by the Supervisory Board.

Towards the end of 2008, the Supervisory Board set up an Audit Committee. Two years on, I can report with conviction that the Committee is fulfilling its assigned function and its work is helping improve the shareholder perception of PGNiG. The Committee's crucial role is to monitor the financial reporting process on an ongoing basis, especially the accurateness and fairness of the financial statements, as well as the internal control, audit and financial risk management systems.

Like the year before, I would like to express the Supervisory Board's satisfaction with the inclusion of PGNiG – as one of the select sixteen names – into the Warsaw Stock Exchange's Respect Index, intended to promote the highest standards of responsible management. Alongside few other listed companies, PGNiG qualified for inclusion in the Respect index for the second year in a row. The confidence placed in PGNiG has been delivering benefits and empowering it to act, as evidenced by the introduction of the CSR strategy, which provides a framework for the operations of all companies of the PGNiG Group. Moreover, in 2011 the Group was ranked second in the list of 500 most effective business enterprises – the Rzeczpospolita Eagles. This is a huge success, given that PGNiG has moved up two positions up the ranking.

Ladies and Gentlemen,

The PGNiG Group's financial performance gives us reason to celebrate, as it increases the Company's shareholder value. At this point, I would like to thank all those whose work has contributed to achieving such robust results – thousands of employees who do a good job performing their everyday duties and whose experience and commitment is the Company's prized asset.

Yours faithfully,

Stanisław Rychlicki, PhD
Chairman of the Supervisory Board
PGNiG SA

Supervisory Board

Stanisław Rychlicki

Chairman of the Supervisory Board

(member of the Supervisory Board since February 15th 2008)

Mr Stanisław Rychlicki graduated from the Faculty of Geology and Exploration of AGH University of Science and Technology of Kraków. He is Professor at the Faculty of Drilling, Oil and Gas, as well as Head of the Chair of Oil Engineering. Mr Rychlicki serves as Chairman of the Drilling and Borehole Mining Section of the Mining Committee at the Polish Academy of Sciences. In 1980 – 1986, Mr Rychlicki was Professor at the University of Science and Technology in Algiers, Algeria.

Marcin Moryń

Deputy Chairman of the Supervisory Board

(member of the Supervisory Board since June 19th 2006)

Mr Marcin Moryń, legal counsel, graduate of the Law and Administration Faculty at the University of Łódź. Since 2001, he has worked for the Ministry of State Treasury: in 2001 – 2006 as a division head at the Legal Department, then from May 2006 to February 2007 as acting director for the monitoring of privatisation commitments, and from February 2007 as Director of the Legal Department.

Mieczysław Kawecki

Secretary of the Supervisory Board

(member of the Supervisory Board since October 27th 2005)

Mr Mieczysław Kawecki received Master Engineer's Degree from the University of Science and Technology in Kraków (1983), majoring in Bore-Hole Mining. He has worked in the oil ERP industry since 1976, initially at the Oil and Gas Mining Plant in Sanok, and currently at PGNiG Branch in Sanok, where he serves as manager at the Underground Gas Storage Facility in Strachocina. Mr Kawecki is Grade III Mining Director.

Grzegorz Banaszek

Member of the Supervisory Board

(member of the Supervisory Board since February 15th 2008)

Mr Grzegorz Banaszek is a graduate of the Faculty of Organisation and Management of the University of Warsaw, as well as of the Warsaw School of Economics. Currently he serves as member of the Management Board of Polskie Towarzystwo Ubezpieczeń SA. From the very beginning, his professional career has been tied to the capital market. He cooperated with numerous financial institutions.

Agnieszka Chmielarz

Member of the Supervisory Board

(member of the Supervisory Board since April 30th 2008)

Ms Agnieszka Chmielarz graduated from the Faculty of Chemistry at the University of Technology and Agriculture in Bydgoszcz, and completed postgraduate European studies at Warsaw University's Centre for Europe. Ms Chmielarz has worked for PGNiG for many years. Currently, she serves a position of Director of Commercial Marketing Office in Marketing Department of the PGNiG Head Office.

Mieczysław Puławski

Member of the Supervisory Board

(member of the Supervisory Board since November 18th 2005)

Mr Mieczysław Puławski, associate professor at the Warsaw School of Economics and the Ryszard Łazarski School of Commerce and Law in Warsaw, as well as a graduate of the Faculty of Foreign Trade at the Central School of Planning and Statistics. In 1982 to 1988, he worked as an advisor to the Chairman of the National Bank of Poland and in 1989 to 1992 as an advisor to the Minister of Finance. At present he serves as a Supervisory Board member of Infovide-Matrix.pl SA and is the chairman of the Supervisory Board of Investors Towarzystwo Funduszy Inwestycyjnych SA. He was a consultant for parliamentary committees and the chairman of the Curriculum Committee of the Warsaw School of Economics. Prof. Puławski is the head of the Chair of Capital Markets at the Warsaw School of Economics.

Jolanta Siergiej

Member of the Supervisory Board

(member of the Supervisory Board since April 30th 2008)

Ms Jolanta Siergiej received Master's Degree in Economics from the Szczecin University of Technology, majoring in Economics and Organisation of Production (1985). Ms Siergiej has been employed at the Zielona Góra Branch of PGNiG, where she has held the position of Chief Accountant since 1995. The highlights of her previous professional career include work at the Tax Chamber in Zielona Góra and at the Zielona Góra branch of Bank Handlowy.

*In the long run knowledge
is always the best investment...*

$a_1 < a_2 \Rightarrow f(a_1) < f(a_2)$
an increasing function



PGNiG on the Stock Exchange

The year 2010 marked the fifth anniversary of PGNiG's IPO on the Warsaw Stock Exchange. The year was notable for yet another reason – in July the Company's free float increased from 15% to 27%.

PGNiG's Position on the WSE

PGNiG, whose stock was floated on September 23rd 2005, is one of the largest Polish companies listed on the Warsaw market. The Company enjoys the "blue-chip" status, and its shares are listed as part of the WIG20 index (since December 15th 2005) and the prestigious emerging market index compiled by Morgan Stanley Capital International Inc. (MSCI). Alongside six other names from the fuel sector, PGNiG is included in the WIG-Fuels sectoral index.

On January 25th 2011, for the second time the WSE announced a list of companies listed as part of the RESPECT social responsibility index. PGNiG was again among the select group of 16 names listed as part of that index. The Company stock was also included in the new WIGdiv index, listed since January 3rd 2011. WIGdiv comprises 30 stocks with the highest dividend yields and regular dividend payments.

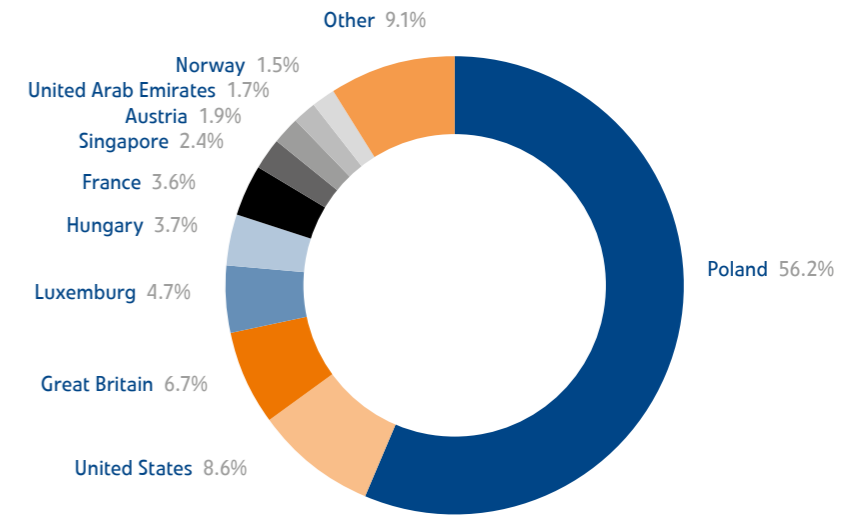
Shareholder Structure

As at December 31st 2010, PGNiG's share capital 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, that is Series A, A1 and B, were ordinary bearer shares and each of them conferred the right to one vote at the General Shareholders Meeting. The Company's Articles of Association do not provide for any restrictions on the exercise of voting rights attached to the Company shares.

The State Treasury remains the Company's majority shareholder. On June 26th 2008, the Minister of the State Treasury disposed of one PGNiG share on general terms, which – pursuant to the Commercialisation and Privatisation Act of 1996 – triggered the eligible employees' rights to acquire free of charge a total of up to 750,000,000 PGNiG shares. The start date for executing agreements on the acquisition of Company shares free of charge was April 6th 2009. On October 1st 2010, the eligible employees' rights to acquire PGNiG shares free of charge expired. Heirs of the eligible employees who were entitled to acquire PGNiG shares free of charge may exercise their rights also after that date, provided that they filed – on or before October 1st 2010 – a court petition to declare that they had acquired the eligible employees' rights by way of inheritance.

As at December 31st 2010, 59,134 eligible employees acquired 726,349,467 shares, which confer the right to 12.31% of the total vote. Consequently, the State Treasury's stake in PGNiG SA fell to 72.43%. The Company shares acquired free of charge by eligible employees or their heirs were subject to a lock-up until July 1st 2010, while the Company shares acquired free of charge by members of the Management Board are subject to a lock-up until July 1st 2011.

Structure of the free float and institutional shareholding, by country, as at July 27th 2010



Investor Relations

As an issuer of securities listed on the Warsaw Stock Exchange, PGNiG is required to disclose complete and reliable information on its operations, as well as any material corporate developments at its Group, in regular reports made available on equal terms to both its existing and potential shareholders. The Investor Relations function is, however, not limited to obligatory activities, expressly required by law. It also encompasses a number of other activities which the Company undertakes to meet the high expectations of all market participants. These include: participation in road shows and foreign investor conferences (in 2010,

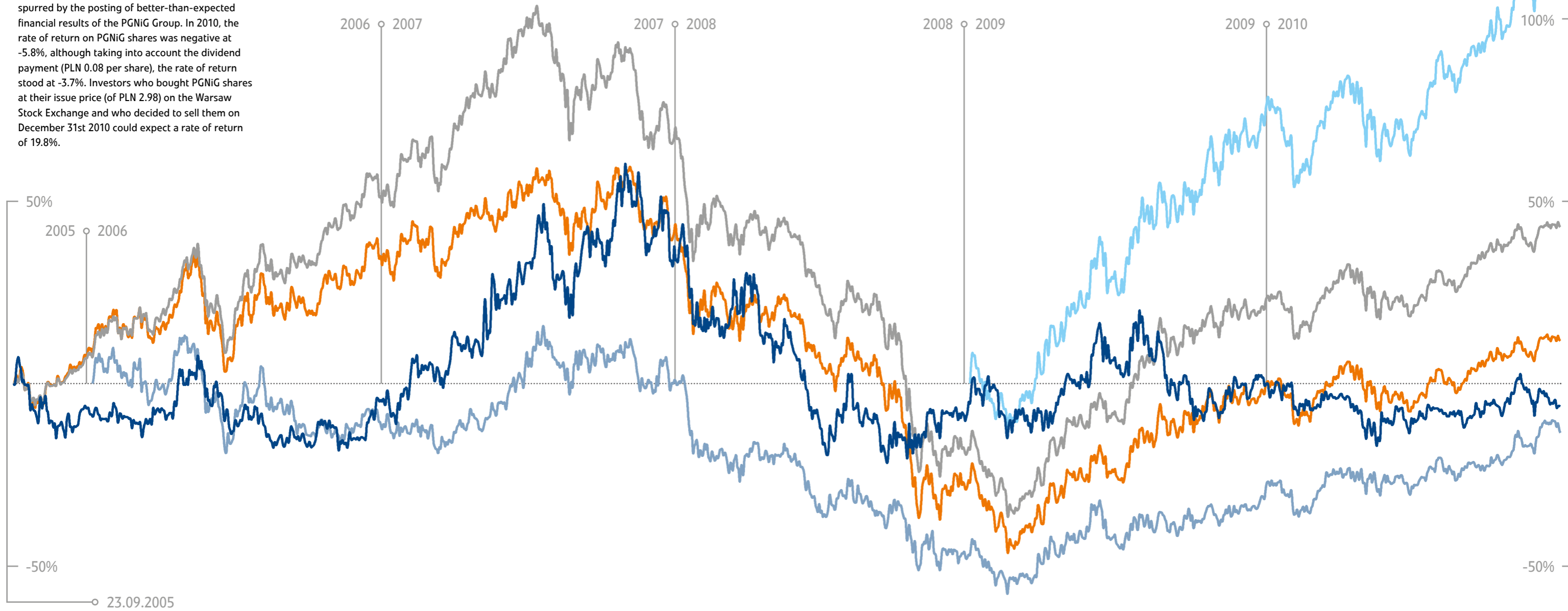
we visited Austria, the Czech Republic, France, the US, Sweden, Hungary and Great Britain), meetings with managers of equity portfolios and ongoing contact with market analysts. In addition, the Company's website features a dedicated Investor Relations section, where every capital market participant may find the most important updates on the Company, consensus forecasts of the Group's performance and the most recent target price recommendations, sourced from research reports covering PGNiG SA. The Investor Relations Department offers all those interested in receiving news on the PGNiG Group a dedicated newsletter distributed via electronic channels; to subscribe for the newsletter, one only needs to send an email to ri@pgnig.pl, requesting to be added to the distribution list.

Shareholder structure in 2009 – 2010

Shareholder	Number of shares/votes attached to the shares as at Dec 31 2009	Percentage of share capital/total vote at the GM as at Dec 31 2009	Number of shares/votes attached to the shares as at Dec 31 2010	Percentage of share capital/total vote at the GM as at Dec 31 2010
State Treasury	4,303,686,368	72.94%	4,273,650,532	72.44%
Others	1,596,313,632	27.06%	1,626,349,468	27.56%
Total	5,900,000,000	100.00%	5,900,000,000	100.00%

Performance of the PGNiG Stock

Throughout the year, PGNiG shares traded within the range between PLN 3.16 and PLN 3.91. The steepest falls in the Company share price were linked to investor fears of a reduction in PGNiG's gas fuel tariff, while the biggest advances were spurred by the posting of better-than-expected financial results of the PGNiG Group. In 2010, the rate of return on PGNiG shares was negative at -5.8%, although taking into account the dividend payment (PLN 0.08 per share), the rate of return stood at -3.7%. Investors who bought PGNiG shares at their issue price (of PLN 2.98) on the Warsaw Stock Exchange and who decided to sell them on December 31st 2010 could expect a rate of return of 19.8%.



Changes in the values of selected indices and PGNiG stock since the Company's IPO on the WSE (%)

- WIG 20
- WIG
- WIG Fuels
- Respect Index
- PGNiG

Source: in-house calculations based on the WSE's data.

Performance of WSE indices and the PGNiG stock

	Value/price as at Dec 31 2009	2010 high	2010 low	Value/price as at Dec 31 2010	PGNiG's weight in the index as at Dec 31 2010
WIG (points)	39,985.99	48,004.74	37,322.52	47,489.91	2.36%
WIG20 (points)	2,388.72	2,787.09	2,173.25	2,744.17	3.57%
WIG-Fuels (points)	2,435.46	3,200.02	2,265.37	3,079.41	20.73%
Respect Index (points)	1,709.36	2,278.17	1,542.63	2,259.20	5.63%
PGNiG (PLN)	3.79	3.91	3.16	3.57	not applicable

Source: WSE

Rates of return on WSE indices and the PGNiG stock in 2007-2010, as well as the total rate of return since PGNiG's IPO

	Rate of return in 2007	Rate of return in 2008	Rate of return in 2009	Rate of return in 2010	Rate of return since PGNiG's IPO
WIG	8.7%	-51.1%	46.9%	18.8%	42.9%
WIG20	3.2%	-48.2%	33.5%	14.9%	11.7%
WIG-Fuels	9.2%	-46.8%	28.9%	26.4%	-13.5% ⁽¹⁾
Respect Index	not applicable	not applicable	70.9% ⁽²⁾	32.2%	125.9% ⁽²⁾
PGNiG	37.1%	-29.4%	5.3%	-5.8%	-6.3% ⁽³⁾

Source: WSE

¹ Computed in relation to the reference value of the index (reference date: December 31st 2005).

² Computed in relation to the reference value of the index (reference date: December 31st 2008).

³ In relation to the issue price of PLN 2.98, the rate of return on PGNiG shares since the IPO stands at 19.8%.

31.12.2010



Key Events

January

On January 25th, ING changed its recommendation for the PGNiG stock from “hold” to “buy”, while raising the price target from PLN 3.90 to PLN 5.10. As a result, the closing price of PGNiG shares rose by 3.85%, from PLN 3.64 to PLN 3.78, far outperforming the broad market (which gained only 0.11%).

February

On February 5th, the then President of the Energy Regulatory Office Marek Woszczyk, when asked by the media on his position regarding a possible request by PGNiG for an increase in the gas fuel tariff, said he could see no reasons for granting such a request. Given the excess supply on the stock market on that day (the WIG index fell by 3.29%, while the WIG20 index shed 3.95%), the above statement further contributed to the sell-off of PGNiG shares. Eventually, the Company stock receded 4.57% (from PLN 3.72 to PLN 3.55) – the largest decline it posted in the entire 2010.

A week later, on February 12th, Vice-President Sławomir Hinc told the media that the Company intended to apply for an increase in the gas tariff. Furthermore, the Vice-President for Finance stated that due to the extremely low temperature in January, the Company recorded very high volumes of gas sales in that month. The news was very well received by the market, as reflected in the closing price of PGNiG shares, which surged by 3.16%, from PLN 3.48 to PLN 3.59.

March

On March 22nd, the PGNiG Group published its 2009 financial results, which were significantly above market expectations (net profit and EBIT exceeded the consensus by, respectively, 43% and 33%). The difference was mainly attributable to the reversal of impairment losses in the amount of approx. PLN 500m on property, plant and equipment included in the distribution assets. Despite a bearish session, the closing price of Company shares went up by 0.82%, to PLN 3.69 per share.

On March 23rd, the Management Board resolved to allocate PLN 472 thousand from the 2009 net profit to dividend payment, in the amount of PLN 0.08 per share. However, the market expected higher dividend, as a result of which PGNiG shares gained on that day a mere 0.27% (PLN 0.01), versus gains in the range of 0.8% posted by the WIG20 and WIG indices.

April

On April 15th, Vice-President of the Energy Regulatory Office Marek Woszczyk admitted in an interview with TVN CNBC that – in view of the soaring oil prices and volatility of the PLN exchange rate – the regulator would approve an increase of the gas fuel tariff. Nonetheless, the Company share price fell by 0.27% (down to PLN 3.67), with the lowest trading volume in the whole year (excluding December 31st) amounting to only one million shares.

May

On May 12th, the PGNiG Group reported its results for Q1 2010, which showed a significant year-on-year improvement. However, the analyst expectations were even more optimistic. The gap between the actual and expected performance had an adverse impact on the market’s perception of the Company, albeit some analysts admitted that its performance was sound. Eventually, the Company share price dropped by 1.16%, from PLN 3.44 to PLN 3.40.

On May 19th, the Warsaw Stock Exchange saw a decline of 3.1% with a high trading volume. The sell-off started in the early morning, triggered chiefly by developments on the western markets. WIG20 lost 2.70%, while PGNiG posted an even steeper decline of 4.41%, from PLN 3.40 to PLN 3.25. The next day witnessed an equally sharp downturn on global markets – in Western Europe the prices fell by more than 3%. Investor concerns focused on the indebted European economies, and were further aggravated by weak macroeconomic data (Poland published weaker-than-expected production growth data, while the US announced that the situation on the labour market was worse than forecast). The PGNiG stock shed another 2.77%, and bottomed out at PLN 3.16, the lowest closing price in 2010.

After the trading session on May 26th, PGNiG shares were included in the MSCI Poland index, which boosted the volume of trading and share price during the session preceding the change. Not only did the Company share price rise by a record 8.02% (to PLN 3.50), but the volume of trading was at its annual high (44 million shares).

June

On June 16th, UniCredit changed its recommendation for the PGNiG stock from “hold” to “buy”. At the same time, it raised the price target from PLN 4.05 to PLN 4.10. This spurred demand for Company shares, lifting its share price by 2.90%, from PLN 3.45 to PLN 3.55.

On June 22nd, the media were electrified by the news of a possible suspension of gas supplies via Belarus to Europe. On June 23rd 2010 in the afternoon, meters recorded a reduction in the pressure of gas supplied through the Vysokoye cross-border point on the border between Poland and Belarus. After 5pm, the pressure returned to normal. The incident did not affect gas supplies to households or industrial customers in Poland, whose gas requirements were satisfied in full. Nevertheless, PGNiG share price dropped 2.82% (from PLN 3.55 to PLN 3.45), a nearly 1% more than the overall market.

July

On July 21st, the Company shares recorded a record high monthly rise on the back of upbeat investor sentiment. The share price gained 2.91%, rising from PLN 3.44 to PLN 3.54.

August

On August 31st, the PGNiG Group released its H1 2010 results. The Group’s net profit showed an improvement of nearly PLN 1.5bn compared with H1 of 2009. The substantial improvement was recorded thanks to a higher gross margin on high-methane gas and a 7% increase in the volumes of gas sales driven by the fact that the temperature in the period January – April was lower than in the corresponding period of the previous year. The market responded very positively, as the closing price of the PGNiG stock went up by 1.15% (to PLN 3.52), relative to a 0.55% gain of the broad market.

September

On September 16th, the President of the Energy Regulatory Office resolved to increase PGNiG’s gas fuel tariff by 6.34%. On September 16th and 17th, the Company share price rose by 1.15% and 2.56%, respectively, against losses posted by the WIG and WIG20 indices.

On September 20th, the Company announced that in order to ensure gas supplies to households and utilities it might decide to limit supplies to industrial customers in Q4 2010. The situation was due to the protracted negotiations regarding a possible increase of the volume supplied under the Yamal Contract. The announcement unsettled investors and the Company share price dropped by 1.66%, from PLN 3.61 to PLN 3.55, compared with a 0.5% advance of the broad market.

October

On October 29th, an annex to the Yamal Contract was signed providing for an increase of the volume of gas supplies to Poland, lifting the ban on gas re-export to third-party countries and granting PGNiG a preferential price in the period 2010 – 2014 for the quantities in excess of the Minimum Annual Quantities off-taken in a given year. The market responded very positively – the PGNiG share price climbed from PLN 3.60 to PLN 3.70 (up by 2.78%).

November

In the morning of November 10th, the PGNiG Group released its Q3 2010 results, which were much better than expected. The Group’s net profit after the first three quarters of 2010 was a little over PLN 1.3bn, up by PLN 1.4bn on the same period of 2009. The marked improvement of financial performance was driven primarily by higher volumes of gas sales, as well as strong revenue streams from sales of crude oil and the provision of geophysical, geological and exploration services. The same day witnessed the highest opening price of PGNiG shares (PLN 3.90) and the highest price of PGNiG shares during a trading session (PLN 3.95) in the whole year, while the next day saw a similar record with respect to the closing price of PGNiG shares (PLN 3.91).

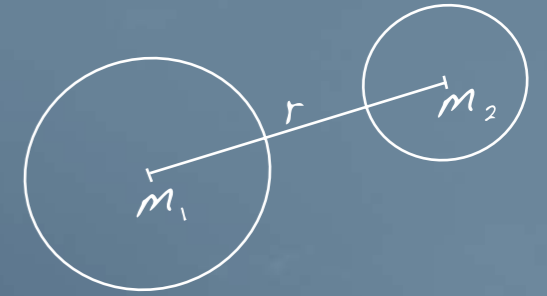
On November 30th, the Company share price plunged by 4.14% (from PLN 3.62 to PLN 3.47) on the back of investor fears that the Company might apply to the Energy Regulatory Office for a tariff reduction. However, PGNiG’s spokesperson denied such rumours, explaining that the market situation had changed – mainly on the currency market – and hence PGNiG would need more time to prepare such an application. On the next day, the Company stock recouped 3.75% of its value, and reached PLN 3.60.

December

On December 6th, the General Shareholders Meeting approved the acquisition of 100% of the shares in a Switzerland-based SPV (Goldcup 5839 AB) established to raise financing through issues of Eurobonds on international markets and to borrow the proceeds to PGNiG SA. On the same day, the Company share price rose 2.18%, from PLN 3.67 to PLN 3.75, compared with a 1.3% gain posted by the WIG20 index.

*Our every action affects the world
we live in. The larger the scale
of company's business,
the larger the power of its influence...
We always need to be aware of it.*

*Newton's law
of universal gravitation*



$$F = G \frac{m_1 m_2}{r^2}$$

Strategy for the PGNiG Group until 2015

PGNiG's primary objective is to ensure reliable and secure supplies of pure and environment-friendly energy. The PGNiG Group continues to be open to new challenges, while keeping up its traditions and maintaining customer trust. In its operations, PGNiG endeavours to be a reliable partner which increases the company's value in line with the principles of sustainable growth.

PGNiG is a company with long-lasting tradition, enjoying an established position of the leader of the Polish gas market. Over the years of its development, the Company has gathered valuable assets and now control a number of segments of the energy market (natural gas production, storage, sale and distribution), which provides a robust foundation for PGNiG's further growth and steady increase in value.

The overarching strategic objective pursued by PGNiG SA is to secure growth of the shareholder value. The Company's operations are based on the following six strategic pillars:

1

Developing the trading business

2

Securing natural gas supplies

3

Developing the exploration and production business

4

Expanding the existing and construction of new storage capacity

5

Improving the profitability of the distribution operations

6

Expanding the scope and scale of operations (extending the value chain)

The main objectives proposed for all areas of the business make up the PGNiG Group's vision: to become, by 2015, a modern and efficiently-managed organisation, controlling the entire value chain in the gas sector, and holding assets in the fuel, chemical and power sectors.

Developing the Trading Business

PGNiG's trading business consists in satisfying the domestic demand for gas fuel through transactions of purchase/sale of natural gas. Natural gas is sold to both retail and industrial customers. Given the dynamic changes in the legal and business environments, the PGNiG Group undertakes numerous steps in the gas trading area to maintain its leading position on the liberalised Polish market.

With respect to developing its gas trading business, PGNiG has set the following objectives:

- Consolidating the dominant position on the domestic market by way of increasing the annual volume of gas sold to small and medium-size customers (i.e. customers buying less than 50 m³ of gas per year) on average by 1.5%, and to large industrial customers (including by 100% to customers in the power and heat sectors);
- Ensuring market-level profitability of the gas trading business through initiatives aimed to change the regulations of the gas sector in Poland, reduction of costs of customer service, and implementation of a system to manage the risks related to changing weather conditions;
- Developing a coherent trading policy for the PGNiG Group by enhancing the offering and streamlining the trading and marketing processes (e.g. electronic customer service centre, call centre, centralized complaint handling).

Our Achievements To-Date

Since 2007, the PGNiG Group has recorded a steady upward trend in natural gas sales on a year-on-year basis. The trend was temporarily reversed in 2009, when the economic slowdown forced industrial customers to reduce off-take by 8% relative to a year earlier. However in 2010, the decline was more than compensated, as sales reached 14.4 billion cubic metres – the highest level on record. In order to satisfy the growing demand, in October 2010 the Company executed an annex to the Yamal Contract with Gazprom Export, whereby the maximum annual volume of gas supplies to Poland was upped by approx. 2 billion cubic metres.

The PGNiG Group has also taken the first steps to expand its product portfolio to include CNG and increase the output of LNG. This is particularly important on the Polish market, where trade in, as well as transmission and distribution of gas, are regulated. In 2010, the Gas Trading Divisions were pursuing projects which involved the construction of CNG stations, upgrade of boiler houses, refurbishment of buildings and other projects designed to serve the needs of the 23 gas sales units.

Securing Natural Gas Supplies

In order to balance the domestic demand for natural gas, the PGNiG Group produces gas from its own reserves and purchases gas abroad. The Group's own production covers around 30% of the demand, with the balance covered by imports, mainly from countries east of Poland (with Gazprom Export being the largest supplier). Given the strong dependence on natural gas supplies from a single source, the we strive to diversify the sources of gas supplies. Therefore, the following steps have been or will be taken to guarantee secure and uninterrupted supplies of natural gas:

- Construction of new transmission facilities with a view to enabling gas supplies to Poland from new directions, including cooperation with Gaz-System SA on the LNG terminal project, construction of system interconnections on Poland's western and southern borders, and activities supporting development of the Polish gas transmission system;
- Establishing appropriate structure of import contracts, i.e. changing the structure of imports by balancing supplies from the East with supplies from the West and North;
- In the future, launching international trading in gas and crude oil to support the processes of diversifying gas supply sources and risk management, while securing competitive selling prices. Our ability to participate in the European market will be particularly important if gas surplus occur in Poland.

Our Achievements To-Date

The PGNiG Group has also embarked on several projects in Scandinavia. The main focus is on the development of fields located on the Norwegian Continental Shelf (i.e. a 12% interest in the exploration and production area covering the Skarv/Snadd/Idun fields). In August 2011, production will be launched from PGNiG Norway's oil and gas properties – in 2011, the production volumes corresponding to PGNiG Norway's interest will amount to 100 million cubic metres of gas and 90 thousand tonnes of oil. In 2012, the respective volumes will reach 400 million cubic metres and 400 thousand tonnes. In addition, PGNiG Norway holds interests in six exploration licences on the Norwegian Continental Shelf.

Seeking to achieve an optimum structure of import contracts, in June 2009 PGNiG signed a contract with Qatargas Operating Company, providing for the sale and supplies of liquefied natural gas (LNG) from Qatar to the newly built terminal in Świnoujście. Under the contract, Qatargas agreed to deliver to PGNiG 1 million tonnes of LNG annually, for a period of 20 years starting from 2014.

In connection with its plans to engage in international gas and oil trading, in December 2010 PGNiG established POGC Trading GmbH of Munich, through which it intends to commence full-scale gas trading operations on the German market in 2012, relying on its own Norwegian production. At a later stage, POGC Trading may expand its operations onto the Dutch market and, possibly, the UK market.

Developing the Exploration and Production Business

Access to own reserves is a key to success. For this reason, PGNiG is developing its exploration and production business in Poland and abroad. The relevant objectives include:

- Increasing own production of natural gas to approximately 6.2bn m³ and of crude oil to approximately 1.8m tonnes annually in the coming years, by way of increasing the annual domestic production capacity to approximately 4.5bn m³ of gas and approximately 1.0m tonnes of crude oil, launching crude oil and gas production from the foreign reserves in 2011 (the Norwegian Continental Shelf), increasing the resources sustainability index to at least 1.1, and maintaining domestic licence areas of no less than 45–50 thousand square kilometres;
- Optimising the exploration and production business through the restructuring of the PGNiG Group's exploration companies (full or partial consolidation to maintain the position of a respected and recognised provider of maintenance services), improvement of the exploration methodology and introducing new systems of fees for the work performed by the service companies, including the daily rate system;
- Positioning PGNiG as an international exploration and production group on the key markets in the following three regions of the world: the North Sea, Norwegian Sea and, in the future, Barents Sea (Norway and Denmark, United Kingdom, Germany), North Africa (Libya, Egypt, Algeria, Tunisia, Morocco and Mauritania), and the Indian sub-continent (India and Pakistan). In selecting the expansion directions, the Company's decisions will be based on the probability of finding crude oil and gas deposits, political situation in particular countries, feasibility of supplying gas to Poland, legal environment, and possibilities for cooperation with other sector players (both Polish and foreign).

Our Achievements To-Date

In 2010, a majority of related projects were designed to develop new fields and enhance the performance of the producing sites. The expenditure incurred in 2010 on the most important project, involving the development of the Lubiatów, Międzychód, Grotów gas and oil fields (LMG project), amounted to more than PLN 400 m. Other major projects implemented as part of those plans included the construction of the Grodzisk Wielkopolski Denitrifying Plant (completed in 2010), along with field development and connection of wells to the field facilities, as well as the development of fields located near Środa Wielkopolska, Rudka, Ryłowa-Rajsko, Wola Różaniecka and Góra Ropczycka.

The exploration and appraisal work carried out for PGNiG in 2010 included nearly 50 kilometres of drilling, as well as the acquisition of 2.9 thousand kilometres of 2D seismic lines and nearly 900 square kilometres of 3D seismic profiles, both in Poland and abroad.

Among foreign exploration and production projects, the largest and most advanced one is the development of the Skarv field on the Norwegian Continental Shelf. Production from the field, scheduled to be launched in the second half of 2011, is expected to double the PGNiG Group's annual oil production, which currently stands at 0.5 million tonnes.

Expanding the Existing and Construction of New Storage Capacity

The storage business plays a key role in stabilising the volatile demand for natural gas and ensuring the security of gas supplies to our customers. Given the development of the market and the need to harmonise the storage capacity with the legal requirements, PGNiG is involved in projects designed to expand the existing and construct new underground gas storage facilities. By 2015, the planned expansion projects should enable us to cover over 70 days of demand for gas fuel.

The strategic objectives relating to the storage capacity expansion include:

- Ensuring that sufficient storage capacity is available to accommodate the needs of PGNiG's customers and to secure compliance with the laws on mandatory stocks — to this end, the existing storage capacity, chiefly for high-methane natural gas, will be expanded by approximately 2bn m³;
- Establishing the Storage System Operator (SSO) to harmonise PGNiG's internal structure and business organisation with the EU and Polish legal regulations and to ensure compliance with the Third Party Access principle;
- Commercialising gas storage services;
- Enhancing the profitability of the storage business by undertaking steps to ensure that the return on capital employed is taken into account in drawing up of the storage tariff, which would guarantee profitability of the necessary capital expenditure.

Our Achievements To-Date

In 2010, over 60% of total capital expenditure earmarked for the construction and expansion of high-methane gas storage capacities was spent on the expansion of the Wierzychowice site, Poland's largest underground gas storage facility. The contract for its expansion from 0.575 billion to 1.2 billion cubic metres was signed in November 2008 with a consortium led by PBG SA. The contract's value is estimated at PLN 1.1 bn. Also in November 2008, the legal separation of the Storage System Operator was completed. By virtue of a decision of December 31st 2008, the President of the URE appointed PGNiG as the Storage System Operator. To ensure compliance with the provisions of Directive 2009/73/EC with respect to legal separation of the gaseous fuel storage from other types of business conducted by a vertically integrated gas undertaking, a company under the name of Operator Systemu Magazynowania Sp. z o.o. was incorporated in November 2010.

In November 2009, Poland's first storage site for nitrogen-rich gas in Daszewo was placed in service. The working capacity of the Daszewo Underground Gas Storage Facility amounts to 30 million cubic metres. 2010 also saw the completion of another storage facility for nitrogen-rich gas in Bonikowo. Its capacity amounts to 200 million cubic metres.

Improving Profitability of the Distribution Operations

Distribution plays a material role in building the value of the PGNiG Group. For this reason, maximum cost effectiveness and optimisation of stable revenue of the gas companies are the key elements of the Group's strategy. The strategic objectives designed to improve the profitability of the distribution business are as follows:

- Improving profitability of the distribution business – to this end PGNiG Group will seek to obtain URE's approval for such tariff rates that would enable the Group to implement the planned projects relating to the expansion of the distribution system;
- Cost optimisation through such measures as reduction of operating expenses and consolidation of the Group's procurement processes (which will help reduce costs of construction, expansion and modernisation of the distribution system);
- Optimising development of the distribution network by defining uniform rules for the network expansion, preceded by market research covering individual geographic areas; developing a uniform map of gas distribution pipeline capacities to identify both bottlenecks and free capacities; optimising expansion of gas pipelines to reflect customers' demand for gas fuel; and raising EU funds to finance distribution network expansion projects, which will significantly contribute to the development of regions where access to gas pipelines is particularly limited.

Our Achievements To-Date

In 2010, approximately a quarter of the capital expenditure incurred in the distribution business was allocated to development of the distribution network. As a result, the length of the network was extended by approx. 1.5 thousand km. The distribution companies carried out a number of projects involving construction of new connections, upgrade and replacement of cast iron pipes and procurement of new metering systems. In 2010, the Distribution segment's expenditure on the network infrastructure accounted for some 80% of its total capital expenditure.

Expanding the Scope and Scale of Operations

As new growth opportunities for PGNiG emerge, we take steps to expand the scope and scale of operations through strategic alliances, and – following appropriate analyses – mergers and acquisitions in the following sub-sectors:

- power generation,
- heat generation,
- great chemical synthesis,
- crude oil.

The initiatives undertaken with a view to expanding the scale of our operations will include:

- Extending the value chain to include power generation. The PGNiG Group will join new Polish and foreign power generation projects, principally those where natural gas will be used as the fuel. It is projected that by 2015 PGNiG will hold interests in power plants with a total of 300 MW of installed capacity. However, implementation of this plan to a large extent depends on changes in the regulatory regime (replacement of tariffs with negotiated prices in the power sector).
- Optimising power generation and electricity consumption. The PGNiG Group will explore possibilities for economically viable participation in the electricity market, both on the demand and supply sides.
- Acquisition of CO₂ capture (CCS) competences;
- Acquisition of coal gasification competences;
- Extension of the value chain in the great chemical synthesis sector. Execution of joint projects with companies operating in that sector will contribute to increasing gas sales and enable the Company to develop some of its domestic gas fields. PGNiG may in the future develop equity links with chemical companies if circumstances become conducive to forming such partnerships.
- Alliances with petrochemical companies. Such companies may form a natural extension of PGNiG's value chain, especially in the area of exploration and production of natural gas and crude oil, both domestically and abroad, as well as in the area of using natural gas as fuel for power plants, crude oil processing and storage of crude oil and petroleum products.

Our Achievements To-Date

In November 2009, PGNiG's Annual General Shareholders Meeting decided to establish PGNiG Energia, which is responsible for the implementation of the Group's plans to develop into a modern multi-utility. PGNiG Energia will be engaged in projects involving the construction of power generation assets, gas-fired cogeneration units (generating both electricity in heat) and pilot biogas projects. The key project pursued by PGNiG Energia is the construction of a CCGT unit in Stalowa Wola. It was started with the execution on November 20th 2008 of a letter of intent between Tauron Polska Energia and PGNiG. On May 7th 2010, an execution contract was signed followed, on March 11th 2011, by an agreement on the operation of Elektrociepłownia Stalowa Wola, a contract for the sale of electricity and a contract for the supplies of gas fuel.

The PGNiG Group companies are engaged in gas and oil exploration and production projects both in Poland and abroad – in Africa, Asia and Europe. As a result of exploration work, as well as geophysical and seismic surveys, increasing quantities of petroleum can be classified as reserves. Although in 2010 gas and oil were produced only domestically, in 2011 the PGNiG Group expects to launch production from the Norwegian fields.

Exploration and Production

Key Events in 2010:

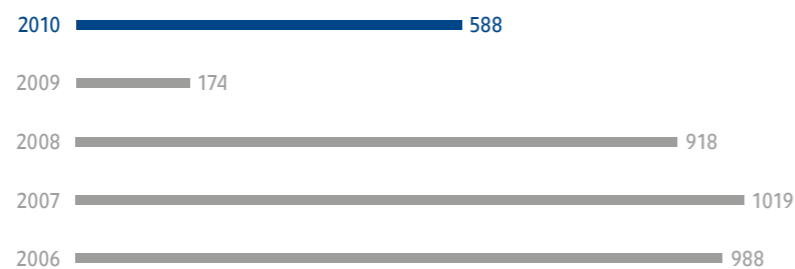
- beginning of work on shale gas deposits;
- increase in natural gas production by 100 million cubic metres year on year;
- acquisition of new exploration licences on the Norwegian Continental Shelf.

The activities pursued by the PGNiG Group's Exploration and Production segment comprise geophysical and geological surveys, as well as exploration for and production of natural gas and crude oil. At present, the Group produces natural gas and crude oil only from Polish fields. Foreign production is scheduled to be launched in the second half of 2011, within a licence area located on the Norwegian Continental Shelf. For its needs, the segment uses the capacities of the gas storage facilities in Bonikowo, Brzeźnica, Daszewo, Strachocina and Swarzędów.

Financial Performance

The Exploration and Production segment derives revenue mainly from unregulated sales of natural gas and crude oil, as well as the provision of geological, geophysical and exploration services. In 2010, the segment posted PLN 588 m in net operating profit, an improvement of PLN 414 m relative to 2009. In 2010, the Group recorded improved margins on crude oil sales, driven by a 28% rise in the selling prices. The higher prices at which sales were transacted followed from a 29% rise in crude oil prices on global markets. Other drivers of the segment's performance included a surge in revenue from geological, geophysical and exploration services provided by service companies (a total increase of PLN 85 m between 2009 and 2010), and lower costs of dry wells written off, as their number fell from 16 in 2009 to seven in 2010.

The Exploration and Production segment's operating result (PLN m)

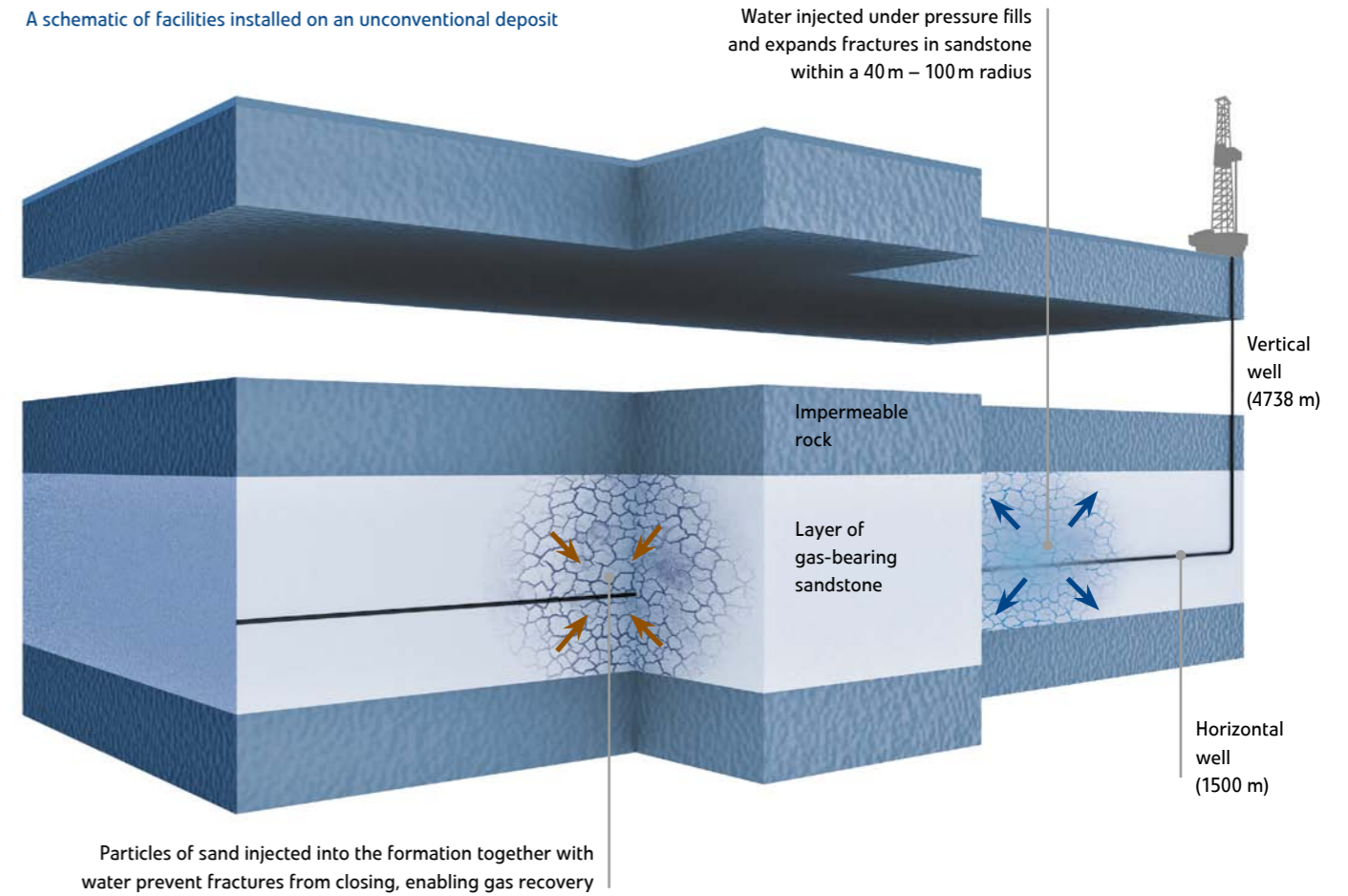


Geological, Geophysical and Exploration Services

Exploration for natural gas and crude oil is carried out both in Poland and abroad. Exploration work consists in analyses of historical and geological data, seismic surveys and drilling. It is carried out mostly in reliance on companies of the PGNiG Group:

- exploration services – drilling work is performed by PNiG Jasło, PNiG Kraków and PNiG Nafta;
- geological services – seismic acquisition, processing and interpretation of seismic data and well logging are performed by Geofizyka Kraków and Geofizyka Toruń;
- support services – specialist services supporting the performance of exploration and production work are provided by Poszukiwania Naftowe Diament and Zakład Robót Górniczych Krosno.

A schematic of facilities installed on an unconventional deposit



Unconventional Gas

As at the end of 2010, PGNiG held 89 exploration and appraisal licences, covering a total acreage of 58 thousand square kilometres, 222 licences for gas and oil production in Poland, nine licences for underground storage of gas and three licences for storage of waste. Throughout 2010, the Ministry of the Environment awarded PGNiG four new licences for oil and gas exploration and appraisal and seven new production licences. The licences on which PGNiG operates are located mainly in south-eastern Poland. Currently, PGNiG's operations are focused in three regions: the Carpathian Mountains, Carpathian Foothills and the Polish Lowlands. In these regions, work was carried out on 25 boreholes (in the case of one borehole drilling ended in 2009, and formation testing was performed in 2010). Out of 14 wells with known test results, nine were classified as positive (including six gas wells, one oil well and two oil and gas wells), whereas the remaining five wells were dry.

In 2010, geophysical work was carried out under the licences located in the Carpathian Mountains, Carpathian Foothills and the Polish Lowlands, as part of which 1.8 thousand kilometres of 2D seismic lines and 595 square kilometres of 3D seismic profiles were acquired.

The newest sources of unconventional gas are shale gas and tight gas deposits. While gas-bearing shale is encountered all over the world, it is commercially exploited only in the US, where shale gas production has been growing strongly – between 1996 and 2006 alone, it grew from 8.5 billion to 25 billion cubic metres. At present, shale gas accounts for some 10% of total US gas production. In recent years, as many as 4 thousand new wells have been drilled in the US, which – despite significant costs – are able to produce gas at sustainable rates for as long as 30 years. It is estimated that the cost of an unconventional well is about three times higher than in the case of conventional plays.

In Poland, too, there has been surging interest in shale gas, which – according to estimates – is buried at depths ranging from 500 metres to 4 kilometres, within a sidelong belt stretching from central Pomerania to the Lublin Province, and within the foreland of the Sudeten Mountains. In recent years, the Ministry of the Environment has awarded more than 70 licences for unconventional gas exploration to over 40 entities, of which around 20% have been awarded to PGNiG. In addition, the PGNiG Group companies carry out seismic surveys and drilling work contracted by foreign companies, which is a source of additional revenue for the Group. In 2011, PGNiG plans to allocate approx. PLN 100–200 m for exploration projects focusing on unconventional gas plays in Poland.

Currently, companies interested in unconventional gas are finishing analyses of back-file materials obtained from earlier, fairly extensive, geological drilling in Poland. Some of them have also acquired additional seismic and performed geochemical surveys. At the end of 2010 and beginning of 2011, several companies started to drill wells targeting shale gas – the initial results seem promising. However, we will not be able to evaluate Poland's shale gas reserves and design technical solutions enabling their recovery any sooner than in two to three years.

In 2010, PGNiG completed drilling of the Markowola-1 well in the Lublin Province. As the well logs confirmed the probability of presence of an unconventional gas (tight gas) deposit, a hydraulic fracturing operation was carried out in the well. Since no commercial gas flow rates were recorded, the well was classified as dry and intended for abandonment. In March 2011, PGNiG drilled the Lubocino-1 well on plays near Wejherowo, in northern Poland. The initial results indicate satisfactory rates of gas flow.

Foreign Licences

Denmark

Licence: 1/05
Interests: PGNiG (80%)
 Nordsofonden (20%)

In 2007, PGNiG acquired a 40% interest in the 1/05 licence. Subsequently, in March 2009, it acquired another 40% from Odin Energi A/S. In February 2009, a PGNiG branch was opened in Copenhagen with the primary task of coordinating work over the licence area covering 2 thousand square kilometres. In the second half of 2009, 2D and 3D seismic was acquired and processed. The first exploration well is due to be spudded around the middle of 2011.

Libya

Licence: block No. 113
Interests: PGNiG (100%)

In February 2008, a company of the PGNiG Group (POGC – Libya) signed an EPSA agreement to conduct exploration work over an area of 5.5 thousand square kilometres covered by E&P Licence No. 113. The block is located within the Murzuq petroleum basin, in western Libya. In 2010, phases I and II of 2D seismic surveys were completed, with a total of 3,027 kilometres of seismic data acquired in the process. In cooperation with CGGVeritas, the company carried out the processing of 2D and 3D data. Furthermore, in cooperation with PGNiG, the company completed the interpretation of 3D seismic. The results obtained were used to determine the locations of four exploration wells which are to be drilled. Preparatory work at the planned drilling site of the first well started in 2010. In connection with the political unrest in Libya, in February 2011 all the Polish employees of POGC-Libya were temporarily withdrawn from the country.

Norway

Licence: PL159, PL212, PL212B, PL212E, PL262
Interests: PGNiG Norway (11.9%)
 BP Norge (23.8% – operator)
 Statoil Petroleum (36.2%)
 E.ON Ruhrgas Norge (28.1%)

The licences on the Skarv/Snadd/Idun fields were acquired in 2007. Based on data endorsed by the Norwegian Petroleum Directorate, total reserves of the field amount to 42.1 billion cubic metres of gas, 16.5 million cubic metres of oil and condensate and 5.5 million tonnes of NGL. The development project includes the drilling of 16 wells, including seven oil producers, five gas producers and four injectors, which will later be converted into gas producers to maximise the recovery of the field's reserves. Oil and gas from the Skarv/Snadd/Idun field will be produced using a floating production, storage and offloading vessel (FPSO). In 2010, the FPSO platform was launched from a Korean shipyard. In the first half of 2011, it was transported to a port in Kårsto. Hydrocarbons produced by the FPSO will be transported by shuttle tankers and via the Gassled Area B System gas transport (export) pipeline to the mainland terminal in Kårsto. The FPSO platform will be anchored at a selected location with anchor lines. It is the largest vessel of this kind in the world, measuring 292 metres in length and 52 metres in width. Its load capacity amounts to 140 thousand cubic metres (880 thousand boe). The expected load capacity of the shuttle tankers operating on the Skarv field will amount to approx. 135 thousand cubic metres (850 thousand boe).

Egypt

Licence: Bahariya
Interests: PGNiG (100%)

The licence contract for the exploration and production of hydrocarbons in the territory of Egypt was concluded in May 2009 between PGNiG and EGPC (The Egyptian General Petroleum Corporation). Exploration work under the Bahariya licence, located in the Western Desert, is to cover an area of 4.4 thousand square kilometres. Towards the end of 2009, preparations started to reprocess 1,450 kilometres of 2D seismic and to conduct gravimetric surveys, which were performed in 2010. Work planned for 2011 includes data processing and selection of drilling locations for exploration wells. In connection with the political unrest in Egypt, in January 2011 the Polish employees of PGNiG were temporarily withdrawn from the country, which, however, had no negative effect on the progress of the exploration work.

Additionally, an 80-kilometre undersea pipeline was laid, connecting the Skarv field to the existing transmission infrastructure on the Norwegian Continental Shelf. The field's operator is BP Norge.

Licence: PL326
Interests: PGNiG Norway (10%)
 Norske Shell (50% – operator)
 Statoil Petroleum (30%)
 GDF SUEZ E&P Norge (10%)

The licence acreage, including the Gro gas discovery, comprises four blocks with a total area of 1,671 square kilometres. Gro is a gas field discovered within the Vøring basin, in the western part of the Norwegian Sea, where water depth exceeds 1,000 metres. The licence is located some 365 kilometres off the coastline (the approximate distance from the town of Sandnessjøen). The presence of gas accumulations was confirmed by a well drilled in 2009. In 2010, an appraisal well was drilled using the Aker Barents drilling rig. Moreover, in the second half of 2010, the 3D seismic acquired to supplement the surveys carried out in 2004 and 2009 started to be reviewed. At the beginning of the second half of 2011, a decision to drill another well is due. The field's operator is Norske Shell.

Pakistan

Licence: Kirthar
Interests: PGNiG (70%)
 Pakistan Petroleum Limited (30%)

The licence covers a total area of 956 square kilometres. In 2008, 162 kilometres of 2D seismic lines were processed, based on which a decision to drill an exploration well in the southern part of the block was made – the well reaching the depth of nearly 3 kilometres was drilled by PNiG Kraków, a company of the PGNiG Group. In the second half of 2009, the drilling of the first exploration well Rehman-1 was completed with positive results and tests commenced to assess its likely performance. In 2011, PGNiG plans to complete the construction of a connection to the transmission network and to launch test production. It also expects to drill and test another well.

Licence: PL350
Interests: PGNiG Norway (30%)
 E.ON Ruhrgas Norge (40% – operator)
 Statoil Petroleum (30%)

The licence is located approx. 10 kilometres off the Skarv/Idun fields. In 2009 and 2010, the licence acreage was covered by seismic surveys, as well as geological and geophysical analyses and interpretations. The first exploration well is scheduled to be drilled in late 2011. The field's operator is E.ON Ruhrgas Norge.

Licence: PL521
Interests: PGNiG Norway (35%)
 StatoilHydro (40% – operator)
 Svenska Petroleum Exploration Norge (25%)

The licence was awarded in the 20th licensing round. In 2010, 3D seismic surveys were completed. In 2011, the acquired seismic data will be interpreted. A decision whether to drill an exploration well is due in 2012. The field's operator is StatoilHydro.

Licence: PL558
Interests: PGNiG Norway (15%)
 E.ON Ruhrgas Norge (30% – operator)
 Det norske oljeselskap (20%)
 Petoro (20%)
 Nexen Exploration Norge A/S (15%)

The licence, awarded in the APA 2009 licensing round in early 2010, is located in the immediate vicinity of the Skarv field, adjacent to the PL350 licence, which had been acquired earlier. The field's operator is E.ON Ruhrgas Norge.

Licence: PL599
Interests: PGNiG Norway (20%)
 BG Norge AS (40% – operator)
 Idemitsu Petroleum Norge AS (20%)
 Norwegian Energy Company ASA (20%)

Licence: PL600
Interests: PGNiG Norway (30%)
 Dana Petroleum Norway AS (70% – operator)

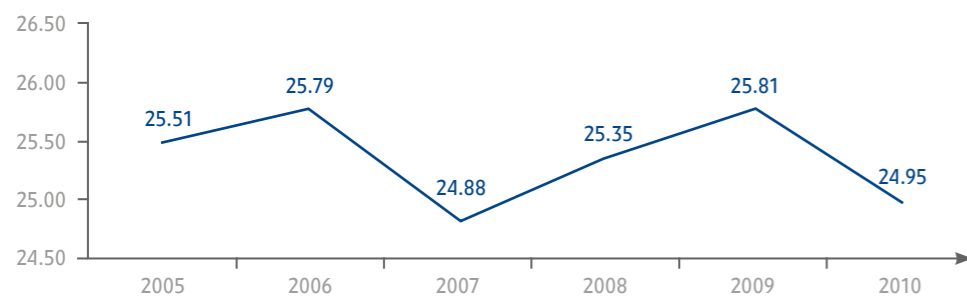
PGNiG Norway was awarded the PL599 and PL600 licences by the Norwegian Ministry of Hydrocarbons and Energy in April 2011, following conclusion of the 21st licensing round. Under the licences, PGNiG Norway and its partners committed to reprocess the existing 3D seismic profiles and perform geological and geophysical surveys to evaluate the need for new geophysical data and – within two years – make a drill or drop (relinquishment) decision. If a decision to drill is made, the interest holders will drill a well within four years of the award date.

Resources

The volumes of Poland's resources are evaluated by the Mineral Resources Commission and endorsed by the Ministry of the Environment. As at the end of 2010, the combined documented reserves of natural gas and crude oil amounted to 754 million boe, including 598 million boe (95 billion cubic metres) of gas and 155 million boe (21 million tonnes) of oil. In 2010, the total reserves to production ratio (R/P) stood at 25. This implies that with the current level of gas and oil production, the reserves would last for another 25 years.

In 2010, petroleum volumes classified as recoverable reserves were increased by 22 million boe, including 17 million boe (2.7 billion cubic metres) in the case of gas and 5 million boe (710 thousand tonnes) in the case of oil.

The R/P (reserves to production) ratio – in 2005-2010 (in years)



Production

In 2010, the production of natural gas and crude oil with condensate amounted to 30.34 million boe, out of which gas accounted for 88% and oil with condensate – for 12% of total production. The respective production volumes amounted to 4.24 billion cubic metres (26.67 million boe) of gas and 501 thousand tonnes (3.67 million boe) of oil with condensate. In Poland, oil and gas are produced mainly in the north-west and south-east, as part of the operations of two PGNiG branches, one based in Zielona Góra and the other – in Sanok.

PGNiG produces two types of gas with different calorific values – high-methane and nitrogen-rich gas – at 68 production sites located throughout Poland. In 2010, high-methane gas was produced at 46 sites, including 26 gas production facilities and 20 oil and gas production facilities. Nitrogen-rich gas was produced at 22 sites, including 14 gas production facilities and eight oil and gas production facilities. A portion of nitrogen-rich gas is further treated at the Odolanów and Grodzisk Wielkopolski Denitrifying Plants. Gas with low

methane content is processed in extremely low temperatures. Once its denitrifying is completed, the gas is transmitted to the high-methane gas system. In 2010, the conversion of nitrogen-rich gas into high-methane gas yielded 1.36 billion cubic metres of gas, up by 21% on 2009. The process also yields by-products, including liquefied natural gas (LNG), liquid and gaseous helium and liquid nitrogen.

In order to maintain hydrocarbon production or counteract the natural decline in production yields in 2010, 35 wells whose technical condition made further production impossible were subject to major remedial treatment, out of which four wells were subsequently converted into injectors and five wells were abandoned due to their bad condition or lack of commercial gas flow rates following the remedial treatment. Additionally, in 2010, a total of 49 enhanced recovery technique applications and well interventions were carried out in order to sustain or increase the rates of recovery or to improve absorption rates in injectors.

Crude oil production is focused in western Poland, including currently the largest field – BMB (Barnówko–Mostno–Buszewo), which in 2010 accounted for 76% of total oil production (372 thousand tonnes). In 2010, the volume of crude oil and condensate production amounted to 501 thousand tonnes. This represents a year-on-year decrease of 3 thousand tonnes (0.7%), compared with 504 thousand tonnes of oil produced in 2009.

One of the major projects implemented in Poland in recent years to increase the production of oil and – to a lesser extent – of gas is the development of the Lubiatów–Międzychód–Grotów (LMG) fields in the vicinity of Gorzów Wielkopolski. As part of that project, PGNiG is engaged in the construction of the LMG Central Facility to serve as a hub for collection, distribution and treatment of reservoir fluids, as well as the construction of the Dispatch Terminal in Wierzbno, to support collection and shipment of crude oil. Crude oil will be transported by rail tankers and injected into the PERN pipeline, through which oil flows to Germany. Additionally, any surplus gas production will be transmitted via the pipeline running from the production site to the Grodzisk Denitrifying Plant. The launch of production from the LMG field is scheduled for 2013. It is expected to result in a two-fold increase in domestic oil production. In 2010, the amount of capital expenditure on the project ran to PLN 415 m (compared with PLN 258 m incurred in 2009). The total value of the project is estimated at approx. PLN 1.6 bn.

The PGNiG Group's international expansion started in 2007, with the acquisition of interests in the Skarv/Snadd/Idun exploration and production licence on the Norwegian Continental Shelf. Production from the Skarv/Snadd/Idun field is scheduled to be launched in the second half of 2011, and is expected to reach about 100 million cubic metres of gas and 90 thousand tonnes of crude oil already in 2011. The target production volume in 2012 is approx. 400 million cubic metres of gas and approx. 400 thousand tonnes of oil. Natural gas will be transported to mainland Europe, whereas crude oil will be sold straight "from the wellhead".

Sale

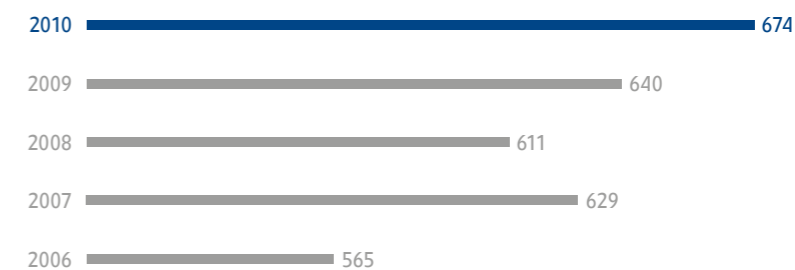
Natural gas is sold by PGNiG's Exploration and Production segment directly from the fields (outside of the transmission system), from which it is supplied to specific customers via dedicated pipelines. Sales are transacted on free market terms, and the delivery terms (including pricing) are agreed individually with the customers on a case-by-case basis, depending on the characteristics of a given project. Natural gas is purchased directly from the fields mainly by industrial customers (including: Elektrociepłownia Zielona Góra SA, PGE Elektrociepłownia Gorzów SA, Zakłady Azotowe w Tarnowie-Mościcach SA and Arctic Paper Kostrzyn SA). This form of purchase is preferred by customers located in close proximity to the gas production sites. Sales of natural gas directly from the fields enable commercially viable development of gas reserves whose quality deviates from network standards and to attract customers in whose case deliveries of system gas are not feasible for technical or economic reasons.

In 2010, direct sales of gas accounted for less than 5% of PGNiG's total sales and amounted to 674 million cubic metres, up by 5% on 2009. Direct sales from the fields are made both in the case of high-methane and nitrogen-rich gas – in 2010, 54 million cubic metres of high-methane gas and 620 million cubic metres of nitrogen-rich gas were sold in this way.

Crude oil is sold by PGNiG on free market terms and priced by reference to the crude prices on international markets. PGNiG's sales of crude oil are made:

- via pipelines to foreign customers,
- using wheel transport (by road and rail tankers) – to domestic customers.

Sales of gas directly from the fields (million cubic metres) *

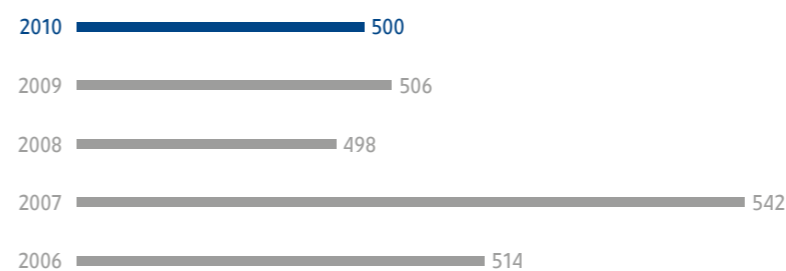


* Measured as high-methane gas equivalent.

In 2010, foreign customers accounted for 42% of total oil volume sold. The oil was transported through the Druzhba pipeline to German refineries.

In addition to non-tariff sales of gas directly from the fields and sales of oil, PGNiG's portfolio comprises a number of other products, such as helium, nitrogen, sulphur, condensate and propane/butane.

Sales of crude oil with condensate ('000 tonnes)

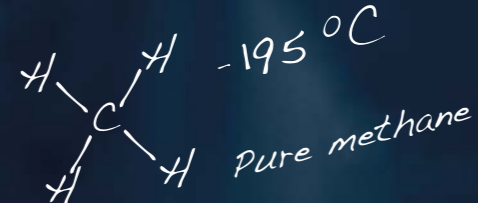


Investment Projects

In 2010, the Exploration and Production Segment incurred capital expenditure of PLN 2.19 bn. In the area of exploration, capital expenditure was chiefly incurred on nine wells drilled with positive results, wells on which work is still under way, and five wells which proved to be dry. Funds were also spent on the Skarv project, which involves the development of fields on the Norwegian Continental Shelf using a floating production, storage and offloading (FPSO) vessel. 2010 saw the completion of the LMG Central Facility, which will serve as a hub for collection, distribution and treatment of reservoir fluids, and continued work on the construction of the high-pressure gas pipeline complete with a fibre optic cable from the Kościan Gas Production Facility to KGHM Polkowice-Żukowice to support direct sales of natural gas. Other investment projects involved the development of gas reserves, including those already in production, projects executed in order to sustain or restore hydrocarbon production rates, and projects related to the operation of the hydrocarbon production area.

*Technological innovations
and well-used knowledge
are best to create
a competitive advantage.*

*Low-temperature distillation
allows separating nitrogen from methane,
and as a result we obtain gas
of much higher energy value.*



Trade and Storage

In 2010, sales of natural gas reached a record high level of 14.4 billion cubic metres. The gas was supplied to PGNiG's 6.6 million customers, including households and industrial customers. Around four thousand of PGNiG's employees worked on ensuring an uninterrupted and secure service.

Key Developments in 2010:

- execution of an annex to the contract with Gazprom Export for the supplies of gaseous fuel, increasing the maximum annual volume of imported gas and granting PGNiG a discount for deliveries made in 2010 – 2014;
- launch of the underground storage facility for nitrogen-rich gas in Bonikowo;
- increase in mandatory stocks of natural gas, the use of which is within the discretion of the Ministry of Economy, to 20 days' worth of average daily imports (530 million cubic metres) as of October 1st 2010.

The Trade and Storage segment sells imported natural gas and natural gas produced from domestic fields. Imported gas is sourced mainly from countries lying east of Poland. Natural gas is sold through the distribution and transmission networks, and its sale is regulated by the Energy Regulatory Office ("URE"). For its own needs, the segment uses three underground gas storage facilities (in Mogilno, Wierzchowice, and Husów).

Financial Performance in 2010

In 2010, the Trade and Storage segment recorded PLN 815m in net operating profit, an improvement of PLN 703m relative to 2009. The improvement was attributable to higher profitability of high-methane gas sales, following a 6% decrease in the price of imported gas, due primarily to a weaker US dollar. The segment's improved performance was also the result of the PLN 158m discount on gas supplied under the contract with Gazprom-Export.

Tariff Policy

Prices at which PGNiG sells natural gas are regulated by the Energy Regulatory Office (URE). The URE's regulatory powers include the right to approve gaseous fuel tariffs and control their application in terms of compliance with the Polish Energy Law, to analyse and review costs which energy companies consider relevant for the calculation of tariff prices and charge rates, and to exercise overall supervision over energy companies. The tariff prices and charge rates are crucial to the ability to generate satisfactory revenue, taking into account the justified costs and return on capital employed. The methodology applied to prepare tariffs is based on the determination of prices and charge rates against forecast costs and gas sales targets, and the calculation takes into account the costs of gas from all sources, i.e. both imported and domestically produced gas.

PGNiG supplies gaseous fuel to customers connected to the transmission grid and those connected to the distribution network, under comprehensive contracts which define:

- prices, subscription fees and rates of network charges applicable to settlements with customers receiving gaseous fuels from the transmission grid;
- prices, subscription fees and rates of network charges applicable to settlements with customers receiving gaseous fuels from the distribution networks;
- the manner of determining price reductions for failure to maintain the quality parameters for gaseous fuels and quality standards in customer service, and the manner of determining charges for exceeding the contractual capacity.

In 2010, due to the volatility of the US dollar, which is the settlement currency for gas imports, and due to fluctuations in global oil prices, the gaseous fuel tariff was changed several times (high-methane gas prices – type E):

- From June 1st 2009 to May 31st 2010, the tariff for gaseous fuel was PLN 910 per 1,000 cubic metres, down by 8.8% relative to the tariff previously in effect;
- From June 1st to September 30th 2010, the tariff for gaseous fuel was PLN 954.50 per 1,000 cubic metres, up by 4.9% relative to the tariff previously in effect;
- From October 1st to December 31st 2010, the tariff for gaseous fuel was PLN 1,015.50 per 1,000 cubic metres, up by 6.4% relative to the tariff previously in effect;
- From January 1st 2011, the tariff for gaseous fuel was PLN 982.70 per 1,000 cubic metres, down by 3.2% relative to the tariff previously in effect.

Imports

PGNiG is the largest importer of natural gas to Poland. Gas is mainly imported from Russia and Germany. The existing gas infrastructure supports natural gas imports from:

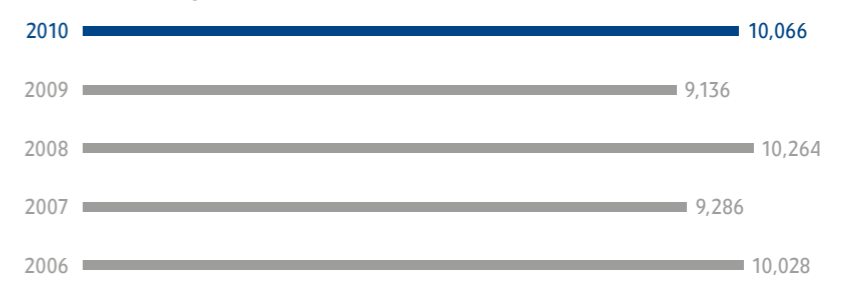
- the East – through the cross-border points in Drozdovitse (on the Polish-Ukrainian border), Kondratki, Vysokoye and Teterovka (on the Polish-Belarusian border);
- the West – through the cross-border point in Lasów;
- the South – through the cross-border point in Branice or, alternatively, in Głuchołazy.

In 2010, PGNiG imported 10.07 billion cubic metres of high-methane gas, including 9.03 billion cubic metres (89.7%) from Russian supplier OOO Gazprom Export, and 1.03 billion cubic metres (10.3%) from Verbundnetz Gas AG (VNG) of Germany.

Several projects are currently under way in Poland aimed to increase natural gas imports. These include:

- Increase of the throughput capacity of the existing cross-border point in Lasów on the Polish-German border from 0.9 billion to 1.5 billion cubic metres starting from Q4 2011 (two-way connection) – the project is being executed by GAZ-SYSTEM;
- Construction of a new interconnector to the German system, with a throughput capacity of up to 3 billion cubic metres (the project is in the design phase, carried out by InterTransGas, in which PGNiG and VNG each hold a 50% interest);
- Construction of a new interconnector to the Czech system, with an annual throughput capacity of approx. 0.5 billion cubic metres. The launch of the project (two-way connection), executed by GAZ-SYSTEM, is scheduled for the end of 2011;
- Construction of an LNG terminal in Świnoujście. In the first phase (until 2020), the terminal will have an annual throughput capacity of 5 billion cubic metres. The project is being executed by Polskie LNG (a wholly-owned subsidiary of GAZ-SYSTEM). The contracted supplies of 1 million tonnes of liquefied natural gas annually (approximately 1.5 billion cubic metres of natural gas) are due to commence in mid-2014.

Imports of natural gas to Poland in 2006-2010 (billion cubic metres)



Sale

PGNiG is the largest domestic seller of high-methane and nitrogen-rich natural gas fed into the transmission and distribution networks. Sale of natural gas is regulated by the Polish Energy Law, and gas prices are determined based on the tariffs approved by the President of the Energy Regulatory Office. In 2010, PGNiG sold 14.42 billion cubic metres of natural gas, including 13.75 billion cubic metres (95.4%) sold by the Trade and Storage segment.

Sale of natural gas in Poland is based on the following two systems:

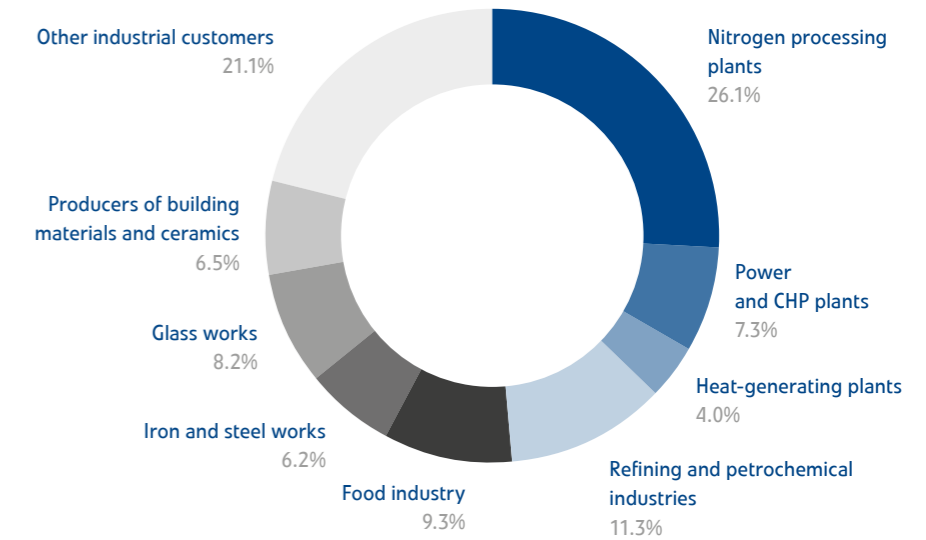
- the high-methane gas network used for imported gas, gas produced from fields in southern Poland, as well as gas leaving the denitrating facilities, which is produced from fields in western Poland;
- the nitrogen-rich gas network serving to route gas from the production sites to the denitrating facilities and to customers from fields located in the Polish Lowlands.

PGNiG owns and operates two denitrating facilities: in Odolanów and Grodzisk Wielkopolski. The launch of the Grodzisk Wielkopolski facility will allow it to increase production of nitrogen-rich gas from the Wielichowo, Jabłonna and Paproć fields.

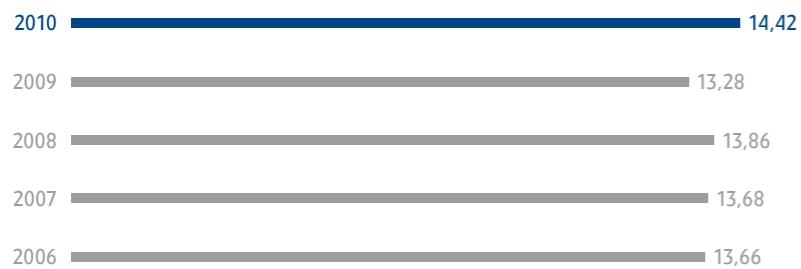
In terms of sales volume, PGNiG's largest customers included the chemical, metallurgical and power industries, as well as households. In 2010 households made up the largest group of customers purchasing natural gas, accounting for 97% of the entire customer base (approximately 6.4 million). Their share in the total sales volume of the Trade and Storage segment was approximately 28%.



Sales of natural gas to industrial customers through the Trade and Storage segment in 2010



Sales of natural gas in 2006 – 2010 (billion cubic metres)



Transit

PGNiG is a shareholder in EuRoPol GAZ, the owner and operator of the Polish section of the Yamal Pipeline. Gas produced in northern Russia is transported via the Yamal-Europe Pipeline, with the total length of 4,196 kilometres, to countries in Western Europe. The Polish section of the pipeline is 682 kilometres long and has a diameter of 1.4 metres. It has two cross-border interconnector points, located in Włocławek and Lwówek Wielkopolski. In 2010, the pipeline transmitted 27.7 billion cubic metres of natural gas through the territory of Poland, 13% less than in 2009.

CNG

Compressed natural gas (CNG) may be used as engine fuel in vehicles. Such application of CNG is both environment-friendly and economical. There are around 13 million CNG-fuelled vehicles all over the world and numerous countries have developed mechanisms supporting the use of natural gas as engine fuel. The number of CNG-fuelled vehicles in Poland as at the end of 2010 was estimated at 2.2 thousand, mostly owned by public transport companies and private road carriers. As at the end of 2010, PGNiG operated 30 CNG filling stations.

Investment Projects

In 2010, capital expenditure incurred in the Trade and Storage segment was PLN 553 m. The major investment projects were related to the construction and expansion of underground gas storage facilities and included:

- construction of the surface part of the Wierzchożewice Underground Gas Storage Facility;
- completion of the construction of a leaching installation along with pipeline for brine discharge, as well as of the drillings for the needs of the Kosakowo Underground Gas Storage Cavern Facility, and commencement of leaching work in two caverns of the facility;
- construction of four caverns of the Mogilno Underground Gas Storage Cavern Facility.

In addition, the investment projects carried out in the Trade and Storage segment included information and communication technology projects, purchase and clarification of the legal status of real property and construction work related to gas pipelines.

Storage Facilities

PGNiG owns and operates eight underground gas storage facilities, located in two different types of geological structures (salt caverns or depleted gas and oil reservoirs), with different injection and withdrawal capacities. Six of them are used to store high-methane gas and two – to store nitrogen-rich gas.

PGNiG's Underground Gas Storage Facilities allow it to maintain continuous supplies in periods of increased demand (winter), as well as an adequate level of stocks in case of short-term disruptions in supplies caused by system failures or limited availability of gas. Thanks to the facilities, PGNiG is able to meet its obligations under the Act on Stocks. They also help optimise the natural gas supply chain and enable PGNiG to respond to sudden short-term changes in demand. Moreover, as the operator of the facilities, PGNiG is able to maintain steady production levels throughout the year: in periods of reduced demand, gas is injected into the storage facilities, while in times of peak demand (which cannot be satisfied with ongoing production), it is withdrawn from the facilities.

In response to the market demand for gas storage services, PGNiG has separated a dedicated branch, a Storage System Operator, responsible for providing third-party access to the capacities of the storage facilities. The branch is being gradually transformed into a separate company – Operator Systemu Magazynowania Sp. z o.o. (wholly-owned by PGNiG), which is due to commence activities in 2011.

In 2009, PGNiG made available a total of 627 million cubic metres of working capacity of its storage facilities as part of package services on a continuous and intermittent basis. As of July 2010, PGNiG made available for TPA purposes, under short-term contracts, an additional 8 million cubic metres of working capacity.

As at the end of 2010, the total working capacity of the underground storage facilities was 1.60 billion cubic metres for high-methane gas and 0.23 billion cubic metres for nitrogen-rich gas. In the high-methane gas storage facilities PGNiG maintains mandatory stocks, the use of which is within the discretion of the Ministry of Economy. The Wierchowice, Husów and Mogilno Underground Gas Storage Facilities currently allow PGNiG to meet its obligation to maintain mandatory stocks of natural gas, imposed upon it by the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market, dated February 16th 2007. Since October 2010, the level of mandatory stocks has been increased from 413 million to 530 million cubic metres of natural gas.

Currently, PGNiG operates the following storage facilities:

the Bonikowo Underground Gas Storage Facility – launched in 2010 in a partially depleted natural gas reservoir. It is a nitrogen-rich gas storage facility, which helps optimise the domestic production. The facility's working capacity is 200 million cubic metres.

the Brzeźnica Underground Gas Storage Facility – high-methane gas storage facility with the working capacity of 65 million cubic metres. Its working capacity is planned to be increased to 100 million.

the Husów Underground Gas Storage Facility – high-methane gas storage facility with the working capacity of 350 million cubic metres. Currently, planning work is under way to assess the feasibility of expanding the working capacity of the Husów site to 500 million cubic metres.

the Mogilno Underground Gas Storage Facility – high-methane gas storage facility with the working capacity of 370 million cubic metres. The facility is located in salt caverns, which enables high injection and withdrawal capacities to be achieved. Since 2008, the Mogilno site has been undergoing expansion designed to increase its capacity to 800 million cubic metres. The work is scheduled for completion in 2018.

the Strachocina Underground Gas Storage Facility – high-methane gas storage facility with the capacity of 150 million cubic metres, currently undergoing expansion designed to increase its capacity to 330 million cubic metres. The work is scheduled for completion in July 2011.

the Swarzędów Underground Gas Storage Facility – high-methane gas storage facility with the working capacity of 90 million cubic metres. The Swarzędów site is one of the oldest gas storage facilities in Poland.

the Wierchowice Underground Gas Storage Facility – high-methane gas storage facility, partially located in a depleted nitrogen-rich gas reservoir. With the working capacity of 575 million cubic metres, it is the largest underground gas storage facility in Poland. A project is under way to increase its working capacity to 1,200 million cubic metres in 2012. Its further expansion is possible, to 3,500 million cubic metres of working capacity.

the Daszewo Underground Gas Storage Facility – storage facility for Ls nitrogen-rich gas, with the capacity of 30 million cubic metres, located in a partially depleted crude oil reservoir. In the future, the facility may be used to store high-methane gas. The geological conditions make it possible to expand its capacity to 60 million cubic metres.

Location of Underground Gas Storage Facilities



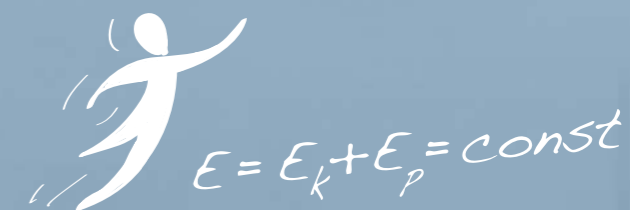
The following storage facility is currently under construction: **the Kosakowo Underground Gas Storage Cavern Facility** – high-methane gas storage facility, to be located in the vicinity of the Gdańsk-Gdynia-Sopot agglomeration. The project provides for the construction of 10 caverns in a salt deposit. The construction of initially 100 million cubic metres of the storage capacity is scheduled to be completed by 2014, while its further expansion to 250 million cubic metres is to be completed by 2020.

In 2010, under the EU's Infrastructure and Environment Operational Programme, PGNiG and the Oil and Gas Institute of Kraków executed an agreement on co-financing of the following projects: "The Wierchowice Underground Gas Storage Facility" (up to PLN 503.6 m), "The Kosakowo Underground Gas Storage Cavern Facility" (up to PLN 93.5 m), "The Strachocina Underground Gas Storage Facility" (up to PLN 53.2 m) and "The Mogilno Underground Gas Storage Cavern Facility" (up to PLN 23.1 m). The amount of co-financing depends on the fulfilment of a number of conditions specified in the respective agreements.

Working capacities of the underground gas storage facilities (million cubic metres)

High-methane gas	2010	Target capacity	Year expansion completed
Brzeźnica	65	100	
Husów	350	350	
Kosakowo	0	250	2020
Mogilno	370	800	2018
Strachocina	150	330	2011
Swarzędów	90	90	
Wierchowice	575	1200	2012
Nitrogen-rich gas			
Bonikowo	200	200	
Daszewo	30	30	

*When we have so much energy,
we start considering
how to use it best.*



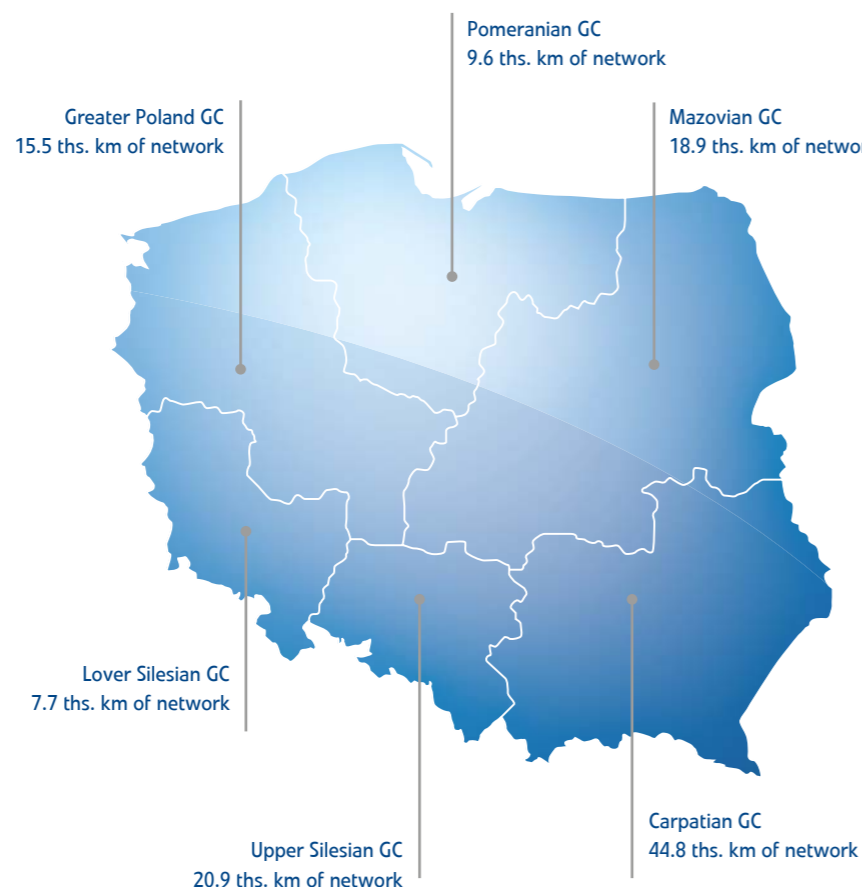
Through six regional gas distribution companies, natural gas is supplied to households as well as to SME sector customers. In 2010, 9.28 billion cubic meters of natural gas were distributed through the gas distribution network. Thanks to the professional skills and expertise of nearly 14 thousand staff, every day our customers can feel in their homes the warmth and comfort offered by natural gas.

Distribution

Key Events:

- June 1st 2010 saw the coming into force of new tariffs for the distribution services provided by the Gas Distribution Companies, higher by 3.1% for high-methane gas, and by 3.8% for nitrogen-rich gas.
- in 2010, the distribution network was extended by approximately 1.5 thousand kilometres.

The segment's core business consists in the transmission of high-methane and nitrogen-rich gas, as well as small amounts of propane-butane and coke-oven gas, via the distribution network. Natural gas distribution is the business of six Gas Distribution Companies, which supply gas to households, as well as to industrial and wholesale customers. Additionally, they are responsible for the operation, maintenance and extension of the distribution pipelines, as well as for connecting new customers to their grids.



GC – Gas Company

Financial Performance in 2010

The Distribution Segment generates revenue from transmission of natural gas via the distribution network. Gas distribution tariffs are determined by the Energy Regulatory Office. Revenue of the six Gas Distribution Companies is subject to seasonal fluctuations throughout the year. The largest gas volumes are transmitted via the distribution network in winter (Q1 and Q4 of each year). The Distribution Segment closed 2010 with an operating profit of PLN 1.491 bn, up by PLN 405 m on 2009. This improvement was mainly the result of

the reversal of a portion of impairment losses on the distribution companies' assets, amounting to PLN 659 m (compared with PLN 494 m in 2009). Moreover, lower temperatures in the winter season contributed to a 600 million cubic meters rise in the volumes of distributed gas, which – coupled with higher distribution charges and network rates – resulted in a substantial growth of revenue from the services provided by the Gas Distribution Companies.

Tariff Policy

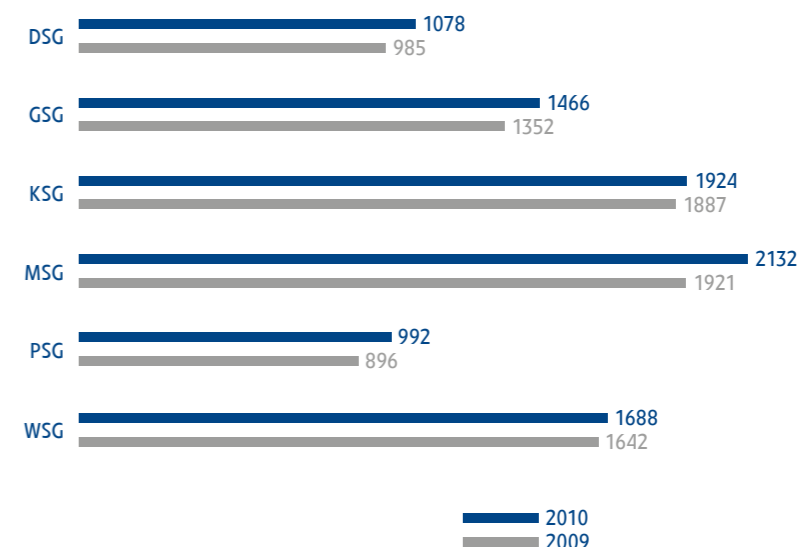
The Gas Distribution Companies forming part of the PGNiG Group have the status of Distribution System Operators. Until mid-2007, the distribution companies of the PGNiG Group were involved in both trade in and distribution of gas. In accordance with the requirements of the Polish Energy Law, which implemented the requirements of EU Directive No. 2003/55/EC, in 2007 PGNiG legally separated the distribution and trade businesses. As a consequence, in mid-2007 the Distribution System Operators were spun off (currently: Gas Distribution Companies). Since Q4 2007, the entire trade business, including retail sales and wholesale, was integrated into PGNiG SA.

Distribution activities are conducted under licences. This means that the Gas Distribution Companies must seek the approval of the Energy Regulatory Office with regard to rates of charges for gas fuel distribution. The tariffs define:

- rates of charges for gas fuel distribution services and subscription fees;
- the formula for determining the fees for connecting customers to the high-, medium- and low-pressure networks.

Moreover, the tariff defines the manner of determining the charges for exceeding the contractual capacity, penalties for illegal abstraction of gas fuels and failure to comply with the imposed limitations, as well as of price reductions for failure to maintain quality standards in customer service.

Volumes of gas distributed by Gas Distribution Companies in 2009 – 2010 (MM m³)



Gas Fuel Distribution

In 2010, the Gas Distribution Companies transported 9.28 billion cubic metres of natural gas. This represents a 0.60 billion cubic metres (7%) rise in relation to 2009, when they transported 8.68 billion cubic metres of gas. As at the end of 2010, the length of the distribution network (excluding connections) was 117 thousand kilometres. In aggregate, the six Gas Distribution Companies provide services to approximately 6.6 million customers. In 2010, almost 60 thousand new customers were connected to the network.

	DSG	GSG	KSG	MSG	PSG	WSG	Total
No. of customers (millions)	0.75	1.3	1.4	1.5	0.75	0.9	6.6
Volume of distributed gas (millions of cubic metres)	1078	1466	1924	2132	992	1688	9280
Network length excluding connections ('000 km)	7.74	20.88	44.76	18.90	9.59	15.49	117.36

Investment Projects

In 2010, capital expenditure incurred in the Distribution Segment amounted to more than PLN 1 bn. As part of their investment activities, the Gas Distribution Companies connected new customers to their grids and upgraded and expanded the gas network. The segment's expenditure on the network accounted for approximately 80% of the aggregate capital expenditure.

Power Sector

The PGNiG Group's entry into the power sector will facilitate its transformation into a multi-energy operator. PGNiG Energia will focus on the generation of electricity and heat and trading on the wholesale electricity market, while PGNiG SA will provide its existing and prospective customers with a "dual-fuel" offering.

Key Developments:

- commencement of work on the Elektrociepłownia Stalowa Wola project – execution of agreements concerning the operation of the SPV;
- planning and analyses for projects designed to increase the PGNiG Group's involvement in the power sector.

Development

Initially, PGNiG Energia will focus on small and medium-sized gas-fired cogeneration projects, pilot biogas projects, and trading on the electricity market. Once completed, the power projects will materially stimulate the demand for natural gas in Poland. PGNiG Energia's activities will also extend the value chain of the PGNiG Group and its product offering through the sale of not only gas, but also electricity and heat.

PGNiG's strategic goal is to hold, by 2015, interests in power plants equivalent to the aggregate installed capacity of 300 MW, which will involve the execution of a number of investment projects of varying sizes. The most important and most advanced project currently carried out by the PGNiG Group is the construction of the CCGT in Stalowa Wola. In addition to that project, PGNiG Energia is performing other analyses and holding negotiations which focus on large power generation projects related to natural gas. The projects are carried out in cooperation with partners from the power sector.

PGNiG Energia also intends to construct biogas units with capacities of up to 2 MW and thus gain new capabilities, expertise and experience in the renewable energy market. Heat generated by the units will be supplied to local customers, while electricity will be sold as green energy to the power grid. The new biogas plants will also facilitate the assessment of opportunities for possible injection of biogas into the gas grid.

Combined Cycle Gas Turbine in Stalowa Wola

In March 2011, PGNiG and Tauron Polska Energia SA commenced the construction of the largest gas-fired CHP plant. The project, whose value is estimated at PLN 1.9bn, will be completed at the end of 2014. The construction of the CCGT in Stalowa Wola is a joint venture of the two partners, reflected in their respective strategies. Thanks to this project, PGNiG will win a new large customer for gas and develop its operations in the power sector. The project involves the construction of a CCGT generating 400 MW of electricity in high-efficiency cogeneration and 240 MW of heat in the form of

water for municipal needs and process steam for the local industry. Given the emission limits on greenhouse gases and the obligation to purchase CO₂ emission credits introduced under the EU energy and climate policy, gas-fired power plants turn out to be not only environmentally-friendly but also more economically viable than traditional projects relying on other fuels.

The joint venture was initiated with the execution by Tauron Polska Energia and PGNiG, on November 20th 2008, of a letter of intent confirming the parties' intention to cooperate. On December 7th 2009, the parties entered into an agreement outlining the project's framework. Next, a project execution agreement was negotiated and signed on May 7th 2010 by four parties, namely Tauron, Elektroenergia Stalowa Wola (a member of the Tauron Group), PGNiG and PGNiG Energia. On March 11th 2011, an agreement concerning the operation of Elektrociepłownia Stalowa Wola was executed. The agreement sets forth a detailed procedure for the project's implementation and provides a basis for developing its final business model. Moreover, contracts for the sale of electricity and supply of gaseous fuel were signed. The partners will receive electricity in quantities proportional to their interests in Elektrociepłownia Stalowa Wola (the parties hold a 50-percent interest each in the company). The annual gas supplies to the CCGT in Stalowa Wola will amount to 540 million cubic metres.



Fuel:
 ● coal
 ● lignite
 ● gas
 ● hydro
 Power:
 ○ CHP (in stalled)
 ■ power plant (installed)
 ▲ power plant (planned)

A lot of attention is paid in the PGNiG Group to the observance of the corporate governance principles. The Group is honest and fair to its shareholders, treats them all on equal terms and makes every effort to establish the best possible relations between investors and the Group's governing bodies.

Corporate Governance

Good Practices

The Management Board of PGNiG puts enormous emphasis on compliance with the corporate governance principles. Since its stock-exchange debut in 2005, the Company has been following the recommendations of the Warsaw Stock Exchange stipulated in the Best Practices for WSE Listed Companies. Reports on PGNiG's compliance with the requirements of corporate governance are published online at www.pgnig.pl in the Corporate Governance section.

Culture of Dialogue

PGNiG communicates well with the market. The Company fulfils its disclosure obligations towards the shareholders and other stakeholders by way of publishing reports on its activities and financial statements as well as organising press conferences where its major undertakings and strategic objectives are communicated to the public. The rules of procedure for the General Shareholders Meeting, the Supervisory Board, the Management Board and the Audit Committee are available online at www.pgnig.pl in the Corporate Governance section.

Management Board

The Management Board is an executive body managing the affairs of PGNiG and representing it in all actions before court and out of court. The Management Board is composed of between two to seven members, with the precise number defined by the Supervisory Board. The members of the Management Board are appointed for a joint three-year term. The powers of the Management Board include all matters connected with the management of the affairs of PGNiG, where such matters are not explicitly reserved for other governing bodies by the applicable laws or provisions of the Articles of Association. The Management Board operates in accordance with applicable laws and regulations, including in particular the provisions of the Commercial Companies Code, as well as the provisions of the Company's Articles of Association and the Rules of Procedure for the Management Board.

Audit Committee

The Audit Committee has acted within the structure of the Supervisory Board as its standing body since November 27th 2008. The Audit Committee is composed of at least three members of the Supervisory Board, including at least one member independent from PGNiG or any entity significantly affiliated to PGNiG and appointed by the General Shareholders Meeting pursuant to PGNiG's Articles of Association. Such a person has to be competent in accounting and finance matters. The members of the Audit Committee are appointed by the Supervisory Board.

General Shareholders Meeting

The General Shareholders Meeting is PGNiG's supreme governing body through which the shareholders exercise their corporate rights, including examination and approval of the Directors' Report, adopting decisions concerning dividend amount, payment manner and payment date. The General Shareholders Meeting grants approval for the duties performed by the other governing bodies of PGNiG, appoints members of the Supervisory Board and takes decisions concerning the Group's assets.

Supervisory Board

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations, pursuant to the rules stipulated in the Rules of Procedure for the Supervisory Board. The Supervisory Board is composed of five to nine members, including one independent member, appointed by the General Shareholders Meeting of PGNiG for a joint three-year term. The State Treasury is entitled to appoint and remove one member of the Supervisory Board, as long as it remains a shareholder of PGNiG. On a Supervisory Board composed of six members, two of them – and where the Supervisory Board is composed of seven to nine members, three of them – are elected by PGNiG's employees.

Risks

Tariff Calculation

PGNiG's ability to cover costs of its core operating activities depends on the prices approved by the President of URE. While approving tariffs for a given period, the President of URE considers other external factors which are beyond PGNiG's control. In an attempt to protect weaker customers, while verifying costs of operating activities the President of URE may consider certain cost unjustified. Moreover, the President of URE does not always accept the assumptions adopted by PGNiG with respect to main drivers of cost changes and profit targets allowing for business risk. As a consequence, the URE may also refuse to accept tariff prices and charge rates applied for by PGNiG. Lower tariff prices and charges might adversely affect PGNiG's profitability.

Purchase Price of Imported Gas

Prices of imported gas are determined in the US dollar or the euro and are based on the prices of petroleum products. Changes in foreign exchange rates and prices of petroleum products materially affect acquisition cost of imported gas. Even an accurate forecast of changes of natural gas prices may be subject to material errors. There is a risk that despite the 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.

Exploration and Prospecting Licences

In recent years, the increase in prices of fuels on global markets has led directly to increased interest in exploration activities. There is a risk of competition from other companies active on the Polish market seeking exploration and prospecting licences or planning to acquire access to own hydrocarbon reserves. At present, competition in the domestic market is limited.

Exploration

Both on the Polish market and abroad there is a risk of competition from other companies seeking exploration and prospecting licences or planning to acquire access to own hydrocarbon reserves. Certain competitors of the PGNiG Group, especially those active globally, enjoy strong market positions and have financial resources larger than those of PGNiG. Thus they are likely to submit their bids in tender offers and be able to acquire highly prospective licences.

Trade in Natural Gas

At present, PGNiG is the largest supplier of natural gas in Poland. PGNiG's share in the gas market is approximately 98%, the remaining 2% is represented by suppliers from outside the PGNiG Group which usually purchase gas from PGNiG. Among them are local gas distributors who have their own transmission infrastructure and offer (apart from traditional network supplies) innovative solutions of the natural gas supply involving the use of LNG. 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.

Distribution

The liberalisation of the gas market boosts the activity of gas suppliers who are the competitors of the PGNiG Group's Gas Companies. Over the last few years, the activity of those suppliers has been regular and steady. They have gradually developed their gas networks and acquired new customers, both among households and businesses. Another issue which poses a serious threat to the Gas Companies' business is the tariff policy of the URE, as it prevents the Gas Companies from operating a flexible pricing policy for their key customers. With the lack of flexible pricing, customers may find the offering of the competition very attractive.

Delayed Work

Under the applicable Polish legal regulations, obtaining oil & gas exploration and prospecting licences takes from one to one and a half years. As regards business activity on foreign markets, it may take even two years from the time that the winning bid is awarded in a tender for licence until the relevant contract is ratified. 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 in some cases requirements related to protection of archaeological sites, and abiding by the regulations governing tenders for work contractors. Under the currently binding legal regulations, another several months pass before an agreement with the work contractor is signed. In addition, companies must frequently wait for a very long time before their imported equipment receives customs clearance. These factors create the risk of delayed exploratory work.

Cost of Exploratory Work

Exploratory work is capital intensive, 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. Profitability of foreign exploratory projects will to a significant extent depend on the movements in prices of oil derivative products and in exchange rates.

Political and Economic Situation

Some countries where PGNiG carries out exploratory activity face the risk of armed conflicts or social and political unrest, which may result in limitation, suspension or discontinuation of the exploration and production business in such areas. In certain countries, the operations of exploration companies may be hindered by lack of adequate infrastructure, which may be an obstacle in transporting equipment, staff and materials to the sites. Problems may also arise in providing supplies and ensuring appropriate health care. These risks may lead to limitation or suspension of the Company's exploratory activity.

Employees

Employees are treated as the Group's most valuable asset – thanks to their experience we remain a market leader, while their commitment fuels our growth, allowing us to keep enhancing the quality of our services and gain new business capabilities.

Development

The PGNiG Group is one of the largest entities in Poland. As an employer, the Group attracts both highly qualified professionals and school leavers looking for first-time employment. Employees are regarded as our major asset. Without their commitment we would not be able to supply gas to customers, successfully operate on the international market and pursue our extensive investment programme.

In 2010, the Group's headcount was 32,418, which represented a year-on-year increase of 1,025 persons, compared with the headcount of 31,393 in 2009.

Investment in human resources furthers PGNiG's plans, while supporting the individual ambitions of each employee. As the PGNiG Group's subsidiaries are engaged in a wide range of businesses activities, it is up to them to determine the scope and types of staff training.

The training management system in place is a key factor in creating bonds between the Company and its staff. Employees of the PGNiG Group are able to raise their professional qualifications, benefiting from a wide offering of training courses, post-graduate programmes, national industry conferences, seminars and symposia, work placements, as well as innovative self-education tools, such as e-learning.

Depending on their job descriptions, staff can benefit from a variety of training courses dealing with the operation of a modern business organisation. Among other topics, the courses cover: project management, analysis of the legal environment, business risk management, customer service techniques, internal communication and teamwork. Some courses are co-financed by the European Social Fund. The extensive offering of training opportunities enables our staff to develop and raise their professional qualifications, which translates into productivity gains for the Company. The development of human resources adds value to the PGNiG Group, which is viewed favourably primarily by investors and customers, and also by prospective employees.

Performance Assessment

PGNiG has in place a Management by Objective (MBO) programme for its management staff. In 2010, the programme was extended to cover all employees holding managerial posts. Providing a framework for assessing and remunerating the management staff for their performance against strategic corporate objectives, the system reinforces a sense of responsibility for the Group's performance among staff.

Moreover, late March 2010 saw the launch of a Performance Assessment System project, implemented by the Project Team consisting of employees of the Head Office and Branches, including Trade Union representatives. The Performance Assessment System project is part of a broader initiative designated as "Implementation of the New Group Management Model from the PGNiG Group's Value Based Management (VBM) Programme for 2009 – 2015". The project has been designed to develop a Performance Assessment System integrated with the incentive scheme and professional development of staff. Following months of intensive work, discussions, training sessions and talks, on January 1st 2011 the Performance Assessment System finally came into effect. The system allows staff to understand clearly defined expectations for each job title and to receive feedback about the quality of performance in relation to the duties assigned to each job. The system serves as a platform through which employees can discuss the needs and challenges related to their positions, and is a source of feedback regarding both the achievements and potential issues in their professional development. The system, which relies on a set of clearly communicated criteria, including the methodology of the assessment and its impact on employees, covers all staff employed at the PGNiG Head Office and Branches.

Workplace Safety

Workplace safety is an issue of particular importance in the case of companies operating on foreign markets which – when tendering for contracts – must demonstrate the efficiency of their OHS (Occupational Health and Safety) and HSE (Health Safety & Environment) systems, meeting the highest global standards. It allows PGNiG to provide its services to international industry leaders, such as Shell or Statoil, which expect their business partners to adhere to the highest standards of safety. The key focus in the area of workplace safety is on providing staff with suitable protective clothing, modernisation of machinery and equipment, as well as keeping the premises in a good state of repair. For years, selected employees have been members of formal OHS committees, and thus have been able to take active part in OHS inspections and submit their proposals in that area. A number of new initiatives have originated from employees themselves. Employees at all levels of the PGNiG Group receive regular training focusing on OHS issues at the workplace. In 2010, for the first time all employees of the PGNiG Head Office took part in a multi-module OHS training, provided as an e-learning course.

The Largest Employer

The PGNiG Group strives to fulfil its obligations towards staff and their families with utmost diligence. Such obligations are associated chiefly with the social welfare of staff and include the following benefits:

- organisation and co-financing of holidays for employees and their children, both in Poland and abroad;
- financial assistance and material support to the most distressed families struggling with financial or health-related problems;
- repayable financial assistance for housing purposes;
- organisation and co-financing of various forms of recreation (sports, leisure and cultural activities).

Work Placements

PGNiG is running a work placement programme for students participating in the annual Grasz o staż contest, the most popular and prestigious training programme targeted at Polish students and graduates. Under the programme, which was launched in 1996, PGNiG offers paid work placement openings during summer holidays. Some of the trainees are later employed by the Group. Moreover, the PGNiG Group is running a programme of unpaid work placements for students of the Faculty of Gas Engineering at the Warsaw University of Technology, as well as temporary placements for students from all Polish universities.

Recruiting the Best Talent

In line with our policy and arrangements included in the Group's employment restructuring programme, we prefer internal recruitment for posts at the Head Office. While allowing us to optimally exploit the potential of our existing employees, the policy motivates them to improve their performance and develop individual skills. We resort to external recruitment only when seeking highly specialist competencies which are not available in-house. During the recruitment process, the level of candidates' qualifications is determined on the basis of post-specific qualification profiles. It is a combination of knowledge, skills, attitudes and motivation required for a given post.

Integrating the Team

An important driver of the productivity and quality of work is the team spirit and cooperation between the Group employees. Everyday work is supported by both traditional and electronic communication tools. As part of our initiatives implemented to date, employees receive daily electronic newsletter highlighting the most important developments at the PGNiG Group, and – on a monthly basis – "MaGAZyn", an internal bulletin devoted to key developments at the Group. A system based on so-called information managers - persons responsible for the flow of information at their respective units of the PGNiG Group - has been put in place. All initiatives in the area of internal communication are consistent with our HR policy, which fosters employees' commitment and satisfaction with their work.

Employment Optimisation

Towards the end of 2008, the Group put in place the Programme for Employment Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009 – 2011 (Stage 3). The Programme was introduced with effect from January 2009. Unlike the previous employment restructuring programmes, this scheme is based on the "stand-by" principle. A decision to implement the programme may only be made where it is justified by the scope of planned restructuring involving workforce downsizing and/or job shedding.

Employee Opinion Survey

Towards the end of 2010, the most comprehensive satisfaction survey yet was carried out among PGNiG employees. It covered all employees of the PGNiG Head Office, Branches, Gas Sales Units and Customer Service Points. More than a half of all PGNiG employees participated in the survey. The key objective of the survey was to gauge the level of satisfaction among the employees, while:

- identifying factors which affect employee satisfaction;
- getting employees to define the strengths and weaknesses of PGNiG as an employer;
- identifying areas in need of improvement to raise employee satisfaction and loyalty;
- reviewing the values selected to be incorporated into the Code of Values and identifying areas to be covered by the Code.

The results of the survey were compiled and published in a special issue of "MaGAZyn", which is available to all PGNiG employees. In the Management Board's opinion, proper focus on the relations within the organisation is as important as the image it projects outside. After all, employees are the key internal stakeholder group, whose commitment and satisfaction largely determine the Company's success.

Headcount as at the end of 2010, by segment (persons)

	2010	2009	2008
PGNiG Head Office	840	833	837
Exploration and Production	11,592	10,800	10,725
Trade and Storage	3,809	3,836	3,793
Distribution	13,881	13,851	13,746
Other Activities	2,296	2,073	2,044
Total	32,418	31,393	31,145

The PGNiG Group takes care to make efficient use of resources, raw materials and energy. Apart from investing in technologies designed to reduce emissions of harmful gases and waste, we also reclaim land previously used for oil and gas projects.

Environmental Protection

companies not only in their operations in Poland, but also in the exploratory work abroad. Environment-oriented projects accompany all operations of the PGNiG Group – from hydrocarbon production to distribution and storage.

Following the provisions of the Environmental Protection Act, the PGNiG Group companies conduct evaluation and land reclamation work in the areas contaminated in the course of its past operations (e.g. traditional gas industry) with a view to restoring them to the condition prescribed by the environmental quality standards.

In addition, PGNiG strives to educate its employees in the area of environmental protection. The Company organises training courses and conferences at which the most significant issues related to environmental protection are discussed. They are also aimed at defining a common range of tasks to be implemented in the future, primarily those relating to the goals adopted within the CSR Strategy for the Group.

Environmental Impact

The operations of the PGNiG Group may affect the natural balance of the environment. Both the production of natural gas and crude oil and their distribution interfere with the environment. On the other hand, the use of natural gas helps reduce atmospheric emissions more than other fossil fuels.

All companies of the PGNiG Group seek to minimise the negative impact of their operations. To that end, they follow the applicable Polish and EU laws, as well as internal standards and regulations. The implementation and certification of environmental management systems at almost all companies of the PGNiG Group have delivered measurable environmental benefits. Our efforts are, in the first place, geared to limit our negative environmental impact and monitor the processes on an ongoing basis. These rules are followed by the Group



Natura 2000

When selecting a site for a project, we take into consideration the presence of any protected areas, Natura 2000 sites or other areas of high environmental value, which – on one hand – require special procedures during the execution phase or compensatory measures, and – on the other hand – may constrain our investment plans. When undertaking projects which require an environmental impact assessment, the PGNiG Group companies comply with all the required procedures and prepare environmental reports. Thanks to our cutting-edge technological solutions, we can limit the impact on the flora and fauna by reducing areas subject to tree felling, securing the root systems during earthwork, limiting vibrations, as well as noise and pollutant emissions, particularly during the mating and breeding seasons.

- Natura 2000 sites
- Linear projects implemented by Gas Distribution Companies
- Linear projects implemented by PGNiG branches
- Point projects implemented by Gas Distribution Companies
- Point projects implemented by PGNiG branches

Carbon dioxide emissions in 2009 and 2010 at the PGNiG Group's installations covered by the ETS (Mg)

	Allocated	Used	Retained
2009	99,982	76,360	23,622
2010	99,982	81,704	18,278

Well Abandonment

PGNiG is required to plug and abandon wells whose reserves have been depleted, eliminate the danger and remove any damage caused by the production activities, restoring the land to its original condition. Plugging of wells and pits prevents leakage of crude oil and natural gas to the surface and to water courses. Furthermore, if gas wells remained unplugged, there would be a risk that escaping gas could accumulate inside, posing a fire hazard. In 2010, abandonment operations were carried out on 22 wells and 5 waste pits.

Greenhouse Gas Emissions

Since 2005, the greenhouse gas emission trading scheme, a new economically efficient method of cutting air emissions, has been in place across the European Union. Two PGNiG's installations, the Zielona Góra Branch and the Odolanów Branch, as well as the Mogilno Underground Gas Storage Cavern Facility, are covered by the carbon dioxide emission trading scheme (ETS). In 2010, the total number of credits granted to PGNiG's installations under the National Allocation Plan for 2008 – 2012 (NAP II) amounted to 99,982 Mg CO₂ per annum. Although PGNiG's installations have been assigned to class A, the gaseous fuel consumption and quality parameters at the Company are higher than required. It was possible thanks to the testing procedures and monitoring of the measuring equipment. While natural gas generates the lowest carbon dioxide emissions, gas supplied via the distribution system is characterised by a stable composition and high quality.

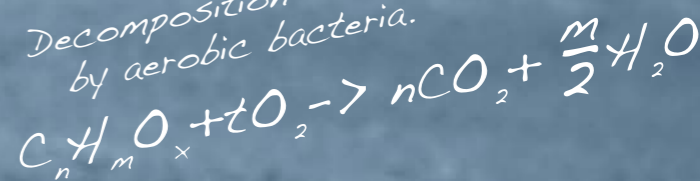
Environmental Management System

In the first half of 2009, the Company implemented the Environmental Management System compliant with the PN-EN ISO 14001 standard. As part of the system, staff training was continued, internal audits were performed and the system was reviewed by the Company's Management Board. Following the internal audit, the Company's Head Office obtained a certificate of compliance with the PN-EN ISO 14001 standard for the Environmental Management System. The Environmental Management System compliant with the PN-EN ISO 14001 standard was also implemented and certified at several Group companies (including PNiG Kraków, Karpacka Spółka Gazownictwa and Wielkopolska Spółka Gazownictwa), as part of the integrated management system.

The better we know
and can understand the world
we live in, the easier we can
protect it.



Decomposition of hydrocarbons
by aerobic bacteria.



The PGNiG Group

Structure of the Group

As at the end of 2010, the PGNiG Group comprised PGNiG (the parent undertaking) and 37 production and service companies, including:

- 25 subsidiaries and
- 12 indirect subsidiaries.

Changes in the PGNiG Group's Structure

- In January 2010, PGNiG Energia SA was registered.
- In January 2010, Geofizyka Kraków Libya JSC w likwidacji (in liquidation) was deleted from the Libyan commercial register.
- In May 2010, Biogazownia Ostrowiec Sp. z o.o. was incorporated. Its entire share capital was acquired for cash by PGNiG Energia SA. The company was registered in May 2010.
- In November 2010, Operator Systemu Magazynowania Sp. z o.o. was incorporated. All its shares were acquired for cash by PGNiG, which is the company's sole shareholder. Operator Systemu Magazynowania Sp. z o.o. was registered in December 2010. The company was established to ensure compliance with the requirements of Directive 2009/73/EC with respect to legal separation of the gaseous fuel storage from other types of business conducted by a vertically integrated gas undertaking.
- In December 2010, POGC Trading GmbH was incorporated. The company's business profile comprises purchase and sale of, as well as trading in, gas, fuels, other forms of energy and their derivatives in physical form, as well as trading in gas-, fuel- and energy-linked derivative instruments and other financial products, on the European and other markets.

Exploration and Production Segment

Geofizyka Kraków

Geofizyka Kraków Sp. z o.o. provides geophysical services related to seismic acquisition (2D/3D vibroseis and dynamite data acquisition), seismic data processing and interpretation, well logging, special well interventions, interpretations, perforations and downhole seismic surveys.

In order to start operations in Libya, in 2008 Geofizyka Kraków established jointly with a Libyan partner – as required by local law – a company under the name Geofizyka Kraków Libya JSC. However, the guidelines subsequently issued by the Libyan Ministry of Economy stated that it was not necessary to conduct operations through a subsidiary. As a consequence, on January 19th 2010, Geofizyka Kraków Libya JSC was deleted from the Libyan commercial register.

In 2010, Geofizyka Kraków's sales revenue reached PLN 224.3m, and services provided to the PGNiG Group accounted for 68% of that figure. The company provided the full range of services to PGNiG in Poland and acquired 901 kilometres of 2D seismic within POGC – Libya B.V.'s licence area

in Libya. Geofizyka Kraków Sp. z o.o. also provided geophysical services under contracts with third parties, including Orlen Upstream Sp. z o.o., Energia Karpaty Wschodnie Sp. z o.o., RWE Dea AG SA Polish Branch, Saponis Investments Sp. z o.o. and KGHM Polska Miedź SA in Poland, Occidental Oil & Gas BV in Libya and BP Pakistan Exploration & Production Inc. in Pakistan (work under the contract was completed in 2010). The company also performed well logging services for NAFTA a.s. in Slovakia and MND Servisni a.s. in the Czech Republic.

In 2011, in Poland Geofizyka Kraków will perform 2D and 3D seismic surveys for Oculis Energy Sp. z o.o. and will be engaged in work under contracts with Orlen Upstream Sp. z o.o. and ION GX Technology. Abroad, in 2011 the company will provide well logging services in the Czech Republic and Slovakia.

	Unit	2010	2009
Sales revenue	PLN m	224.3	289.7
Net profit (loss)	PLN m	1.9	12.7
Equity	PLN m	97.7	100.6
Total assets	PLN m	221.1	218.1
Headcount as at December 31	persons	1,517	1,361

Geofizyka Toruń

Geofizyka Toruń Sp. z o.o. provides geophysical services in the area of seismic surveys, starting from designing and data acquisition, to digital processing, to comprehensive geophysical and geological interpretations. The company also provides services in the area of well logging and well interventions, including interpretation of results. In addition, the company's offering includes a variety of near-surface geophysical services in the field of geology, hydrogeology and environmental protection, as well as designing and delivery of deep anode groundbeds for cathodic protection.

In 2010, Geofizyka Toruń generated sales revenue of PLN 302.0m.

Services provided to third-party customers accounted for 63% of the company's total sales revenue (52% of that revenue was derived from export of services, which included acquisition of seismic data in India, Thailand and Germany). In addition, the company provided seismic data processing services to customers in India, Cameroon, Thailand and Germany. In Poland, Geofizyka Toruń provided seismic services to Lane Energy Poland Sp. z o.o., FX Energy Poland Sp. z o.o., ExxonMobil Poland Sp. z o.o., Gas Plus International Sp. z o.o., Chevron Polska Sp. z o.o., PGE Elektrownia Bełchatów SA and the Polish Academy of Sciences. Revenue from services provided to PGNiG in Poland accounted for 28% of the company's total sales revenue. These

services included designing and acquisition of seismic data, data processing, comprehensive geophysical and geological interpretations, geophysical surveys and in-well measurements.

In 2011, in Poland Geofizyka Toruń will continue working on the acquisition of 2D and 3D seismic for PGNiG as well as on the acquisition, processing and interpretation of seismic data for Lane Energy Poland Sp. z o.o., FX Energy Poland Sp. z o.o., ExxonMobil Poland Sp. z o.o. and Chevron Polska Sp. z o.o. As part of its foreign operations, the company will continue seismic data acquisition in India and will commence work under new projects in Spain and Germany.

	Unit	2010	2009
Sales revenue	PLN m	302.0	268.3
Net profit (loss)	PLN m	22.0	3.1
Equity	PLN m	177.3	157.0
Total assets	PLN m	235.0	212.4
Headcount as at December 31	persons	1,630	1,106

PNiG Jasło

The business of Poszukiwania Nafty i Gazu Jasło Spółka z o.o. comprises drilling of core, exploration and production wells, well workovers, well abandonment services, provision of specialised well servicing services such as cementing, mud services or well completions, as well as operation of drilling rig instrumentation and control systems.

In 2010, in Poland PNiG Jasło provided services mainly to the PGNiG Group. The company's sales revenue was PLN 241.6 m. Services provided to the PGNiG Group accounted for 63% of that total. As far as services for third-party customers are concerned, the company drilled a borehole for RWE Dea Polska Sp. z o.o., geothermal boreholes for a water and sewage company Przedsiębiorstwo Wodociągów i Kanalizacji Gołdap (financed from EU funds as part of the Warmia and Mazury regional programme) and another geothermal borehole for utility Zakład Komunalny Kleszczów Sp. z o.o. On foreign markets, the company conducted drilling and workover work in Libya, workover work in Russia, geothermal drilling in Germany and drilled boreholes as part of extension of the underground gas storage facility in the Czech Republic

(in consortium with PNiG Kraków). In Ukraine and Lithuania, the company performed well servicing activities such as workovers, cementing and operation of instrumentation and control systems.

In 2011, PNiG Jasło will continue drilling for the PGNiG Group in Poland and will start work under a new contract for POGC Libya BV. For third-party customers on foreign markets, in 2011 work will continue under the contract for drilling of boreholes as part of the underground gas storage facility project in the Czech Republic for RWE Gas Storage (in consortium with PNiG Kraków). Moreover, the company will complete workover work in Russia. As far as well servicing activities are concerned, the company will conduct work in Poland for Energia Zachód Sp. z o.o. and in Ukraine for JV Poltava Petroleum Company.

	Unit	2010	2009
Sales revenue	PLN m	241.6	269.4
Net profit (loss)	PLN m	8.1	6.5
Equity	PLN m	148.0	139.9
Total assets	PLN m	251.2	213.3
Headcount as at December 31	persons	925	904

GK PNiG Kraków

The PNiG Kraków Group comprises Poszukiwania Nafty i Gazu Kraków and its subsidiary – Oil Tech International – F.Z.E. The core business of PNiG Kraków includes geological, exploration and production drilling, well workovers, as well as drilling, testing and well operation related services. The company also provides emergency rescue services, as well as hospitality, catering, rental and training services. Oil Tech International – F.Z.E. provides operator teams, materials, and machinery and equipment to PNiG Kraków.

In 2010, the PNiG Kraków Group generated revenue of PLN 362.0 m. Services provided to customers outside the PGNiG Group were the main source of revenue for the PNiG Kraków Group, accounting for 70% of the total figure (of which 96% was export revenue). As far as foreign markets are concerned, the PNiG Kraków Group continued drilling work in Kazakhstan, Uganda, Pakistan and Ukraine. Furthermore, in 2010 the company signed new contracts for drilling work in Kazakhstan, Uganda,

Mozambique and the Czech Republic. Drilling work in Mozambique and the Czech Republic started in late 2010. PGNiG was the main customer of the PNiG Kraków Group on the Polish market.

In 2011, the PNiG Kraków Group will continue work under its drilling services contracts in Kazakhstan, Pakistan, Uganda, the Czech Republic, Mozambique and Ukraine. The PNiG Kraków Group also plans to keep its share of the Polish market.

	Unit	2010	2009
Sales revenue	PLN m	362.0	381.9
Net profit (loss)	PLN m	16.8	16.0
Equity	PLN m	174.3	182.7
Total assets	PLN m	392.5	359.4
Headcount as at December 31	persons	1,182	1,211



PNiG NAFTA

The core business of Poszukiwania Nafty i Gazu NAFTA Sp. z o.o. includes oil and gas exploration, primarily with respect to designing, drilling and documentation of research boreholes and of appraisal, exploration and production wells. The company also drills wells for underground storage of hydrocarbons, and provides well servicing, well abandonment and well workover services. In addition, the company provides auxiliary services through its workshop specialising in the repair of drilling equipment, and storage facilities.

In 2010, the PGNiG Group was the company's key customer in Poland. The company's sales revenue was PLN 296.4 m. Services provided to the PGNiG Group accounted for 73% of that total. In Poland, the company continued drilling work at the Kosakowo, Wierzchowice and Mogilno Underground

Gas Storage Facilities, drilled exploration and appraisal wells for PGNiG, and performed drilling for companies involved in exploration for unconventional gas. Outside Poland, PNiG NAFTA Sp. z o.o. was involved in drilling campaigns in Egypt, India and Slovakia.

In 2011, in Poland PNiG NAFTA will continue drilling of exploration wells for PGNiG and, as part of

exploration for unconventional gas, it will start drilling for foreign investors: Saponis Investments Sp. z o.o., Energia Zachód Sp. z o.o. and Chevron Polska Energy Resources Sp. z o.o. Abroad, the company will be engaged in drilling work in Egypt.

	Unit	2010	2009
Sales revenue	PLN m	296.4	251.7
Net profit (loss)	PLN m	14.0	12.3
Equity	PLN m	192.5	182.8
Total assets	PLN m	321.1	300.2
Headcount as at December 31	persons	799	763

PN Diament

The core business of Poszukiwania Naftowe Diament Sp. z o.o. consists in the provision of well servicing services which include drilling, major remedial treatments, well abandonment services, production testing of wells, downhole measurements, application of enhanced recovery techniques and other services with the use of coiled tubing and nitrogen equipment, as well as well completion, drillstem testing, along with provision of blowout prevention equipment. The company also conducts activities related to general construction, road construction and construction of

municipal landfill sites, and provides vehicle repair, transport and equipment services.

In 2010, sales revenue of PN Diament amounted to PLN 154.4m, and sales to the PGNiG Group accounted for 62% of that total. For the PGNiG Group, the company performed drilling work, workover, major remedial treatment and well abandonment services, as well as a range of specialised well servicing activities consisting in the application of enhanced recovery techniques, major remedial treatments of production wells, cementing and

mud services. As part of drilling work for third-party customers, the company drilled six research boreholes for KGHM Polska Miedź SA in its copper deposits licence area. Furthermore, the company provided general construction services (chiefly related to earthwork and road structures) to third-party customers.

In 2011, PN Diament will provide drilling, major remedial treatment, workover, well abandonment and other well servicing services to the PGNiG Group. The company plans to drill 12 wells for KGHM Polska Miedź SA and one well for Calenergy Resources Poland Sp. z o.o. Furthermore, the company will provide general construction services to third-party customers.

	Unit	2010	2009
Sales revenue	PLN m	154.4	163.1
Net profit (loss)	PLN m	7.3	6.6
Equity	PLN m	99.8	95.6
Total assets	PLN m	135.3	125.4
Headcount as at December 31	persons	674	675

ZRG Krosno

Zakład Robót Górniczych Krosno Sp. z o.o. is a provider of well servicing services. The scope of its business includes mainly producing well interventions such as major remedial treatments and workovers of active oil and gas wells, shallow drillings (up to approximately 1 kilometre), deepening of wells, well abandonment services, decommissioning of infrastructure and waste pits, as well as other reclamation work. In addition, the company performs a wide range of well servicing activities consisting in the application of enhanced recovery techniques, measurements and laboratory services.

In 2010, ZRG Krosno generated sales revenue of PLN 91.4m, and sales to the PGNiG Group accounted for 62% of that total. The company's customers mainly included PGNiG branches, to which ZRG Krosno provided well intervention

services consisting in workovers, well reconditioning, application of enhanced recovery techniques and measurements of reservoir parameters. Revenue from services provided to third-party customers outside Poland accounted for 34% of the company's total sales revenue. In 2010, the company completed services in the Czech Republic under a PLN 29.1m contract for a workover of six wells. Furthermore, the company provided services in Ukraine, the United Kingdom and Slovakia.

In 2011, the company will commence the application of enhanced recovery techniques using coiled tubing in 13 wells in the Czech Republic and one well in Slovakia. The company is also seeking to win a contract for an application of enhanced recovery techniques in Ukraine in cooperation with Euro-Drill Ltd. Furthermore, ZRG Krosno Sp. z o.o. has entered into preliminary negotiations with a view to obtaining a contract for well abandonment and acidizing services in the Czech Republic.

	Unit	2010	2009
Sales revenue	PLN m	91.4	83.1
Net profit (loss)	PLN m	0.1	2.3
Equity	PLN m	41.1	41.8
Total assets	PLN m	58.7	58.7
Headcount as at December 31	persons	431	435

PGNiG Norway

The principal business objective of PGNiG Norway is the exploration for and production of crude oil and natural gas on the Norwegian Continental Shelf. In February 2010, PGNiG Norway was granted the status of a Norwegian Continental Shelf operator, thanks to which the company may now apply for the operator status under its existing and future licences. The award of the operator status followed a pre-qualification process, comprising assessment of PGNiG Norway's ERP capabilities.

On the Norwegian Continental Shelf, PGNiG Norway and its partners are implementing the Skarv/Snadd/Idun development project (PGNiG Norway holds approximately 12% interest in the fields). Production from the Skarv field will be carried out using a floating production, storage and offloading (FPSO) vessel with a flare tower. The produced hydrocarbons will be transported by shuttle tankers and via the Gassled Area B System gas pipeline to

the mainland terminal in Kårsto. The Skarv project is one of the largest investment projects under way in Norway. 16 wells are expected to be drilled as part of the project, including seven oil producers, five gas producers and four injectors. At a later stage, the injection wells will be converted into gas producers to enable full recovery of the field's reserves. In 2010, PGNiG Norway and its licence partners discovered a new oil and gas field

called Snadd North, in the PL 212 licence area, near the Skarv field. The recoverable reserves of the Snadd North field have been initially estimated at 9 to 16 billion cubic metres of natural gas. Production of oil and gas from the Skarv field is expected to be launched and development of the Snadd North field to commence in 2011.

	Unit	2010	2009
Sales revenue	PLN m	0.0	0.0
Net profit (loss)	PLN m	-76.8	-32.4
Equity	PLN m	314.2	382.4
Total assets	PLN m	3 424.1	2 551.0
Headcount as at December 31	persons	22	20

POGC – Libya

The core business of Polish Oil and Gas Company – Libya B.V. consists in the exploration for and production of hydrocarbons in Libya. The company conducts exploration work in the 113 licence area located within the Murzuq petroleum basin, under an Exploration and Production Sharing Agreement of February 25th 2008 concluded with the Libyan government.

In 2010, phases I and II of 2D seismic surveys were completed, with a total of 3,027 km of seismic data acquired in the process. In cooperation with CGGVeritas, the company carried out the processing of 2D and 3D data. Furthermore, in cooperation with PGNiG, the company completed interpretation of the 3D data. The obtained results were used to identify the locations of four exploration

wells which are to be drilled. Preparatory work at the planned drilling site of the first well started in 2010.

In connection with the political unrest in Libya, in February 2011 all the Polish employees of POGC-Libya were withdrawn from the country.

Any decision to continue the work depends on the political developments in Libya.

	Unit	2010	2009
Sales revenue	PLN m	0.0	0.0
Net profit (loss)	PLN m	-55.3	-157.8
Equity	PLN m	54.8	39.6
Total assets	PLN m	64.8	61.7
Headcount as at December 31	persons	37	25

Trade and Storage Segment

INVESTGAS

INVESTGAS SA specialises in hydrocarbon storage and transport projects. It also executes specialised and general construction projects. The company provides services covering the entire investment process, from preparation, to designing, construction and commissioning, to the operation of gas storage facilities and other types of facilities.

In 2010, sales revenue of INVESTGAS totalled PLN 242.7 m. Revenue from services provided to PGNiG accounted for 99.5% of that total.

The services provided to PGNiG in 2010 included:

- continued operation of, and construction of new caverns in, the Mogilno Underground Gas Storage Cavern Facility;
- continued construction of the Kosakowo Underground Gas Storage Facility;
- continued expansion of the Strachocina Underground Gas Storage Facility;
- continued construction of the Kościan Gas Production Facility – KGHM Polkowice/Żukowice gas pipeline.

In addition, in December 2010 the company completed work related to the construction of the Ostrów Wielkopolski – Wrocław fuel pipeline for PKN ORLEN SA.

In 2011, the company will continue work related to the operation, construction and extension of underground gas storage facilities as well as the construction of the Kościan Gas Production Facility – KGHM Polkowice/Żukowice gas pipeline. The company also plans to secure new orders for construction and extension of underground gas storage facilities, as well as for construction of gas and fuel pipelines along with auxiliary infrastructure.

	Unit	2010	2009
Sales revenue	PLN m	242.7	112.4
Net profit (loss)	PLN m	16.9	6.4
Equity	PLN m	33.5	19.5
Total assets	PLN m	111.8	81.8
Headcount as at December 31	persons	108	106

Distribution Segment

Dolnośląska Spółka Gazownictwa (DSG)

Dolnośląska Spółka Gazownictwa Sp. z o.o. (Lower Silesian Gas Distribution Company, "DSG") supplies gas to customers in the Wrocław Province and the Zielona Góra/Gorzów Wielkopolski Province, as well as in the Wolsztyn and Nowy Tomyśl counties of the Poznań Province. The percentage of households and businesses connected to the gas grid varies between communes, depending on geographical conditions. Areas without access to the gas supply system are usually those located at a considerable distance from the pipelines, where the relevant studies have shown that their connection to the gas grid would not be economically

viable. In such areas the company supplies gas to customers in liquefied form (LNG). The total volume of gas transmitted by DSG via the distribution network in 2010 was 1.08 billion cubic metres. The company serves some 748.4 thousand customers and in 2010 alone connected 6.6 thousand new customers to the gas network.

In 2010, the company continued the replacement of cast-iron piping whose further operation would have posed a safety hazard and resulted in large gas losses. The implementation of the cast-iron piping replacement programme, as well as regular

technical inspections of the network, have been reducing the share of gas losses in relation to sales. In the coming years, the company will seek to maintain its existing market position and further increase the volumes of transmitted gas, by:

- extending the pipeline infrastructure to reach new customers,
- replacing cast-iron piping and modernising medium- and low-pressure networks,
- transporting gas in liquefied form and providing customers with access to gas supplies by means of LNG units.

	Unit	2010	2009
Sales revenue	PLN m	374.9	333.0
Net profit (loss)	PLN m	216.1	57.0
Equity	PLN m	1,172.7	984.4
Total assets	PLN m	1,376.5	1,162.4
Length of network, excl. connections	km	7,741.2	7,764.4
Headcount as at December 31	persons	1,420	1,410



Górnośląska Spółka Gazownictwa (GSG)

Górnośląska Spółka Gazownictwa Sp. z o.o. (Upper Silesian Gas Distribution Company, "GSG") supplies gas to customers in the Province of Katowice and Province of Opole, in 44 communes of the Province of Kraków, in 5 communes of the Province of Łódź and in 3 communes of the Province of Kielce. It serves some 1.3 million customers. The total volume of gas transmitted by GSG via the distribution network in 2010 was 1.47 billion cubic metres. In 2010, GSG connected 5.8 thousand new customers to the gas network. In addition, the company conducted work to upgrade the gas network, while continuing its extension to areas west of Częstochowa. Furthermore, GSG conducted work to upgrade the network, while continuing its extension to areas west of Częstochowa.

In 2010, the financial crisis adversely affected the operations of GSG's competitors (namely CP ENERGIA SA and KRI SA). Only EWE Energia Sp. z o.o. and its subsidiaries continue to be active in the northern part of the company's operating area.

In 2011, GSG will continue installation of gas supply lines in the areas west of Częstochowa and around the city of Opole and has taken steps to obtain EU funding for these projects. In addition, GSG commenced work to reconstruct a decommissioned high-pressure gas pipeline, which will allow the company to supply gas to a new economic zone in the Opole Province and will enable the Silesia and the Opole Province distribution networks to be connected in the future.

	Unit	2010	2009
Sales revenue	PLN m	633.3	542.4
Net profit (loss)	PLN m	117.7	53.5
Equity	PLN m	1,630.2	1,530.6
Total assets	PLN m	1,898.1	1,766.0
Length of network, excl. connections	km	20,875.2	20,674.5
Headcount as at December 31	persons	2,619	2,622

Karpacka Spółka Gazownictwa (KSG)

The operations of Karpacka Spółka Gazownictwa Sp. z o.o. (Carpathian Gas Distribution Company, "KSG") cover the area of four provinces in south-eastern Poland, namely the Provinces of Kraków, Rzeszów, Kielce and Lublin. The company's operating area is crossed by one of the main gas pipelines of the Polish transmission grid, fed with both imported and domestically-produced natural gas. The company serves some 1.4 million customers. In 2010, KSG transmitted 1.92 billion cubic metres of gas via the distribution network and connected approximately 9 thousand new customers to the gas grid. In addition, the company implemented network extension and upgrade projects.

KSG plans to expand its distribution network by constructing traditional gas pipelines, as well as by

developing the LNG market where it will be responsible for liquefying and distributing the fuel. The distribution of LNG will support the initial provision of access to gas supplies in those areas where the construction of traditional pipelines is not economically viable. Furthermore, the use of LNG technology will contribute to significantly faster launch of natural gas supplies to potential customers located

beyond the reach of traditional gas networks. The company has also taken steps designed to secure EU financing under the Infrastructure and Environment Operational Programme for five of its projects, including connection of the Włoszczowa and Małogoszcz communes to the gas grid and upgrade of the gas pipeline from Sandomierz to Ostrowiec Świętokrzyski.

	Unit	2010	2009
Sales revenue	PLN m	767.0	662.3
Net profit (loss)	PLN m	136.8	104.9
Equity	PLN m	2,353.5	2,262.1
Total assets	PLN m	2,802.6	2,669.9
Length of network, excl. connections	km	44,762.0	44,356.4
Headcount as at December 31	persons	3,319	3,313

GK Mazowiecka Spółka Gazownictwa (MSG)

Mazowiecka Spółka Gazownictwa Sp. z o.o. (Mazovian Gas Distribution Company, "MSG") supplies gas to customers in the Provinces of Warsaw, Łódź and Białystok, as well as in certain parts of the Provinces of Lublin, Olsztyn and Kielce. The total volume of gas transmitted by MSG via the distribution network in 2010 was 2.13 billion cubic metres. Gas is supplied to some 1.5 million customers via a network of gas pipelines and stations operated by the company. In 2010, the company conducted projects related to the operation, extension and upgrade of its gas network. Furthermore, it connected 23.1 thousand new customers to the gas grid.

In 2010, in cooperation with PGNiG, the company continued the investment project to switch the customers in Pisz (Olsztyn Province) who receive propane-butane-air gas to high-methane (E) gas produced from LNG. This represented the first,

pilot phase of a larger project to switch Pisz, Elk, Suwałki and Olecko (the PESO project) to high-methane gas. The company plans to complete the project in Pisz in July 2011. For other phases of the PESO project, the documentation preparation process is under way and steps have been taken to secure EU co-financing. In the coming years, MSG intends to focus on:

- ensuring adequate transmission capacity and securing sources of gas supply for the company's gas grid;
- optimising the use of network assets held by the company by connecting new customers to the existing grid (network densification);
- extending the pipeline infrastructure to reach new customers;
- improving the operational security of the company's network assets;
- extending the application of LNG technology.

The company also took steps to obtain EU funding under the Infrastructure and Environment Operational Programme for its key investment projects.

	Unit	2010	2009
Sales revenue	PLN m	711.9	639.9
Net profit (loss)	PLN m	479.5	82.9
Equity	PLN m	2,262.6	1,823.3
Total assets	PLN m	2,892.0	2,302.8
Length of network, excl. connections	km	18,900.0	18,555.0
Headcount as at December 31	persons	2,925	2,921

Pomorska Spółka Gazownictwa (PSG)

The geographical reach of Pomorska Spółka Gazownictwa Sp. z o.o. (Pomeranian Gas Distribution Company, "PSG") covers the Provinces of Gdańsk and Bydgoszcz, a part of the Province of Olsztyn, and two communes (Sławno and Postomino) in the Province of Szczecin. The area covered by the company's operations poses certain geographical challenges to installation of gas supply lines (a large number of lakes and woods). The total volume of gas transmitted by PSG via the distribution network in 2010 was 0.99 billion cubic metres. The company provides its services to some 742.8 thousand customers.

In June 2010, PSG signed a high-pressure gas network connection agreement with Grupa LOTOS SA. Under the agreement, PSG will construct 31 kilometres of a high-pressure gas pipeline from Kolnik near Pszczółki to Gdańsk together with the required buildings and structures. Grupa LOTOS has undertaken to ultimately purchase 447 million cubic metres of natural gas per annum, which will make it PSG's largest industrial customer. The implementation of the project will result in a 35% increase in the volume of transmitted gas.

In 2011, the company is going to continue implementation of its network-related projects by:

- constructing new and upgrading the existing low- and medium-pressure pipelines in areas covered by the gas supply system;
- constructing and upgrading high-pressure pipelines to enable gas deliveries to areas which have not yet been covered by the gas supply system;
- connecting new customers to the gas grid;
- combining the pipelines to form ring systems, thus improving the security of gas supplies.

The company's business – both in the areas which are covered by the gas supply system and those which have not yet been connected to the gas grid – is distinguished by a considerable growth potential, due to the establishment of new and expansion of the existing special economic zones and industrial parks. The company also took steps to obtain EU funding under the Infrastructure and Environment Operational Programme for its key investment projects.

	Unit	2010	2009
Sales revenue	PLN m	439.5	373.1
Net profit (loss)	PLN m	91.4	182.7
Equity	PLN m	1,038.7	987.2
Total assets	PLN m	1,428.3	1,363.4
Length of network, excl. connections	km	9,588.1	9,338.8
Headcount as at December 31	persons	1,772	1,769

Wielkopolska Spółka Gazownictwa (WSG)

Wielkopolska Spółka Gazownictwa Sp. z o.o. (Greater Poland Gas Distribution Company, "WSG") manages a gas distribution network covering the Provinces of Poznań and Szczecin, several dozen communes in the Provinces of Zielona Góra/ Gorzów Wielkopolski, Łódź and Wrocław, as well as one commune in the Province of Gdańsk. The total volume of gas transmitted by WSG via the distribution network in 2010 was 1.69 billion cubic metres. At the end of 2010, the total number of customers served by the company was 911.7 thousand, including 7.7 thousand new customers connected to the gas network in 2010.

In the company's operating area, other companies involved in the distribution of and trade in gaseous fuels, such as G.EN. Gaz Energia SA, EWE energia Sp. z o.o., E.ON edis energia Sp. z o.o., KRI SA, CP ENERGIA SA, P.L. Energia SA and Avrio Media Sp. z o.o., have been intensifying their activities. These companies operate on a local scale and therefore they are not obliged to separate their distribution and trading activities, which enables them to provide comprehensive customer service within a single business structure.

In the coming years, the company will focus on:

- extending the high-pressure distribution grid;
- improving the operational security of the company's network assets;
- cooperation with GAZ-SYSTEM to identify future projects related to the extension of the distribution and transmission grids;
- cooperation with gas trading companies as part of projects designed to extend the gas-supply system to new areas.

	Unit	2010	2009
Sales revenue	PLN m	612.0	531.0
Net profit (loss)	PLN m	130.4	355.2
Equity	PLN m	1,787.3	1,750.3
Total assets	PLN m	2,225.8	2,137.7
Length of network, excl. connections	km	15,488.0	15,148.8
Headcount as at December 31	persons	1,826	1,816

Glossary

CNG – fuel, compressed natural gas at a pressure of 20–25 MPa, used as vehicle fuel for spark ignition and compression ignition engines.

Distribution – transport of gas fuels to customers via distribution networks.

ERP – Exploration and Production – one of PGNiG's segments of operation; the companies in this segment are engaged in exploration, geophysical and geological work; the segment also involves production of natural gas and crude oil.

Yamal Pipeline – transit gas pipeline between Russia and Western Europe, running through the territory of Poland and other countries.

Gasoline – mixture of hydrocarbons of low molecular weight, emitted by wet natural gas or refinery gases, among other things, used as solvent and petrol additive.

Natural gas – natural mixture of paraffin hydrocarbons, primarily consisting of methane (up to 98% in high-methane gas); in the earth's crust found in the form of reserves.

LNG (Liquefied Natural Gas) – natural gas in a liquid state. During the liquefaction process, natural gas is cooled down to approx. -160°C, thus reducing its volume by 630 times.

Transmission System Operator (TSO) – an energy company involved in the transmission of gas fuels, responsible for network traffic in the gas transmission system, ongoing and long-term security of the system's operation, as well as operation, maintenance, repair and necessary extension of the transmission network, including interconnections with other gas systems.

UGS – underground gas storage facility; the PGNiG Group is the only owner of the underground gas storage facilities in Poland; there are eight such facilities in Poland: seven situated in worked out natural gas and crude oil deposits, and one in a salt cavern (in Mogilno).

Transmission – transportation of gas fuels through transmission networks to distribution networks or end customers connected to the transmission network.

Distribution network – a gas network of low, medium and high pressure, other than a mine pipeline; the responsibility for network traffic rests with the gas companies.

Transmission network – a gas network of low, medium and high pressure, other than a mine pipeline; the responsibility for network traffic rests with a transmission system operator.

TPA (Third Party Access) – right to free use of transmission services and free choice of a supplier.

URE (Urząd Regulacji Energetyki) – Energy Regulatory Authority. Under the relevant regulations, the President of URE is responsible for approving the tariffs submitted by holders of licences which authorise them to conduct business involving trade in and storage of gas fuels.

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